

Meeting: Corporate Governance Committee

Date: 23rd March 2016

Subject: Internal Audit Plan 2016-17

Report by: The Treasurer

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

For: Decision

1. Purpose

To provide the Committee the opportunity to review the Internal Audit Plan 2016-17.

2. Recommendations

The 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 9th December 2015.
- 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 within which specific audits will be undertaken.
- 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 2016-17 after consultation with the Treasurer.
- 3.5 The Plan is balanced which enables the HoIAS to conform to the Public Sector Internal Audit Standards (the PSIAS) to develop a risk based plan and undertake risk based audits in order to provide at the end of the year reasonable assurance (an opinion) on the overall adequacy and effectiveness of the CFA's control environment.

3.6 Planned days remain at 85 including time for reporting to this Committee. Work on fire-fighter pensions is shown separately. Arrangements for reporting to the Pension Board are still to be determined.

4. Report Detail

4.1 Potential areas of internal audit coverage across the CFA's activities are very wide, incorporating both direct and indirect financial risks as well as reputation and legal ones. Internal audit resource is limited and so it is therefore 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 with the Treasurer 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 2016-17 is shown in **Appendix 1**

4.2 The Plan does not list the individual audits anticipated; rather, it is presented as the essential areas of audit coverage within which specific audits will be undertaken. 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.

The Plan is a therefore statement of intent. Whilst every effort will be made to deliver it, 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.

- 4.3 Page 2 reports that time will be devoted to audits of the key financial and ICT systems. This work has in the past been utilised by the External Auditor in their annual audit of the financial statements. Discussions are continuing with the newly appointed auditor KPMG to determine whether they will continue to place reliance on the work of internal audit.
- 4.4 Audits relating to the administration of fire-fighter pensions schemes are shown in a separate block on page 3. The Treasurer will determine the reporting arrangements to the newly constituted Pension Board.
- 4.5 Also on page 3 is an indication of other work undertaken including the HoIAS responsibilities to report to this Committee and liaise with the External Auditor.
- 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 Operational Plan for 2016-17 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, Internal Audit 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 Implications / Impact

5.1 *Legal (including crime and disorder)*

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’.

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.

5.2 ***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.

5.3 ***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.

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

None

5.7 ***Environmental***

None

5.8 ***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.

6. **Background Papers**

Internal Audit Charter (CFA meeting - 24th September 2015)

7. **Appendices**

The Internal Audit Plan 2016-17