

Report of the Treasurer

5. Internal Audit Annual Report 2012/13

Purpose of Report

1. To provide the Committee with:
 - the overall results in terms of meeting Internal Audit's (IAs) objectives as set out in the Internal Audit Plan for 2012/2013; 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 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 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 30 September. During 2012/13 the provision for the internal audit function was the first full year of the 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

4. There is a requirement under various statutes for a continuous and effective internal audit of the Authority's systems of internal control. Guidance which accompanies the Accounts and Audit Regulations 2011 amended the 2006 Regulations, refers to a 'Code of Practice for Internal Audit in Local Government in the UK' (CIPFA). The code defines how an internal audit service should be established and Worcestershire Internal Audit Shared Service (WIASS) seeks to comply with this and undertake a self assessment each year. WIASS is committed to satisfying/achieving the requirements of the CIPFA Code of Practice for Internal Audit and conforms to, and works with, the Public Sector Internal Audit Standards. Internal Audit have continued to liaise with External Audit providing work to support the external audit process.

Aims of Internal Audit

5. 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.

Summary of the prime features

6. 2012/2013 Key Internal Audit planned Inputs for WIASS - a summary of the position is provided at Appendix 1.
7. 2012/2013 Key Internal Audit planned Outputs for WIASS - During 2012/13 Internal Audit were required to:-
 - complete 13 systems audits including a Health Check audit, 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 2012/2013 of all audits as agreed in the operational programme at the 28 September 2012 Committee.
8. The majority of audits, on completion, are assigned an assurance using a pre-defined 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

9. During 2012/2013 there were 105 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 2012/2013 audit plan and completed all audits to draft or final report stage with the exception of Asset Management as it was considered by the Chief Accountant there was potential for duplication of work with External Audit. The days identified for this audit have been carried forward into the 2013/14 audit plan and in discussion with the Treasurer, this audit is now scheduled to take place during September.
10. Consultancy, advice and guidance are demand led activities and can fluctuate from year to year but have been contained within the agreed budget.
11. Follow up in respect of Worcestershire County Council audits which were provided to the Fire and Rescue Service prior to WIASS taking over the audit function were included as part of the 2012/13 audit programme and have been undertaken during the past twelve months.
12. Internal Audit has worked with External Audit to try and avoid duplication of effort, provide adequate coverage for the 2012/13 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

13. The results of the work that WIASS performed on 5 systems audits is 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.

Quality Measures – internal

14. Managers are asked to provide feedback on systems audits as the audit progresses. Emails 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.
15. To further assist the Committee with their assurance of the overall delivery, the WIASS conforms to the Public Sector Internal Audit Standards and use the CIPFA Self Assessment questionnaire to self assess the Service on an annual basis. The outcome has indicated that there is a sound basis from which the shared service will work and which will be enhanced as certain key developments are implemented, (for example audit management software) over the next twelve months. Any areas of non-compliance with the Code would be reported as an exception to the Audit Committee. There are no exceptions to report.
16. 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 are not fully detailed in this report. There are legal issues e.g. contractual and procurement, reputational issues that require consideration but are not fully detailed in this report as they are contained within the contract.
Strategic Policy Links (identify how proposals link in with current priorities and policy framework and if they do not, identify any potential implications).	None
Risk Management / Health & Safety (identify any risks, the proposed control measures and risk evaluation scores).	Whole report

Consultation (identify any public or other consultation that has been carried out on this matter)	None
Equalities (has an Equalities Impact Assessment been completed? If not, why not?)	No

Supporting Information

Appendix 1 Audit Plan Performance for 2012/2013

Appendix 2 Definition of Audit Opinion Levels of Assurance

Appendix 3 Audit Opinion and Commentary for 2012/13

Contact Officer

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**Worcestershire Internal Audit Shared Service
Audit Plan Performance for 2012/13**

Service area	System	Audit days	Final Report Issued	Assurance
Main systems				
Management Arrangements	Risk Management Arrangements	8	11 th April 2013	Significant
	Business Continuity	8	11 th April 2013	Significant
	Corporate Governance / Management (AGS)	8	20 th March 2013 (D)	Significant (D)
	Procurement / Contracts	8	10 th July 2013	Moderate
	Annual Report & Opinion	1	September 2012	N/a
	Follow Up 2011/12 (County Council Reports)	2	During 2012/13	N/a
Staffing	Members Allowances	4	13 th March 2013	Full
	Payroll & Pensions Systems incl. controls around the GARTAN system	15	11 th April 2013	Moderate
	GAD Data	4	7 th June 2013	N/a
Accountancy & Finance Systems	Creditors System	10	4 th February 2013	Significant
	Debtors / Income System	6	4 th February 2013	Significant
	Petty Cash	1	4 th February 2013	Significant
	Main Ledger incl. follow up of Budgets & Budgetary Control	8	4 th February 2013	Significant
	Computer Audit (Stock Control)	8	11 th April 2013	Moderate
	Asset Management	8	** C/F September 2013	N/a
Contingency	Advice & Guidance	1	During 2012/13	N/a
	Audit Committee & Management Reporting	11	During 2012/13	N/a
Total contracted days		111		
Productive Days Delivered for 2012/13		105	(6 days owing for Asset Management)	

Notes:

** 'ongoing' = audit work is due to progress in September in agreement with the Treasurer.

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

Summary of 2012/13 Audit Assurance Levels

2012/13	Number of Fire and Rescue Service Audits	Assurance	Overall % (rounded)
From 12 audits	1	Full	8.33
	6	Significant	50
	3	Moderate	25
	0	Limited	0
	0	No	0
	1	To be finalised i.e. (D)	8.33
	1	N/a	8.33

Note:

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

Overall Conclusion:

- 83% (rounded) of the finalised audits undertaken for 2012/13 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'.
- Managers and the Treasurer are satisfied with the audit process and service delivery from the feedback received.

Audit Reports 2012/13

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 2012/13

**Hereford & Worcester Fire and Rescue Service
Commentary and Audit Opinion 2012/13**

Internal Audit: Hereford & 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. 2012/13 was the first 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 the Institute of Internal Auditors Standards and the CIPFA Code of Practice 2006 and conforms to, and works with, the Public Sector Internal Audit Standards. 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 28th September 2012.

It included:

- a number of core systems which were designed to suitably assist the External Auditor to reach their 'opinion'; and
- 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 & Worcester Fire and Rescue Service governance framework arrangements during 2012/2013 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 apart from Asset Management. It was agreed with the Chief Accountant and the Treasurer that this would be deferred to September 2013.

In relation to the 12 reviews that have been undertaken all have been completed and discussed with management with reports issued either in draft or finalised

form. Risk management has been re-launched during 2012/13 with the formulation of a Corporate Risk Register, training and regular reporting to the Audit Committee. Further work continues to fully embed this throughout the organisation. 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 WIASS Service Manager has concluded that the internal control arrangements during 2012/13 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 2012/13 plan identified any fundamental weaknesses in the areas WIASS audited.

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.

Andy Bromage
Worcestershire Internal Audit Shared Services Manager
July 2013