

**The Head of Internal Audit Service's Annual Opinion  
on the overall adequacy and effectiveness  
of the control environment  
2020-21**

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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 2020-21) 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.
- The HoIAS' views on the Council's responses to the coronavirus.

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) were undertaken. 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 has led on reporting key governance changes (the Redmond Review, the New Code of Audit Practice etc) to the Committee and will be part of a group set up to review and implement relevant Redmond recommendations.

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 has observed the Council's governance responses to the coronavirus both internally and with external partners. He received specific assurances from the Chief Executive, on the role of the specifically established Political Oversight Board to allow the Leaders of local authorities (plus the Police and Crime Commissioner and local NHS leaders) to have a greater involvement in and awareness of decision taking in respect of local lockdowns. That was commended as an example of good governance by an independent review commissioned by MHCLG in August 2020, which more widely praised the local response following the 'Leicester lockdown', which also affected parts of Leicestershire, announced on June 29th. other assurances were received from the Monitoring Officer, Chief Financial Officer and Democratic Services Officer as part of the 2019-20 AGS preparation. The HoIAS has been kept aware of the governance arrangements set up to manage the immediate crisis and to plan out to recovery. Internal Audit Service staff assisted with aligning recovery risk management to the Council's corporate risk management framework. There is ample evidence to show good communication of plans and responses to staff, management and Members. The HoIAS doesn't consider the level of scrutiny offered by the Corporate Governance Committee was diminished by remote meetings.

### **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 key 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, the HoIAS has been monitoring the planning for controlling recovery risks. In his role overseeing the insurance function he has been regularly involved in discussions about unique service delivery methods and the risks and potential impacts that might arise. The risk of fraud during covid-19 has significantly increased and the Internal Audit Service has been at the head of efforts to design good controls, test for weaknesses provide communications about the risk.

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

Several assurance audits were undertaken that were predominantly a financial or I&T control theme. There was a reasonable amount of ICT audit resource input to the implementation of the Fit For the Future major ERP replacement.

**Covid-19 specific**

The Assistant Director (IT, Communications & Digital) was provided with assurances on redeployment of IT kit, cyber security arrangements/monitoring, security of agile working, access to systems where staff are being redeployed and capacity management.

The Internal Audit Service was involved in reviewing and advising on controls in alternative service delivery models and schemes such as the work from home allowance.

Audits relating to covid (system changes, grants etc) accounted for at least 200 days.

**HolIAS opinion: 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 or 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.**

**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. 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.

## **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'.