

**Status of Report:** Public

**Meeting:** Corporate Governance Committee

**Date:** 17 July 2019

**Subject:** Head of Internal Audit Service Annual Report 2018-19

**Report by:** The Treasurer

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

**For:** Information only

### **Purpose**

1. To provide the Committee the opportunity to review the Head of Internal Audit Service Annual Report 2018-19.

### **Recommendation**

2. The Committee is asked to approve the report and make any observations

### **Executive Summary**

3. An effective internal audit function is a mandatory statutory requirement for the Combined Fire Authority (CFA).
4. The internal audit activity for the CFA is currently outsourced to Leicestershire County Council's Internal Audit Service (LCCIAS) led by the Head of Internal Audit Service (HoIAS).
5. The revised CFA Constitution approved at its meeting on 12 December 2018, records that one of the functions of the Corporate Governance Committee (the Committee) is to monitor the adequacy and effectiveness of the internal audit service and to monitor progress against the internal audit plan through the receipt of periodic progress reports and an annual Internal Audit report.
6. The Public Sector Internal Audit Standards (PSIAS) apply to all internal audit service providers. The PSIAS require the HoIAS to provide an annual report to 'the Board' (for the CFA this is defined as the Committee) timed to support the annual review of the effectiveness of the CFA's governance framework undertaken when compiling the Annual Governance Statement (AGS). The annual report is to include:
  - a. an opinion on the overall adequacy and effectiveness of the CFA's control environment (its framework of governance; risk management; and internal control);
  - b. a summary of the audit work from which the opinion is derived;

- c. a comparison of work actually undertaken with work that was planned including a summary of the performance of the internal audit function;
  - d. a statement on conformance with the PSIAS; and
  - e. any issues the HoIAS judges relevant to the preparation of the AGS.
7. Headlines from the report are: -
- a. The HoIAS was able to conclude a positive opinion.
  - b. The majority of assurance audits conducted returned at least substantial assurance ratings. Those where lower assurance ratings were given will be subject to further audit scrutiny.
  - c. No audits remain as not completed by the date of this report.
  - d. Days provided was equal to (if not above) planned.
  - e. The charge was as per budget
  - f. Customer satisfaction remained positive
  - g. The HoIAS self-assessed both that LCCIAS continues to 'generally conform' (the top rating) to the PSIAS, and that quality assurance is robust, but with some developments.
  - h. The team continues to be trained and developed in new and emerging risks, technologies and working practices.

## Background

### The Head of Internal Audit Service Annual Report 2018-19

- 8. The Head of Internal Audit Service Annual Report 2018-19 is included as the **Appendix**.
- 9. Detail behind how the opinion was formed is found in **Annex 1**. Based on an objective assessment of the results of individual audits undertaken, actions by management thereafter, the role of the Committee and the professional judgement of the HoIAS in evaluating other related activities, the HoIAS has determined that, whilst there were two audits returning lower assurance ratings, management not only agreed the internal audit recommendations but acted promptly in-year to either begin, or plan, to implement them. **The HoIAS concludes that the CFA's control environment (its framework of governance, risk management and control) is overall both adequate and effective.**
- 10. A list of the audit work from which the sub-opinions are derived containing the scope, recommendations and individual assignment opinions is found in **Annex 2**. an entry recorded in **bold font** depicts a change to position since 24 February 2019.
- 11. Most of the twelve assignments were 'assurance type' defined as '*an objective examination of evidence for the purpose of providing an independent assessment*'. Whilst nine assurance audits returned positive ratings (full or substantial), one audit was graded partial assurance and another reasonable

assurance on the basis of the combined weight of the findings and recommendations.

The HoIAS will ensure all audits containing high importance (HI) recommendations and/or partial/reasonable assurance ratings will be followed up with specific retesting and will stay in the Committee's domain until the HoIAS is satisfied the recommendations have been implemented and controls embedded.

12. In April 2018, LCCIAS was graded 'generally conforms', the top rating, following an independent external quality assessment of conformance to the PSIAS. **Annex 3** shows the HoIAS' 2019 self-assessment of LCCIAS conformance to the PSIAS and **Annex 4** shows the revised LCCIAS Quality Assurance & Improvement Programme (QAIP) and actions required in 2019-20.

### **Report Implications/Impact**

13. Legal (including crime and disorder)

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.

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'.

14. 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. - Colin Sharpe, Head of Finance, Leicester City Council, 0116 454 4081

15. 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.

16. Staff, Service Users and Stakeholders (including the Equality Impact Assessment)

None.

17. Environmental

None.

18. Impact upon Our Plan Objective

Within the CFA's priority of Finance and Resources is the aim of providing 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.

### **Background Papers**

Internal Audit Charter for the CFA (Corporate Governance Committee 13 March 2019)

### **Appendices**

Appendix: The HoIAS Annual Report 2018-19 (including)

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|---------|---|
| Annex 1 | The HoIAS Annual Opinion on the overall adequacy and effectiveness of the control environment 2018-19 |
| Annex 2 | Summary of Internal Audit Service work supporting the HoIAS 2018-19 opinion                           |
| Annex 3 | Summary self-assessment of conformance with PSIAS   |
| Annex 4 | Quality Assurance & Improvement Programme (QAIP) – 2019   |

### **Officers to Contact**

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