Appendix

Leicestershire County Council
Head of Internal Audit Service
Annual Report 2025-26

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Leicestershire County Council

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Appendix

LEICESTERSHIRE COUNTY COUNCIL

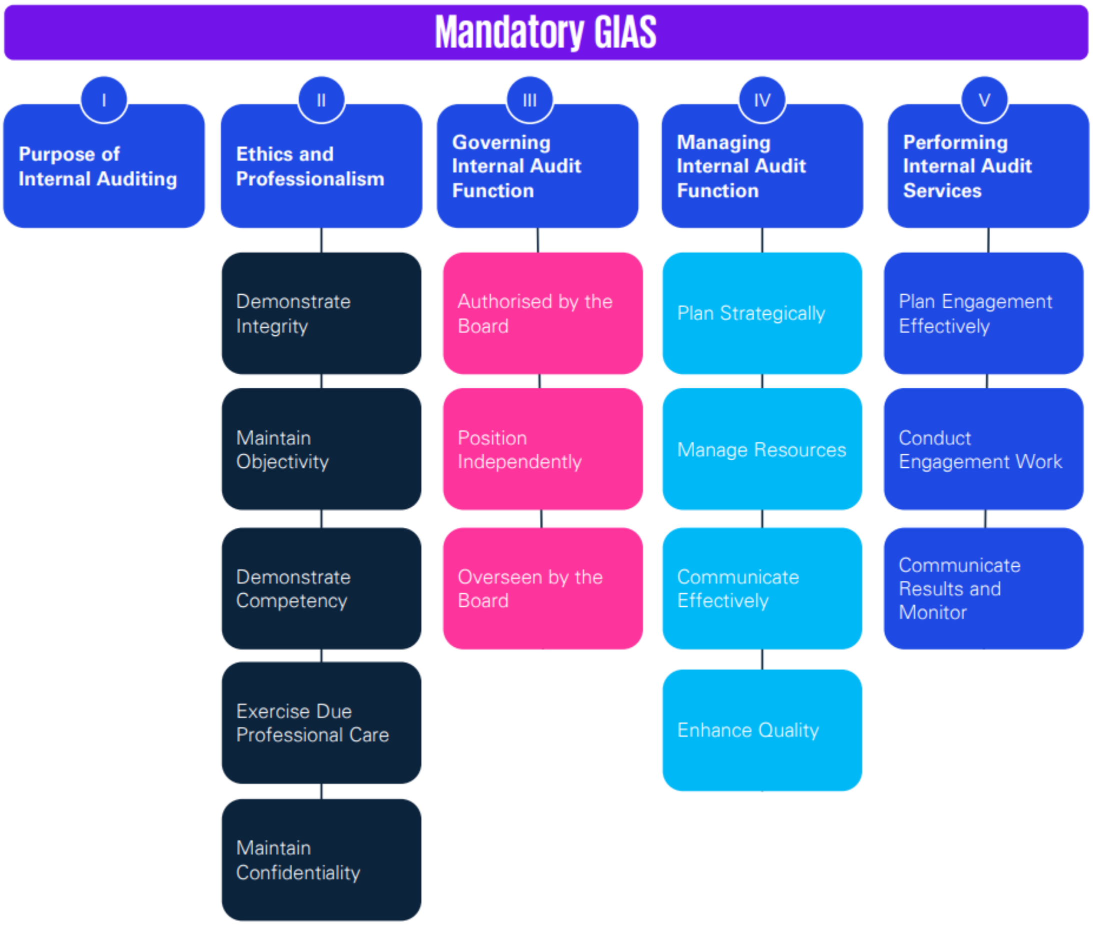
HEAD OF INTERNAL AUDIT SERVICE

ANNUAL REPORT 2025-26

Background

1. The Head of Internal Audit Service (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).

2. The PSIAS were replaced from 1 April 2025 by the Global Internal Audit Standards UK (public sector). The GIAS comprise five Domains (I to V), 15 Principles (relevant to Domains II to V) and 52 supporting Standards. Each Standard contains Requirements, Considerations for Implementation, and Examples of Evidence of Conformance.



3. In the UK public sector, GIAS were implemented from 1 April 2025 and are accompanied by an Application Note (which gives UK public sector context and interpretations of GIAS requirements, plus additional requirements essential for internal audit in the UK public sector. Together they are the GIAS UK (public sector).

4. Additionally, for local government internal audit functions, from 1 April 2025 CIPFA implemented a Code of Practice for the Governance of Internal Audit in UK Local Government (the Code) to support authorities in establishing their internal audit arrangements and providing oversight and support for internal audit.

