

## **Report of the Internal Auditor**

### **5. Internal Audit Annual Report 2015/16**

#### **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 2015/2016, 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 it be noted that the audit plan delivered in 2015/16 has provided an assurance level of “significant” 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 Regulation 5 of 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 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 to accompany the accounts by the 30<sup>th</sup> September. During 2015/16 the provision for the Internal Audit function was delivered on a 12 month extended contract of Internal Audit provision by WIASS. During 2015/16 further progress was made to arrange for Hereford and Worcester Fire and Rescue Authority to become a partner within the Shared Service from 1<sup>st</sup> April 2016.

#### **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.
  - 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**

#### **2015/2016 Key Internal Audit planned Inputs for WIASS**

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

#### **2015/2016 Key Internal Audit planned Outputs for WIASS**

9. During 2015/16 Internal Audit was required to:

- Complete ten systems audits (including Health Check audits) of which four needed to 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;
  - achieve a benchmark of delivery for 2015/2016 of all audits as agreed in the operational programme as agreed at the September 2015 Committee.
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 2015/2016 there were 104 productive audit days delivered by WIASS against an overall budget of 111 days. The remainder of the days have been delivered during April and May 2016 to complete the plan as a whole and will not feature in the 2016/17 plan. These days were required to finalise two audits that were at clearance stage so they could be discussed with management, a management response obtained and final report issued. Appendix 1 gives a break down of the annual budgeted days for systems work. WIASS has achieved what was required according to the 2015/2016 audit plan and completed all audits to final report stage. The appendix shows for each audit report the overall assurance attained as well and providing an overall assurance analysis. Appendix 2 provides an explanation of assurance categorisation. The overall assurance that has been attributed to the various areas that have been audited in regard to the 2015/16 programme and reflects the fact there have been no ‘high’ priority recommendations to report.
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 and 2 delivery from WIASS were included as part of the 2015/16 audit programme and have been undertaken during the past twelve months for example Operations Assurance (September 2016), ICT (February 2016), Risk Management (February 2016) as well as the core financial reviews.
14. Internal audit has worked with external audit to try and avoid duplication of effort, provide adequate coverage for the 2015/16 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 2015/16 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 will assist them to add value to their service area. WIASS analyse the returns 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 during discussions with the Chief Internal Auditor.
18. WIASS 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 Chair if required.
19. Further quality control measures embedded in the service include individual audit reviews and regular Client Officer feedback. WIASS 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 of the Service.
21. To further assist the Committee with their assurance of the overall delivery WIASS conforms to the Public Sector Internal Audit Standards 2013.
22. Appendix 3 provides the audit opinion and commentary which provides further assurance to the Committee.

## Corporate Considerations

<b>Resource Implications</b> (identify any financial, legal, property or human resources issues)	There are financial issues that require consideration as the contractual arrangement has concluded and H&WFRS have joined the Shared Service as a full partner from April 2016. The financial details are not fully detailed in this report.
<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).	None There are legal issues e.g. joining as a partner in the shared service required consideration but are not fully detailed in this report.
<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

N/a

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## Appendix 1

### Worcestershire Internal Audit Shared Service Audit Plan Performance for 2015/16

Service Area	System	Budgeted Days	Overall Assurance	Delivery
	<b>Main Systems</b>			
Accountancy and Finance Systems	Payroll & Pensions incl. GARTAN system	13	Significant	Final Report issued 16th February 2016
	Creditors	8	Significant	Final Report issued 11 <sup>th</sup> January 2016
	Debtors	5	Significant	Final Report issued 11th January 2016
	Main Ledger & Budgetary Control (and Training Budget)	8	Significant	Final Report issued 11th January 2016
Corporate Governance	IT Audit	10	Moderate	Draft Report issued 20th April 2016
	Corporate Governance (Annual Statement)	16	Critical Friend	Clearance meeting 29/06/16
System Management Arrangements /	Cash Float/Imprest Account	5	Significant	Final Report issued 17th March 2016
	Stores/Operational Logistics	10	Significant	Draft Report issued 28th April 2016
	Human Resources	9	Critical Friend	Draft Report issued 10 <sup>th</sup> March 2016
	Risk Management	8	Moderate	Draft Report issued 29th April 2016
General	Follow Ups	7	N/a	2015/16
	Advice & Guidance	1	N/a	2015/16
	Audit Committee & Management Reporting	11	N/a	2015/16
Total Contracted Days		111		
Total days delivered during 2015/16		104		

\*7 days will be delivered as part of the finalisation of the audits during 2016/17 but will not be shown in the 2016/17 plan.

## Summary of 2015/16 Audit Assurance Levels

2015/16	Number of Fire and Rescue Service Audits	Assurance	Overall % (rounded)
From 10 audits	0	Full	0%
	6	Significant	60%
	2	Moderate	20%
	0	Limited	0%
	0	No	0%
	0	To be finalised i.e. remains at clearance	0%
	2	Critical Friend	20%

Note:

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

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### Overall Conclusion:

- 100% of the finalised audits undertaken for 2015/16 which have been allocated an assurance returned a level of moderate or above. This figure includes the 'critical friend' reviews, and, draft reports as the assurance is not expected to change.
- Managers and the Treasurer are satisfied with the audit process and service delivery from the feedback received.

## Appendix 2

### Audit Reports 2015/16

#### Definition of Audit Opinion Levels of Assurance

Opinion	Definition
<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 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>
<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>



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

<b>Priority</b>	<b>Definition</b>
<b>H</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>M</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>L</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>

**Audit Opinion and Commentary for 2015/16**

**Hereford and Worcester Fire and Rescue Service  
Commentary and Audit Opinion 2015/16**

1. 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 5 of the Accounts and Audit (England) Regulations 2015.
2. The Internal Audit function is provided by the Worcestershire Internal Audit Shared Service (WIASS) which was set up as a shared service in 2010/11, and hosted by Worcester City for 5 district councils. 2015/16 was the fourth 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.
3. The Internal Audit Plan was agreed with External Audit, the Treasurer and s151 Officer and was approved by the Audit and Standards Committee on the 28<sup>th</sup> September 2015. 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.
4. Based on the audits performed by WIASS in accordance with the approved audit plan the Head of Internal Audit Shared Service can report that the Hereford and Worcester Fire and Rescue Service governance framework arrangements during 2015/2016 have provided assurance outturns of either predominantly 'significant' or 'moderate', meaning, 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.
5. No areas reviewed as part of the 2015/2016 plan recorded 'limited' or 'no' assurance. Outstanding issues were being addressed as part of the process of continuous improvement and clear management actions plans had been agreed, where appropriate, for review areas.
6. It should be noted that as part of the risk based approach WIASS delivered all the audits expected in the 2015/16 plan. During the previous year the Fire and Rescue Service changed its payroll provider which obviously attracted an increased risk exposure. Clear and robust mitigation was put in place to ensure the risks associated with such a transfer were managed. There remains a clear

understanding that work is to be done in this area but to date the service has provided a satisfactory payroll solution.

7. In relation to the ten reviews that have been undertaken all have been completed and discussed with management with reports issued either in draft or finalised form. Risk management continues to feature prominently with regular reports continuing to be brought before the Committee. Work continues to ensure that it becomes fully embedded throughout the organisation.
8. The Head of Internal Audit Shared Service has concluded that internal control arrangements during 2015/2016 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 WIASS has carried out in support of the 2015/2016 plan identified any fundamental weaknesses in the areas WIASS audited leading to either a 'limited' or 'no' assurance outcome. There were no 'high' priority recommendations reported to committee during 2015/16 in regard to 2015/2016 audits.
9. WIASS 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.

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