

Status of Report: Public

Meeting: Corporate Governance Committee

Date: 13 March 2024

Subject: Internal Audit Plan 2024-25, external quality review of Leicestershire County Council's Internal Audit Service and the Internal Audit Charter for the CFA (February 2024)

Report by: The Treasurer

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

For: Information only

Purpose

1. To provide the Corporate Governance Committee (the Committee): -
 - a. the opportunity to review the Internal Audit Plan 2024-25
 - b. brief details on the plans for an External Quality Assessment (EQA) of Leicestershire County Council's Internal Audit Service (LCCIAS)
 - c. the revised Internal Audit Charter which is a key governance document.

Recommendations

2. The Committee is asked to: -
 - a. Consider the Internal Audit Plan 2024-25, make any observations and note that the detail of the plan may change during the year in response to emerging issues and risks
 - b. As part of its function to monitor the adequacy and effectiveness of the Internal Audit Service
 - i. Note the plans for an EQA of LCCIAS
 - ii. Approve the revised Internal Audit Charter for the CFA

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 29 November 2023.

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 2023-24 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.
7. Public Sector Internal Audit Standards (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 2024/25 relate to:

Core Auditable Areas:

- Traditional key financial systems audits (covering Reconciliations and Balances, Payroll, Pensions and Key ICT Controls). Additionally, the External Auditor may choose to liaise with internal audit to inform its continual risk assessment although it does not intend to rely on the work of internal audit.
- Participation in the National Fraud Initiative requirements. Additionally, as part of its audit procedures in relation to fraud, the External Auditor is required to enquire of those charged with governance, including key management and Internal audit, as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks.

Service Specific Areas:

- ICT System and Process Connectivity
- People Plan

Key Risks/High Importance Recommendations

- Contract Procedure Rules
- Revised Procurement Regulations
- Addressing the implications of Pensions Judgements

(An element of the plan is kept allowing 'emerging issues' to be addressed)

10. A further requirement of the PSIAS is that an assessment of the internal audit function's overall conformance with the Standards is conducted once every five years by a qualified, independent assessor, or assessment team from outside the organisation.
11. The PSIAS also mandate that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter (the Charter). This important governance document was last reported to, and approved by, the Committee at its meeting on 13 March 2019. Although there haven't been any changes to the PSIAS, membership of the Committee has changed significantly since the last approval and so it is considered prudent to review and refresh the Charter and also to send it as evidence to the external assessor. Revised global Internal Auditing Standards were launched in January but it will be some time before they are interpreted into revised PSIAS.

Background

The Internal Audit Plan 2024-25

12. 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.
13. 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.
14. The HoIAS has consulted to identify any significant changes due which could impact on the control environment, for example changes in key ICT systems.
 15. The Internal Audit Plan for 2024-25 is shown at Appendix 1 to this report.
 16. 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 area may change.
 - Changes that may occur as a result of emerging issues/risks e.g. legislation, inspectorate concerns, security and/or health and safety concerns
 17. 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.
 18. 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 report and reflected in the annual opinion.
 19. 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.
 20. The appendix also 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 can perhaps be 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 (Grant Thornton) to ensure no unnecessary duplication or indeed omission of work.
 21. 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.
 22. 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.

23. 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.
24. 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.

In conclusion, the Internal Audit Plan for 2024-25 aims to give the CFA optimum audit coverage within the resources available.

External Quality Assessment

25. The previous External Quality Assessment (EQA) of Leicestershire County Council's Internal Audit Service was undertaken in March 2018 and was an independent validation of the HoIAS' self-assessment. The results were reported to the Committee at its meeting on 25 July 2018 with the overall conclusion that the Service generally conformed (the top rating) to the PSIAS.
26. In October, the County Council commissioned Robin Pritchard, a very experienced internal audit and risk professional, to undertake an EQA by March 2024. It was agreed that an assessment would be based upon a review (validation) of an evidenced internal self-assessment exercise. This was the same methodology applied in 2018. The EQA will be undertaken remotely and will be conducted in two stages with a readiness check towards the end of January (with an opportunity to make any improvements) before a final and full report in March/April (scheduled to be reported to the Committee at its meeting in July 2024). As well as submission of evidence, the assessor will conduct interviews which may include the Chair of the Committee and a selection of Officers or use a digital survey questionnaire to gain insight into the value and performance of the internal audit service.
27. Work is underway to provide the assessor with initial documentation for review.

Internal Audit Charter

28. The Internal Audit Charter (the Charter) establishes the Internal Audit function's position within the CFA, including the nature of the HoIAS' functional reporting relationship with the Corporate Governance Committee, (the Committee); authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the Charter resides with the Committee.
29. Providing a formal, written Charter is important to managing the provision of internal audit activity by LCCIAS. The Charter provides a recognised statement for review and acceptance by the Chief Fire and Rescue Officer and the Treasurer and Monitoring Officer and for approval by the Committee. It also facilitates a periodic assessment by the HoIAS of the adequacy of the internal audit activity's purpose, authority, and responsibility and whether LCCIAS continues to be adequate and accomplish its objectives.

30. The Charter has been reviewed and minor changes have been made which are highlighted in yellow. It has 8 distinct sections: -

Section Content

1. Introduction
2. Mission of Internal Audit
3. Purpose (PSIAS definition of the internal audit activity)
4. The Core Principles
5. Definitions (including the Board and Senior Management)
6. Authority (afforded to the internal audit activity)
7. Responsibility (of the Committee, Officers and the HoIAS)
8. The scope of the internal audit activity

31. The Internal Audit Charter for the CFA (February 2024) is included as Appendix 2.

Report Implications/Impact

32. 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’.

33. 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. - Amy Oliver, Treasurer, Leicester City Council, 0116 454 5667

The CFA will not incur any charge for the independent external quality assessment of Leicestershire County Council’s Internal Audit Service

34. 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.

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

None

36. Environmental

None

37. Impact upon Our Plan 2020-24 (2022 Refresh)

Within the CFA's priority of Finance and Resources is the aim to deliver value for money quality services. 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

The Public Sector Internal Audit Standards (revised 2017)

<https://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

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>

Internal Audit Service – Outcome of Peer Review (Corporate Governance Committee 25 July 2018)

<https://leics-fire.gov.uk/wp-content/uploads/2016/06/internal-audit-service-outcome-of-peer-review.pdf>

Appendices

1. The Internal Audit Plan 2024-25
2. The Internal Audit Charter for the CFA (February 2024)

Officers to Contact

Amy Oliver, Treasurer
Leicester City Council
0116 454 5667
amy.oliver@leicester.gov.uk

Lauren Haslam, Monitoring Officer
Leicestershire County Council
0116 305 6240
Lauren.haslam@leics.gov.uk

Neil Jones, Head of Internal Audit and Assurance Service,
Leicestershire County Council
0116 305 7629
neil.jones@leics.gov.uk