

Leicester, Leicestershire and Rutland Combined Fire Authority
The Head of Internal Audit Service's Annual Opinion
on the overall adequacy and effectiveness
of the control environment
2016-17

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Background

Leicestershire County Council's Internal Audit Service (LCCIAS) provides the internal audit function for the Leicester, Leicestershire and Rutland Combined Fire Authority (the CFA). LCCIAS adopts the principles of the Public Sector Internal Audit Standards (the PSIAS) revised from April 2016, which require the Head of Internal Audit Service (HoIAS) to give an annual opinion on the overall adequacy and effectiveness of the CFA's control environment i.e. its framework of governance, risk management and control. The PSIAS definition of the control environment is to be 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 for a specific time interval i.e. 2016-17 and combines: -

- an objective assessment, based on the results of individual audits undertaken and actions taken by management thereafter. Individual 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 undertaken during the year in the respective control environment components (governance, risk management and internal control). The list also contains the individual audit opinion (where applicable) and whether there were any high importance recommendations.
- the professional judgement of the HoIAS based on his evaluation of other related activities.

The results of the above, when combined, form the basis for the overall opinion on the adequacy of the CFA's control environment. 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 the small amount of internal audit resource commissioned by the CFA Treasurer. 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

Only one of the five planned governance themed audits was able to be progressed, mostly because of deferral of LFRS plans. The annual Key ICT Controls work (substantial assurance) contains some minor recommendations on IT Organisation and Governance.

The HoIAS commented on the Annual Governance Statement. He attended Corporate Governance Committee and CFA meetings to present internal audit plans and reports. This enabled him to gauge 'good governance' at Member and senior management level at first hand. At its meeting on 17th March 2017, the Corporate Governance Committee recommended the CFA approved the revised Internal Audit Charter for the CFA mandating the purpose, authority and responsibility of the internal audit activity. The HoIAS holds regular discussions with the Treasurer and the Monitoring Officer (MO) on governance issues and related audit aspects.

Whilst it related to the previous year's actions/transactions, unplanned time was spent during 2016-17 on an audit of the Brigade Management's compliance with appropriate conditions of service, policies and procedures which resulted in two High Importance recommendations containing governance matters. In September 2017, the full CFA agreed that the CFO would carry out the recommendations. A detailed follow up audit is planned for 2017-18.

HoIAS opinion: - 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 related internal audit work

In general terms, internal audits planned and conducted are 'risk based' i.e. ensuring that the CFA's management identifies, evaluates and manages risk to achieving its objectives i.e. ensuring sufficient and adequate controls are in place to reduce risk exposure.

Planned audits of the implementation of the previous year's risk management framework recommendations and counter fraud arrangements were conducted. Both returned substantial assurance.

Management of ICT risk by LFRS was covered within the annual audit of ICT controls and one recommendation was made with overall substantial assurance.

Consulting (advisory) work was undertaken on pensions related risks around preparation for the impact on LFRS staff of the early production of annual benefit statements and guaranteed minimum pension checking

A planned audit covering procurement risk was started (information gathering) but testing work has rolled over into 2017-18 and an 'opinion' is not yet available. A further planned audit of insurance arrangements was deferred to 2017-18 in agreement with the Treasurer.

HoIAS opinion: 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) Controls related internal audit work

Planned audits with a financial or ICT control theme, were graded at substantial assurance. An opinion isn't given on the NFI work.

Whilst it related to the previous year's actions/transactions, unplanned time was spent during 2016-17 on an audit of the Brigade Management's compliance with appropriate conditions of service, policies and procedures which resulted in two High Importance recommendations containing financial control matters. In September 2017, the full CFA agreed that the CFO would carry out the recommendations. A detailed follow up audit is planned for 2017-18.

HoIAS opinion: 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.

Definitions

The revised 2016 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. Elements are: -

- 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.

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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'.