

## Appendix 2

### Background to statutory & constitutional requirements and working arrangements

Section 112 of the Local Government Finance Act 1988 requires that any combined fire authority ‘...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 Constitution of the CFA (the Constitution) approved by the CFA at its meeting on 20<sup>th</sup> June 2018, 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 23.1.

The statutory requirement for the CFA to have an effective internal audit function is contained within the Accounts and Audit Regulations 2015.

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.’

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).

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. An opinion isn’t formed in these circumstances. Also, unplanned ‘investigation’ type audits may be undertaken.

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 (i.e. the framework of governance, risk management and internal control). The HoIAS opinion informs 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. An assurance type audit report containing at least one high importance (HI) recommendation would normally be classified as 'partial' assurance. Consulting type audits might also result in high importance recommendations.

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 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 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.