



SELF ASSESSMENT WITH EXTERNAL INDEPENDENT VALIDATION

LEICESTERSHIRE COUNTY COUNCIL

MARCH 2018

Introduction

- 1 In accordance with the UK Public Sector Internal Audit Standards,¹ the chief audit executive² must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity (performance standard 1300). The quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The quality assurance and improvement programme must include both internal and external assessments. An external assessment must be conducted at least once every five years.

- 2 There are two acceptable approaches to conducting an external assessment:
 - Full external assessment
 - Self-assessment with independent validation.

- 3 The availability and relevant experience of the assessor or assessment team, the likely cost, the potential for added value and lack of any real or apparent conflict of interest are all factors which should be considered in deciding which method to adopt.

- 4 Leicestershire County Council has chosen to appoint Veritau Limited to undertake an independent validation of its self-assessment. Veritau is a local authority shared service company which provides internal audit and other governance related services to its member councils and other public sector organisations. Veritau is independent of Leicestershire County Council and has had no previous involvement with the provision of internal audit services at the council.

Leicestershire County Council – Internal Audit service

- 5 Leicestershire County Council maintains an in-house internal audit team. The team is managed by Neil Jones CPFA (Head of Internal Audit and Assurance) and comprises 15 staff (14.5 FTEs).

- 6 As well as the County Council, the team has provided internal audit services to the Leicestershire Pension Fund, Leicestershire Fire and Rescue Service and the Eastern Shires Purchasing Organisation (ESPO) for a number of years. Since November 2017, Leicester City Council has also delegated responsibility for the provision of internal audit to the County Council. As a result of this, four members of audit staff previously employed by the City Council were transferred to the County Council. Work is now ongoing to integrate working

¹ Which reflect International Standards for the Professional Practice of Internal Auditing

² For LCC this is the Head of Internal Audit and Assurance

practices and systems across the two councils so that there is a common approach to internal audit provision.

- 7 Leicestershire County Council also provides internal audit services to a number of academy schools under contract.
- 8 The Head of Internal Audit and Assurance reports to the Director of Finance (s151 officer) at the County Council, Chris Tambini, and is supported by three audit managers who are responsible for overseeing the delivery of services and ongoing client liaison. As well as internal audit, the in-house team leads on risk management, insurance and counter fraud for the County Council. It also supports the preparation of the Annual Governance Statement. A number of staff within the team hold relevant qualifications and have expertise in these areas. The City Council continues to maintain a separate counter fraud team.
- 9 Audit Charters have been agreed for each client and these are regularly updated. Audit plans and the outcomes of internal audit activity are reported to the County Council's Corporate Governance Committee or the respective audit committee for the team's other clients.

Scope and Methodology of the Review

- 10 This review was limited to the internal audit activities undertaken for the County Council and the team's other clients for internal audit services. The arrangements for delivering risk management, insurance and counter fraud services were considered to be out of scope. At the time of the review, internal audit services had only been provided to Leicester City Council for a few months and only limited progress had been made to integrate systems and working practices. In effect, the service to the City Council has continued to be provided in much the same way as it was before the delegation of responsibilities. This is therefore a period of transition for the internal audit service and this was recognised by the review team.
- 11 The review team examined the self-assessment document and associated evidence collated by the Head of Internal Audit and Assurance. The review team also undertook a limited review of recently completed audit files to compare actual practice with the professional practices and working protocols established by the team. The review considered audit planning, testing, reporting and follow up processes. Conformance with the Code of Ethics, the adequacy of training and development arrangements, the availability of specialist audit skills and the use of technologies were also considered.
- 12 The review team spent 2 days on site in Leicester during March 2018, interviewing internal audit staff and officers from the County Council and other clients. The chair of the Corporate Governance Committee was also interviewed. To assist and provide some structure to the interviews the review team circulated prompt sheets in advance of the visit. The questions included consideration of the overall benefits of internal audit, resource planning, strategic audit planning, the conduct of audit staff, the quality of audit reports, and whether the service was seen to add value to its client organisations. At

the end of the visit the findings and conclusions of the review team were reported to the Director of Finance and the Head of Internal Audit and Assurance.

Review Team

- 13 The review team consisted of Max Thomas and Richard Smith from Veritau. Max Thomas is a Chartered Accountant (ICAEW) with nearly 30 years auditing experience of which over 20 years has been in local government. Max is the chief executive of Veritau. Richard has worked in the local government sector for over 20 years, including over 15 years in internal audit. Richard is the Deputy Chief Executive of Veritau and is a Chartered Public Finance Accountant (CPFA).
- 14 Veritau is a local authority controlled company which provides internal audit, counter fraud and other governance services to its six member councils and a number of other public sector bodies.

