

**The Head of Internal Audit Service's Annual Opinion
on the overall adequacy and effectiveness
of the control environment
2019-20**

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Background

The Head of Internal Audit and Assurance Service, Corporate Resources Department undertakes the role and responsibilities of the County Council's Head of Internal Audit Service (HoIAS). The HoIAS manages Leicestershire County Council's Internal Audit Service (LCCIAS). LCCIAS has been externally assessed as generally conforming to the Public Sector Internal Audit Standards (the PSIAS) revised from April 2017. The PSIAS require the HoIAS to give an annual opinion on the overall adequacy and effectiveness of the Council's control environment (its framework of governance, risk management and control). The PSIAS definition of the control environment is found at the end of this document, along with further explanation from the Institute of Internal Auditors about what an effective system of internal control facilitates.

The HoIAS annual opinion is **macro**-assurance over a defined period (financial year 2019-20) and combines:

- An objective assessment based on the results of individual audits undertaken and actions taken by management thereafter. Individual internal audit opinions on what level of assurance can be given as to whether risk is being identified and adequately managed are formed by applying systematic grading to remove any elements of subjectivity. **Annex 2** lists the audits and other work undertaken during the year and where appropriate the individual audit opinion. Individual audit engagements provide targeted **micro**-assurance.
- Professional judgement of the HoIAS based on his knowledge, experience and evaluation of other related activities. This provides a holistic, strategic insight into the County Council's control environment.
- Specifically for 2019-20, the HoIAS' views on the Council's responses to the coronavirus during the months of February and March 2020.

The results of the above, when combined, form the basis for the HoIAS opinion on the overall adequacy of the Council's control environment (see definitions). However, the caveat at the end of the document explains what internal control cannot do, i.e. no system of internal control can provide absolute assurance against material misstatement or loss, nor can LCCIAS give absolute assurance, especially given its limited resource. The work of LCCIAS is intended only to provide reasonable assurance on the adequacy of the control environment based on the work undertaken and known facts.

Governance related internal audit work

A wide range of assurance and consulting audits (see definitions) and maintained school audits were undertaken (coverage includes school governance). Overall, recommendations were to improve governance i.e. not to have to establish it.

The HoIAS attends the Corporate Governance Committee (the Committee) to present plans and reports on the internal audit activity, and other reports (in his wider role) on risk management (including property & occupants risk, counter fraud and insurance) and the Annual Governance Statement. Overseeing these other functions enables him to gauge Director and Member level governance at first hand. The HoIAS reviews other reports presented to the Committee and monitors Members' engagement as part of his holistic governance assessment.

The HoIAS is part of a senior management group also comprising the Director of Law & Governance, the Chief Financial Officer, the Head of Democratic Services and the Assistant Chief Executive which each year reviews the draft Annual Governance Statement (AGS).

The HoIAS has regular discussions with the Chief Executive, Directors and particularly the Chief Financial Officer (CFO) and the Monitoring Officer (MO) on governance issues and related internal audit aspects. The HoIAS attends Corporate Management Team when required.

Covid-19 specific

The HoIAS observed the Council's governance responses to the coronavirus. He took assurances from the Monitoring Officer over proposals for the Chief Executive taking urgent actions and from the reports to Cabinet in late March and April, explaining the wider governance arrangements introduced planning and governance arrangements for the multi-agency response and interim arrangements for Council meetings pending the introduction of legislation to allow virtual meetings. There is ample evidence to show good communication of plans and responses to staff, management and Members.

Risk management related internal audit work

Most audits planned and conducted were 'risk based' i.e. ensuring that the Council's management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring controls are in place to reduce risk exposure.

Internal Audit Service provides challenge and advice to the completion of Information Security Risk Assessments (ISRA). Information and technology (I&T) plays a critical role for all services provided by the Council. Therefore, it is vital that I&T risks are effectively identified, assessed, managed and reviewed at the appropriate times.

Other risk management work was undertaken in consulting audits and developments to the overall control environment.

Overall, recommendations related to improving risk management i.e. not to have to establish it.

The HoIAS continues to have responsibility for countering the risk of fraud and the overall administration, monitoring and reporting of the corporate risk management framework. The PSIAS require that this 'potential impairment' to independence and objectivity for the HoIAS is declared in the Internal Audit Charter.