5. The Application Note requires that in the UK public sector: -

    a. a ‘chief audit executive’ (for the Council that is the HoIAS) must prepare (at least annually) a conclusion at the level of the organisation about the effectiveness of governance, risk management and/or control. The conclusion should be in support of wider governance reporting, mindful of any specific sector obligations or processes. This overall conclusion must encompass governance, risk management and control.

    b. The HoIAS must also report annually on the results of quality assessment carried out, including progress against action plans to address instances of non-conformance to the GIAS UK public sector.

6. The Code states that: -

    a. Annually, the audit committee (the Committee) must review the results of the HoIAS assessment of conformance against GIAS in the UK public sector, including any action plan. The Committee must review the HoIAS annual report, including the annual conclusion on governance, risk management and control, and internal audit’s performance against its objectives.

    b. Where there are concerns about internal audit’s ability to fulfil its mandate or deliver an annual conclusion, the concerns should be formally recorded and reported to those charged with governance. If resource issues result in a limitation of scope on the annual conclusion, this should also be reported and disclosed in the annual governance statement.

Background to the HoIAS annual conclusion.

7. The HoIAS annual conclusion is macro-assurance over a defined period (2025-26) and combines: -

    a. An objective assessment based on the results of individual audits undertaken and actions taken by management thereafter. Individual internal audit conclusions 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 1 lists the audits and other work undertaken during the year and where appropriate the individual audit conclusions. Individual audit engagements provide targeted micro-assurance.

b. 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.

c. The HoIAS' recognition of other independent assurances received in the year.

The results of the above, when combined, form the basis for the HoIAS annual conclusion about the effectiveness of governance, risk management and control. However, 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.

The Head of Internal Audit Service Annual Conclusion on the effectiveness of the Council's governance, risk management and control

8. 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 conclusion has been reached: -

   Conclusion - Reasonable assurance (*) is given that the Council's governance, risk management and control has remained overall adequate and effective during 2025-26.

   (*) Reasonable assurance is a positive statement. It reflects the understanding that internal controls can reduce risks to an acceptable level but cannot eliminate all risk.

   Rationale - The HoIAS 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, eight audits (from 61 completed) either contain high importance (HI) recommendations or a partial assurance rating and were reported in summary to Committee during the year. There was a small 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 all four of its planned audits of EMSS main financial systems and gave an overall very positive conclusion.

Appendix

A summary of the audit work from which the annual conclusion is derived

9. 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 elected and independent 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.

10. The HoIAS developed and conducted member induction training and provided input to the Annual Report of the Committee to full Council.

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

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

13. 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 2025-26.

14. 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 was interviewed by the External Auditor on his general thoughts on the Council's governance, risk management and control arrangements and any issues.

15. 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.

16. 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.

17. Key audits of I&T hardware and software and cyber security focussed on risk management. A key audit of disaster recovery plans arrangements was undertaken. Other key audits were on the implementation of two factor authentication and the governance of artificial intelligence usage.

18. Regarding counter fraud risk responsibility, proactively 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 Counter Fraud Annual Report.

19. 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).

20. Several important assurance audits were undertaken that were predominantly a financial or I&T control theme. Examples were large scale audits of Children's Social Care Placements & Payments, Emergency Payments (Section 17/24 Payments), Maintained Schools' Deficit Budgets and SEN Assessments were undertaken.

21. Advisory audits of the escalated financial controls processes and fostering and adoption 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.

22. **Annex 1** lists the audits and all other work undertaken by LCCIAS during the year up to 31 May 2026 and where appropriate contains the individual audit conclusion. The table below summarises the type of assignments completed/ongoing: -

Table 1: Assignments completed/ongoing at 31 May 2026

Type	24-25	**25-26**	**+/-**
Assurance audits (undertaken by LCCIAS)	54	**64**	**+10**
Assurance audits (review NCCIA/EMSS)	7	**4**	**-3**
Close off HI recommendations	7	**14**	**+7**
Advisory assignments	11	**15**	**+4**
Information Security Risk Assessments	23	**19**	**-4**
Grant certification	18	**8**	**-10**
Investigations	21	**29**	**+8**
Other control environment	19	**8**	**-11**
Assist other functions	5	**4**	**-1**
Total	165	**165**	**0**

23. For ‘assurance’ type audits, defined as ‘An objective examination of evidence for the purpose of providing an independent assessment’, this can be summarised as follows: -

Position @ 31 May 2026	Assurance rating	Number
Complete	Substantial	40
Completion imminent	Substantial expected	9
Complete	Partial	11
Completion imminent	Partial expected	1
Early stage	Unknown at present	2
Deferred	N/a	5
Sub-total		**68**
Reclassified as ‘advisory’	N/a	9
Total		**77**

24. At 31 May, 49 out of 68 audits (72%) were rated ‘substantial assurance’ meaning the controls in place to reduce exposure to risks to achieving the system's objectives were well designed and were being operated effectively. The 49 audits contained 4 (complete) of East Midlands Shared Service (EMSS) key financial transactional systems undertaken by Nottingham City Council Internal Audit (NCCIA).

