

Status of Report: Public

Meeting: Corporate Governance Committee

Date: 16 September 2020

Subject: Head of Internal Audit Service Annual Report 2019-20

Report by: The Treasurer

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

For: Information only

Purpose

1. To provide the Corporate Governance Committee the opportunity to review the Head of Internal Audit Service Annual Report 2019-20.

Recommendation

2. The Committee is asked to receive 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). The Public Sector Internal Audit Standards (PSIAS), specifically requires that when an external service provider serves as the internal audit activity, the provider (LCCIAS) must make the organisation (CFA) aware that it has the responsibility for maintaining an effective internal audit activity.
5. The CFA Constitution revised and 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 (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:
 - i. an opinion on the overall adequacy and effectiveness of the CFA's control environment (its framework of governance; risk management; and internal control);
 - ii. a summary of the audit work from which the opinion is derived;

- iii. a comparison of work actually undertaken with work that was planned including a summary of the performance of the internal audit function;
 - iv. a statement on conformance with the PSIAS; and
 - v. any issues the HoIAS judges relevant to the preparation of the AGS.
7. Headlines from the report are: -
- i. The HoIAS was able to conclude a reasonably positive opinion.
 - ii. Four audits received lower assurance ratings. These areas will continue to be subjected to further internal audit scrutiny.
 - iii. One audit is awaiting a response to a re-issued final draft but the outcome will not change the overall opinion.
 - iv. Days provided were as planned.
 - v. The charge was as per budget
 - vi. The HoIAS self-assessed that LCCIAS continues to 'generally conform' (the top rating) to the PSIAS.
 - vii. The team continues to be trained and developed in new and emerging risks, technologies and working practices.

Background

8. The Head of Internal Audit Service Annual Report 2019-20 is included as the Appendix.
9. Detail behind how the opinion was formed is found in Annex 1. For 2019-20 the HoIAS gives reasonable assurance that overall the control environment was adequate and effective. Whilst there were isolated high risk rated weaknesses identified for isolated issues, controls to mitigate key risks are generally operating effectively. The HoIAS is on the whole satisfied with management's response to resolving identified issues.
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. The HoIAS will ensure that audits containing high importance (HI) recommendations and/or partial 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.
11. 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' 2020 self-assessment of LCCIAS conformance to the PSIAS.

Report Implications/Impact

12. 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’.

13. 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, Deputy Director of Finance, Leicester City Council, 0116 454 4081

14. 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.

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

None.

16. Environmental

None.

17. Impact upon Our Plan Objectives

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 Plan 2019-20 (Corporate Governance Committee 13 March 2019)

Appendices

- Appendix The HoIAS Annual Report 2019-20
- Annex 1 The HoIAS Annual Opinion on the overall adequacy and effectiveness of the control environment 2019-20
- Annex 2 Summary of Internal Audit Service work supporting the HoIAS 2019-20 opinion
- Annex 3 Summary self-assessment of conformance with PSIAS

Officers to Contact

Neil Jones, Head of Internal Audit and Assurance Service,
Leicestershire County Council

neil.jones@leics.gov.uk

0116 305 7629

Alison Greenhill, Treasurer

Alison.greenhill@leicester.gov.uk

0116 454 5552