

**The Head of Internal Audit Service's Annual Opinion  
on the overall adequacy and effectiveness  
of the control environment  
2024-25**

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## Background

The Head of Internal Audit and Assurance Service, 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 was externally assessed in the Spring of 2024 as 'generally conforming' (top rating) to the Public Sector Internal Audit Standards (the PSIAS)<sup>1</sup>. 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 (2024-25) 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 overall adequacy and effectiveness 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 at the end of this document) 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) 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.

<sup>1</sup> From 1 April 2025, the PSIAS are replaced by the Global Internal Audit Standards in the UK Public Sector

The HoIAS developed and conducted member induction training and provided input to the Annual Report of the Committee to full Council and the report on the governance arrangements for external bodies for which the County Council has a key role.

The HoIAS is part of a senior officer group that reviews the draft Annual Governance Statement (AGS).

The HoIAS had regular discussions with the Chief Executive, Directors and particularly the Chief Financial Officer (CFO), the Assistant Director (Finance, Strategic Property and Commissioning) and the Monitoring Officer (MO) on governance issues and related internal audit aspects. The HoIAS attends Corporate Management Team to present reports when required.

The HoIAS reviewed annual performance reports including the County Council's overall performance and expenditure benchmarking position and progress and the Overview and Scrutiny Annual Report 2024-25.

The HoIAS provided the annual update to the external auditors Informing the audit risk assessment for Leicestershire County Council 2024/25 and assisted the Chair of Corporate Governance Committee with his response on awareness of fraud risk at the Council.

The HoIAS also reported separately on internal audit work to the Local Pension Board and Committee and ESPO Finance & Audit Sub-Committee all of which have Council representation.

### **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 higher risk Information Security Risk Assessments (ISRA). Information and technology (I&T) play 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 I&T hardware and software and cyber security focussed on risk management. A key audit of Business Continuity arrangements was undertaken. The I&T Auditor was interviewed as part of an independent external cyber risk assessment and has designed cyber risk questionnaires for maintained schools.

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 is responsible for the overall administration, monitoring, and reporting of the corporate risk management framework. The PSIAS require that this 'potential impairment' to independence and objectivity is declared in the Internal Audit Charter.

Regarding counter fraud risk responsibility, proactively LCCIAS self-assessed against the CIPFA Code of Practice – Managing the Risk of Fraud & Corruption. The exercise was peer reviewed by the Corporate Fraud Manager at Leicester City Council and the outcome was positive (meets the standard), with a score of 93%. LCCIAS developed and introduced a range of counter fraud guidance and tools including a fraud referral portal. Reactively, the Service was involved to varying degrees in investigations, a summary of which are reported in the inaugural Counter Fraud Annual Report.

The HoIAS continued to chair a multi-faceted group focussing on property and occupant's risk and feeds into groups considering the impacts of the 'Prevent' and 'Protect duties' on the Council as part of the Government's CONTEST (counter terrorism strategy).

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

Several important assurance audits were undertaken that were predominantly a financial or I&T control theme. Large scale audits of both adult's and children's direct payments systems were undertaken. Consulting audits of the escalated financial controls processes were completed. LCCIAS continued to review Nottingham City Council audits of EMSS systems. An Audit Manager attends a regular Financial Controls Group which considers such topics as compliance to finance policies and financial performance.

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

### **East Midlands Shared Service (EMSS)**

For the Head of Internal Audit Opinion – 2024-25, the Interim HoIA at NCC concluded that a “moderate” level of assurance can be given that internal control systems are operating effectively within EMSS and that no significant issues had been discovered. The situation with the provision of internal audit will continue to be closely monitored.

### **Grant Thornton UK LLP’s Auditor’s Annual Report on the County Council for 2023-24**

The Auditor's Annual Report (AAR) is a detailed review of the value for money (VfM) arrangements at the Council. The report was presented to Committee on 6 December 2024 and covered four areas. These were financial sustainability; governance; improving economy, efficiency, and effectiveness and the opinion on the financial statements. Overall, the auditor's report was positive and concluded that the Council has a good track record of sound financial management, had strong arrangements in place to manage the financial resilience risks, has a clear and documented governance framework in place that ensures all relevant information is provided and challenged before all major decisions are made. No significant weaknesses were reported.

Regarding governance, eight improvement recommendations were made five related to the functions undertaken by LCCIAS. Status at the date of this report was ‘Partially complete, full completion September 2025’.

**HolIAS opinion 2024-25**

Rationale - The HolIAS considers there was sufficient input by LCCIAS across the control environment to be able to give a full opinion. Assurance continued to be supplemented by good relationships with senior management, transparency over reporting significant governance issues in the draft Annual Governance Statement and providing detailed updates to risk positions in the Corporate Risk Register. Currently, six audits either contain high importance (HI) recommendations or a partial assurance rating and were reported in summary to Committee during the year. Because some audits haven't been fully closed there could yet be a few more, lower graded ratings but this will not affect the overall opinion. There was also an increase in the number of reactive investigations which LCCIAS either supported/advised on or led. Whilst these could indicate a weakening control environment, management has continued to accept and respond positively and strongly to LCCIAS recommendations. Nottingham City Internal Audit completed three of its four planned audits of EMSS main financial systems and gave an overall positive opinion.

Opinion - Reasonable assurance is given that the Council's control environment has remained overall adequate and effective during 2024-25.

## **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'.