25. 12 audits (18%) were rated ‘partial assurance’ meaning they contained either high importance (HI) recommendations or a collective number of recommendations which signified a serious control weakness had been identified. 3 audits are awaiting confirmation of gradings with management.

26. It was too early to gauge the assurance ratings for 2 audits and 5 had been deferred having obtained valid reasons for doing son from senior management.

27. LCCIAS provided advisory audit work across a range of topics. This included reporting on 9 audits that were originally planned as assurance type but because of valid reasons were reclassified to advisory meaning that an individual rating isn’t given. Additionally, the Service continued to review a high number of Information Security Risk Assessments 19 (23 in 2024-25) and other IT changes which demonstrates the continuing pace of change the Council is driving.

28. The number of grants audited and certified reduced to 8 (18 in 24-25). The resource input on these has reduced and time has been redirected to other areas of the plan.

29. LCCIAS also provided input to investigations during the year. 29 (21 in 24-25) investigations were carried forward and started in 2025-26 and some are still in train. The Counter Fraud Annual Report contains a summary of the number and type of investigations and outcomes. Activity on investigations is produced annually to meet the requirements of the Local Government Transparency Code.

30. A range of work is conducted across the wider control environment and in direct support to other departments.

31. The Internal Audit Charter was revised and approved by the Committee in November 2025. Impairments to LCCIAS' independence and objectivity are declared in the Charter as follows: -

    a) Responsible for co-ordinating the Council's Annual Governance Statement (AGS). For 2025-26 two significant governance issues were identified and further details are contained in the AGS report.
        i. Members Code of Conduct issues
        ii. Deficit Budgets Schools Balance.

    b) 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.

32. The table below shows the resources planned and delivered for the Council: -

Table 2: Staff resources allocated & delivered – to 31 March 2026

All figures are in days **Allocated (1/4/25) & recorded (31/3/26)**	1/4/25 Planned	**31/3/26 Delivered**	**+/-**	**Reason**
LCC IA including contingency	1,140	**816**	**-324**	A
Counter Fraud - proactive & advisory	45	**47**	**+2**	
EMSS IA - reports, HoIA annual plan etc	10	**4**	**-6**	
Sub-total LCC IA & CF and EMSS IA	1,195	**867**	**-328**	
Sub-total managing LCC IA & CF	290	**314**	**+24**	B
Total allocated/recorded on LCC IA & CF and EMSS IA	1,485	**1,181**	**-304**	
Percentage of original plan resources	100%	**80%**	**-**	
Outside of the IA plan –Risk Management, AGS[1] & LCoCG[1] & Insurance	80	**133**	**+53**	C

[1]Annual Governance Statement & Local Code of Corporate Governance

33. Some reasons for the larger variations are: -

    a. Resources planned/delivered - A mix of: -

        i. Starting resource plan was based on recruiting to known vacancies (one Senior Auditor and one Auditor) and retaining others. However, the vacancies remained unfilled. There are plans to review and redesign the Service and so permanent appointments to replace the vacant posts were held back. The resource gap was to some extent filed by an agency appointment for almost 7 months

        ii. Overall, the Service's medically related sickness absence was very low (31 days) but still exceeded the planned full year estimate (20). Unplanned jury service and a short amount of bereavement leave impacted resources delivered

    b. Sub-total managing the IA & CF function – a mix of: -

        i. Developing the service (+26 days) - Predominantly research and training for the mandatory requirement to implement the new internal audit standards from 1 April 2025. This has been a significant burden on a small team.

        ii. Additional time over the full year estimate recorded on planning, allocating & reporting (+23 days) was offset by less time providing service to the Committee and senior officers (-18).

    c. Time spent on non-audit duties

        i. The biggest impact has been leading on the overdue revision of the Local Code of Corporate Governance (+19 days). This has not only proven the Council has a very wide and sound base of governance but will help in the production of the Annual Governance Statement.

        ii. Regarding the Insurance Service, additional time was spent (+28 days) overseeing two staffing matters and some non-routine cover matters.

34. 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 2026-27 completing prior year audits.

35. There was a large budget underspend mainly due to staffing vacancies but also increased trading income.

36. Returns of customer satisfaction questionnaires remain low. Nevertheless, those being audited continue to rate service received and value added as '*very satisfied'*.

