

Report of Internal Auditor

9. Internal Audit Annual Report 2013/14

Purpose of Report

1. To provide the Committee with:
 - the overall results in terms of meeting Internal Audit's (IA's) objectives as set out in the internal audit plan for 2013/2014; and
 - provide an audit opinion and commentary on the overall adequacy and effectiveness of the internal control environment.
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Recommendation

The Treasurer recommends that the Committee note the audit plan delivered in 2013/14 has provided an assurance level of "moderate" or above for all relevant audits.

Introduction and Background

2. The Authority is responsible for maintaining or procuring an adequate and effective internal audit of the activities of the Authority under the Accounts and Audit (England) Regulations 2011. This includes considering, where appropriate, the need for controls to prevent and detect fraudulent activity. These should also be reviewed to ensure that they are effective. This duty has been delegated to the Treasurer, and, Internal Audit was provided by Worcestershire Internal Audit Shared Service (WIASS). Management is responsible for the system of internal control and should set in place policies and procedures to ensure that the system is functioning correctly. The Authority is required to publish an Annual Governance Statement by the 30th September. During 2013/14 the provision for the Internal Audit function was the second full year of the three year contract of Internal Audit provision by WIASS.

Objectives of Internal Audit

3. The Chartered Institute of Public Finance and Accounts (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom defines internal audit as: "an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic and effective use of resource".

Internal Audit

Aims of Internal Audit

4. The objectives of WIASS are to:
 - Examine, evaluate and report on the adequacy and effectiveness of internal control and risk management across the Fire Service and recommend arrangements to address weaknesses as appropriate;
 - Examine, evaluate and report on arrangements to ensure compliance with legislation and the Fire Service's objectives, policies and procedures;
 - Examine, evaluate and report on procedures that the Fire Service's assets and interests are adequately protected and effectively managed;
 - Undertake independent investigations into allegations of fraud and irregularity in accordance with Fire Service's policies and procedures and relevant legislation and
 - Advise upon the control and risk implications of new systems or other organisational changes.
5. WIASS is committed to providing an audit function which conforms to the Public Sector Internal Audit Standards 2013.
6. We recognise there are other review functions providing other sources of assurance (both internally and externally) over aspects of the Council's operations. Where possible we seek to place reliance on such work thus reducing the internal audit coverage as required.
7. To try to reduce duplication of effort we understand the importance of working with the External Auditors. The audit plan was shared with the external auditors for information.

Summary of the prime features

2013/2014 Key Internal Audit planned Inputs for WIASS

8. A summary of the position is provided at Appendix 1

2013/2014 Key Internal Audit planned Outputs for WIASS

9. During 2013/14 Internal Audit was required to:
 - complete 11 systems audits (including Health Check audits) of which 4 must suitably assist the External Auditor reach their "opinion".

- provide sufficient audit resources for other operational areas which assist the Fire Service maintaining/improving its control systems and risk management processes or implementing / reinforcing its oversight of such systems, i.e.: -provide an on-going consultancy to managers on internal control, for example where system changes are being made;
 - meet Internal Audit's external work requirements; and
 - achieve a benchmark of delivery for 2013/2014 of all audits as agreed in the operational programme as agreed at the 26th September 2013 Committee with an additional deferred 2012/13 audit.
10. The majority of audits, on completion, are assigned an assurance using a predefined definition and all reported recommendations are given a priority. The audit assurance and recommendation priority is agreed with Management before the final report is published. An example of the assurance and priority definitions is provided at Appendix 2 for information.

Productive Work

11. During 2013/2014 there were 110 productive audit days delivered by WIASS. As can be seen in Appendix 1 the annual budget for systems work for WIASS was 111 audit days. WIASS has achieved what was required according to the 2013/2014 audit plan and completed all audits to draft or final report stage. One day has been carried forward (but will not feature in the 2014/15 plan) in order to finalise the two audits currently at draft report stage awaiting management response. The appendix shows for each report the overall assurance as well as providing the overall assurance analysis. Appendix 2 provides an explanation of assurance categorisation.
12. Consultancy, advice and guidance are demand led activities and can fluctuate from year to year but have been contained within the agreed budget.
13. Follow up in respect of audits which were provided to the Fire and Rescue Service as part of the year 1 delivery from WIASS were included as part of the 2013/14 audit programme and have been undertaken during the past twelve months.
14. Internal audit has worked with external audit to try and avoid duplication of effort, provide adequate coverage for the 2013/14 financial year so that an internal audit opinion can be reached, and, support External Audit by carrying out reviews in support of the accounts opinion work.

