

**Leicestershire County Council
Internal Audit Service
Annual Report 2020-21**

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Leicestershire County Council**

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LEICESTERSHIRE COUNTY COUNCIL
INTERNAL AUDIT SERVICE
ANNUAL REPORT 2020-21

Background

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013 and revised from 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 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' (Corporate Governance Committee) timed to support the annual governance statement.

5. The PSIAS state that the annual report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of the Council's governance, risk and internal control frameworks (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 Leicestershire County Council's Control Environment

6. **Annex 1** provides detail on how the annual internal audit opinion was formed, explains the types of audits undertaken, the components of the control environment and what it is designed to achieve, and provides a caveat on any opinions reached.
7. Based on an objective assessment of the results of individual audits undertaken, actions by management thereafter, the professional judgement of the HoIAS in evaluating other related activities including the Council's plans and responses to the coronavirus, the following overall opinion has been reached: -

The earliest months of the coronavirus significantly impacted normal routines and required that a number of functions needed to be provided differently and uniquely. There was a necessary shift from planned assurance work to more consulting and advisory on new service design and delivery. The requirement to certify covid grants was considerably higher than in previous years. However, no significant governance, risk management internal control failings have come to the HoIAS' attention therefore reasonable assurance is given that the Council's control environment overall has remained adequate and effective.

8. At the time of writing this report, the outcomes of 5 audits hadn't been concluded with management. It is unlikely there will be any change to the overall opinion.

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

9. **Annex 2** lists the audits and all other work undertaken by LCCIAS during the year and where appropriate contains the individual audit opinion.
10. A reduced number (28) of the audits undertaken were 'assurance' type defined as '*An objective examination of evidence for the purpose of providing an independent assessment*'. 15 of the audits returned a 'substantial assurance' rating, meaning the controls in place to reduce exposure to risks to achieving the system's objectives were well designed and were being operated effectively. On the occasions when there were recommendation(s) to bring about improvements, they did not have a high importance (HI) rating signifying a particularly serious control weakness had been identified.
11. Of the completed audits, 8 were graded 'partial assurance' rating. This was because either high importance (HI) recommendations (scored against the corporate risk management criteria) were identified denoting there was an absence of, or a weakness in control and achievement of the service's objectives was open to material risk exposure; or whilst there were not any individual HI recommendations, the combined sum of the other recommendations was enough to grade the audit only partial assurance. HI recommendations/partial assurance ratings are reported in summary to Corporate Governance Committee (the Committee) and they stay in the

Committee's domain until the HoIAS has confirmed (by specific re-testing) that action has been implemented.

12. Whilst there were only a small number of HI recommendations and the HoIAS is satisfied that senior management and Members pay rigorous attention to implementing them, he will actively monitor and report slippage in implementation which might indicate increasing pressures and strains on the control environment.
13. Perhaps not surprisingly due to being closed and then stretched when re-opened, in 2020-21 LCCIAS didn't audit any of the County's individual maintained schools.
14. Uniquely, although they continue for now, 21 grants were audited and certified, 11 of which were covid-19 related. These can take a lot of internal audit resource, but there isn't an option not to review and certify them.
15. Especially during the earliest months of the financial year when covid-19 was impacting on service delivery, there was a understandable shift to provide 'immediate' advice on controls established so a wide range of 'consulting' type audits was undertaken. These can be defined as, *'Advisory and related client service activities, the nature and scope of which are intended to add value and improve an organisation's governance, risk management and control processes'*. The Service provided inputs to the control environments being built for the Fit For the Future major implementation, other service delivery changes including the mass rollout of homeworking equipment and also conducted a number of reviews of Information Security Risk Assessments and other IT changes.
16. LCCIAS either undertook or assisted (provided guidance and advice to management) with 7 investigations (not necessarily fraud/theft). The outcomes of investigations are reported to the Committee only once they are concluded so as not to jeopardise any formal (disciplinary or Police) investigations. Activity on investigations is produced annually to meet the requirements of the Local Government Transparency Code.
17. The HoIAS is also responsible for the compilation of the Annual Governance Statement, oversight of the counter fraud, risk management and insurance functions and chairs a group specifically engaged in the Council's property and occupants risk. Managing these functions gives the HoIAS wider insight into forming an opinion on the adequacy and effectiveness of the control environment
18. A 'potential impairment' to LCCIAS' independence and objectivity (responsibility for the corporate risk management framework) is declared in the Internal Audit Charter. The Charter be reviewed and revised in 2020-21 taking account of PSIAS guidance on the role of the internal audit function in counter fraud activity.
19. LCCIAS assisted a number of other functions especially during the earliest months of the pandemic when six auditors were redeployed to the pensions and payments to providers functions. A further secondment occurred when an agency staff worked on the Fit For the Future project.

