

**Meeting:** Corporate Governance Committee

**Date:** 14<sup>th</sup> March 2018

**Subject:** Internal Audit Plan 2018-19 & External Assessment of the Internal Audit Service

**Report by:** The Treasurer

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

**For:** Information only

## 1. Purpose

1. To provide the Committee the opportunity to review the Internal Audit Plan 2018-19
2. To inform the Committee that Leicestershire County Council's Internal Audit Service is due to receive an external assessment.

## 2. Recommendations

The Corporate Governance Committee is asked to note the report and make any observations.

## 3. Executive Summary

- 3.1 An effective internal audit function is a mandatory statutory requirement for the Combined Fire Authority (CFA). Detail is contained in the revised Constitution approved by the CFA at its meeting on 11<sup>th</sup> December 2017.
- 3.2 One of the functions of the Corporate Governance Committee (the Committee) is to consider the annual internal audit plan (the Plan).
- 3.3 An internal audit function works to an agreed plan that is designed to give the Committee a reasonable amount of independent 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 audit coverage together with potential replacement audits should this be required.
- 3.4 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 2018-19 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.

- 3.5 Public Sector Internal Audit Standards (the 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 control environment (framework of governance, risk management and internal control).
- 3.6 Planned days remain at 85 including time for reporting to this Committee. Work on fire-fighter pensions is shown separately.
- 3.7 Key areas of coverage relate to:
- Compliance and readiness for revised General Data Protection Regulations
  - Readiness for the impending Her Majesty's Inspectorate visits
  - Traditional key financial systems coverage work which historically has been referenced by the External Auditor
  - Full compliance testing of high important recommendations made in four of our 17/18 reports
  - Participation in the National Fraud Initiative requirements
- 3.8 The PSIAS also require that each internal audit function should be subjected to an external assessment of its overall conformance with the standards once every five years by a qualified, independent assessor or assessment team from outside the organisation. An external assessment of LCCIAS is due to be carried out by the end of March 2018.
- 3.9 External assessments may be accomplished through either a full external assessment, or a self-assessment with independent external validation. The HoIAS discussed the merits of each option with the County Council's Chief Financial Officer and have opted to self-assess followed by independent validation being carried out through peer review.
- 3.10 The peer review is to be undertaken by 'Veritau', a large local authority shared internal audit service trading company based in North Yorkshire and will be undertaken by the company's Head of Internal Audit and his deputy, both very experienced internal auditors.
- 3.11 Because LCCIAS provides service to a range of organisations, the reviewers may choose to interview key personnel from the CFA and review audit work undertaken. A single report will be produced to be shared at a future Committee.

#### **4. Report Detail – Internal Audit Plan 2018-19**

- 4.1 The 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.
- 4.2 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
- where assurance is required by others e.g. the External Auditor

The HoIAS has consulted to identify any significant changes due which could impact on the control environment e.g. changes in key ICT systems.

The Internal Audit Plan for 2018-19 is shown in **Appendix 1**.

4.3 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.

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. However, this flexibility may not be sufficient to cope with all changes required. It may also prove necessary to remove planned audits from the work plans in order to address emerging issues of greater risk.

Where the HoIAS identifies other sources of assurance, and reliance can be placed on those other sources, it will be recorded in the Terms of Engagement and report.

With this in mind it is also worth noting that there remains on-going dialogue that may result in other assurance work being provided by LCCIAS in respect of the following areas:

- Additional consulting advice in respect of covering specific area(s) of Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) Inspection regime, and
- Tri service additional assurance in respect of the Pension Fund  
*(potentially covering areas such as Guaranteed Minimum Pension Calculations, Compliance with General Data Protection Regulations, Ill Health Awards and controls against Loss of Protected Pension Age breaches and the accuracy of active and deferred member details).*

Page 2 reports that time will be devoted to audits of the key financial and ICT systems. This work has traditionally been utilised by the External Auditor in their annual audit of the financial statements.

It is important to note that there may be variations to this joint audit coverage dependent on future dialogue with the incoming External Auditor (Mazars) who will

conduct the audits of the CFA's financial statements and value for money arrangements from 2018/19 onwards.

