

Head of Internal Audit Service Annual Report 2023-24

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County Council**

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Combined Fire Authority
Head of Internal Audit Service
Annual Report 2023-24

Background

1. A common set of Public Sector Internal Audit Standards (PSIAS) was adopted in April 2013 and revised from April 2017. 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
 - ii. Definition of Internal Auditing
 - iii. Core Principles for the Professional Practice of Internal Auditing
 - 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 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' (for the CFA this is defined as 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 and the results of the internal audit Quality Assurance and Improvement Programme (QAIP) and progress against any improvement plans resulting from a QAIP external assessment.
- 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 Combined Fire Authority's Control Environment

6. **Annex 1** provides detail on how the annual internal audit opinion was formed, explains the types of audits undertaken, the components of the control environment and what it is designed to achieve, and provides a caveat on any opinions reached.

Based on an objective assessment of the results of individual audits undertaken and actions by management thereafter; the work of the Corporate Governance Committee; the professional judgement of the HoIAS based on his knowledge, experience and evaluation of other related activities and assurances given from other functions, the results of the above, when combined: -

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 continues to require improvement.

This is because of lengthy delays to implementing some previously agreed high importance recommendations. It is again 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.

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

7. **Annex 2** lists the audits and other work undertaken during the year and where appropriate contains the individual audit opinion.
8. Eight prior year audits and eleven new year audits were originally planned, the majority of them being 'assurance' audits defined as '*An objective examination of evidence for the purpose of providing an independent assessment*'. Ten new year audits were completed (see paragraph 15 for information on the remaining audit that straddled two financial years). Of the ten completed during 2023/24 two were of an advisory nature.

9. Of the remaining eight audits, seven returned substantial assurance ratings meaning the controls in place to reduce exposure to risks to achieving the system's objectives were well designed and were being operated effectively. On the occasions when there were recommendation(s) to bring about improvements, they did not have a high importance (HI) rating signifying a particularly serious control weakness had been identified.
10. The eighth audit, a follow up piece of work in respect of Contract Procedure Rules and associated Policies and Processes, resulted in a partial assurance rating and progress in addressing the recommendations within this audit will be reported to this committee until completed and tested.
11. Work on the National Fraud Initiative was completed.
12. One high importance recommendation from the 2022-23 year (in respect of Key ICT Controls) was addressed to the satisfaction of this committee, however one remains outstanding (in respect of the risk of bank mandate fraud). Testing will continue until this recommendation has been implemented.
13. The internal audit plan also contains a contingency for emerging issues. During 2023-24 the Internal Audit Service provided advice and contributed to reports in one area.
14. The PSIAS require that the HoIAS should disclose where reliance is placed on work by other assurance bodies. This year the HoIAS took assurances from the External Auditors Annual Report and the HMICFRS spotlight report on culture of the fire service and the position of LFRS.

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

15. The tables below show performance both in terms of number of audits and days allocated.

Table 1: Overall performance against 2023-24 internal audit plan

Audit type	<u>Close 22-23 audits</u>	<u>Planned 23-24 audits</u>	<u>Straddled two financial years.</u>	<u>Draft or Not Cleared</u>	<u>Complete</u>
Governance	2	2	-	-	4
Risk management	1	1	-	-	2
Internal control	5	7	-1	-	11
Emerging issues	-	1	-	-	1
Total	8	11	-1	0	18

16. Total 'productive' days spent on work were slightly above planned (92 versus 85) but the CFA was only charged for the planned time.
17. Six customer satisfaction questionnaires were returned, and all scored full satisfaction with the internal audit process.

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

18. 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.
19. 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. The EQA provided for the review to be undertaken remotely, which proved to be an efficient and effective means of conducting such reviews and enabled electronic files to be provided to the reviewer to evaluate consistency and diligence in processes. In addition to interviews with both the HoIAS and the Audit Manager responsible for EQA submission, eleven other key stakeholders from a range of clients were also requested to provide feedback in relation to the service.
20. 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.

The assessor considered LCCIAS to compare very favourably in benchmarking against other Local Authorities. Six areas of good practice were reported and (as was expected) four areas for further improvement. An action plan is being developed.

21. The assessor also reviewed the service's Quality Assurance and Improvement Programme (QAIP). The report stated that, 'LCCIAS has developed a QAIP process which itemises development and supervisory processes that contribute towards maintaining and evidencing appropriate

review of the delivery of a quality service...and including a series of key performance indicators (KPI's)'. Two areas for further improvement were suggested and they have been included in the action plan.

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

22. For the year 2023-24, the risks around the impacts of significant staff turnover within the finance team, a delay in preparing for implementing the Public Procurement Regulations and the proposal to revert to an in-house Treasurer could be considered relevant to the preparation of the AGS.

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LCCIAS

11 July 2024.