

# Combined Fire Authority Head of Internal Audit Service Annual Report 2015-16



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**COMBINED FIRE AUTHORITY**  
**HEAD OF INTERNAL AUDIT SERVICE**  
**ANNUAL REPORT 2015-16**

**Background**

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows: -
  - i. Definition of Internal Auditing
  - ii. Code of Ethics
  - iii. International Standards for the Professional Practice of Internal Auditing
2. Additional requirements and interpretations for the local government sector are incorporated in the PSIAS. All principal local authorities (including combined fire authorities) 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' timed to support the annual governance statement. The Internal Audit Charter defines the Corporate Governance Committee as the Board. Amongst its functions, the Committee should receive an annual Internal Audit report (5.2(f)ii);
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

HoIAS opinion: - On the whole, nothing 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 2015-16 were robust.

Nevertheless, a separate isolated issue will be considered by the full CFA once the report has been issued as final.

### Risk management

Management agreed to implement relevant audit recommendations, which will mitigate risk. Therefore reasonable assurance is given that risk is managed.

### Financial and ICT Control

Reasonable assurance can be given that the CFA's core financial practices remain strong.

Nevertheless, a separate isolated issue will be considered by the full CFA once the report has been issued as final.

## **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 and whether there were any high importance (HI) recommendations.
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, three were graded 'full' assurance rating with no recommendations. Eight 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. Where there were recommendation(s) to bring about improvements, they did not have a HI rating signifying a particularly serious control weakness had been identified.

10. There were not any partial assurance ratings given.
11. An audit to investigate further the circumstances surrounding the reported misuse of one of the Authority's procurement cards was concluded and recommendations on the whole agreed.
12. 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 £4,080 (straddling two financial years) was successfully recovered.
13. 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**

14. The table below shows planned against actual performance both in terms of number of audits and days allocated.

**Table 1 : Overall performance against 2015-16 internal audit plan**

	<b><u>Audits</u></b>	<b><u>Complete @ 26/8</u></b>	<b><u>Incomplete @ 26/8</u></b>	<b><u>Plan days</u></b>	<b><u>Actual days</u></b>	<b><u>Net days</u></b>
B/fwd from 2014-15	1	1	-	-	1	+1
Planned	14	11	3	76	70	-6
Unplanned	1	1	-	-	3	+3
Client management	-	-	-	9	21	+12
<b>Total</b>	<b>16</b>	<b>13</b>	<b>3</b>	<b>85</b>	<b>95</b>	<b>+10</b>

15. Three audits were deferred by the previous Treasurer for varying reasons. Two of those audits were carried forward into the 2016-17 plan. Some of the deferred time was utilised on an unplanned audit into Fire pension's calculations.
16. The extra days incurred were mostly attributable to: -
  - Unplanned governance and management changes
  - Unplanned work on pensions
  - Extra work for new external audit relationship
17. The amount charged for services amounted to £25,650 against a budget of £22,950 with the increased charged for additional work authorised in advance by the Treasurer.

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

18. The HoIAS undertook a further self-assessment of LCCIAS's conformance to the PSIAS. The self-assessment identified that current practices generally sufficiently conform to the PSIAS. However, a few specific areas have been identified where action is needed before the HoIAS can claim to fully conform, and state so in documents and correspondence.
19. A summary analysis of conformance (based on 'yes', 'partly' and 'no') is shown in table 2 below. The key to the columns is: -
- Yes = fully conforms
  - Yes/Partly = mostly conforms but scope for continuous improvement
  - Partly/No = only some conformance with a real need for improvement
  - No = doesn't conform at all

**Table 2 : Summary self-assessment against conformance to PSIAS**

<b>Does LCCIAS conform to PSIAS</b>	<b>Y</b>	<b>Y/P</b>	<b>P/N</b>	<b>N</b>
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		

20. An improvement during 2015-16 was the development and implementation of a Quality Assurance and Improvement Programme (QAIP) which 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.

21. 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.
22. 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)**

23. The HoIAS' sub-opinions on the adequacy and effectiveness of the control environment during 2015-16 are reported at paragraph 7. Relating to the governance and internal control sub-opinions, a separate isolated issue will be considered by the full CFA once the report has been issued as final.

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26<sup>th</sup> August 2016.