

Hereford & Worcester Fire Authority

Audit and Standards Committee

12 April 2017

## **Report of the Head of Internal Audit Shared Service**

### **Internal Audit Monitoring Report 2016/17**

#### **Purpose of report**

To provide the Committee with a progress update on the 2016/17 audit plan delivery.

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#### **Recommendation**

***The Treasurer recommends that the report be noted.***

#### **Introduction and Background**

1. 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 2015. 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 is 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.

#### **Objectives of Internal Audit**

2. The Public Sector Internal Audit Standards 2013 defines internal audit as: “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. WIASS is committed to conforming to the requirements of the Public Sector Internal Audit Standards

#### **Aims of Internal Audit**

3. 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.
4. Internal audit has worked with external audit to try and avoid duplication of effort, provide adequate coverage for the 2016/17 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.

### **Audit Planning**

5. To provide audit coverage for 2016/17, an audit operational programme to be delivered by WIASS was discussed and agreed with the Authority's Section 151 Officer and Treasurer as well as Senior Management Board and was brought before Committee on 4<sup>th</sup> July 2016 for consideration. The audit programme provides a total audit provision of 111 audit days; 95 operational and 16 management days.

### **Audit Delivery**

6. 2016/17 audits commenced after the Committee had agreed the 2016/17 plan at the 4<sup>th</sup> July 2016 Committee.
7. To assist the Committee to consider assurance on the areas of work undertaken, an overall assurance level is given, when appropriate, to each audit area based on a predetermined scale (Appendix 2). Also, the findings are prioritised into 'high', 'medium' and 'low' within audit reports with all 'high' priority recommendations being reported before committee (Appendix 2).

### **2016/17 Audits:**

8. The summary results of these audits are included below, however, it can be reported there were no 'high' priority recommendations resulting from the work. Where recommendations have been made, these are being addressed through appropriate management actions.

### Payroll

The review found the following areas of the system were working well:

- Changes to the Establishment, starters leavers and movers
- Adjustments to pay
- Accuracy of the information transferred from the GARTAN system to the Payroll system
- Monitoring of Key Performance Indicators
- Reconciliations of monthly and four weekly pay runs to the main ledger
- Security of documentation/data

There were no 'high' or 'medium' priority recommendations reported.

Audit Type: Full System

Final Report Date: 21<sup>st</sup> December 2016

Assurance: Full

### VAT

The review found the following areas of the system were working well:

- The VAT Return is generated by the system and therefore uses the reports directly produced by the system.
- The system links the figures on the system generated VAT Return to work files so that checking of transactions is efficient.
- Foreign supplies are easily identified
- The VAT Return is signed off prior to submission.

The audit did not look in detail at VAT on creditors/debtors (accounts payable/accounts receivable) other than for the completion of the VAT Returns.

There were no 'high' or 'medium' priority recommendations reported.

Audit Type: Limited Scope

Final Report Date: 10<sup>th</sup> January 2017

Assurance: Full

9. The following reviews are currently at draft report stage the outcome of which will be reported in summary form at the next Audit Committee:

### CARE System – Pensions

The audit of the Care Scheme is being carried out as an additional review at the request of the Director of Finance and Assets (S151 Officer) to provide assurance over the data held in relation to the CARE scheme. The audit is a limited scope review of the Care Scheme.

### Safeguarding

The review is a full system review concentrating on the key requirements and areas of the safeguarding system.

### Training Centre and Technical Fire Safety

This area forms a significant part of the National Framework and is also extensively covered in the Annual Plan which reports on outcomes against previous years. The review is a critical friend review limited to key fire safety audit areas whilst taking into consideration the Annual Plan. The review is challenging the current and on-going arrangements in place at the time of the review.

### Fees and Charges

This review is a critical review that has concentrated on the following areas:

- SPI 3 – Section 7 Part 7.31 Cost Recovery including Special Services
- The process of ascertaining that a debt is due and the charge to be raised
- Raising of the invoice
- Management of the Debt
- Receipt of income

10. Reviews that are currently progressing through fieldwork stage include:

### ICT

This critical review will be limited to the following areas of the ICT Service and will cover the period from April 2016 to the time of the audit.

- Progress in completing the Service work programme during 2016/17 to date, including completed work programme items and those underway;
- Action plans to address issues raised.

### Property – Client Management

This review will provide assurance in regard to the on-going processes in place for:

- Service Level Agreement;
- Strategic property issues;
- The provision of accurate and timely KPI data;
- Review of performance;
- Property maintenance related fees;
- Charges approval and contractual variations.

