

LEICESTERSHIRE

FIRE and RESCUE SERVICE

Status of Report: Public Agenda Item: 8

Meeting: Overview and Scrutiny Committee

Date: 18th March 2015

Subject: Internal Audit Plan 2015/16

Report by: The Treasurer

For: Discussion

1. Purpose

Under the Combined Fire Authority's (CFA) Constitutional Framework, Article 10.4(f), and Financial Procedure Rule 42, the Treasurer is responsible for arranging and maintaining a continuous internal audit of the CFA's activities and accounts. A key role of Members of the Overview and Scrutiny Committee is to monitor the CFA's performance through Internal Audit reports. This document sets out the draft 2015/16 Internal Audit Plan (the Plan) for discussion by the Committee.

2. Executive Summary

The purpose of the Plan is to inform Members of the work that will be undertaken by internal auditors to provide a reasonable level of assurance on the overall adequacy, effectiveness and efficiency of the CFA's control environment i.e. its governance, risk management, and internal control arrangements.

3. Report Detail

- 3.1 Internal audit is a major source of independent and objective assurance that an organisation is effectively managing the principal risks to achieving its objectives. Internal audit provision is outsourced to Leicestershire County Council's Internal Audit Service (LCCIAS). From the 1st April 2013, the Public Sector Internal Audit Standards (PSIAS) were introduced. These are applicable to all areas of the UK public sector and based on the mandatory elements of the Institute of Internal Auditors (IIA) and the International Professional Practices Framework (IPPF). The PSIAS apply to all internal audit service providers, including outsourced provision and LCCIAS has to prove adoption of and conformance to the Standards. The PSIAS strengthen the roles and responsibilities of internal audit within governance forums including reporting requirements and proving the effectiveness of the provision.
- 3.2 The PSIAS mandates the Head of Internal Audit Service (HoIAS) to develop a risk based plan taking account of the organisation's risks, and undertake risk based

audits. 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 is prepared by the HoIAS taking into account previous audits conducted on the maturity of the CFA's risk management framework; the robustness of governance arrangements; responses to previous audit reports and the implementation of audit recommendations; the CFA's strategic plans and its assurance and performance management frameworks; and where assurance is required by others e.g. the External Auditor. The HoIAS then consults with the Treasurer to identify any significant changes due which could impact on the control environment e.g. the implementation of the Organisational Change Project. The results of audits should contribute to the CFA achieving its objectives and priorities.

- 3.3 The draft annual plan is attached as the **Appendix**. A proposed outline audit scope is included but these are further discussed and agreed at the engagement stage of each audit.
- 3.4 The plan is split into 2 distinct parts:
- Part 1** - Agreed high risk and LCCIAS resource planned to a total of 85 days. This should enable sufficient time to be allocated to ensure robust audits are conducted. Auditors will be assigned dependant on the scope of the engagement and level of risk and complexity. An Audit Manager oversees the Plan's progress and the HoIAS reports to the Committee.
- Part 2** - Agreed high risk but are potential replacements or add on audits at the discretion of the Treasurer. This may be through variances in the use of the 85 day allocation particularly in relation to the External Auditor requirements detailed in 3.5 below or through the provision of additional funding.
- 3.5 During 2015, there will be a change of External Auditor for the CFA, with PricewaterhouseCoopers (PwC) concluding the audit of the 2014-15 financial statements, and KPMG planning the audit of the 2015-16 statements. The HoIAS will liaise with both auditors' Engagement Leads to establish to what extent they will continue to place reliance on work undertaken by LCCIAS especially for the audits of the key financial and ICT systems. Should the same level of reliance not be required, and the Treasurer does not want any further assurance, this could create a contingency to be used on other audits.
- 3.6 It should be stressed that responsibility for the identification, evaluation and management of risk and the development and correct operation of internal controls rests with managers. The internal auditor's task is to carry out an independent and objective review, highlight weaknesses and, where appropriate, make recommendations to improve controls. The Treasurer reports on internal audit work and proposed actions to the Senior Management Team and the Overview and Scrutiny Committee on completion of the final audit report. Although management has the responsibility for implementing the recommendations LCCIAS will follow up all High Importance recommendations to ensure that they are actioned.
- 3.7 Under the current Service Level Agreement LCCIAS provide 85 days of audit time

a year at a cost of £22,950. This number of days is slightly below other CFAs such as Nottinghamshire who in 2014/15 commissioned 92 days, and the Head of Internal Audit has confirmed that position is unlikely to change for their 2015-16 Plan.

- 3.8 Given that an audit of the CFA's assurance and performance management framework is planned, the HoIAS considers that the 85 days should be sufficient to enable him to provide the annual internal audit opinion on the overall adequacy of the control environment. 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. Report Implications / Impact

4.1 *Legal (including crime and disorder)*

The Accounts and Audit Regulations 2015 (effective from the 1st April 2015) require under Part 2 (Internal Control) at Regulation 5(1) that:

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.

Within the CFA this officer is the Treasurer and this is reflected in the CFA's Constitution.

4.2 *Financial (including value for money, benefits and efficiencies)*

These are included in the main body of the report.

