

Leicestershire County Council Internal Audit Service Annual Report 2022-23

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LEICESTERSHIRE COUNTY COUNCIL
INTERNAL AUDIT SERVICE
ANNUAL REPORT 2022-23

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

Whilst the IAS staff group encountered some long unplanned absences, there was considerably less disruption from Covid-19, the benefit from pulling back from academy provision was noticeable and overall the resource base was at its strongest for a number of years. 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 transparency over reporting significant governance issues in the provisional draft Annual Governance Statement and providing detailed updates to risk positions in the Corporate Risk Register. Three audits returning partial assurance ratings were reported to Committee during the year 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 (2021-22 also 9) 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 increased number 33 (24) of the audits undertaken were 'assurance' type defined as '*An objective examination of evidence for the purpose of providing an independent assessment*'. Almost all will likely 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 those 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. None of the completed audits were graded 'partial assurance' rating.
11. There was a return to virtually auditing some maintained schools
12. There wasn't any specific Covid related advisory work. However, the Service continued to provide inputs to the control environments being built for the

ORACEL Fusion major implementation and provided consulting/advisory across a range of topics. 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.

13. The number of grants audited and certified reduced to 19 (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.
14. LCCIAS either undertook or assisted (provided guidance and advice to management) with 11 (10) investigations (not necessarily fraud/theft). This was a decrease from the previous year. A number of investigations are still in train since outcomes are only reported to the Committee 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.
15. The HoIAS is also responsible for the compilation of the Council's Annual Governance Statement (AGS) and 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
16. A 'potential impairment' to LCCIAS' independence and objectivity (responsibility for the corporate risk management framework) is declared in the Internal Audit Charter.
17. On the whole, staff continued to work remotely and have adapted their working arrangements. Some have adopted a hybrid approach, with attendance at Committees, working groups and team briefings. Training and development continued (all remotely).
18. 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 the Committee later in the year.
 - b. Additionally, the HoIAS took assurance from the External Auditor's Annual Report on the County Council for 2021-22 and the November 2022 Ofsted Focused Visit Re-Inspection of SEND.

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

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

Table 1: Assignments completed/ongoing on 5 May 2023

	2022-23	2021-22
Assurance audits	33	20
Follow up HI recommendations	11	5
Consulting assignments	8	8
Information Security Risk Assessments	25	22
Grant certification	19	24
Investigations - concluded	11	10
Other control environment	15	14
Assist other functions	5	-
Total	127	103

20. 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 resource has already been utilised in 2023 completing prior year audits.
21. Recruitment to vacancies was completed from early October. Funding from an apprentice post was utilised on a very good, experienced agency staff member.
22. There was a small overspend mainly due to the start of year budget not reflecting that academies provision (and subsequent income) had stopped.
23. Whilst there were 3 longer term absences, total sickness absence over the year was only 66 days for a staff group comprising 14 fte.
24. Returns of customer satisfaction questionnaires remain low. Nevertheless, those being audited continue to rate service received and value added as '*very satisfied*'. There was an improvement in all categories of the internal customer survey with an overall 86% somewhat or very satisfied.
25. The Service has moved its case management system 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)

26. The usual annual self-assessment exercise has been delayed in order that a more extensive review can be undertaken in readiness for preparing for the requirement for an external quality assessment (EQA) over the summer. 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)

27. 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.

28. Two new significant governance issues will be reported in the provisional draft AGS, (School Admissions and Ofsted Re-Inspection SEND).
29. The delay to arranging an EQA will be noted in the AGS.

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LCCIAS

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