11. Follow up is continuing in regard to previously completed audits to provide assurance that recommendations have been implemented and any risk mitigated. Since the last Committee the stores stock system follow up took place in March 2017 and found that the 1 medium priority recommendation reported had been addressed and there was evidence of implementation. No further follow ups are required for this review.

## Conclusion/Summary

12. The Internal Audit Plan for 2016/17 continues to progress towards its conclusion. There were no 'high' priority recommendations arising and no potential risks that need to be reported to the Committee from the work completed to date. Recommendations that have been made are being addressed through normal management actions.

## Corporate Considerations

<b>Resource Implications</b> (identify any financial, legal, property or human resources issues)	There are no financial issues that require consideration.
<b>Strategic Policy Links</b> (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications).	Selected audits are risk based and linked to the delivery of priorities and policy framework.
<b>Risk Management / Health &amp; Safety</b> (identify any risks, the proposed control measures and risk evaluation scores).	Yes, whole report.
<b>Consultation</b> (identify any public or other consultation that has been carried out on this matter)	N/A – no policy change is recommended
<b>Equalities</b> (has an Equalities Impact Assessment been completed? If not, why not?)	N/A

## Supporting Information

Appendix 1 - 2016/17 Audit Plan progress.

Appendix 2 - 'High' priority recommendations for completed audits, and, assurance and priority definitions.

**Contact Officer**

Andy Bromage

Head of Internal Audit Shared Service - Worcestershire Internal Audit Shared Service

(01905 722051)

[andy.bromage@worcester.gov.uk](mailto:andy.bromage@worcester.gov.uk)

# APPENDIX 1

## INTERNAL AUDIT PLAN FOR THE FIRE & RESCUE SERVICE 2016/17

### WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE

Audit Area	Source (max risk score 45)	Planned Days 2016/17	Preferred Audit Quarter/ completed
<b>Accountancy &amp; Finance Systems</b>			
Main Ledger (incl. Budgetary Control & Bank Rec)	Risk Score 28	8	Completed Dec 2016
Creditors	Risk Score 28	8	Completed Dec 2016
Debtors	Risk Score 25	5	Completed Dec 2016
Payroll & Pensions (incl. GARTAN)	Risk Score 35	13	Completed Dec 2016
VAT	Risk Score 27	3	Completed Jan 2017
<b>SUB TOTAL</b>		<b>37</b>	
<b>Corporate Governance (incl Health &amp; Safety arrangements)</b>			
Corporate Governance (AGS)	Risk Score 25	10	Completed Nov 2016
ICT Audit	Risk Score 36	10	On-going
<b>System / Management Arrangements</b>			
Safeguarding	Risk Score 30	8	Draft Report Mar 2017
Training Centre	Risk Score 33	8	Draft Report Mar 2017
Property & Asset Mngt(Client Side)	Risk Score 31	9	On-going
Fees and Charges (Value for Money)	Risk Score 25	5	Draft Report Mar 2017
Technical Fire Safety (Commercial)	Risk Score 24	8	Draft Report Mar 2017
<b>SUB TOTAL</b>		<b>58</b>	
<b>General</b>			
Follow up 2014/15 & 2015/16 Reviews	Routine & s151	5	Q1 to Q4 inclusive
Advice, Guidance, Consultation, Investigations	n/a	2	Q1 to Q4 inclusive
Audit Cttee Support	n/a	5	Q1 to Q4 inclusive
Reports & Meetings	n/a	4	Q1 to Q4 inclusive
<b>SUB TOTAL</b>		<b>16</b>	
<b>TOTAL CHARGEABLE</b>		<b>111</b>	

Note: GAD has been not included ~ conformity to be provided by Worcestershire County Council.  
In addition to the plan above there will be an additional review in regard to the Pensions to ensure the CARE system is operating satisfactorily. Currently at draft report stage.

## **Appendix 2**

### **'High' Priority Recommendations reported**

**Audit reviews finalised in regard to the 2016/17 audit programme and reported above confirm there are no 'high' priority recommendations to report.**



### **Definition of Priority of Recommendations**

<b>Priority</b>	<b>Definition</b>
<b>High</b>	<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>
<b>Medium</b>	<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>
<b>Low</b>	<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>

### **Definition of Audit Opinion Levels of Assurance**

<b>Opinion</b>	<b>Definition</b>
<b>Full Assurance</b>	<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>
<b>Significant Assurance</b>	<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>
<b>Moderate Assurance</b>	<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 its 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>
<b>Limited Assurance</b>	<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>
<b>No Assurance</b>	<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>