

Hereford & Worcester Fire and Rescue Authority

Audit and Standards Committee

13<sup>th</sup> April 2016

## **Report of the Internal Auditor**

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

#### **Purpose of report**

1. To provide the Committee with a progress update on the 2015/16 plan delivery.
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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 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**

3. 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". 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 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.

### **Audit Planning**

6. To provide audit coverage for 2015/16, 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 in September 2015 for consideration. The audit programme provides a total audit provision of 111 audit days; 92 operational and 19 management days.

## **Audit Delivery**

7. 2015/16 audits commenced after the Committee had agreed the 2015/16 plan at the 28th September 2015 Committee.
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 with all 'high' priority recommendations being reported before committee.

## **2015/16 Audits:**

9. Since the Committee sitting on the 18<sup>th</sup> January 2016 five audits have been finalised and the summary outturn from those reviews is provided below.
10. **Payroll**
11. The review found overall a sound system of control in place. 'Significant' assurance has been applied in this area because over the payroll process starters, leavers and variations in pay is sound but there is still some progress to be made in relation to:
  - Reports produced directly from the payroll system;
  - Key Performance Indicators;
  - The codings on the main ledger import file; and
  - Historical data.
12. In relation to the Contract with Warwickshire County Council meetings are taking place. The reporting from the system is being undertaken as a project and in relation to this Hereford and Worcester Fire and Rescue Service will need to gain assurance that the reports have integrity and are accurate if they are to be used for Management Reporting and provision of Financial Information.
13. Warwickshire County Council is looking at using their Query Management System to ensure that payroll queries are dealt with in a timelier manner as currently targets within this area are not being met. Hereford and Worcester Fire

and Rescue Service for any Key Performance Indicator will need to have confidence in the reported figures, and, the data on which they are being based.

14. The coding issue will need to be resolved by the end of the Financial Year and this is being worked on however gross to net reconciliations are being undertaken and this is being reconciled even though it requires the use of journals. No line by line codings have been checked but the Services budget monitoring process would highlight any material/abnormal mispostings within the ledger.

15. There were no 'high' or 'medium' priority recommendations.

Audit Type: Full Systems Audit

Final Report Issued: 16<sup>th</sup> February 2016

Assurance: Significant

#### 16. **Creditors**

17. The review found generally a sound system of control in place. 'Significant' assurance has been applied in this area because goods and services are generally authorised correctly and there is clear segregation of duties between the requisition and authorisation of goods and services. BACs payment controls are in place, and the TechnologyOne system includes standard reporting to meet the requirements of Her Majesty's Revenue and Customs' Real Time Information reporting, which is used by the authority to fulfil its obligations.
18. Payments tested during the audit were found to have been made within the 30 days of receipt of the invoice to the finance team, in line with 'The Late Payment of Commercial Debts 2013' Regulations, with the exception of disputed payments. A monthly report (BVPI8) is published on the authority's intranet for all staff, with delegation for any required action devolved to budget holders and monitored by the finance team. At the time of the audit, the most recent report (October 2015) showed performance close to the authority's 98% target.
19. A new system for monitoring disputed invoice payments has been incorporated, which regularly monitors the actions taken to resolve any issues, and ensures that the reasons for disputing payments are in accordance with requirements.

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

- The I.T. controls for the Creditors function, including authorisation controls and limits.
- The timely payment of undisputed invoices.
- The process in place for monitoring disputed invoices.
- The separation of duties for raising and approving the purchase of goods/ services,

and, areas of the system where controls could be strengthened:

- The timely approval of purchase orders prior to receipt of invoiced goods.

21. There were no 'high' or 'medium' priority recommendations reported.

Audit Type: Full Systems Audit

Final Report Issued: 11<sup>th</sup> January 2016

Assurance: Significant

22. **Debtors**

23. The review found overall a sound system of control in place. 'Significant' assurance over the control environment has been applied in this area.

24. The review found areas that were working well included:

- Invoices being raised promptly.
- There was appropriate use of cancellation notes rather than credit notes and the access to the debtors system was appropriate and there were reasonable controls in place.
- IT controls in regard to the debtors system.
- Access to the financial system and the audit trail for this area.
- Authorisation of raising invoices

and, areas of the system where controls could be strengthened:

- Completing notes on the financial system to provide a better history to assist with debt recovery on accounts.

- Correct recovery routes followed in all instances.

25. There were no 'high' priority recommendations reported.

Audit Type: Full Systems Audit

Final Report Issued: 11th January 2016

Assurance: Significant

26. **Main Ledger, Budgetary Control**

27. The review found overall a sound system of control. 'Significant' assurance over the control environment has been applied to this area.

