

**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
2018-19**

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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 April 2018 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 2018-19) 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. **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 including its engagement in specific training provided by officers
- 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 opinion on the overall adequacy and effectiveness of the CFA's control environment. However, the caveat at the 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 the relatively small amount of internal audit resource commissioned by the CFA Treasurer. The work of LCCIAS is intended only to provide reasonable assurance on the adequacy of the control environment based on the work undertaken, observations and known facts.

Governance related internal audit work

Four governance themed audits were completed. Three of them in respect of performance monitoring, declarations of interest and fire-fighter pensions roles and responsibilities had in the previous year contained high importance recommendations and (based on the combined importance of the recommendations) had resulted in partial assurance ratings. Management made significant 'in year' improvements so that the opinions were raised to substantial assurance. A fourth governance themed audit on readiness for GDPR compliance also received substantial assurance.

The HoIAS (or the Audit Manager) attended Corporate Governance Committee and CFA meetings to present internal audit plans and reports. This enabled him to gauge 'good governance' at Member and senior management level at first hand. At its meeting on 13th March 2019, the Corporate Governance Committee approved the revised Internal Audit Charter for the CFA mandating the purpose, authority and responsibility of the internal audit activity.

The Audit Manager holds regular discussions with the LFRS Senior Management Team, and the Treasurer (and her representatives) 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.

Two risk management themed audits were completed. One respect of procurement had previously resulted in a partial assurance rating. However, Management made significant 'in year' improvements so that the opinion was raised to substantial assurance.

The other audit was based on the readiness for the HM Inspection was given reasonable assurance that compliance would be achieved on the basis that potential gaps had been identified and were being risk assessed in order to decide the degree of remedial action necessary.

Internal Audit continued to provide assistance and commentary on the LFRS risk management framework.

Management of ICT risk by LFRS was covered within the annual audit of ICT controls.

Financial (and ICT) Controls related internal audit work

Six internal control themed audits were undertaken. An audit of the correctness of Pension Calculations resulted in full assurance being given. The 2017-18 annual audit of Key ICT Controls had resulted in a partial assurance rating and contained two high importance recommendations. During 2018-19 Management made significant 'in year' improvements (and gave Corporate Governance Committee further assurances) so that the opinion was raised to substantial assurance. Audits of key financial systems for accounting functions and pensions payroll received substantial assurance. An opinion isn't given on the NFI work.

The audit of key financials (payroll) received partial assurance on the basis that LFRS management should seek assurances and evidence of improvement from its payroll provider (East Midlands Shared Service) and consider increasing checks and audits.

Head of Internal Audit Service Opinion

The HoIAS has concluded that whilst there one audit returning partial assurance and a further 'reasonable' 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 overall both adequate and effective.**

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.

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.

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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'.