

Status of Report: Public

Meeting: Corporate Governance Committee

Date: 10 March 2021

Subject: Internal Audit Plan 2021-22

Report by: The Treasurer

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For: Information only

Purpose

1. The purpose of this report is to provide the Committee with the opportunity to review the Internal Audit Plan 2021-22

Recommendation

2. The Committee is asked to note: -
 - a. the report and the Internal Audit Plan 2021-22 and make any observations
 - b. that the detail of the plan may change during the year in response to emerging issues and risks.

Executive Summary

3. An effective internal audit function is a mandatory statutory requirement for the Combined Fire Authority (CFA). Detail is contained in the revised Constitution last formally approved by the CFA at its meeting on 12 December 2018 and then updated in November 2020.
4. One of the functions of the Committee is to consider the annual internal audit plan (the Plan).
5. An internal audit function works to an agreed plan that is designed to give the Committee a reasonable amount of independent and objective assurance that significant risks (both new risks and business as usual) are being managed appropriately by the risk owners. Appendix 1 is the Plan of essential areas of internal audit coverage together with potential replacement audits should this be required.
6. The CFA's internal audit function is outsourced to Leicestershire County Council's Internal Audit Service (LCCIAS), led by the Head of Internal Audit Service (HoIAS). The HoIAS has devised the Internal Audit Plan for 2021-22 after consultation with the Treasurer, the Monitoring Officer and the Senior Management Team and has taken account of the content of the most up to

date version of the Organisational Risk Register (last reported to Committee 16 September 2020).

7. Public Sector Internal Audit Standards 2013 (the PSIAS) were further revised in April 2017. PSIAS require the HoIAS to develop a risk based plan and undertake risk based audits so as to provide, at the year's end, an opinion on the overall adequacy and effectiveness of the organisation's control environment (its framework of governance, risk management and internal control). The opinion is in turn one of the sources of assurance that the CFA relies on for its annual governance statement.
8. Planned days remain at 85, including time for reporting to this Committee.
9. The plan is made up of three elements, firstly the core auditable areas that would always be part of annual assurance coverage as defined by the Treasurer in conjunction with the HoIAS, secondly service specific priorities defined by the Leadership Team and thirdly a retained element for strategic/emerging issues. Key areas of coverage for 21/22 relate to:

Core Auditable Areas:

- Traditional key financial systems audits which historically have been referenced by the External Auditor (covering Reconciliations and Balances, Payroll, Pensions and Key ICT Controls)
- Participation in the National Fraud Initiative requirements

Service Specific Areas:

- Workshop Services
- Risk Management Review
- Contract Procedure Rules and associated Policies and Processes
- Segregation of duties within the finance function
- Accounts Receivables – BACS Payment Process

(In addition, an element of the plan has been held back to allow 'emerging issues' to be addressed)

Background

The Internal Audit Plan 2021-22

10. The Public Sector Internal Audit Standards (PSIAS) define internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Internal audit helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
11. Internal audit scope should be wide ranging across the CFA's activities to allow an adequate balance of audits relating to governance, risk management and internal control. Internal audit resource is limited, and takes into account other sources of assurance, but it is important that time is concentrated in areas

where the need for coverage is considered high. The Plan has been prepared by the HoIAS taking into account (amongst other things): -

- previous audits conducted on the maturity of the CFA's risk management framework and the contents of the Organisational Risk Register;
 - the robustness of governance arrangements;
 - responses to previous audit reports and the implementation of audit recommendations;
 - the Authority's strategic plans and its assurance and performance management frameworks; and
 - where assurance is required by others, for example, the External Auditor.
12. The HoIAS has consulted to identify any significant changes due which could impact on the control environment, for example, changes in key ICT systems.
 13. The Internal Audit Plan for 2021-22 is shown in Appendix 1
 14. Whilst the plan lists the individual audits anticipated, it should be recognised that it is only a statement of intent, and there is a need for flexibility to review and adjust it as necessary in response to changes in the CFA's business, risks, operations, programs, systems, and controls. The reasons for this are:-
 - The potential for priorities and associated risks to change during the year, such that the focus of audit effort in any particular area may change.
 - The continuing changes in the CFA's governance and management arrangements both locally and nationally.
 15. Whilst every effort will be made to deliver the plan, the Treasurer recognises that it needs to be flexible and be prepared to revise its activities in response to changing circumstances or emerging risks. It is likely that the 2021-22 plan will be more fluid than normal as a result of the continuing impact of the pandemic on the CFA's operations. The HoIAS has taken account of new audit priorities to cover the new risks and changes from the impact of COVID-19 and that work will provide support for the annual opinion. The impact of COVID-19 and the capacity of the CFA to respond will likely continue to vary as a result of a number of factors, for instance further operational disruptions that impact on the access of internal auditors to key staff, information or systems.
 16. Where the HoIAS identifies other sources of assurance, and reliance can be placed on those other sources, it will be recorded in specific Terms of Engagement and reported and reflected in the annual opinion.
 17. There are other potential replacement or additional audits that could be substituted into the plan at the discretion of the Treasurer in conjunction with the HoIAS. Furthermore, virement between audits or indeed the cancellation of audits could occur if there are emerging issues either nationally or locally that require more urgent attention.

18. Appendix 1 reports that time will be devoted to audits of the Key Financial Systems in place covering Reconciliations and Balances, Payroll, Pensions and ICT systems. This work has traditionally been utilised by the External Auditor in their risk assessment to plan their annual audit of the financial statements and close dialogue and working continues to take place with the External Auditor (Mazars) to ensure no unnecessary duplication or indeed omission of work.
19. The appendix also provides details of other work undertaken, including the HoIAS responsibilities to report to this Committee and liaise with the External Auditor, especially to understand where internal audit might complement its work on the revised value for money opinion arrangements.
20. Most planned audits undertaken are of an 'assurance' type, which requires undertaking an objective examination of evidence to reach an independent opinion on whether risk is being mitigated. Other planned audits are of a 'consulting' type, which are primarily advisory and guidance to management. These add value, for example, by commenting on the effectiveness of controls designed before implementing a new system. Also, unplanned 'investigation' type audits may be undertaken.
21. Audits are categorised so that the HoIAS can meet a requirement of the Public Sector Internal Audit Standards to form an opinion on the overall adequacy and effectiveness of the CFA's control environment (the framework of governance, risk management and internal control). The opinion is reported in the Annual Governance Statement.
22. Individual audits will be agreed in advance with the Treasurer, following consultation with other relevant officers and staff; in most cases there will be specific terms of engagement. Regular update reports on progress against the Plan will be presented to the Corporate Governance Committee.
23. In conclusion, the Internal Audit Plan for 2021-22 aims to give the CFA optimum audit coverage within the resources available.

Report Implications/Impact

24. 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'.

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

Under the current Service Level Agreement LCCIAS is scheduled to provide 85 days of audit time each year.

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. - Colin Sharpe, Deputy Director of Finance, Leicester City Council, 0116 454 4081

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

Internal audit provides reassurance that effective governance, risk management and internal control procedures are in place. Internal audit reports are used to inform the Treasurer, Monitoring Officer 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.

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

None

28. Environmental

None

29. Impact upon Our Plan Objective – Please detail from “Our Plan 2020-24”

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 Charter for the CFA (Corporate Governance Committee 13 March 2019)

<https://leics-fire.gov.uk/wp-content/uploads/2019/03/appendix-1-the-internal-audit-charter-for-the-cfa-february-2019-1.pdf>

Appendix 1

The Internal Audit Plan 2021-22

Officers to Contact

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