

**Leicestershire County Council
Internal Audit Service
Annual Report 2021-22**

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3 May 2022

LEICESTERSHIRE COUNTY COUNCIL
INTERNAL AUDIT SERVICE
ANNUAL REPORT 2021-22

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 and recognising other independent assurances received in the year, the following overall opinion has been reached: -

Covid-19 and other staff absences and unplanned vacancies (along with a corresponding difficulty to recruit) caused some disruption to resources, nevertheless the HoIAS considers there was sufficient input across the control environment to be able to give a full opinion. Assurance was supplemented by good relationships with senior management and resulting transparency over reporting two significant governance issues in the provisional draft Annual Governance Statement and providing detailed updates to risk positions in the Corporate Risk Register. Three audits returned partial assurance ratings, and there were some minor fraud investigations, but management accepted and responded to recommendations. Overall, reasonable assurance is given that the Council's control environment has remained adequate and effective.

8. At the time of writing this report, the outcomes of 9 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 (20) of the audits undertaken were 'assurance' type defined as '*An objective examination of evidence for the purpose of providing an independent assessment*'. The majority will ultimately return 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, 3 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. 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.
12. Perhaps not surprisingly due to being stretched when they re-opened, in 2021-22 LCCIAS didn't audit any of the County's individual maintained schools.
 13. There was less Covid related advisory work than the previous year. However, the Service continued to provide inputs to the control environments being built for the Fit for the Future major implementation. Additionally, the Service reviewed a higher number of Information Security Risk Assessments and other IT changes which demonstrates the pace of change the Council is driving.
 14. The number of grants audited and certified increased to 24. These continue to take a lot of internal audit resource, and the HoIAS is exploring how others deal with this demand in order to cut back on them.
 15. LCCIAS either undertook or assisted (provided guidance and advice to management) with 12 investigations (not necessarily fraud/theft). This was an increase from the previous year, and 5 are still ongoing. 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.
 16. The HoIAS is also responsible for the compilation of the Council's Annual Governance Statement (AGS). Because of the timing of this Committee both the 2020-21 and 2021-22 AGS were worked up in the course of the year. Additionally, the Local Code of Corporate Governance received its biennial review and revision. The HoIAS retains 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
 17. A 'potential impairment' to LCCIAS' independence and objectivity (responsibility for the corporate risk management framework) is declared in the Internal Audit Charter. CIPFA is due to re-issue its Audit Committee Guidance which will likely require the Charter to be reviewed and revised and it needs to include PSIAS guidance on the role of the internal audit function in counter fraud activity.

18. With resources stretched by covid and sickness absences over the year, vacancies arising and difficulty in recruiting, it was pleasing that the staff group didn't have to be seconded to help other functions. Recruitment improved over the last quarter of the year.
19. Staff have continued to work remotely and have adapted their working arrangements. Some have adopted a hybrid approach, but more work needs to be done in terms of larger more focussed gatherings e.g. planning and team briefings. Training and development continued (all remotely).
20. The PSIAS require that the HoIAS should disclose where reliance is placed on work by other assurance bodies.
 - a. 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, accounts payable, and IT – System Admin and access controls. At the time of writing this report, the Head of Internal Audit for NCCIA had not concluded his annual opinion and it will have to be reported to Committee in September.
 - b. Additionally, the HoIAS took assurance from the External Auditor's Annual Report on the County Council for 2020/21 and the January 2022 Ofsted Focused Visit Inspection of Children's Social Services.

Work undertaken including a summary of the performance of the internal audit function

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

Table 1: Assignments completed/ongoing on 8 April 2022

	<u>2021-22</u>	<u>2020-21</u>
Assurance audits (*)	20	28
Follow up HI recommendations	5	-
Consulting assignments (*)	8	16
Grant certification (*)	24	20
Information Security Risk Assessments	22	16
Investigations - concluded	10	7
Other control environment	14	25
Assist other functions	-	7
Total	103	119

(*) portrays the shift from assurance to grant certifications and consulting. The consulting activity contains audit work on Fit for the Future for which a lot of resource was invested.

22. 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. Some audits were 'ongoing' on 8 April 2022. Some resource has already been utilised in 2022 in completing these audits.

23. The HoIAS completed a review of the Service management team but there has been delays to allocating duties. Recruitment to vacancies was eventually successful, and more is planned in 2022.
24. Because vacancies weren't filled, and income remained reasonably stable there was another budget underspend.
25. Unfortunately, sickness absence rose to a peak over recent years, but overall attendance was good.
26. Returns of service questionnaires remain low. Nevertheless, those being audited continue to rate service received and value added as '*very satisfied*'.
27. The Service has moved forward on its case management system and is moving to a cloud based solution. The drive to becoming more agile by using available technologies and pushing ahead on the use of a data analytics tools remains work in progress.

Conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)

28. The HoIAS has not yet undertaken these annual exercises, but the outcomes will be reported to members of the Committee in due course.

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

29. 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.
30. Two significant governance issues will be reported in the provisional draft AGS, (SEN budget deficit and Firs Farm environmental damage and rectification).

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3 May 2022.