

Report of the Internal Auditor

6. Internal Audit Monitoring Report 2013/14

Purpose of report

1. To provide the Committee with an interim progress update on the 2013/14 plan delivery.

Recommendation

The Treasurer recommends that the report is noted.

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 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

3. The Public Sector Internal Audit Standards 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

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. 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.

Audit Planning

6. To provide audit coverage for 2013/14, an audit operational programme to be delivered by WIASS was discussed and agreed with the Authority's Section 151 Officer and Treasurer, Chief Accountant as well as External Audit and this was approved at the 26th September 2013 meeting. The audit programme provides a total audit provision of 111 audit days; 100 operational and 11 management days.

Audit Delivery

7. Audits that have been finalised during 2013/14 up to 28th February 2014 include:
- Risk Management Health Check;
 - Sundry Debtors;
 - Creditors;
 - Main Ledger;
 - Operational Logistics;
 - Community Safety; and
 - Asset Management (which was carried forward from 2012/13 on agreement).
8. To assist the Committee to consider assurance on the areas of work undertaken, an overall assurance level is given to each audit area based on a predetermined scale. Also, the findings are prioritised into 'high', 'medium' and 'low' within audit reports.

2013/14 Audits:

Debtors (Final Report issued)

9. The review was a full system audit concentrating on the Debtors system. It sought assurance with regard to adequate segregation of duties over processes and Debtor invoices being raised promptly and all income recorded accurately and promptly. This included instances where the Service may make a charge, (for example the provision of information requested under the

following legislation; The Freedom of Information Act 2000, The Data Protection Act 1998, and The Environmental Information Regulations 2004). The review also sought to ensure that Debtors' invoices are raised in accordance with the Service's published charging policies, (for example within the 'Cost Recovery for Special Services' Policy), satisfactory collection and write off procedures and credit notes are raised appropriately with clear reasons and not for the purpose of writing off bad debts.

10. The review found there are sound systems in place for invoicing for debts owed to the Authority in a timely manner, with income received recorded promptly and accurately in the general ledger. Charges for information and other data requests are always collected in advance of information being provided, and charges for special services have been found to be correctly made under the 'Cost Recovery for Special Services' Policy, with the exception of a very small discrepancy in administration charge. There is a small amount of outstanding debt owed to the Authority, which is fairly constant and was £5,897 on the first day of the audit. There is evidence of efforts made to recover this debt after 30 days of the invoice date, however, the action taken is not in line with the strict timescales given in the 'Accounts Receivable and Debt Management Policy', which was approved on 31st October 2012. There were no high priority recommendations reported for this audit.

Assurance: Significant

Final Report issued: 24th December 2013

Creditors (Final Report issued)

11. The review was a full system audit concentrating on the Creditors system seeking assurance with regard to controls in place from the point the purchase order is raised to the point the payment is recorded in the ledger. The audit considered whether goods/services are correctly authorised either directly or via a purchase order and segregation of duties exist between the requisition and authorisation of goods/services. The review sought to ensure that:
 - purchase orders are raised prior to the receipt of goods/services unless specifically excluded;
 - authorisation levels and separation of duties have been set for all creditors payments including the use of purchase cards and are being adhered to;
 - supplier details for new creditors and amendments to existing records are authorised;
 - payments for goods/supplies are in accordance with internal and external regulations and are properly chargeable to Hereford & Worcester Fire and Rescue Service and are made only once; and
 - invoices are recorded correctly and accurately in the main ledger, and, basic IT controls are in place.

12. The audit did not cover the procurement process and therefore did not include the Procurement rules.
13. The review found goods and services are correctly authorised and there is clear segregation of duties between the requisition and authorisation of goods and services. The Authority has strong BACs payment controls in place which includes the raising of cheques where relevant and authorisation for payments for single items over £50,000. These controls have continued to work effectively after the Authority's change of bank account. Payments tested during the audit were found to have been made within 30 days of receipt of the invoice to the finance team. Data on payment performance (within 30 days) is reportedly submitted to the Director of Finance and Assets for consideration on a monthly basis. This should ensure the Authority is able to monitor the extent to which it meets the requirements of the Late Payment of Commercial Debt Regulations (2013), and to avoid interest and compensation charges from creditors. However, there have been instances identified where invoices received at sites, other than Service Headquarters, have not always been forwarded to the central Finance team in a timely manner with the potential to result in late payments. There were no high priority recommendations reported for this audit.