Overall Opinion

- 15 It is our overall opinion that Leicestershire County Council generally conforms to the Public Sector Internal Audit Standards, including the *Definition of Internal Auditing*, the *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics* and the *Standards*.
- 16 The review team found a number of areas of good practice as well as a number of areas which merit further attention. Further details are provided below.
- 17 The guidance suggests a scale of three ratings, 'generally conforms', 'partially conforms' and 'does not conform'. 'Generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards. 'Partially conforms' means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit service from performing its responsibilities in an acceptable manner. 'Does not conform' means the deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit service from performing adequately in all or in significant areas of its responsibilities. The full definitions are given at the end of this document.
- 18 The results of this review together with the quality assurance and improvement programme (QAIP) should be reported to senior management and the board³.

Areas of Good Practice

- 19 The in-house audit team is well established and has an extremely good reputation with officers within the County Council and its client organisations.

³ The County Council's Corporate Governance Committee or relevant audit committee (for external clients).

The review team received consistently positive feedback about the team from senior managers and the chair of the Governance Committee.

- 20 The service has credibility and its recommendations and advice are valued by management. The service is focussing on the right areas and the annual audit plan is clearly aligned to the County Council's key risks and priorities. The team's wider responsibility for coordinating the council's risk management arrangements is beneficial in this respect. Plans also include an appropriate mix of compliance work and more forward looking strategic type audits.
- 21 The auditors conduct themselves in a professional manner, display knowledge of the areas they are auditing, adopt a flexible approach and are seen to be responsive to the needs of the client. Client officers reported that the internal audit team is also not afraid to raise issues of concern and to provide challenge to management.
- 22 The audit team is well resourced and the auditors take pride in the work they do. IT audit capability is strong and the team is very stable which offers good continuity. Audit assignments are appropriately planned and the testing is directed to those areas of greatest importance. Audit reports are balanced, and an executive summary has recently been added to the standard report format. Client officers are therefore better able to focus on the key issues. Client officers also feel able to question and challenge findings and recommendations where appropriate.
- 23 High priority recommendations are systematically followed up and the results are reported to the County Council's Corporate Governance Committee or audit committee as appropriate.
- 24 The service is endeavouring to develop a number of areas to help support its future work, including more use of computer assisted audit techniques (CAATS) and assurance mapping.

Areas which Merit Further Attention

- 25 The following are highlighted as areas which may merit further attention by the Head of Internal Audit and Assurance:
 - The self assessment has recently been updated but would still benefit from more detailed commentary and, in some areas, the evidence provided to demonstrate conformance with PSIAS was insufficient for the purpose.
 - The Audit Manual needs to be updated to reflect approved working practices and to ensure policies and procedures are properly communicated to the team. The review team recognise that the service is currently going through a period of transition and may therefore wish to delay this until the planned changes to systems and processes have been completed.

- Linked to this, steps should also be taken to improve the consistency of working papers and the approach to documenting work.
- Senior managers welcomed the recent addition of an executive summary to the audit report format. The service should however undertake a further review of the overall report format to ensure it continues to meet the needs of stakeholders.
- Whilst there are benefits from the team having responsibility for other governance related activities it is important that there are also appropriate safeguards to internal audit independence and objectivity. These arrangements should be more clearly communicated to the Corporate Governance Committee and other audit committees, and be kept under review in order to reduce the risk of impairment.
- Consideration should be given to developing competency profiles for each grade of auditor to help structure future training and development.
- Key performance measures should be defined and appropriate targets set with each client to help measure the efficiency and effectiveness of the service.
- Feedback on the quality of the overall service should be requested periodically from key stakeholders (including senior officers and audit committee members).
- Whilst the follow up of high priority audit recommendations is effective there is scope to adopt a more systematic approach to the follow up of other recommendations.
- Steps should be taken to promote the availability of Internal Audit as a source of strategic advice and support, and hence further raise the profile of the service.
- The team should continue to develop its use of data analytics to enable the increased use of whole population testing and continuous auditing.
- Consideration should be given to including a disclaimer on the Terms of Reference and standard report format used by the service.
- As the team expands its client base consideration should be given to further developing its agile working practices.

Max Thomas

11 April 2018

Attachment A - Definitions

“Generally Conforms” means the assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformity to the others, within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, “successful practice,” etc.

“Partially Conforms” means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.

“Does Not Conform” means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity’s effectiveness and its potential to add value to the organisation. These may also represent significant opportunities for improvement, including actions by senior management or the board.

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