20. Staff adapted quickly to full time remote working establishing protocols and channels of communication to enable audits to continue. Additionally, training and development continued (all remotely) and there were some very useful pointers on arranging audits during covid, maintaining governance and good risk management.
21. The PSIAS require that the HoIAS should disclose where reliance is placed on work by other assurance bodies. Nottingham City Council Internal Audit (NCCIA) provides the internal audit function for East Midlands Shared Services (EMSS). During the year NCCIA was scheduled to conduct audits of payroll, accounts receivable and accounts payable. At the time of writing this report, The Head of Internal Audit for NCCIA had not concluded his annual opinion. If this isn't forthcoming before the 4 June 2021 Corporate Governance Committee, it be reported to the next Committee on 23 July 2021. that a "significant" level of assurance can be given that internal control systems were operating effectively within EMSS

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

22. The tables below show performance both in terms of number of audits and days allocated.

Table 1: Assignments completed/ongoing at 14 May 2021

	<u>Complete</u>	<u>Ongoing</u>	<u>Previous year</u>
Assurance audits (*)	23	5	44
Grant certification (*)	21	2	Included above
Consulting assignments (*)	26	6	19
Investigations - concluded	7	-	6
Other control environment	22	3	5
Assist other functions	10	-	12
Total	109	16	86

(*) portrays the shift from assurance to grant certifications and consulting. Also the latter contains audit work on Fit For the Future for which a lot of resource has been invested. At least 200 days was invested into covid related work.

23. Internal audit plans are increasingly short-term statements of intent rather than guaranteed coverage and need to be flexible and retain contingency to adapt to changes in risk and priorities. Only 5 assurance audits were 'ongoing' at 14 May 2021. Some resource has already been utilised in 2021-22 in completing these audits.

24. Total combined assurance 'productive' days spent on work specifically relating to the County Council were down on the year before.

Table 2: Resources used 1/4/2020 to 30/4/2021 (compares to previous)

<u>Function</u>	<u>Previous</u>	<u>20/21 days</u>	<u>+/-</u>
1. Audits (assurance, consulting, investigations)	860	711	-149
2. Other functions (risk, AGS, insurance)	187	178	-9
3. Corporate duties (including committees)	104	127	+23
Total combined assurance 'productive' days	1,151	1,016	-135
4. Assist other functions – redeployment	22	269	+247
Total productive days	1,173	1,285	+112

25. The 1,016 days provided across functions 1-3 was considerably lower (just under 12%) than that in 2019-20 but was just sufficient coverage to enable an overall positive opinion to be given on the control environment. Whilst almost 60% of the 1,016 days were provided by senior, experienced, qualified staff (i.e. the HoIAS, Audit Managers and Senior Auditors) the HoIAS considers this to be at the lowest end of the scale considering the size of the organisation, its risks and the unknown continuing impact of the coronavirus. Conclusion of the service review and recruitment to vacancies remains vital but alongside any re-imagining of service delivery.
26. Despite investing in some agency cover (albeit some of that was taken by a secondment the Fit For the Future project), vacancies weren't filled, and income remained reasonably stable leading to a budget underspend.
27. Sickness absence rose due to one long term and a couple of short term covid related illnesses, but overall attendance was very good.
28. Returns of service questionnaires remain low. Nevertheless, those being audited continue to rate service received and value added as '*very satisfied*'.
29. The Service is still using two unique case management systems. The development of the single platform was delayed due to covid-19. Nevertheless, the HoIAS can continue to provide assurance that there has been rigorous monitoring of due professional care and quality.
30. The Service review was re-started with assistance from the Transformation Unit. However, significant changes will be required to determine a 'new normal' and so the scope of the review will be revisited to ensure it fully incorporate becoming more agile by using available technologies and pushing ahead on the use of a data analytics tools.

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

31. The HoIAS undertook a light touch self-assessment of LCCIAS's conformance to the PSIAS to confirm that the County Council's internal audit activity generally conforms with the International Standards for the Professional Practice of Internal Auditing. Notes supporting the self-assessment, and other changes, are reported in bold font in **Annex 3**.
32. The HoIAS also light touch reviewed the service's Quality Assurance and Improvement Programme (QAIP) and found that two new recommendations for improvement should be added, but three small improvements could be moved forward. All changes to the action plan on the last page of **Annex 4** are reported in bold font.
33. PSIAS Standard 1322 requires the HoIAS to confirm that whether there were any significant deviations from the PSIAS. Whilst not 'significant' in terms of overall resource utilised, the impact of the coronavirus meant 6 audit staff were redeployed for a total of 91 days to operational services and an agency worker for 87 days to the FFtF project. Some audits were postponed, and outcomes delayed but this didn't significantly affect the scope

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

34. The HoIAS has responsibility for overseeing the compilation of the AGS. As part of the process, a 'governance group' comprising the Director of Law & Governance, the Chief Financial Officer, the Head of Democratic Services and the Assistant Chief Executive and the HoIAS reviews and agree any significant governance issues that should be reported in the AGS.
35. The redeployment of internal audit staff will be recorded in the 2020-21 AGS.

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24 May 2021.

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