Assurance: Significant

Final Report issued: 24th December 2013

Main Ledger and Budgetary Control (Final Report issued)

14. The review was a full system audit concentrating on the controls over the Main Ledger system with regard to ensuring the quality and timeliness of the input to the ledger, (for example from feeder systems, procurement cards and direct debits). The review found that appropriate codes are used and any errors or omissions are timely located/corrected within the system including the use of suspense codes. It was also established that there is an effective bank reconciliation process in place and sufficient reliable information is available to budget holders and any budget variations are analysed, investigated, explained and acted upon. Budget virements are authorised and controlled effectively in accordance with agreed procedures.
15. The review found there is generally a sound system of internal control in place and an effective budget monitoring procedure where any potential budget variances are identified at an early stage and appropriate action taken where necessary. Systems are in place to reconcile all feeder systems to the general ledger to ensure there are no discrepancies. However, it was noted that due to resource pressures experienced during the 2012/13 external audit some accountancy functions had not been completed fully. The payroll to the general ledger reconciliation was not fully evidenced on the working file since accounting period 4 and also there were a few unallocated items in suspense (totalling approximately £8,000) dating back to the same period. A review of the access and approval rights regarding the new online banking process demonstrated that there are sufficient controls around the processing of transactions and a clear separation of duties is in place eliminating the risk to

the Service. There were no high priority recommendations reported for this audit.

Assurance: Significant

Final Report issued: 24th December 2013

Community Safety (Final Report issued)

16. The review was a full systems audit concentrating on areas of Community Safety including:
 - targets and outturn for the Service;
 - officer awareness;
 - value for money expenditure for the local community;
 - management information used to inform future decisions and reported to senior management and Members; and
 - and, whether plans are being developed for the future targeting and progression of the service.
17. The audit did not cover the appropriateness of the original budget setting except in so far as it relates to the areas reported.
18. The review found there is a sound system of control in place with a formally approved Community Safety Strategy 2012-15. This has been aligned to the Community Safety review that took place as part of the 2009-2012 Community Risk Management Plan (formally the Integrated Risk Management Plan). The day to day operations of the Service are reviewed by Management to ensure that resources are available as and when required and that activities are addressing the areas laid down in the Strategy. The Community Safety section does rely on partnership working to identify areas of the community that should be targeted for the delivery of some of the programmes. The future of the Section is also being considered; an example is increasing partnership working through developing links with universities. Other areas include looking at targeted marketing strategies in addition to reviewing the way that things have been undertaken in the past. For example post activity questionnaires are now undertaken in house rather than externally and the reassessing of regular events to see if they continue to fit within the current strategy criteria of vulnerable people. One recommendation in relation to making the Community Safety Strategy available to the public while not opening the Service up to any additional risk would be to provide clarity as to the role of Community Safety in the prevention of incidents. There were no high priority recommendations reported for this audit.

Assurance: Significant

Report issued: 16th January 2014

Operational Logistics Vehicle Maintenance/Workshop (Final Report issued)

19. The review was a full systems audit concentrating on the vehicle maintenance/workshop with regard to the inventory system, resources and assets. The audit did not cover procurement procedures.
20. The audit found some of the expected controls are not operating effectively. The Tranman System used to record all maintenance, both scheduled and reactive. It is user-friendly and identifies each item with a unique reference number allowing for the tracking and monitoring of:
 - location;
 - MOT/Service/Road Fund Licence due dates;
 - drivers;
 - purchase and disposal dates;
 - mileage;
 - fuel costs: and
 - incidents and maintenance history.
21. All maintenance job numbers are allocated by the system eliminating the possibility of the job numbers being allocated to more than one job. However, job numbers can be deleted from the system and authorisation and checking of costs associated with the maintenance of vehicles is undertaken at a stage which does not provide an effective control measure.
22. There is also some duplication of work in relation to the Tranman system and the Inventory system. The two systems are not interfaced resulting in stock part issues being entered onto both systems independently. Officers are aware of this and are looking at possible ways of improving this process. There were two high priority recommendations reported for this audit (see Appendix 2).

Assurance: Moderate

Final Report issued: 6th December 2013

Asset Management 2012-13 (Final Report issued)

23. The review was a systems audit concentrating on the controls over the Asset Management system. The audit did not include a review of assets monitored by the stock system as this was audited separately in the 2012/13 financial year.
24. The review found that generally there is a sound system of control in place regarding the management of assets. Controls are in place regarding the authorisation of minor and major capital projects. Major capital projects require authorisation by the Policy and Resources Committee and minor capital projects require authorisation by the Deputy Chief Fire Officer and the Director of Finance and Assets (Section 151). The Asset Register is updated and reconciled to the financial ledger at the end of each financial year and ongoing monitoring of capital projects is undertaken through the normal

budget monitoring process. Procedures are in place to reconcile to other service asset registers. This is working well in most areas but there is currently a control weakness in relation to an annual reconciliation between the Asset Register and General/Operational equipment. There were no high priority recommendations reported for this audit.

