

**The Head of Internal Audit Service's Annual Opinion  
on the overall adequacy and effectiveness  
of the control environment  
2021-22**

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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 opinion is **macro**-assurance over a defined period (2021-22) 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. Draft reports are taken account of. **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 HoIAS' recognition of some other independent assurances received in the year

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 attended 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) the Local Code of Corporate Governance and the Annual Governance Statement. Overseeing these other functions enabled him to gauge Director and Member level governance at first hand. The HoIAS reviewed other reports presented to the Committee and monitored Members' engagement as part of his holistic governance assessment. The HoIAS reported on planned key governance changes (further Developments in Local (External) Audit Arrangements and projects that the Chartered Institute of Public Finance and Accountancy (CIPFA) undertook that

relate to internal audit and audit committees). He will be part of a group set up to review and implement relevant Redmond recommendations.

The HoIAS was part of a senior officer group including the Directors of Law & Governance, and Corporate Governance, the Head of Democratic Services, and the Assistant Chief Executive that reviewed the provisional draft Annual Governance Statement (AGS).

The HoIAS had 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.

The HoIAS was interviewed at length for his views on governance, risk, and counter fraud as part of the external auditor's revised approach to value for money work.

The HoIAS also reported to the Local Pension Board and ESPO Committees.

### **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.

LCCIAS provided 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, and it is vital that I&T risks are effectively identified, assessed, managed, and reviewed at the appropriate times.

Key audits of disaster recovery and ICT controls focussed on risk management. 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 continued 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. The HoIAS also chaired a multi-faceted group focussing on property and occupants 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. ICT audit resource continued to input to the implementation of the Fit for the Future major ERP replacement and audits of workarounds.

### **The HoIAS' views on the Council's responses to the coronavirus.**

The HoIAS continued to observe the Council's governance responses to the coronavirus both internally and with external partners. Other assurances were received from the Monitoring Officer, Chief Financial Officer and Democratic Services Officer as part of the 2021-22 AGS preparation. The HoIAS was kept aware of the governance arrangements set up to plan out to new ways of working. There was ample evidence to show good continuing communication of

plans and responses to staff, management and Members. Committees have returned to meeting in person with options to join remotely still available and video webcasts either simultaneously or afterwards.

The HoIAS observed the Council's council risk management responses to the coronavirus. Further assurances were gained by observing that risk was being thoroughly considered (in terms of health & safety, legal and insurance) whilst planning for service re-openings after restrictions were lifted. In his role overseeing the insurance function he has been regularly involved in discussions about risks and potential impacts that might arise. The risk of fraud during covid-19 significantly increased and the Internal Audit Service was at the head of efforts to design good controls, test for weaknesses provide communications about the risk. Covid themed audits of internal control systems (system changes, grants etc) continued.

### **Other independent assurances received in the year**

#### **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, 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.

#### **Grant Thornton UK LLP's Auditor's Annual Report on the County Council for 2020/21**

This was the first year the Auditor's Annual Report (which replaced the previous Annual Audit Letter) had been produced in line with the new National Audit Office's practice guide. The review undertaken had been more thorough (with the Council being used as a test case) and this had therefore provided more assurance than would ordinarily be required. Grant Thornton confirmed that overall, the report was positive, and the Council had accepted all the recommendations made for improvement.

#### **Ofsted Focused Visit Inspection – Children's Social Services**

The visit, in January 2022, was Ofsted's first since a full inspection in 2019. During the visit, Ofsted officials examined performance data, quality assurance work, key policies and strategic documents and the quality of social work practice with children and their families. They concluded positive progress has been made across the service and that the quality of social work support provided to children in need of help and protection has improved.

#### **HoIAS opinion 2021-22**

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.

## **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'.