

Status of Report: Public

Meeting: Corporate Governance Committee

Date: 23 July 2024

Subject: Head of Internal Audit Service Annual Report 2023-24

Report by: The Treasurer

**Author: Neil Jones (Head of Internal Audit and Assurance Service,
Leicestershire County Council)**

For: Information only

Purpose

1. To provide the Corporate Governance Committee the opportunity to review the Head of Internal Audit Service Annual Report 2023-24.

Recommendation

2. It is recommended that the Committee notes the Head of Internal Audit Service Annual Report 2023-24 and makes any observations.

Executive Summary

3. An effective internal audit function is a mandatory statutory requirement for the Combined Fire Authority (CFA).
4. The internal audit activity for the CFA is currently outsourced to Leicestershire County Council's Internal Audit Service (LCCIAS) led by the Head of Internal Audit and Assurance Service, who fulfils the role of the CFA's Head of Internal Audit Service (HoIAS). The Public Sector Internal Audit Standards (PSIAS), specifically require that when an external service provider serves as the internal audit activity, the provider (LCCIAS) must make the organisation (CFA) aware that it has the responsibility for maintaining an effective internal audit activity.
5. The CFA Constitution records that one of the functions of the Corporate Governance Committee is to monitor the adequacy and effectiveness of the internal audit service and to monitor progress against the internal audit plan through the receipt of periodic progress reports and an annual Internal Audit report.
6. The PSIAS apply to all internal audit service providers. They require the HoIAS to provide an annual report to 'the Board' (for the CFA this is defined as the Committee) timed to support the annual review of the effectiveness of the CFA's governance framework undertaken when compiling the Annual Governance Statement (AGS). The annual report is to include:

- i. an opinion on the overall adequacy and effectiveness of the CFA's control environment (its framework of governance; risk management; and internal control);
 - ii. a summary of the audit work from which the opinion is derived.
 - iii. a comparison of work actually undertaken with work that was planned including a summary of the performance of the internal audit function;
 - iv. a statement on conformance with the PSIAS and review of the quality improvement programme; and
 - v. any issues the HoIAS judges relevant to the preparation of the AGS.
7. Headlines from the report (which is contained in full in the Appendix) are: -
- i. The HoIAS was able to conclude a reasonably positive opinion (paragraph 6).
 - ii. One 23/24 audit received a partial opinion rating (Contract Procedure Rules and associated Policies and Processes) (paragraph 10)
 - iii. One legacy partial opinion report (in respect of Key ICT controls) was addressed during the year to the satisfaction of this Committee (paragraph 12)
 - iv. Two legacy partial opinion reports (in respect of a follow up piece of work relating to Contract Procedure Rules and associated Policies and Processes and also in respect of the risk of bank mandate fraud) were not addressed within the year and therefore implementation dates for remedial action were not met. These will continue to be subject to further internal audit scrutiny.
 - v. Days provided were as planned (paragraph 16).
 - vi. The charge was as per budget (increased for pay inflation)
 - vii. Relevant information and guidance were routinely shared.
 - viii. An independent External Quality Assessment (EQA) in 2023/24 stated that that LCCIAS continues to 'generally conform' (the top rating) to the PSIAS. The recommendation within this report and a review of the quality improvement plan (QAIP) revealed some actions and a degree of extensions required to actions (paras 18 to 21)
 - ix. The internal audit team continues to be trained and developed in new and emerging risks, technologies and working practices.

- x. The HoIAS proposed that three risks could be considered for the preparation of the Annual Governance Statement 2023-24 (paragraph 22).

Background

- 8. The Head of Internal Audit Service Annual Report 2023-24 is included at the Appendix.
- 9. Detail behind how the opinion was formed is found in **Annex 1**. For 2023-24 the HoIAS gives reasonable assurance that overall, the control environment remained adequate and effective. Whilst there were isolated high risk rated weaknesses identified in some areas, controls to mitigate key risks are generally operating effectively. The HoIAS was on the whole satisfied with management's response to resolving identified issues and welcomed the Committee's support and engagement over them. However, the arrangements to enable the Corporate Governance Committee to effectively monitor the progression and implementation of Internal Audit Service high importance recommendations require improvement.