Assurance: Significant

Final Report issued: 24th December 2013

25. Summaries of the finalised audits relating to 2013/14 are listed below:

Audit	Assurance Level
2013/2014	
Debtors	Significant
Creditors	Significant
Main Ledger	Significant
Community Safety	Significant
Operational Logistics	Moderate
2012/2013	
Asset Management	Significant

26. Audits that have not been finalised but remain on going have been listed below providing a summary of the focus and the current audit position.

Payroll and Pensions including GARTAN System (Draft Report stage)

27. The review is a full system audit concentrating on areas of the Payroll system seeking assurance with regard to only current bona fide employees of HWFRS are paid through the payroll system. Also included were amendments to payroll data, (including sickness records, new employees, leavers movers and additional payments/deductions including personal mileage declarations and overtime claims) to confirm that they were actioned only on evidence of adequate, timely and authorised information. Further areas of assurance were considered with regard to controls over the GARTAN system for example all payments are appropriately authorised, processed correctly and there is a clear audit trail, all records and documents are protected against loss or unauthorised access, and, plans are in place to address the tendering of the Payroll Service. The audit included the documents/information from the point that it is received by the Payroll Section up to and including the transfer of data to the Fire Service's financial ledger. The audit did not cover controls over the calculation of pension payments carried out by Worcestershire County Council as the County are to provide a

letter of conformity including access controls operated by a third party or any Service Level Agreement between the Fire Service and a third party.

ICT (Draft Report Stage)

28. The review was a full system audit concentrating on areas of the ICT system including controls around network security, network user accounts, including authorisation for starters, leavers and generic access, electronic back-ups, and, corporate and departmental business continuity plans. The audit did not major on the corporate disaster recovery plan apart from requirements related to the control areas.

Capital Project (Clearance Meeting Stage)

29. The review was a full system audit concentrating on the control objectives of the Capital Programme system. The review did not include a review of the Authorities Asset Register as this was covered in a separate audit earlier in this financial year.
30. The review assessed whether the Authorities Capital Programme and Asset Management Plan had formerly been approved and both demonstrated the long term strategic aims of the business and whether all major and minor capital project/spend is procured in accordance with the Authorities Standing Orders relating to contracts taking into consideration EU Directives where appropriate. The review also included whether relevant approval has been granted upon awarding the contract/works prior to commencement of works, major and minor capital projects work/build is monitored throughout the terms of each contract and all work is signed off where necessary before expenditure is appropriately authorised, procedures for recording decisions and actions taken in relation to major and minor capital projects are clearly recorded in order to provide a clear audit trail, any lessons learnt are clearly documented and utilised moving forward and there are proper monitoring and reporting processes in place to ensure consistency and transparency along with effective budgetary control.

Urban Search and Rescue (USAR) (Clearance Meeting Stage)

31. The review was a full system audit concentrating on areas in USAR to ensure a robust process is in place so that the Service responds to the findings of the National Resilience Assurance audit report in a timely and effective manner, budgets are profiled correctly and effective budgetary control arrangements are in place and all expenditure is appropriate, relevant and authorised by the relevant budget holder or designated officer. The review did not include an inventory check of the donated assets belonging to HWFRS USAR service.

Corporate Governance (Fieldwork Stage)

32. The review is a limited scope audit concentrating on the External Audit recommendations made in 2011/12 regarding identified weaknesses in the Governance arrangements within the organisation with regard to a Monitoring Officer role. The audit is seeking assurance that all recommendations made by External Audit in their Governance Report 2011/12 have been suitable addressed, the role of the Service Monitoring Officer is in accordance with legislative requirements and embedded well within the organisation and has delivered, progressed and proved itself since inception. The audit will not cover the Annual Governance Assurance Statement process or the integrity of the information used to compile this statement.
33. All of the audits indicated above are currently at draft report stage awaiting management response or on-going. An assurance level will be formally agreed and notified to Committee on their completion.
34. As the audits are finalised update reports will be brought before Committee along with an extract of any 'high' priority recommendations. Finalised reports will be provided in their entirety to the Chairperson of the Committee for perusal on request.