37. The drive to becoming more agile by using available technologies and pushing ahead on the use of a data analytics (and AI) tools remains work in progress. A data analytics and AI strategy has been devised. Key priorities in this area for the coming year will be to understand the practical applications of AI in internal audit processes and explore how AI can reduce audit cycle times and improve efficiency.

Co-ordination with other assurance providers

38. The HoIAS places reliance on work by other assurance providers: -

    a. Nottingham City Council Internal Audit (NCCIA) provides the internal audit function for East Midlands Shared Services (EMSS). During the year NCCIA completed audits of accounts receivable, accounts payable and business continuity planning each of which were rated significant assurance. The audit of payroll was rated moderate assurance with recommendations that standing data amendments to be tracked and a strengthening of controls in the recording and tracking of salary overpayments (*). The Head of Internal Audit for NCCIA is reporting to the EMSS Joint Committee on 15 June 2026 that: -

       ‘On the basis of audit work undertaken during the 2025/26 financial year, the Head of Internal Audit at Nottingham City Council concludes that a “significant” level of assurance can be provided that the organisation’s framework of governance, risk management, and internal control is generally operating effectively. Audit reviews identified that key financial systems and operational processes are in place and functioning adequately, with areas of notable practice across several core systems. The audit outcomes suggest that the organisation is moving in a positive direction, with improving control maturity in key financial systems and an ongoing commitment to strengthening governance and resilience arrangements.

       (*) In the previous year (2024-25) assurance was provided that the salary overpayments was not the fault of EMSS and the majority of issues lay with Nottingham City Council. Leicestershire’s position was considerably better with overpayments since April 2025 being less than 0.1% of the Council’s payroll and late declarations just over 3%.

       The Head of Internal Audit at Nottingham City Council Annual Report & Opinion on EMSS 2025-26 is contained in **Annex 2**.

    b. The HoIAS took assurance from Grant Thornton’s positive ‘Auditors Annual Report on the County Council for 2024-25’. 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 24 November 2025 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 appropriate financial management, has appropriate governance arrangements in place, and appropriate performance measurement, partnership working and procurement arrangements.

c. Additionally, an issue arose during the year when prepaid card services for adults and children's direct payments were significantly affected. This impacted the Council's Finance team progressing the implementation of high importance recommendations following internal audits. Whilst assurances had already been received from the card provider that the issues were being resolved, the Chief Internal Auditor of EML Payments (which provides the independent internal audit function for the card provider), provided additional verbal assurances that over the last half of 2025-26 significant other changes had occurred to strengthen the control environment.

Self-assessment of conformance with the GIAS UK (public sector) and the review of the internal audit Quality Assurance and Improvement Programme (QAIP)

39. A detailed self-assessment of conformance with the GIAS UK (public sector) including the Application Note and Code of Practice for the Governance of Internal Audit in Local Government was undertaken. The summary outcome is at **Annex 3**.

40. The HoIAS self-assessment returned 'Generally Conforms' the highest level which means that the internal audit activity has a charter, policies, and practices that are judged to be in alignment with the Standards in all material respects, although there may be some opportunities for improvement particularly implementing root cause analysis in internal audit findings and recommendations. If an internal audit function is rated generally conforms, it indicates: -

    i. Governance, risk management, and control processes are being assessed effectively.
    ii. The audit activity is credible and trusted.
    iii. Any improvement actions are typically incremental rather than fundamental.

41. At its meeting on 20 May 2024, the Committee was informed that the outcome of the mandatory 5 yearly External Quality Assessment (2024) was '*The Leicestershire County Council internal audit service is delivering to a standard that generally conforms with the (previously in place) Public Sector Internal Audit Standards'.* The improvement recommendations continue to be reviewed and mapped against the GIAS UK (public sector).

42. The HoIAS reviewed the Service Quality Assurance Improvement Programme (QAIP) and compiled a further action plan of improvements. This is contained in **Annex 4**.

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

43. The HoIAS has responsibility for overseeing the compilation of the AGS. As part of the process, he arranges a senior officers 'governance group' to review the content and agree any significant governance issues that should be reported in the AGS, before it is presented to the Committee.

44. Two new significant governance issues will be reported in the draft AGS for 2025-26.

Conclusion

45. The Internal Audit Service has provided independent assurance on the Council's governance, risk management, and internal control arrangements during the year, focusing on key risks and priorities.

46. Our work indicates that, overall, the Council has sound systems of control in place that are generally operating effectively. However, some areas require improvement to strengthen consistency and ensure risks are fully mitigated. Management has been responsive to our findings, and progress will continue to be monitored.

47. The Council operates in a challenging environment, reinforcing the need for strong governance and effective risk management. The Internal Audit Service will continue to adapt its approach to reflect emerging risks.

Neil Jones CPFA
Head of Internal Audit & Assurance Service
LCCIAS

8 June 2026.