4.3 *Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)*

Internal audit provides a degree of assurance that effective risk management, governance 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.

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

None.

4.5 *Environmental*

None.

4.6 *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. Internal audit activity assists both effective and efficient management and good corporate governance. It also externally validates the CFA's progress in this area.

5. Recommendations

The Overview and Scrutiny Committee is asked to note the Internal Audit Plan for 2015-16.

6. Background Papers

None

7. Appendix

LCCIAS Internal Audit Plan 2015-16

Internal Audit Plan for Leicestershire Fire & Rescue Service 2015-16

Category	Audit Title	Proposed audit scope, i.e. confirm risks are managed to ensure that.....
Governance Related		
Governance	Annual Statement of Assurance incorporating Performance Management	Reliance can be placed on the assurance and performance management framework in operation within the organisation in order to contribute towards an adequate and effective internal control environment
Governance	Organisational Change Project	A robust framework exists for planning, implementing and monitoring and aligning to the Medium Term Financial Plan (MTFP) requirements e.g. efficiencies, increased income and service reductions
Governance	Ethics & culture	<p>Appropriate ethics and values are promoted within the organisation – building on self-assessment work undertaken in 14/15 e.g. application of whistleblowing and Freedom of Information requirements</p> <p>Note: An opinion on this is required in accordance with the Public Sector Internal Audit Standards (Ref 2110)</p>

Risk Management Related		
Risk management	Risk Management Framework	The revised risk management framework is effective in assisting the Combined Fire Authority (CFA) achieve its objectives.
Risk management	Anti-Fraud Related Coverage	Requirements specified in the Anti-Fraud and Corruption and Anti-Bribery strategies are complied with.
Risk management	Procurement	Legislation and policy is complied with and collaboration opportunities are maximised. Coverage will consider the effectiveness of arrangements for detecting and addressing off-contract purchasing, and for any large scale tender processes adequate governance, risk management and internal control requirements have been considered
Internal Control Related		
<i>Audits marked (*) within this section are required by the external auditor in their annual assessment of the likelihood of material misstatement in the Authority's financial accounts.</i>		
Accounting/General Ledger(*)	Reconciliations and balances. 2014-15 accounts final audit	General Ledger, Exchequer (receivables and payables), Investments and Payroll are routinely reconciled and balanced. General tests required by the external auditor are that all reconciliations have been completed, signed and dated. However, for one of the four months, detailed tests are required i.e. that significant entries are valid, calculations are accurate and there is evidence supporting adjustments,

Accounting/General Ledger (*)	Reconciliations and balances 2015-16 accounts interim audit	As above but for 2015-16 transactions <i>Exact coverage partially dependent on direction from the new external auditor (KPMG)</i>
Accounting/General Ledger (*)	Payroll 2014-15 accounts final audit	Starters, leavers and variations to pay are valid and accurately accounted for Links to the annual report 'Protecting the public purse'
Accounting/General Ledger (*)	Payroll 2015-16 accounts interim audit	Starters, leavers and variations to pay are valid and accurately accounted for Links to the annual report 'Protecting the public purse' <i>Exact coverage partially dependent on direction from the new external auditor (KPMG)</i>
Accounting/General Ledger (*)	Pensions	Starters, leavers and variations to pay are accurately accounted for in respect of pensionable adjustments required. Financial feeds from the payroll provider are accurately and promptly recorded within the Agresso financials system. Contribution banding, pensions increases and dependents pension requirements are also correctly applied <i>Exact coverage partially dependent on direction from the new external auditor (KPMG)</i>
Accounting/General Ledger (*)	ICT controls	The ICT infrastructure is robust. Note: This audit will be carried out in this same format regardless of direction from the External Auditor as it is required to assess the integrity of the ICT infrastructure and associated applications that either directly or indirectly contribute to the production of

		the financial statements and associated management decision making.
Internal control	Agresso Business Management System	Modules of the business management system operate in accordance with business requirements <i>Areas of coverage to be defined in conjunction with the external auditor to avoid omission or duplication.</i>
Internal Control	National Fraud Initiative	Co-ordination of data download and investigation of subsequent data matches. Links to the annual report 'Protecting the public purse 2012'
Client Management Routines		
High Importance Recommendations from 14/15 audits & resulting from 15/16 audits	High importance recommendations have been addressed in a timely manner in order to mitigate risk to an acceptable level.	
Client Management	<ul style="list-style-type: none"> • Planning & reporting • Head of Internal Audit duties – Committees, Opinions & Reports • External Audit liaison – including developing protocols, providing views on fraud etc. 	
Emerging Issues and Advice	Adequate governance, risk management and internal control requirements have been considered in respect of emerging issues.	
Total audit days agreed with Director of Finance and Corporate Services		85

Potential replacement or additional audits at the discretion of the Director of Finance and Corporate Services

Note that these audits were assessed as high risk to LFRS and should be considered alongside or in conjunction with other forms of independent assurance that are available.

Category	Audit Title	Proposed audit scope, i.e. confirm risks are managed to ensure that.....
Governance	Local Government Transparency Code	The Authority is addressing relevant requirements of the Local Government Transparency Code 2014