

**The Head of Internal Audit Service's Annual Opinion
on the overall adequacy and effectiveness
of the control environment
2022-23**

**Neil Jones CPFA, Head of Internal Audit & Assurance Service,
Leicestershire County Council**

16 May 2023

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 (2022-23) 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' 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 and a specific report on governance arrangements of external bodies. 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 introduced revised CIPFA Audit Committee Guidance and assisted with plans to appoint Independent Members to the Corporate Governance Committee including attendance at the Constitution Committee to support the interview process.

The HoIAS was part of a senior officer group that reviewed the provisional draft Annual Governance Statement (AGS). He also reviewed and commented the Monitoring Officer (MO), Democratic Support Officer (DSO) and Chief Financial Officer (CFO) responses to a specific audit on the Risks of Governance Failings and fed into its action plan.

The HoIAS had regular discussions with the Chief Executive, Directors and particularly the CFO and the 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, cyber security 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 continued to chair a multi-faceted group focussing on property and occupants risk. The scope of the group has widened to embrace the Government's CONTEST (counter terrorism strategy) and consider the impacts of the 'Prevent' and 'Protect duties' on the Council

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

Several assurance audits were undertaken that were predominantly a financial or I&T control theme. Internal Audit Service continued to input to the implementation of ORACLE Fusion and audits of workarounds.

Other independent assurances received in the year

East Midlands Shared Service (EMSS)

Internal audit activity for EMSS is the responsibility of Nottingham City Council Internal Audit (NCCIA). At its meeting on 21 November 2022, the Corporate Governance Committee was informed that, 'On the basis of audit work undertaken during the 2021-22 financial year, the Head of Internal Audit (HoIA) at Nottingham City Council concludes that a "limited" level of assurance can be given that internal control systems are operating effectively within EMSS and that no significant issues had been discovered. This opinion is influenced by the ongoing serious concerns that exist within the payroll function and the fact that there have been limitations placed upon the completion of our work programme'. During 2022/23 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.

Grant Thornton UK LLP's Auditor's Annual Report on the County Council for 2021-22

The Auditor's Annual Report (AAR) is a detailed review of the value for money (VfM) arrangements at the Council. The report covered five areas, financial sustainability; governance; improving economy, efficiency, and effectiveness, the opinion on the financial statements and pension fund arrangements. Overall, the AAR was very positive. GT concluded that the Council has a good track record of sound financial management, had appropriate arrangements in place to manage the financial resilience risks, has a clear and documented governance framework in place and a well-developed performance management framework. No significant weaknesses were reported.

Ofsted Focused Visit Inspection – SEND

A SEND re-inspection took place in November 2022 (previously February 2020). The report, dated 13 December 2022, found that sufficient progress had been made with regards to Joint Commissioning Strategy for SEND but that further progress is needed regarding the Quality of EHC Plans. The inspection team (again made up of Ofsted and CQC) did find that improvements had been made in newer plans but were concerned that too many plans remained in the pre-2020 format and also that timeliness for the completion of plans had slipped, affecting parental confidence in the system. Accelerated Programme Plans were submitted to DfE (March 2023) and will be subject to formal monitoring after 6 and 12 months.

HoIAS opinion 2022-23

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.

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'.