Annex 1

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 2023-24

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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 was externally independently assessed in May 2024 as generally conforming (the top rating) to the Public Sector Internal Audit Standards (the PSIAS) revised from April 2017. The PSIAS 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 macro-assurance over a defined period of time (financial year 2023-24) 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. An explanation of the ratings applied is also to be found in the definitions at the end of this document. **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. Individual audit engagements provide targeted micro-assurance.

- The HoIAS' role in preparing for, attending, reporting to and his observations of the work of the Corporate Governance Committee (the Committee) including its engagement in specific training provided by officers.

- The HoIAS' reflection on other sources of independent assurance received.

- Professional judgement of the HoIAS based on his knowledge, experience, and evaluation of other related activities. This provides a holistic, strategic insight into the CFA's control environment.

The results of the above, when combined, form the basis for the overall opinion on the CFA's control environment. Individual audits are assigned a rating because it is possible to gather and test evidence for a specific audit topic. The overall opinion reflects that it isn't possible to provide audit coverage over all systems and processes. The caveat at the very end of this 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 its limited resource. The work of LCCIAS is intended only to provide assurance on the adequacy of the control environment based on the work undertaken and known facts.

Governance related internal audit work.

A governance themed audit of human resources – recruitment and onboarding processes returned substantial assurance. The ongoing audit of contract procedure rules returned partial assurance. Elements of the annual key ICT controls audit reviews governance matters.

The HoIAS (or the Audit Manager) attended Corporate Governance Committee meetings to present internal audit plans and reports. This enabled him to gauge 'good governance' at Member and senior management level at first hand.

The HoIAS contributed to the appointment and training of Independent Members

The HoIAS and Audit Manager hold regular discussions with the LFRS Senior Management Team, the Treasurer, and the Monitoring Officer (MO) on governance issues and related audit aspects.

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.

A further audit of the fire protection Risk Based Inspection Programme (Fire Protection) returned substantial assurance. Management of ICT risk by LFRS was covered within the annual audit of ICT controls.

Financial (and ICT) Controls related internal audit work

Seven internal control themed audits (including work on the National Fraud Initiative) were undertaken. The high importance (HI) recommendation relating to the prior year audit of Key ICT Controls was addressed and closed. However, the BACS HI hadn't been implemented and it continues to return a partial assurance rating.

Information Sharing and reliance on other assurances.

The HoIAS routinely shares information and guidance that comes into his domain with relevant officers. 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.

Head of Internal Audit Service Opinion

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.

Definitions

The revised 2017 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.

Assurance audits have four gradings: -

Outcome of the audit	Assurance rating
No (or only a few minor) recommendations	**Full assurance**
A number of recommendations made but none considered to have sufficient significance to be denoted as **HI** (high importance)	**Substantial assurance**
Includes at least one **HI** recommendation, denoting that (based upon a combination of probability and impact) a significant weakness either exists or potentially could arise and therefore the system's objectives are seriously compromised. Management should quickly address **HI** recommendations and implement an agreed action plan without delay. Alternatively, whilst individually none of the recommendations scored a HI rating, collectively they indicate that the level of risk to is sufficient to emphasise that prompt management action is required.	**Partial assurance**
The number and content of the **HI** recommendations made are sufficient to seriously undermine any confidence in the controls that are currently operating.	**Little or no assurance**

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.

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'.

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