

## **Report of the Treasurer**

### **5. Internal Audit Monitoring Report 2013/14**

#### **Purpose of report**

1. To provide the Audit 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, to 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 26 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 30<sup>th</sup> November 2013 include:
- Risk Management Health Check
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:**

#### **Risk Management Health Check**

9. The review was a Health Check/Critical Friend and will concentrate on the risk management process seeking assurance that risks are managed effectively by both officers and Members, including effective reporting particularly when there is restructuring, the monitoring and review of risks is undertaken regularly, the managing and assessing of risks is embedded throughout the Service, and the risk management process is used as a tool for informed decision making. The review did not consider the detail of individual risks or their risk assessment.

10. The review found there is generally a sound system of internal control in place. The Risk Management Strategy is in place and the risk registers have been placed on Sharepoint with access being limited appropriately. High and medium risks can be easily identified via the colour coding system. Risks are now monitored quarterly by the Middle Management Board at a Service level and at Senior Management Board Performance meetings for the Directors and Strategic Risk Registers. The Strategic risks are overseen and reviewed by the Chief Fire Officer. This system ensures that changes within the Service can be assessed on an on going basis and where necessary risks can be added to the risk registers to enable them to be monitored and where possible mitigated. Members have undertaken risk management training as part of their induction. There is still a need to continue to embed risk management throughout the Fire Service to enable it to become a part of everyday decision-making and management updating. Currently the risk management procedures and Strategy have been in operation since January 2013 and all risks were assessed at this date meaning they remain relevant. However over time a lack of updating by management could mean that not all risks are being effectively monitored. The Emergency Planning and Resilience Officer is aware of this and is currently trying to address this via discussion with the Information and Technology Department (IT) to add automatic reminders to the Sharepoint risk registers and discussion into the effectiveness of attending department team meetings. There were no high priority recommendations to report.

Assurance: Significant

Final Report issued: 30 October 2013

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

<b>Audit</b>	<b>Assurance Level</b>
Risk Management Health Check	Significant

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

### **Debtors (Draft report Stage)**

13. The review was a full system audit concentrating on the Debtors' system seeking assurance with regard to adequate segregation of duties over processes, 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). 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 and with clear reasons and not for the purpose of writing off bad debts.
14. 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, and there is evidence of efforts made to recover this 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 31 October 2012. There were no high priority recommendations being reported.

Draft Assurance: Significant

Draft Report issued: 27 November 2013

### **Creditors (Draft Report Stage)**

15. 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. 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, are properly chargeable to Hereford & Worcester Fire and Rescue Service and are made only once. Invoices are recorded correctly and accurately in the main ledger and basic IT controls are in place. The audit did not cover the procurement process and therefore did not include the procurement rules.
16. 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. Strong Bankers' Automated Clearing Services (BACs) payment controls are in place, including the raising of cheques where relevant and authorisation for payments for single items over £50,000, and continue to work effectively after the Authority's change of bank account. Payments tested during the audit were found to have been made within the 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 are not always forwarded to the central Finance team in a timely manner, which may result in late payments. There were no high priority recommendations being reported.

Draft Assurance: Significant

Draft Report issued: 27 November 2013

## **Main Ledger and Budgetary Control (Draft Report Stage)**

17. 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). Appropriate codes are used and any errors or omissions are timely located/corrected within the system including the use of suspense codes. There is an effective bank reconciliation process in place. Sufficient reliable information is available to budget holders and any budget variations are analysed, investigated, explained and acted upon, and, budget virements are authorised and controlled effectively in accordance with agreed procedures.
18. 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 External Audit 2012/13 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 being reported.

Draft Assurance: Significant

Draft Report issued: 27 November 2013

## **Operational Logistics (Draft Report Stage)**

19. The review was a full systems audit that concentrated on the areas of 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 is user-friendly and identifies each item with a unique reference number. This allows for the tracking and monitoring of location, MOT/Service/RFL due dates, drivers, purchase and disposal dates, mileage, fuel costs, incidents and maintenance history. 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.
21. 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 parts

issues being entered onto both systems independently. Officers are aware of this and are looking at possible ways of improving this process.

Draft Assurance: Moderate

Draft Report issued: 6 December 2013

### **Asset Management 2012-13 (Draft Report Stage)**

22. 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.
23. 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.

Draft Assurance: Significant

Draft Report issued: 1 November 2013

### **Payroll and Pensions including GARTAN System (Fieldwork Stage)**

24. 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 being paid through the payroll system. Amendments to payroll data, including sickness records, new employees, leavers movers and additional payments/deductions including personal mileage declarations and overtime claims are actioned only on evidence of adequate, timely and authorised information. There are adequate controls over the GARTAN system for example and 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 includes 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 is not covering controls over the calculation of pension payments carried out by Worcester County Council as the County are to provide a letter of conformity or access controls operated by a third party other than those related to giving assurance on areas reported above, or, any Service Level Agreement between the Fire Service and a third party.