Follow Up Audits for 2012-13

Stock Control Follow Up 2012-13

35. A follow up audit was undertaken to ascertain progress with regard to the 2012-13 audit report. Since the high priority recommendation was reported, and over the past year, the stores section has seen staff changes with the retirement of the Group Commander and Stores Manager. To address the audit report a project has now been put in place and will be managed by the recently appointed Group Commander and Acting Stores Manager. A further follow up is planned for approximately 6 months' time to allow time for any changes to be embedded.
36. Appendix 1 provides the Committee with a breakdown of 2013/14 internal audit plan delivery to date.
37. Appendix 2 provides the Committee with a breakdown of the 'high' priority recommendations that have been reported in respect of audits where the audit has been completed and final report issued. Also included are the definitions used to decide audit recommendation priority and overall assurance.

Conclusion/Summary

38. Operational progress against the Internal Audit Plan for 2013/14 has been steady and will continue to be closely monitored by the Service Manager of the Worcestershire Internal Audit Shared Service. Progress will be reported to the Audit Committee on a quarterly basis and, for information, also included will be the 'high' priority recommendations.

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 delivery summary

Appendix 2 – ‘High’ priority recommendations for completed audits including definitions

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Appendix 1

FIRE AND RESCUE SERVICE

Audit Plan for 2013/14

Service Area	System	Anticipated Days	Preferred Timing and Current Position	Days Delivered to 28 th February 2014
Main Systems				
Accountancy and Finance Systems	Payroll & Pensions incl. GARTAN system	13	Q3/4 (Draft Report issued)	12
	Creditors	8	Q3 (Final Report issued)	8
	Debtors	5	Q3 (Final Report issued)	5
	Main Ledger & Budgetary Control	8	Q3 (Final Report issued)	8
	Capital Programme	9	Q4 (Draft Report Stage)	6
Corporate Governance	IT Audit	10	Q4 (Draft Report Stage)	9
	Risk Management (Health Check)	3	Q2 (Final Report issued)	3
	Corporate Governance	8	Q2 (Ongoing)	5

Service Area	System	Anticipated Days	Preferred Timing and Current Position	Days Delivered to 28th February 2014
System/ Management Arrangements	Community Safety	8	Q2 (Final Report issued)	8
	Urban Search & Rescue (USAR)	8	Q4 (Draft Report stage)	6
	Operational Logistics	12	Q2 (Final Report Issued)	12
General	Follow Ups	7	Ongoing for 2013/14	5
	Advice & Guidance	1	Ongoing for 2013/14	0.7
	Audit Committee & Management Reporting	11	Ongoing for 2013/14	10
Total Contracted Days		111		98 (rounded)

Note:

GAD has been not included ~ conformity to be provided by Worcestershire County Council.

Asset Management 2012/2013 undertaken in September 2013 per agreement with Treasurer and s151 Officer, (days owing from 2012-13 Audit Plan used; Final Report issued).

Audit Reports 2013/14

Definition of Audit Opinion Levels of Assurance (for information)

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>

Opinion	Definition
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>

'High' Priority Recommendations reported

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Audit Area: Operational Logistics Vehicle Maintenance /Workshop					
Final Report issued: 16th January 2014					
1	High	A fuel card in the name of 'bearer' was left in a lever arch on a cabinet shelf in the Fleet Administrators Office.	Financial loss if the card should be stolen or misplaced.	<p>The fuel card should be locked away when not in use.</p> <p>Due to the fact that this was considered a high risk the card is now locked away.</p>	<p>Responsible Manager: Fleet & Maintenance Manager</p> <p>Implementation date: Implemented straight away.</p>
2	High	One of the twenty five transactions selected for testing could not be found in either the live or archived jobs within the Tranman system. Job numbers can be deleted from the system and this facility is used when there have been two job numbers allocated to one job or there has been no activity on that job number.	Reputational risk if challenged and the information can not be found and a compromise of data integrity within the system.	<p>Discussions should take place to see if a job number can be cancelled with an explanation as to why it as been cancelled but still remain as data within the Tranman System.</p> <p>This will then provide a full audit trail of all job numbers.</p>	<p>Responsible Manager: Fleet & Maintenance Manager</p> <p>Implementation date: 31/01/14</p>

Ref.	Priority	Finding	Risk	Recommendation	Management Response and Action Plan
Audit Area: Operational Logistics Vehicle Maintenance /Workshop					
Final Report issued: 16th January 2014					
		<p>In addition to this access to the Tranman system is via a generic password but if the system is open then no password is required by other users.</p> <p>Access to the Citrix server which needs to be open in order to access Tranman is individually password controlled however in some cases if the computer is left unlocked then the portal remains constantly open allowing anyone access.</p>		Officers should also be reminded to lock their computers should they leave their desk for any period of time.	
end					