Work of interest to the External Auditor

15. The results of the work that we performed on four systems audits during 2013/14 was of direct interest to External Audit. Audit reports are passed to the external auditor on request for their information and for them to inform their opinion.

16. Dialogue continues with the External Auditor to ensure that the IA work will continue to provide the assurance they seek at an acceptable standard.

Quality Measures – internal

17. Managers are asked to provide feedback on systems audits as the audit progresses. Comments have been received from a number of Managers who have expressed their appreciation of the audit approach and the fact that it has added value to their service. An analysis of those returns is undertaken during the year to ensure that the audit programme continues to add value. No formal questionnaires have been issued to date as feedback has been immediately forthcoming from the appropriate Managers. The Treasurer, Chief Accountant and External Audit have also confirmed a high satisfaction with the audit product.
18. Worcestershire Internal Audit Shared Service Internal Audit activity is organisationally independent. Internal Audit reports to the Treasurer but has a direct and unrestricted access to senior management and the Audit Committee.
19. Further quality control measures embedded in the service include individual audit reviews and regular Client Officer feedback. All staff work to a given methodology and have access to the internal audit manual and Charter which has been updated to reflect the requirements of the standards.
20. The Client Officer Group (i.e. management board) meet on a regular basis and consider the performance of the Shared Service including progress against the Service Plan and promote continuous improvement.
21. To further assist the Committee with their assurance of the overall delivery the Worcestershire Internal Audit Shared Service conforms to the Public Sector Internal Audit Standards.
22. Appendix 3 provides the audit opinion and commentary which provides further assurance to the Committee.

Corporate Considerations

Resource Implications (identify any financial, legal, property or human resources issues)	There are financial issues that require consideration as there is a contract in place but not fully detailed in this report.
Strategic Policy Links (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications).	None There are legal issues e.g. contractual and procurement that require consideration but are not fully detailed in this report as they are contained within the contract.
Risk Management / Health & Safety (identify any risks, the proposed control measures and risk evaluation scores).	Yes, whole report.
Consultation (identify any public or other consultation that has been carried out on this matter)	N/A – no policy change is recommended
Equalities (has an Equalities Impact Assessment been completed? If not, why not?)	N/A

Supporting Information

Appendix 1 – 2013/14 Internal Audit Plan performance 2013/14

Appendix 2 – Definition of Audit Opinion Levels of Assurance

Appendix 3 – Audit Opinion and Commentary for 2013/14

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Appendix 1

Worcestershire Internal Audit Shared Service Audit Plan Performance for 2013/14

Service Area	System	Audit Days	Final report Issued	Assurance
Main Systems				
Accountancy and Finance Systems	Payroll & Pensions incl. GARTAN system	13	2 nd April 2014	Moderate
	Creditors	8	24 th December 2013	Significant
	Debtors	5	24 th December 2013	Significant
	Main Ledger & Budgetary Control	8	24 th December 2013	Significant
	Capital Programme	9 *(8 delivered)	7 th April 2014 (D)	Moderate(D)
Corporate Governance	IT Audit	10	20 th May 2014	Moderate
	Risk Management (Health Check)	3	30 th October 2013	Significant
	Corporate Governance	8	1 st May 2014	N/a
System/ Management Arrangements	Community Safety	8	16 th January 2014	Significant
	Urban Search & Rescue (USAR)	8	19 th May 2014 (D)	Significant (D)
	Operational Logistics	12	6 th December 2013	Moderate
General	Follow Ups	7	2013/14	Delivered
	Advice & Guidance	1	2013/14	Delivered
	Audit Committee & Management Reporting	11	2014/14	Delivered
Total Contracted Days		111		
Productive days delivered 2013/14		110		

*1 day will be delivered as part of the finalisation of the two audits during 2014/15 but will not be shown in the 2014/15 plan.

(D) denotes draft report issue and draft assurance applied. Work is continuing with management to finalise the reports.

Notes:

Summary of 2013/14 Audit Assurance Levels

2013/14	Number of Fire and Rescue Service Audits	Assurance	Overall % (rounded)
From 11 audits	0	Full	Nil
	5	Significant	46
	3	Moderate	27
	0	Limited	0
	0	No	0
	2	To be finalised i.e. remain as draft	18
	1	N/a	9

Note:

Asset Management, Annual Report, Follow Up, Advice, Audit Committee Support and management reporting areas are not included in the above figures.

Overall Conclusion:

- 73%(rounded)of the finalised audits undertaken for 2013/14 which have been allocated an assurance returned a level of 'moderate' or above. This figure does not include the 'critical friend' audit i.e. 'N/a' or the 2 draft reports to be finalised.
- Managers and the Treasurer are satisfied with the audit process and service delivery from the feedback received.