## **Corporate Governance (Fieldwork Stage)**

25. 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. The audit is seeking assurance that all recommendations made by External Audit in their Governance Report 2011/12 have been suitably addressed; that the role of the Service Monitoring Officer is in accordance with legislative requirements, is 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.

## **Community Safety (Fieldwork Stage)**

26. The review is a full systems audit concentrating on Community Safety and is seeking assurance as to whether set objectives, targets and outturn for the service are met. It also seeks assurance as to whether all officers within the section are aware of and have access to these. The review seeks assurance that budgets are spent in line with the aims and objectives of the Service to provide value for money for the local community. It also seeks to ensure that management Information is produced which is timely, used to inform future decisions and reported to senior management and Members and plans are being developed for the future targeting and progression of the service. The audit will not cover the appropriateness of the original budget setting except in so far as it relates to the areas reported.
27. 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.
28. As the audits are finalised update reports will be brought before the Audit and Standards 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.

## **Business Continuity Follow Up 2012-13**

29. A follow up audit was undertaken to ascertain progress with regard to the 2012-13 audit. Out of a total of four recommendations (i.e. three medium priority and one low priority), two medium priority and one low priority recommendations have been implemented with sufficient evidence to support this. With regard to the third medium priority recommendation (i.e. Where the Departmental Risk Registers highlight a high risk to the authority), related business continuity plans should be reviewed to ensure that they are fit for purpose and where necessary updated. There is evidence that this is in progress and due to the risks within this area it forms part of the 2013/14 Internal Audit Plan. Overall, Internal Audit is satisfied with the progress that has been made to implement the recommendations within the 2012/13 review and Committee can take assurance from this.

30. Appendix 1 provides the Committee with a breakdown of 2013/14 internal audit plan delivery to date.
31. 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 reports issued. For the purposes of this report there were no 'high' priority recommendations to report. Also included are the definitions used to decide audit recommendation priority and overall assurance.

## Conclusion/Summary

32. 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. Those audits that have not started are programmed to be delivered in quarter four (January 2014 to March 2014).

## Corporate Considerations

<b>Resource Implications</b> (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 financial issues that require consideration as there is a contract in place but 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).	
<b>Risk Management / Health &amp; Safety</b> (identify any risks, the proposed control measures and risk evaluation scores).	Whole report.
<b>Consultation</b> (identify any public or other consultation that has been carried out on this matter)	None.
<b>Equalities</b> (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

### **Contact Officer**

Andy Bromage, Service Manager - Worcestershire Internal Audit Shared Service  
(01905 722051)

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

**APPENDIX 1**  
**FIRE & RESCUE SERVICE**  
**Audit Plan for 2013/14**

<b>Service Area</b>	<b>System</b>	<b>Anticipated Days</b>	<b>Preferred Timing and Current Position</b>	<b>Days Delivered to 30<sup>th</sup> November 2013</b>
<b>Main Systems</b>				
Accountancy and Finance Systems	Payroll & Pensions incl. GARTAN system	13	Q3/4 (Ongoing)	8
	Creditors	8	Q3 (Draft Report Stage)	7
	Debtors	5	Q3 (Draft Report Stage)	4
	Main Ledger & Budgetary Control	8	Q3 (Draft Report Stage)	7
	Capital Programme	9	Programmed for Q4	0
Corporate Governance	IT Audit	10	Programmed for Q4	0
	Risk Management (Health Check)	3	Q2 (Final Report issued)	3
	Corporate Governance	8	Q2 (Ongoing)	5
System Management Arrangements /	Community Safety	8	Q2 (Ongoing)	6
	Urban Search & Rescue (USAR)	8	Programmed for Q4	0
	Operational Logistics	12	Q2 (Draft Report Stage)	11
General	Follow Ups	7	Ongoing for 2013/14	5
	Advice & Guidance	1	Ongoing for 2013/14	0.5
	Audit Committee & Management Reporting	11	Ongoing for 2013/14	8.5
<b>Total Contracted Days</b>		<b>111</b>		<b>65</b>

Note:

GAD has not been 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).

## Appendix 2

### Audit Reports 2013/14

There are no 'high' priority recommendations to report in regard to this report.

#### Definition of Audit Opinion Levels of Assurance (for information)

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>	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.
<b>M</b>	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.
<b>L</b>	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.

‘

### **High’ Priority Recommendations reported**

**There are no ‘high’ priority recommendations to be reported to Committee on this occasion.**