

Hereford & Worcester Fire Authority

Audit and Standards Committee

18 January 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.

Recommendation

The Treasurer recommends that the Internal Audit Monitoring Report 2016/17 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 (WAISS). 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”. WAISS is committed to conforming to the requirements of the Public Sector Internal Audit Standards

Aims of Internal Audit

3. The objectives of WAISS 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 4th 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 4th 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.

Corporate Governance – Annual Governance Statement

9. The review found the following areas of the system were working well:
- The formation process for the Annual Governance Statement follows the CIPFA/SOLACE guidelines closely.
 - The Annual Governance Statement Assurances reflect the requirements set out in the CIPFA framework.
 - The Authority can produce the evidence necessary to fulfill the requirements it sets for itself.
 - The implemented version controls on Service Policy Instructions generally work well.
10. The review found the following areas where controls could be strengthened however these did not directly impact on the Annual Governance Statement production:
- Documents other than Service Policy Instructions do not always contain adequate version control.
 - Terminology used is not always consistent. Two examples of this are the Equality & Diversity Scheme is now referred to as the Equality Framework, and the 'Authority Plan' is now referred to as the Fire Authority Report.

Final Report issued: November 2016

Assurance: Full

Recommendations: No 'high' or 'medium' and 2 'low'.

Main Ledger

11. The review found the following areas of the system were working well:
- The controls in place ensure the quality and timeliness of input into the ledger;
 - There is a clear scheme of delegation for budget holders and budgetary responsibilities are delegated accordingly;
 - The process behind the setting of budgets is sound and can be clearly identified throughout. Budgets are forecast accurately and soundly based on justifiable assumptions;
 - There is sufficient, relevant and reliable information available to budget holders to assist them in monitoring their budgets;
 - Budgeted income and costs are consistent with planned activity and budgeted outturn
 - Variations, including under spends are clearly recorded and reported, and where necessary variations are analysed, investigated, explained and acted upon

- Budget holders expressed that they were generally happy with the budgetary setting and monitoring processes and the support they receive from the Finance Team;
- Budget holders also indicated that the budget holder's surgeries work very well and provide good opportunities for feedback and challenges;
- There is a robust, regular and inclusive reporting process.

Final Report issued: December 2016

Assurance: Full

Recommendations: No 'high', 'medium' or 'low'.

Sundry Debtors

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

- There is adequate segregation of duties over processes and Debtors invoices are raised promptly where appropriate;
- All income is recorded accurately and promptly;
- Debtor invoices are raised in accordance with the Service's published charging policies, for example within the 'Cost Recovery for Special Services' Policy';
- There are satisfactory Collection and Write Off procedures, and Credit Notes are raised appropriately and with clear reasons and not for the purpose of writing off bad debts;
- Income from recharging of services is recorded correctly in the General Ledger;
- Basic IT controls are in place.

Final Report issued: December 2016

Assurance: Full

Recommendations: No 'high', 'medium' or 'low'.

Creditors

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

- Goods and services are correctly authorised and there is appropriate segregation of duties between the requisition and authorisation of good and services
- Authorisation levels and appropriate separation of duties exist and are being adhered to
- Invoices are recorded correctly and accurately in the main ledger
- There is regular monitoring of invoices which ensures that late payments are kept to a minimum
- Disputed invoices are regularly monitored and are resolved in a timely manner
- There are effective controls and a clear segregation of duties for BACS payments

- The IT controls in place ensure system security and stability

Final Report issued: December 2016

Assurance: Full

Recommendations: No 'high', 'medium' or 'low'.

14. The following reviews are currently approaching 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.

Payroll

The review is a full systems audit concentrating on the areas of the control including the GARTAN interface to the payroll System, expense claims, and the payroll system reports.

VAT

The review is a limited scope audit concentrating on the completion of the VAT returns. The audit did not look in detail at VAT on creditors/debtors.

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

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 will challenge the current and on-going arrangements in place at the time of the review.

Conclusion/Summary

16. The Internal Audit Plan for 2016/17 is progressing steadily. 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

Resource Implications (identify any financial, legal, property or human resources issues)	There are no financial issues that require consideration.
Strategic Policy Links (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.
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 - 2016/17 Audit Plan progress.

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

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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
Accountancy & Finance Systems			
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	Draft Report stage Dec 2016
VAT	Risk Score 27	3	Draft report stage Dec 2016
SUB TOTAL		37	
Corporate Governance (incl Health & Safety arrangements)			
Corporate Governance (AGS)	Risk Score 25	10	Completed 4 th Nov 2016
ICT Audit	Risk Score 36	10	Q4
System / Management Arrangements			
Safeguarding	Risk Score 30	8	On going
Training Centre	Risk Score 33	8	On going
Property & Asset Mngt(Client Side)	Risk Score 31	9	Was Q2 – request to defer to December 2016
Fees and Charges (Value for Money)	Risk Score 25	5	Q4
Technical Fire Safety (Commercial)	Risk Score 24	8	On going
SUB TOTAL		58	
General			
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
SUB TOTAL		16	
TOTAL CHARGEABLE		111	

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.

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

Priority	Definition
High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. Immediate implementation of the agreed recommendation is essential in order to provide satisfactory control of the serious risk(s) the system is exposed to.
Medium	Control weakness that has or is likely to have a medium impact upon the achievement of key system, function or process objectives. 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.
Low	Control weakness that has a low impact upon the achievement of key system, function or process objectives. Implementation of the agreed recommendation is desirable as it will improve overall control within the system.

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 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>
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>