This is because of lengthy delays to implementing some previously agreed high importance recommendations. It is proposed that on receipt of the Internal Audit update reports, the Chair should discuss and agree with the HoIAS (and where necessary the Treasurer or Monitoring Officer) whether relevant officers should be requested to attend the Committee meeting to provide an update and reasons for any delays that may have arisen.

- 10. A list of the audit work from which the sub-opinions are derived containing the scope, recommendations and individual assignment opinions is found in **Annex 2**. The HoIAS will ensure that any audits containing high importance (HI) recommendations and/or partial assurance ratings will be followed up with specific retesting and will stay in the Committee's domain until the HoIAS is satisfied the recommendations have been implemented and controls embedded.

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

- 11. Leicestershire County Council Internal Audit Service commissioned its 5 yearly External Quality Assessment (EQA) to be undertaken in the spring of 2024. The undertaking of an EQA is a requirement of the Public Sector Internal Audit Standards (PSIAS), in conjunction with CIPFA's Local Government Advisory Notice (LGAN - 2019), which aim to promote continued improvement in the professionalism, quality and effectiveness of the internal audit function. As part of the internal audit quality management programme, each internal audit function should be subjected to an external assessment of its overall conformance with the standards once every five years by a qualified, independent assessor or assessment team from outside the organisation.

12. The assessment (undertaken by a very experienced internal audit and risk professional with a career spanning 40 years) was based upon a review (validation) of an evidenced internal self-assessment exercise using the standard template of LGAN.
13. The assessor's final report states: -

The Leicestershire County Council internal audit service is delivering to a standard that generally conforms (*) with the Public Sector Internal Audit Standards

(*) '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.

More detail is contained in the Appendix. The full EQA report can be found at <https://democracy.leics.gov.uk/documents/s182668/Appendix%203%20-%20Final%20report%20-%20External%20Quality%20Assessment.pdf>

Report Implications/Impact

14. Legal (including crime and disorder)

Section 112 of the Local Government Finance Act 1988 requires that the CFA '...shall make arrangements for the proper administration of its financial affairs' and to ensure that '...one of its officers has responsibility for the administration of those affairs'. At the CFA this officer is the Treasurer.

Part 2 'Internal Control' of the Accounts and Audit Regulations 2015 require, 'A relevant authority (including fire authorities) must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

15. Financial (including value for money, benefits and efficiencies)

The Service Level Agreement in place scheduled LCCIAS to provide 85 days of internal audit time. Actual charge was £33,337 to allow for pay inflation.

As a result of the work carried out, assurances regarding the operation of key financial systems are gained and there would be an expectation that implementing Internal Audit recommendations could improve effectiveness, efficiency, and economy. – Amy Oliver, Director of Finance, Leicester City Council (Treasurer) 0116 4545667

16. Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)

Internal audit provides assurance that effective governance, risk management and internal control procedures are in place. Internal audit reports are used to inform the Treasurer and the Chief Fire and Rescue Officer of the detailed findings of the audit and highlight actions that are required to safeguard the CFA's interests.

17. Staff, Service Users and Stakeholders (including the Equality Impact Assessment)

There are no staff, service user or stakeholder implications arising from this report.

18. Environmental

There are no environmental implications arising from this report.

19. Impact upon Our Plan Objective

Within the CFA's priority of Finance and Resources is the aim of providing a value for money service. The provision of an internal audit function assists both effective and efficient management and good corporate governance. It also externally validates the CFA's progress in this area.

Background Papers

Internal Audit Plan 2023-24 Corporate Governance Committee 15 March 2023

<https://leics-fire.gov.uk/wp-content/uploads/2023/03/item-10-internal-audit-plan-202324.pdf>

<https://leics-fire.gov.uk/wp-content/uploads/2023/03/item-10-appendix-internal-audit-plan-for-leicestershire-fire-and-rescue-service-20232024.pdf>

Appendices

Appendix	The Head of Internal Audit Service Annual Report 2023-24
Annex 1	The Head of Internal Audit Service Annual Opinion on the overall adequacy and effectiveness of the control environment 2023-24
Annex 2	Work supporting the HoIAS Annual Opinion 2023-24

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