Covid-19 specific

The HoIAS observed the Council's risk management responses to the coronavirus. He took assurances from the speed of implementing service and workforce resilience and reviewing business continuity arrangements (including within the Internal Audit Service). Further assurances have been gained by observing that risk was being thoroughly considered (in terms of health & safety, legal and insurance) whilst planning and taking decisions to quickly design and implement a wide range of alternative delivery options. In his role overseeing the Council's risk management framework, he has been monitoring the planning for controlling recovery risks and the information being provided to mitigate fraud risk which has increased during the coronavirus period.

Financial (and I&T) Controls related internal audit work

Several assurance audits were undertaken that were predominantly a financial or I&T control theme. Almost all returned substantial assurance, and all grants audited met their conditions to be certified.

In addition, maintained school audits were undertaken where audit coverage includes school financial control. All but one of those audits returned substantial assurance.

Covid-19 specific

The rapid onset of the coronavirus significantly impacted the Council's ICT services, resulting in a massive effort within a very short time to source and build laptops to enable staff to work at home and stabilise the network with a range of solutions. The planned annual key ICT controls audit would normally begin just at the time the virus was impacting. Ultimately the audit had to be postponed, but the Chief Digital & Information Officer has allowed some assurances to be sought on redeployment of kit, cyber security arrangements/monitoring, security of agile working, access to systems where staff are being redeployed and capacity management.

The HoIAS wrote to all management acknowledging that whilst the primary focus must be on critical service delivery, managers still had a responsibility to ensure that the council's underlying control environment didn't diminish to the point where it became ineffective and a threat to future organisational stability. The Service has been involved in reviewing and advising on controls in alternative service delivery models.

The Director of Corporate Resources had promptly issued guidance to managing some of the financial scenarios that LCC was likely to encounter for the duration of the Covid situation which included corporate approval limits for decisions on new expenditure areas or abortive costs of cancelled projects. He also developed a system for emergency procurements in line with Cabinet Office guidance which requires full justification and authorisation by the appropriate Commercial Specialist, Chief Officer and if required the Director of Law & Governance. The Chief Executive installed controls to mitigate the risks of fraud being committed against the Community Fund.

HolIAS opinion: Prior to the onset of the virus, the Council's control environment was in a steady state. The build-up and immediate impact of the coronavirus was significant, of adverse nature and unique in character. However, no significant governance, risk management internal control failings have come to the HolIAS' attention therefore reasonable assurance is given that the Council's control environment overall has remained adequate and effective.

Other assurances – East Midlands Shared Service (EMSS)

Internal audit activity for EMSS is the responsibility of the Head of Internal Audit (HoIA) at Nottingham City Council. For 2019-20 the HoIA concluded, '*On the basis of audit work undertaken during the 2019-20 financial year, covering financial systems, risk and governance, the Head of Internal Audit (HoIA) at Nottingham City Council concluded that a "significant" level of assurance could be given that internal control systems are operating effectively within EMSS and that no significant issues had been discovered*'.

Definitions

The revised 2017 Public Sector Internal Audit Standards (the PSIAS) define the following: -

Assurance audit

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

Consulting audit

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

Risk Management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.

Control

Actions taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. It includes the following:

- Integrity and ethical values
- Management's philosophy and operating style
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

The IIA defines the control environment as the foundation on which an effective system of internal control is built and operated in an organisation that strives to achieve its strategic objectives, provide reliable financial reporting to internal and external stakeholders, operate its business efficiently and effectively, comply with all applicable laws and regulations, and safeguard its assets.

Caveat

The Financial Reporting Council in an Auditing Practices Board briefing paper, 'Providing Assurance on the Effectiveness of Internal Control' explains what internal control cannot do, namely: -

'A sound system of internal control reduces, but cannot eliminate, the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees or others, management overriding controls and the occurrence of unforeseen circumstances. A sound system of internal control therefore provides reasonable, but not absolute assurance that an organisation will not be hindered in achieving its objectives, or in the orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen. A system of internal control cannot, however, provide protection with certainty against an organisation failing to meet its objectives, or all material errors, losses, fraud or breaches of laws and regulations'.