

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
2017-18

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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 has been externally assessed as generally conforming to the Public Sector Internal Audit Standards (the PSIAS) revised from April 2017, which 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 for a specific time interval i.e. 2017-18 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.
- The HoIAS' role in preparing for, attending, reporting to and his observations of the work of the Corporate Governance Committee including engagement in specific training provided by officers
- 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, 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 the 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 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 on the basis of the work undertaken and known facts.

Governance related internal audit work

Four governance themed audits were completed. Two of the audits, one in respect of preparedness for GDPR and one in respect of the meeting transparency requirements resulted in substantial assurance ratings.

The two other audits in respect of performance monitoring (containing a high importance recommendation) and declarations of interest (based on the combined importance of the recommendations) resulted in partial assurance ratings. Management has accepted the findings and significant 'in year' improvements have been made in addressing the recommendations identified.

The HoIAS commented on the Annual Governance Statement. He 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 17th March 2017, the Corporate Governance Committee recommended the CFA approved the revised Internal Audit Charter for the CFA mandating the purpose, authority and responsibility of the internal audit activity. The HoIAS holds regular discussions with the Treasurer 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.

A planned audit of the risk management framework resulted in a substantial assurance rating. The HoIAS observed a training session for the Committee which referred to internal audit work.

Another planned audit in respect of procurement resulted in a partial assurance rating (based on the combined importance of the recommendations), Management has accepted the findings and significant 'in year' improvements have been made in addressing the recommendations identified.

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

Financial (and ICT) Controls related internal audit work

An audit of the correctness of Pension Calculations resulted in full assurance being given. A further five audits of various areas of financial control were graded at substantial assurance. An opinion isn't given on the NFI work.

An audit of Key ICT Controls resulted in a partial assurance rating and contained two high importance recommendations to implement a technical solution to address a potential security risk and to make improvements to the change control process. Whilst these recommendations were made and accepted by management, there has been no security incidents reported within the financial year and so this fact has been taken into account when forming an opinion on the overall internal control environment.

A piece of consultancy work in respect of Pensions – Roles & Responsibilities resulted in two high importance recommendations, however significant 'in year' improvements have been made in addressing the recommendations identified.

Head of Internal Audit Opinion

The HoIAS has concluded that whilst there were some audits returning partial 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.**

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'.