

**Combined Fire Authority
Head of Internal Audit Service
Annual Report 2018-19**

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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, the HoIAS has concluded that whilst there were two audits returning lower assurance ratings, management not only agreed the internal audit recommendations but acted promptly in-year to either begin, or plan, to implement them. **As such the HoIAS concludes there is reasonable assurance that the CFA's control environment is both adequate and effective.**

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. The majority of the twelve audits undertaken were 'assurance' type defined as *'An objective examination of evidence for the purpose of providing an independent assessment'*. One audit returned a 'full' assurance rating and eight others returned 'substantial' rating, 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.
9. One audit was graded 'partial assurance' rating. This was because even though there were not any specific high importance recommendations, the combined seriousness of the other recommendations supported a partial assurance rating. A further audit returned 'reasonable' assurance on the basis of perceived gaps in its readiness to prepare for an HM inspection.
10. Audits returning partial assurance or including HI recommendations will stay in the Committee's domain until the HoIAS has confirmed (by specific re-testing) that action has been implemented. Whilst the HoIAS is satisfied that senior management and Members pay rigorous attention to implementing the recommendations, he will actively monitor and report slippage in implementation which might indicate increasing pressures and strains on the control environment.
11. Work on the National Fraud Initiative was completed.
12. The PSIAS require that the HoIAS should disclose where reliance is placed on work by other assurance bodies. For 2017-18 no reliance was obtained.

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

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

Table 1 : Overall performance against 2018-19 internal audit plan

Audit type	<u>Planned</u>	<u>Postponed or Canceled</u>	<u>Added</u>	<u>Complete</u>
Governance	4	-	-	4
Risk management	2	-	-	2
Internal control	6	-	-	6
Follow up HI recs	-	-	-	-
Total	12	-	-	12

14. Internal audit plans are increasingly short-term statements of intent rather than guaranteed coverage and need to be flexible and retain contingency to adapt to changes in risk and priorities. The 2018-19 plan contained a number of potential areas for audit that for a variety of reasons didn't come to fruition.
15. Total 'productive' days spent on work relating to the CFA (and the annual charge) were as planned. There was an increase in client management because of chasing closure of reports.

Results were: -

<u>Function</u>	<u>18-19 days</u>	<u>Change to previous</u>
Audits (assurance, consulting, investigations)	72	-3
Client management – includes committees	13	+3
Total	85	0

16. Customer satisfaction is positive.

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

17. Following a positive independent external quality assessment in April 2018, the HoIAS undertook a further self-assessment of LCCIAS's conformance to the PSIAS. The outcome is summarised in **Annex 3**. In line with PSIAS Standard 1321, the HoIAS considers that LCCIAS' internal audit activity continues to conform with the International Standards for the Professional Practice of Internal Auditing because it has achieved the outcomes described in the Definition of Internal Auditing, Code of Ethics and Standards and the results of the quality assurance and improvement programme support this statement.
18. PSIAS Standard 1322 requires the HoIAS to confirm that (based on the results of the self-assessment) there were not any significant deviations from the PSIAS.
19. The HoIAS has also reviewed the service's Quality Assurance and Improvement Programme (QAIP) and updated for further actions required. This is included as **Annex 4** and shows some slippage in actions from last year but nothing significant that affects a robust service being provided.
20. Annex 4 also contains information on training, development and professional networks attended during (mid October 2018 to 31 March 2019) as examples of continuing professional development. This is not chargeable in terms of either cost or days to the CFA.

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

21. For the year 2018-19, nothing has been brought to the HoIAS' attention that he considers relevant to the preparation of the AGS.

Neil Jones CPFA
Head of Internal Audit & Assurance Service
LCCIAS

27th June 2019.