

ESPO

Leicestershire County Council Internal Audit Service Annual Report 2019-20

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Leicestershire County Council**

15 June 2020

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LEICESTERSHIRE COUNTY COUNCIL INTERNAL AUDIT SERVICE
ANNUAL REPORT 2019-20

Background

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013 and revised in April 2017. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows: -
 - i. The Mission of Internal Audit
 - ii. Definition of Internal Auditing
 - iii. Core Principles for the Professional Practice of Internal Auditing
 - iv. Code of Ethics
 - v. International Standards for the Professional Practice of Internal Auditing

2. Additional requirements and interpretations for the local government sector have been inserted into the PSIAS and all principal local authorities (Joint Committees included) must make provision for internal audit in accordance with the PSIAS.

3. The objectives of the PSIAS are to: -
 - a. define the nature of internal auditing within the UK public sector
 - b. set principles for carrying out internal audit in the UK public sector
 - c. establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations
 - d. establish the basis for the evaluation of internal audit performance and to drive improvement planning

4. The PSIAS require the Head of Internal Audit Service (HoIAS) to provide an annual report to 'the Board' (the Finance & Audit Subcommittee) timed to support the Annual Governance Statement (AGS). Management Committee approves the annual report.

5. The PSIAS state that the annual report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of ESPO's governance, risk and control framework (i.e. the control environment) and disclosure of any qualifications to the opinion, together with the reasons for the qualification
 - b. a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies) and disclosure of any impairments or restriction in scope
 - c. a comparison of the work actually undertaken with the work that was planned, including a summary of the performance of the internal audit function against its performance measures and targets

- d. a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP) and progress against any improvement plans resulting from a QAIP external assessment
- e. any issues the HoIAS judges particularly relevant to the preparation of the Annual Governance Statement

The Annual Internal Audit Opinion on the Adequacy and Effectiveness of ESPO's Control Environment

- 6. Annex 1 provides detail on how the annual internal audit opinion was formed, defines the types of audits undertaken, assurance ratings, the components of the control environment and what it is designed to achieve and provides a caveat on any opinion reached.
- 7. Due to the fast escalating impact of the coronavirus, starting in March ESPO management very quickly designed and installed alternative ways of working with its financial and ICT systems which could have internal control and risk implications for the overall control environment. LCCIAS will continue to review the arrangements to ensure the alternative methods retain robust controls.
- 8. Based on an objective assessment of the results of individual audits undertaken, actions by management thereafter, and the professional judgement of the HoIAS in evaluating other related activities, the following overall opinion has been reached: -

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

A summary of the audit work from which the opinion is derived

- 9. Annex 2 lists the audits undertaken during the year in the respective control environment components (governance, risk management and internal control). The list also contains the individual audit opinion. There were not any high importance recommendations in 2019-20 audits. Summary outcomes and recommendations have been reported throughout the year in the HoIAS' quarterly reports on progress against the annual internal audit plan.
- 10. Nine 'assurance' type (see definitions) audits were undertaken. Based on the answers provided during the audits and the testing undertaken, they each returned a 'substantial assurance' rating, meaning the internal controls in place to reduce exposure to risks currently material to the system's objectives were adequate and were being managed effectively. Although recommendation(s) to bring about improvements were made, they were not significant. Whilst two remained in draft report form at the time of this

statement, the HoIAS does not envisage management will dispute their likely substantial assurance opinions

11. A further two audits remain work in progress at the time of this statement, two of which will be substantial assurance. The remaining two were not able to be concluded due to the impact of covid-19 on workplaces.
12. Five audits returning 'no opinion' were 'consulting' type audits (see definitions).
13. During 2019-20, the outputs from ESPO voluntarily submitting its payroll and creditors data into the 'National Fraud Initiative' (a nationwide counter-fraud data-matching exercise) were examined. Work concluded that no instances of fraudulent activity were noted from the work undertaken and investigations made.
14. Other than the External Auditor, there was no reliance on other assurance providers during the year.
15. Other than since the 23 March 2020 when the Government enforced lockdown because of covid-19, there were no known impairments or restrictions to internal audit's scope.

A comparison of work undertaken with work planned including a summary of the performance of the internal audit function

16. The table below shows planned against actual performance both in terms of number of audits (completed to draft issued stage) and days allocated.

Table 1 : Overall performance against 2019-20 internal audit plan

	<u>Audits</u>	<u>Complete @ 15/6</u>	<u>Incomplete @ 15/6</u>	<u>Cancelled</u>	<u>Days</u>
Close 18-19	3	3	-	-	15
Follow up HI recs	-	-	-	-	-
Planned	17	14	2	1	130
Unplanned	-			-	
Client management	-	-	-	-	25
Total	20	17	2	1	170

17. Some resource has already been utilised in 2020-21 completing 2019-20 audits.

A statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)

18. The HoIAS has undertaken a short desk-top self-assessment of LCCIAS's conformance to the PSIAS see **Annex 3**. In line with PSIAS Standard 1321, the HoIAS considers that the County Council's internal audit activity generally conforms with the International Standards for the Professional Practice of Internal Auditing.

19. The HoIAS has not reviewed the service's Quality Assurance and Improvement Programme (QAIP) since it will need to be evaluated in terms of any re-direction during recovery planning for the Service.

Any issues the HoIAS judges particularly relevant to the preparation of the Annual Governance Statement (AGS)

20. The HoIAS considers ESPO's actions and future plans and potential impacts caused by the ongoing coronavirus pandemic will need to be considered during the preparation of the AGS.
21. A 'governance group' comprising the Director of ESPO, Assistant Director (Finance) of ESPO; the Consortium Treasurer, the Consortium Secretary, the Council's Democratic Services Officer and the HoIAS will review the draft AGS before it is presented to Management Committee in September.

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LCCIAS

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