

Combined Fire Authority Head of Internal Audit Service Annual Report 2017-18

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Combined Fire Authority
Head of Internal Audit Service
Annual Report 2017-18

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' (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 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.**

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 audits undertaken were 'assurance' type defined as '*An objective examination of evidence for the purpose of providing an independent assessment*'. Eight audits returned either a 'substantial' or 'full' assurance' 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. Four audits were graded 'partial assurance' rating. This was because: -
- a. Either HI recommendations were identified denoting there was either an absence of, or a weakness in control and achievement of the service's objectives was open to material risk exposure, or
 - b. Even though there were not any specific HI recommendations, the combined seriousness of the other recommendations supported a partial assurance rating
10. One 'consulting' type audit was undertaken. These can be defined as, '*Advisory and related client service activities, the nature and scope of which are intended to add value and improve an organisation's governance, risk management and control processes*'. Assurance ratings aren't given for consulting audits but this audit did contain two HI recommendations.
11. Those 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.

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 2017-18 internal audit plan

Audit type	Planned	Postponed or Cancelled	Added	Total
Governance	9	5	1	5
Risk management	3	1	-	2
Internal control	5	-	1	6
Follow up HI recs	-	-	1	1
Total	17	6	3	14

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 2017-18 plan contained a number of potential areas for audit that for a variety of reasons didn't come to fruition but some were replaced.
15. Total 'productive' days spent on work relating to the CFA were as planned above what was actually charged for: -

Results were: -

Function	17-18 days
Audits (assurance, consulting, investigations)	75
Client management – includes committees	10
Total	85

16. Eleven customer satisfaction questionnaires were returned with all scoring 'very good'.

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

17. In line with requirements to receive an independent external quality assessment once every 5 years, in March 2018 the HoIAS commissioned Veritau Limited to undertake an independent validation of its self-assessment of conformance against the PSIAS (in effect a peer review). The HoIAS' summarised self-assessment is contained at **Annex 3**.
18. Veritau's report (see elsewhere on agenda) has concluded that *'It is our overall opinion that Leicestershire County Council (Internal Audit Service) generally conforms to the Public Sector Internal Audit Standards, including the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics and the Standards'*. Veritau explains that 'generally conforms' is the top rating and means that the internal audit service has a charter, policies and processes that are judged to be in conformance to the Standards. The review team found a number of areas of good practice as well as a number of areas which merit further attention which are accepted by the HoIAS and an action plan will be drawn up.
19. As part of the peer review process, the HoIAS revised and developed LCCIAS' Quality Assurance and Improvement Programme (QAIP) which sets out the governance arrangements for LCCIAS; explains roles and responsibilities of management and staff; defines expectations and outlines quality measures. Actions to improve are listed. The QAIP is contained at **Annex 4** and the action plan on page 10 has been reviewed and approved by the County Council's Chief Financial Officer (Director of Corporate Resources).
20. In line with PSIAS Standard 1321, the HoIAS considers that the internal audit activity fully conforms 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.
21. 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.

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

22. For the year 2017-18, nothing has been brought to the HoIAS' attention that he considers relevant to the preparation of the AGS.

Neil Jones CPFA
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LCCIAS

6th July 2018.