

**The Head of Internal Audit Service's Annual Opinion  
on the overall adequacy and effectiveness  
of the control environment  
2018-19**

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

**26<sup>th</sup> April 2019**

## 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 annual opinion is macro-assurance over a defined period of time (financial year 2018-19) 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. **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 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 on the basis of the work undertaken and known facts.

## Governance related internal audit work

A wide range of assurance and consulting audits (see definitions) and maintained school audits were undertaken (coverage includes school governance). On the whole, recommendations were relatively minor and where they related to governance, it was to improve it, i.e. not to have to establish it.

The HoIAS attends 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 enables him to gauge Director and Member level governance at first hand. The HoIAS reviews other reports presented to the Committee and monitors Members' engagement as part of his holistic governance assessment.

The HoIAS is part of a senior management group also comprising the Director of Law & Governance, the Chief Financial Officer, the Head of Democratic Services and the Assistant Chief Executive which each year reviews the draft Annual Governance Statement (AGS).

The HoIAS has regular discussions with the Chief Executive, Directors and particularly the Chief Financial Officer (CFO) and the Monitoring Officer (MO) on governance issues and related internal audit aspects. The HoIAS attends Corporate Management Team when required.

**HoIAS opinion: - Nothing of significance, adverse nature or character has come to the HoIAS attention. As such reasonable assurance is given that the Council's governance arrangements are robust.**

### **Risk management related internal audit work**

The majority of 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.

Internal Audit Service provides challenge and advice to the completion of Information Security Risk Assessments (ISRA). Information and technology (I&T) plays a critical role for all services provided by the Council. Therefore, it is vital that I&T risks are effectively identified, assessed, managed and reviewed at the appropriate times.

Failure to identify, assess and mitigate I&T risks can lead to serious data breaches, non-compliance with legislation, financial losses and disruption to business activities. The increase in cyber-crime should be taken into account. The Council is not immune to cyber-attacks and needs to take all necessary steps to identify and mitigate the risks associated with an attack.

Other risk management work was undertaken in consulting audits and developments to the overall control environment.

On the whole, recommendations were relatively minor and they related to improving risk management i.e. not to have to establish it.

The HoIAS continues 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. Counter fraud policies and initiatives and the risk management framework are developing at pace. Risk scores and escalations continue to be challenged. There was positive engagement in counter fraud risk management at both Director (Corporate Management Team) and Member (the Committee) level.

An independent assessment of the effectiveness of the risk management framework was undertaken in 2018-19 by experts aligned to the Council's insurers. The outcome was on the whole positive but with some recommendations for improvement, which are being worked through

The HoIAS chairs the Property & Occupants Risk Management Group, set up predominantly to review the Council's fire risk position following the Grenfell Tower tragedy, but widened to include safety to individuals. Good progress has been made throughout the year and an annual report was presented to Corporate Governance Committee.

**HolIAS opinion: Management has shown good engagement around risk, has welcomed the independent review of risk management processes and agreed to implement audit recommendations, which further mitigate risk. Therefore reasonable assurance is given that risk is managed.**

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

A number of assurance audits were undertaken that were predominantly a financial or I&T control theme. Almost all returned substantial assurance, and all grants audited met their conditions in order to be certified.

In addition, maintained school audits were undertaken where audit coverage includes school financial control. All but one of those audits returned substantial assurance.

Whilst the results of audits conducted on financial and I&T controls were on the whole positive, there continues to be a need for investigations into control failings, albeit not specific to any particular service or theme. Management acted quickly and appropriately to improve the controls required.

Some Internal Audit Service resource was diverted to assist clearing homecare payments queries. Whilst this is not a pure audit function it does provide a viewpoint on financial control.

**HolIAS opinion: Reasonable assurance can be given that the Council's core financial and I&T controls remain strong.**

### **Other assurances – East Midlands Shared Service (EMSS)**

Internal audit activity for EMSS is the responsibility of the Head of Internal Audit (HoIA) at Nottingham City Council. For 2018-19 the HoIA concluded, *'On the basis of audit work undertaken during the 2018-19 financial year, covering financial systems, risk and governance, the Head of Internal Audit (HoIA) at Nottingham City Council concluded that a "significant" level of assurance could be given that internal control systems are operating effectively within EMSS and that no significant issues had been discovered.*

## **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.

### **Control**

Any action 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. The control environment includes the following elements: -

- 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 Institute of Internal Auditors further explains that the control environment is 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'.