- 4.4 Audits relating to the administration of fire-fighter pensions schemes are shown in a separate block on page 3. Reporting arrangements to the Pensions Board are to be determined by the Scheme Manager.
- 4.5 On page 4 is an indication of other work undertaken including the HoIAS responsibilities to report to this Committee and liaise with the External Auditor. Page 5 gives an indication of some potential replacement audits should any of our intended work areas be postponed for any reason.
- 4.6 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.
- 4.7 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.
- 4.8 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 2018-19 aims to give the CFA optimum audit coverage within the resources available. Though it is compiled and presented as a plan of work, it must be recognised that the plan can only be a statement of intent. Whilst every effort will be made to deliver the plan, the HoIAS recognises that it needs to be flexible. Actual audit work therefore may be modified during the year according to the circumstances prevailing and the resources available at the time.

## **5. Report Detail – External Assessment of the Internal Audit Service**

- 5.1 Internal audit in the public sector is governed by the Public Sector Internal Audit Standards (PSIAS) which were updated from 1 April 2017. Conformance to the standards is mandatory for all principal local authorities.
- 5.2 The PSIAS aim to promote continued improvement in the professionalism, quality and effectiveness of the internal audit function and a key element of this is that as part of the internal audit quality management programme, each internal audit function should be subjected to an external assessment of its overall conformance with the standards once every five years by a qualified, independent assessor or assessment team from outside the organisation. A review of Leicestershire County Council's Internal Audit Service (LCCIAS) is due to be carried out by the end of March 2018.
- 5.3 The assessment should: -

- a. Identify what LCCIAS is doing well or where improvement is required
  - b. Support continuous improvement
  - c. Emphasise and enhance the standing of the internal audit function
  - d. Report findings and recommendations to key stakeholders including audit committees of LCCIAS' other clients
- 5.4 External assessments may be accomplished through either a full external assessment, or a self-assessment with independent external validation. The HoIAS discussed the merits of each option with the County Council's Chief Financial Officer. Given the likely demands on LCCIAS over the last quarter, combined with knowledge from peer Heads of Internal Audit from other counties of the quite prohibitive costs of a full External Quality Assessment from a professional body (recognised as achieving the highest level of quality assurance), the preference was for LCCIAS to opt for a self-assessment with independent validation being carried out through peer review.
- 5.5 Any organisation conducting a peer review still has to meet rigorous PSIAS requirements to demonstrate competence in the professional practice of internal auditing and the external assessment process. The Standards are clear that competence can be demonstrated through experience gained in organisations of similar size, complexity, sector or industry and technical issues, and that type of experience is valuable. An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity being assessed belongs.
- 5.6 The HoIAS has arranged for a large local authority shared internal audit service trading company (the Company) to undertake a peer review before the end of March thereby satisfying PSIAS requirements. The Company <http://veritau.co.uk> has conducted peer reviews of other internal audit functions and, in its own assessment completed in May 2014 (by a well-respected local authority based internal audit organisation), was judged to 'Generally Conform to the Standards and Code of Ethics'. This is the top rating and means that the Company has an internal charter, policies, and processes that are judged to be in conformance with the Standards.
- 5.7 The peer review will be undertaken by the Company's Head of Internal Audit and his deputy, both very experienced internal auditors. The process will involve LCCIAS completing a self-assessment checklist and sending that along with sufficient evidence to support assertions to the Company for review. Thereafter, the reviewers will travel to Leicestershire County Council (and potentially other clients that LCCIAS provides service to) and conduct interviews with key stakeholders (audit committee Chairs and members, senior managers, internal audit staff, external auditors etc.) and review a sample of internal audit files and documents. They will feedback internally to the County Council's Chief Financial Officer (acting as the review sponsor) and provide a single report which can then be presented to each of LCCIAS' clients.

## **6. Report Implications / Impact**

### **6.1 *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'.

## **6.2 *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 at a cost of £25,075.

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.

## **6.3 *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 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.

## **6.4 *Staff, Service Users and Stakeholders (including the Equality Impact Assessment)***

None

## **6.5 *Environmental***

None

## **6.6 *Impact upon Our Plan Objectives***

The CFA's Strategic Objective 4 is the attainment of efficiency and the provision of 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.

## **7. *Background Papers***

Internal Audit Charter (CFA meeting - 24<sup>th</sup> September 2015)

## **8. *Appendices***

The Internal Audit Plan 2018-19