

Combined Fire Authority Head of Internal Audit Service Annual Report 2016-17

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

24th August 2017

COMBINED FIRE AUTHORITY
HEAD OF INTERNAL AUDIT SERVICE
ANNUAL REPORT 2016-17

Background

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013 and revised with effect from April 2016. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows: -
 - i. The Mission of Internal Audit (**new from April 2016**)
 - ii. Definition of Internal Auditing
 - iii. Core Principles for the Professional Practice of Internal Auditing (**new from April 2016**)
 - iv. Code of Ethics
 - v. International Standards for the Professional Practice of Internal Auditing
2. Additional requirements and interpretations for the local government sector have been inserted into the PSIAS and all principal local authorities (Combined Fire Authorities included) must make provision for internal audit in accordance with the PSIAS.
3. The objectives of the PSIAS are to: -
 - a. define the nature of internal auditing within the UK public sector
 - b. set principles for carrying out internal audit in the UK public sector
 - c. establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations
 - d. establish the basis for the evaluation of internal audit performance and to drive improvement planning
4. The PSIAS require the Head of Internal Audit Service (HoIAS) to provide an annual report to 'the Board' (the Corporate Governance Committee) timed to support the Annual Governance Statement.
5. The PSIAS state that the annual report must include:
 - a. an annual internal audit opinion on the overall adequacy and effectiveness of the CFA's governance, risk and control framework (i.e. the control environment) and disclosure of any qualifications to the opinion, together with the reasons for the qualification
 - b. a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies) and disclosure of any impairments or restriction in scope
 - c. a comparison of the work actually undertaken with the work that was planned including a summary of the performance of the internal audit function against its performance measures and targets
 - d. a statement on conformance with the PSIAS
 - e. any issues the HoIAS judges particularly relevant to the preparation of the Annual Governance Statement

The Annual Internal Audit Opinion on the Adequacy and Effectiveness of the CFA's Control Environment

6. Annex 1 provides detail on how the annual internal audit opinion was formed, defines the components of the control environment and what it is designed to achieve, and provides a caveat on any opinions reached.
7. Based on an objective assessment of the results of individual audits undertaken, actions by management thereafter, and the professional judgement of the HoIAS in evaluating other related activities, the following sub-opinions have been drawn:-

Governance

Notwithstanding the special matter dealt with by CFA, on the whole, nothing else of such significance, adverse nature or character has come to the HoIAS' attention and as such reasonable assurance is given that the CFA's governance arrangements during 2016-17 were robust.

Risk management

Management agreed to implement relevant audit recommendations, which in themselves will mitigate risk. Therefore reasonable assurance is given that during 2016-17 risk was adequately managed.

Financial and ICT Control

Notwithstanding the special matter dealt with by CFA, on the whole, reasonable assurance can be given that during 2016-17 the CFA's core financial practices remained strong.

A summary of the audit work from which the opinion is derived

8. Annex 2 lists the audits undertaken during the year in the respective control environment components (governance, risk management and internal control). The list also contains the individual audit opinion.
9. A high proportion of the audits undertaken were 'assurance' type defined as '*An objective examination of evidence for the purpose of providing an independent assessment*'. Based on the testing undertaken, five audits returned a 'substantial assurance' rating, meaning the controls in place to reduce exposure to risks to achieving the system's objectives were well designed and were being operated effectively. Nevertheless there were some recommendations for management to bring about improvements, but they did not have a HI rating signifying a particularly serious control weakness had been identified.
10. Following a specially commissioned audit of the Brigade Management's compliance with appropriate conditions of service, policies and procedures, there were two high importance (HI) recommendations, which will be followed up in detail in 2017-18.

11. LCCIAS is the Council's co-ordinator for provision of data into the biannual 'National Fraud Initiative' (NFI) a nationwide counter-fraud data-matching exercise. A duplicate payment of £500 identified and will be recovered.
12. During 2015-16 the HoIAS did not place reliance on work by other assurance bodies.

A comparison of work undertaken with work planned including a summary of the performance of the internal audit function

13. The table below shows planned against actual performance both in terms of number of audits (completed to draft issued stage) and days allocated.

Table 1 : Overall performance against 2016-17 internal audit plan

	<u>Audits</u>	<u>Complete @ 24/8</u>	<u>Incomplete @ 24/8</u>	<u>Actual days</u>
Close 15-16 audits	3	3	0	4
Follow up HI recs	0	0	0	0
Planned	14	8	1	43
Planned not started	-5	0	0	2
Unplanned	1	1	0	29
Client management	-	-	-	17
Total	13	12	1	95

14. Five planned audits were not started, but an unplanned audit took a good deal of resource see Annex 2 for reasons.
15. Some resource has already been utilised in 2017-18 completing 2016-17 audits.
16. The Internal Audit Service provided 95 days (against a budget of 85) which was mostly due to the unplanned work. The charge to the CFA was approved by the Treasurer at £28,025 (£25,075).

Statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme (QAIP)

17. For 2016-17, the HoIAS only undertook a light touch self-assessment of LCCIAS's conformance to the PSIAS. This is because the Service has to undergo an independent external quality assessment in the latter part of 2017-18. The self-assessment identified that current practices generally sufficiently conform to the PSIAS. However, a few specific areas have been identified where development is required before the HoIAS can claim to fully conform, and state so in documents and correspondence.
18. A summary analysis of conformance (based on 'yes', 'partly' and 'no') is shown in table 2 overleaf. The key to the columns is: -
- Yes = fully conforms
 - Yes/Partly = mostly conforms but scope for development
 - Partly/No = only some conformance with a need for development
 - No = doesn't conform at all

Table 2 : Summary self-assessment against conformance to PSIAS

Does LCCIAS conform to PSIAS	Y	Y/P	P/N	N
1 Definition of Internal Auditing		X		
2 Code of Ethics		X		
3 Attribute Standards (combined)		X		
1000 Purpose, Authority and Responsibility	X			
1100 Independence and Objectivity	X			
1200 Proficiency and Due Professional Care		X		
1300 Quality Assurance and Improvement Programme			X	
4 Performance Standards (combined)		X		
2000 Managing the Internal Audit Activity		X		
2200 Engagement Planning		X		
2300 Performing the Engagement		X		
2400 Communicating Results		X		
2500 Monitoring Progress		X		
2600 Communicating the Acceptance of Risks		X		

19. The Quality Assurance and Improvement Programme (QAIP) sets out the governance arrangements for LCCIAS; explains roles and responsibilities of management and staff; defines expectations and outlines quality measures. Work to embed and review progress against the QAIP remains a priority.

20. PSIAS Standard 1321, informs that the HoIAS may only state that the internal audit activity fully conforms with the International Standards for the Professional Practice of Internal Auditing when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics and Standards and the results of the quality assurance and improvement programme support this statement. Whilst there has been further movement towards full conformance, for the time being, the HoIAS is continuing to state that LCCIAS abides by the principles of the PSIAS.
21. PSIAS Standard 1322, requires the HoIAS to confirm that (based on the results of the self-assessment) there were not any significant deviations from the PSIAS.

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

22. The HoIAS' sub-opinions on the adequacy and effectiveness of the control environment during 2016-17 are reported at paragraph 7. Relating to the governance and internal control sub-opinions, a detailed follow up audit will be conducted to ensure the high importance recommendations have been fully implemented.

Neil Jones CPFA
Head of Internal Audit Service
LCCIAS

24th August 2017.