Audit Reports 2013/14

Definition of Audit Opinion Levels of Assurance

Opinion	Definition
Full Assurance	<p>The system of internal control meets the organisation's objectives; all of the expected system controls tested are in place and are operating effectively.</p> <p>No specific follow up review will be undertaken; follow up will be undertaken as part of the next planned review of the system.</p>
Significant Assurance	<p>There is a generally sound system of internal control in place designed to meet the organisation's objectives. However isolated weaknesses in the design of controls or inconsistent application of controls in a small number of areas put the achievement of a limited number of system objectives at risk.</p> <p>Follow up of medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Moderate Assurance	<p>The system of control is generally sound however some of the expected controls are not in place and / or are not operating effectively therefore increasing the risk that the system will not meet it's objectives. Assurance can only be given over the effectiveness of controls within some areas of the system.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
Limited Assurance	<p>Weaknesses in the design and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in many of the areas reviewed. Assurance is limited to the few areas of the system where controls are in place and are operating effectively.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>
No Assurance	<p>No assurance can be given on the system of internal control as significant weaknesses in the design and / or operation of key controls could result or have resulted in failure to achieve the organisation's objectives in the area reviewed.</p> <p>Follow up of high and medium priority recommendations only will be undertaken after 6 months; follow up of low priority recommendations will be undertaken as part of the next planned review of the system.</p>

Definition of Priority of Recommendations

Priority	Definition
H	<p>Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives.</p> <p>Immediate implementation of the agreed recommendation is essential in order to provide satisfactory control of the serious risk(s) the system is exposed to.</p>
M	<p>Control weakness that has or is likely to have a medium impact upon the achievement of key system, function or process objectives.</p> <p>Implementation of the agreed recommendation within 3 to 6 months is important in order to provide satisfactory control of the risk(s) the system is exposed to.</p>
L	<p>Control weakness that has a low impact upon the achievement of key system, function or process objectives.</p> <p>Implementation of the agreed recommendation is desirable as it will improve overall control within the system.</p>

Audit Opinion and Commentary for 2013/14

**Hereford and Worcester Fire and Rescue Service
Commentary and Audit Opinion 2013/14**

Internal Audit: Hereford and Worcester Fire and Rescue Service's responsibility for maintaining an adequate and effective internal audit function is set out in Regulation 6 of the Accounts and Audit (England) Regulations 2011.

The Internal Audit is provided by the Worcestershire Internal Audit Shared Service (WIASS) function which was set up as a shared service in 2010/11, and hosted by Worcester City for 5 district councils. 2013/14 was the second full year of audit function delivery for the Fire and Rescue Service since it was transferred from Worcestershire County Council. The shared service operates in accordance with, and conforms to, the Public Sector Internal Audit Standards 2013. It objectively reviews, on a continuous basis, the extent to which the internal control environment supports and promotes the achievement of the Fire and Rescue Service objectives and contributes to the proper, economic and effective use of resources.

The Internal Audit Plan was agreed with External Audit, the Treasurer and s151 Officer and was approved by the Audit Committee on the 26th September 2013. It included:

- a number of core systems which were designed to suitably assist the external auditor to reach their 'opinion'
- other corporate systems for example governance and risk management.

Based on the audits performed by WIASS in accordance with the approved audit plan the Worcester Internal Audit Shared Service Service Manager concludes that the Hereford and Worcester Fire and Rescue Service governance framework arrangements during 2013/2014 have not always provided full assurance but outstanding issues were being addressed as part of the process of continuous improvement.

It should be noted that as part of the risk based approach WIASS delivered all the audits expected with the addition of the 2012/13 Asset Management audit. It was agreed with the Chief Accountant and the Treasurer that this would be deferred to September 2013.

In relation to the eleven reviews that have been undertaken all have been completed and discussed with management with reports issued either in draft or finalised form. Risk management was re-launched during 2012-13 with the formulation of a Corporate Risk Register and training. Regular reporting to the Audit Committee has taken place during 2013/14. Work continues to ensure that it is becomes fully embedded throughout the organisation.

The majority of the completed audits have been allocated an audit assurance of either moderate or above meaning that there is generally a sound system of internal control in place, no significant control issues have been encountered and no material losses have been identified.

WASS can conclude that no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance based on the audits performed in accordance with the approved plan and the scoping therein.

The WASS Service Manager has concluded that the internal control arrangements during 2013/14 effectively managed the principal risks identified in the audit plan and can be reasonably relied upon to ensure that the Fire and Rescue Service corporate objectives have been met. None of the work WASS has carried out in support of the 2013/14 plan identified any fundamental weaknesses in the areas WASS audited leading to either a limited or no assurance outcome.

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May 2014