

**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  
2015-16**



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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 (CFA). LCCIAS adopts the principles of the Public Sector Internal Audit Standards 2013 (the PSIAS) which requires 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. 2015-16 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 and whether there were any high importance recommendations.
- the professional judgement of the HoIAS based on his evaluation of other related activities.

The results of the above, when combined, form the basis for the overall opinion on the adequacy 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**

Two planned governance themed audits were undertaken on the preparation of the Annual Statement of Assurance and follow up testing was conducted on the Ethics and Culture self-assessment completed the previous year. Both returned substantial assurance. On the whole, recommendations were relatively minor and were to improve governance, i.e. not to have to establish it.

The annual Key ICT Controls work (substantial assurance) contains some focus on IT Organisation and Governance but no recommendations were forthcoming in that area.

A planned audit of a selected Organisational Change Project was deferred by the previous Treasurer predominantly due to decisions being made on the Integrated Risk Management Plan at the time of the annual budget setting process.

The HoIAS commented on the revised governance structure of the CFA and 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 24<sup>th</sup> September 2015, the CFA approved the 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 where required the Monitoring Officer (MO) on governance issues and related audit aspects.

**HoIAS opinion: - On the whole, nothing of such significance, adverse nature or character has come to the HoIAS' attention and as such reasonable assurance is given that the CFA's governance arrangements during 2015-16 were robust.**

**Nevertheless, a separate isolated issue will be considered by the full CFA once the report has been issued as final.**

### **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.

Specific planned audits of the risk management framework and an assessment against the Authority's conformance to the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption were conducted. Both returned substantial assurance.

Management of specific ICT risk was covered within the annual audit of ICT controls and one recommendation was made.

A planned audit covering procurement risk was deferred by the previous Treasurer but is included in the 2016-17 internal audit plan.

**HoIAS opinion: Management agreed to implement relevant audit recommendations, which will mitigate risk. Therefore reasonable assurance is given that risk is managed.**

### **Financial (and ICT) Controls related internal audit work**

Of the eight planned audits with a financial or ICT control theme, three were graded at full assurance and four returned substantial assurance. An opinion isn't given on the NFI work.

A planned audit of the changes to modules in the business management system was deferred by the previous Treasurer but is included in the 2016-17 internal audit plan.

An audit commissioned in 2014-15 by the previous Treasurer into the use of the Authority's procurement cards was concluded.

**HoIAS opinion: Reasonable assurance can be given that the CFA's core financial practices remain strong.**

**Nevertheless, a separate isolated issue will be considered by the full CFA once the report has been issued as final.**

## **The control environment**

The Public Sector Internal Audit Standards 2013 (the PSIAS) contain the following definitions: -

### **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. The control environment includes the following elements: -

- 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.

### **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'.