

Meeting: Corporate Governance Committee**Date:** 23rd November 2016**Subject:** Progress against the Internal Audit Plan 2016-17**Report by:** The Treasurer**Author:** Neil Jones (Head of Internal Audit Service, Leicestershire County Council)**For:** Noting**1. Purpose**

To receive an update of progress against the Internal Audit Plan for 2016-17.

2. Recommendations

The Committee is asked to note the report and to refer any observations to the CFA, CFRO or Treasurer as they see fit.

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 monitor the adequacy and effectiveness of the internal audit function, and specifically to monitor progress against the (internal audit) plan through the receipt of periodic progress reports.
- 3.3. 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).
- 3.4. The Internal Audit Plan for 2016-17 was approved by the Corporate Governance Committee at its meeting on 23rd March 2016. Progress against planned work and reference to an additional audit, is reported in the Appendix.

4. Report Detail

- 4.1. The statutory requirement for the CFA to have an effective internal audit function is contained within the Accounts and Audit Regulations 2015.
- 4.2. Within the Constitution of the CFA (the Constitution), Part 2 - The Constitutional Framework sets out under Article 9.4(f) – Functions of the Treasurer, that 'The Treasurer will ensure an efficient and effective internal audit of the CFA's

activities is maintained'. Further detail is contained in Financial Procedure Rule 37.1.

- 4.3. Article 5 of the Constitution explains the composition and functions of the Corporate Governance Committee (the Committee) including at 5(f) that the Committee has a function to 'Monitor the adequacy and effectiveness of the Internal Audit Service', and specifically to 'Monitor progress against the (Internal Audit) plan through the receipt of periodic progress reports...consider major internal audit findings and recommendations and monitor the response to implementation of (those) recommendations.'
- 4.4. LCCIAS plans and undertakes audits and provides reports to the Treasurer. 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.
- 4.5. To enable it to fulfil its monitoring function, the HoIAS provides the Committee with a summary report of work undertaken in the period prior to the meeting. Each audit has been designated a reference number in order to assist with tracking progress from planned to completed. 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.

Where applicable an individual 'opinion' on each audit assignment is also reported i.e. what level of assurance can be given that material risks in that area are being adequately managed. There are usually four levels of assurance: full; substantial; partial; and little. A report containing at least one high importance recommendation would normally be classified as 'partial' assurance.
- 4.6. The current position (31st October) and any outcomes have been mapped onto the plan agreed on 23rd March 2016. This forms the **Appendix**.
- 4.7. Pages 1 to 3 show completed work. Pages 4 to 6 show a considerable amount of work in progress at different stages. Where an audit has been quality reviewed by the Audit Manager and there's confidence that the recommendations and opinion given will be acceptable to management and are unlikely to change, then they are shown. Where draft reports are imminent, i.e. awaiting quality review recommendations and opinions for audits, they are not included.
- 4.8. Pages 7 to 9 gives explanations for work not yet started which range from not yet due to awaiting further instruction. Nevertheless, some preparatory work has been signed off.
- 4.9. A considerable amount of planned time is devoted to audits of the key financial and ICT systems. Discussions are continuing with the External Auditor (KPMG) to determine the extent to which they take into account the work of internal audit in their annual audit of the financial statements and associated work undertaken.

- 4.10. All internal audit recommendations are assessed in terms of risk exposure using the CFA's Risk Management Framework. If audit testing revealed either an absence or poor application of a key control, judgement is applied as to where the risk would fall (in terms of impact and likelihood), if recommendations to either install or improve control were not implemented. If material risk exposure is identified then a high importance (HI) recommendation is likely. It is important that management quickly addresses those recommendations denoted as HI and implements an agreed action plan without delay.

The Committee is also tasked with considering major internal audit findings and (HI) recommendations and monitoring the response to implementation of (those) recommendations. Progress against implementing HI recommendations will be reported to the Committee and will remain in its domain until the HoIAS is satisfied, based on the results of specific re-testing, that the HI recommendation has been implemented.

As at 31st October 2016 there were not any HI recommendations.

5. Report Implications / Impact

5.1. *Legal (including crime and disorder)*

The Accounts and Audit Regulations 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.

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

There are no direct financial implications arising from this report. However, as a result of the work carried out, assurance regarding the operation of key financial systems is gained and there would be an expectation that implementing internal audit recommendations could improve effectiveness, efficiency and economy. - Colin Sharpe, Head of Finance, Leicester City Council, 0116 454 4081

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

5.5. ***Environmental***

None

5.6. ***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. 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 Plan 2016-17 (Corporate Governance Committee 23rd March 2016)

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

7. **Appendices**

Progress against the Internal Audit Plan 2016-17 as at 31st October 2016