28. A new payroll system came into operation from 1st April 2015. Since this date there have been issues with the spreadsheet being provided by Warwickshire County Council (Payroll System provider) and with the coding structure within this (as indicated in the Payroll audit summary at paragraph 14). It has been necessary for the Finance Section to carry out some adjustments to the spreadsheet format and to carry out journals within the finance system to ensure that they have agreed gross to net figures. As yet it has not been possible to undertake a full codings check of the Payroll information within the main ledger. However monthly budget monitoring processes would highlight any material/abnormal variances with the actual payroll expenditure being reported. The Fire Service is having regular meetings with Warwickshire County Council to try and resolve these issues.

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

- Bank, Accounts Payable, Accounts Receivable and Pensions Reconciliations are undertaken at appropriate frequency and in a timely manner.
- VAT returns completed quarterly in a timely manner and can be supported by appropriate documentation.
- Journals are authorised prior to being posted and the suspense account is appropriately monitored.
- Budgets are monitored monthly and variances are reported to Members on a quarterly basis,

and, the area of the system where control could be strengthened:

- Alignment of policies to day to day procedures

30. There were no 'high' or 'medium' priority recommendations reported.

Audit Type: Full Systems Audit

Final Report Issued: 11th January 2016

Assurance: Significant

31. **Fire Control Contingency Cash Float**

32. The audit was a limited scope review that concentrated solely on the Fire Control contingency cash float. 'Significant' assurance over the control environment has been applied in this area. The review found there is a generally sound system of internal control in place.

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

- The cash is held in a locked tin which is kept in a locked safe.
- Receipts are available for expenditure against the fund.

34. and, the area of the system where control could be strengthened

- Expenditure relating to previous years has not been recorded within the accounts

35. There were no 'high' or 'medium' priority recommendations reported.

Audit Type: Limited Systems Audit

Final Report Issued: 17th March 2016

Assurance: Significant

36. **On going Reviews**

37. Work continues in regard to other areas of the 2015/16 Plan. Reviews that are at draft report or clearance stage includes Human Resources, Stores/Operational Logistics and Risk Management, and, reviews continuing as at the end of February 2016 included ICT and Governance.

38. The summary results of these audits will be reported to the next Committee, however, it can be reported in the interim that there are no 'high' priority recommendations resulting from the work that has reached draft report stage.

## Conclusion/Summary

39. The Internal Audit Plan for 2015/16 is progressing well and outcomes and assurance will continue to be reported to Committee until the plan is satisfied.
40. The H&WFRS and WIASS are continuing to work together to achieve internal audit partnership status for the H&WFRS.

## 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 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. contractual and procurement that require consideration but are not fully detailed in this report as they are contained within the contract.
<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**

Appendix 1 – Internal Audit Plan overview

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

## **Contact Officer**

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## APPENDIX 1

### HEREFORD AND WORCESTER FIRE & RESCUE SERVICE WORCESTERSHIRE INTERNAL AUDIT SHARED SERVICE INTERNAL AUDIT PLAN FOR 2015/16

<b>Audit Area</b>	<b>Planned days 2015/16</b>	<b>Current Position</b>	<b>Preferred Audit Quarter</b>
<b>Accountancy &amp; Finance Systems</b>			
Main Ledger (inc Budgetary Control & Bank Rec.)	8	Complete ~ Final Report issued 11/01/16	Q3
Creditors	8	Complete ~ Final Report issued 11/01/16	Q3
Debtors	5	Complete ~ Final Report issued 11/01/16	Q3
Payroll & Pensions	13	Complete ~ Final Report issued 16/02/16	Q3
<b>SUB TOTAL</b>	<b>34</b>		
<b>Corporate Governance (incl Health &amp; Safety arrangements)</b>			
Corporate Governance (Annual Statement)	16	Commenced	Q4
Computer Audit	10	Commenced	Q4
<b>System / Management Arrangements</b>			
Risk Management	8	Clearance	Q4
Stores/Operational Logistics	10	Clearance	Q4
Human Resources	9	Draft Report	Q4
Cash Floats/Imprest accounts	5	Complete ~ Final Report issued 17/03/16	Q3
<b>SUB TOTAL</b>	<b>58</b>		
<b>General</b>			
Follow up 2013/14 & 2014/15 Reports	7	On going	Q1 to Q4 inclusive
Advice & Guidance	1	On going	Q1 to Q4 inclusive
Audit Cttee & Mngt Reporting	11	On going	Q1 to Q4 inclusive
<b>SUB TOTAL</b>	<b>19</b>		
<b>TOTAL CHARGEABLE</b>	<b>111</b>		

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

## **Appendix 2**

### **'High' Priority Recommendations reported**

**In regard to the finalised reports for the 2015/16 audit programme there are no 'high' priority recommendations or significant risk areas to report as a result of the finalised reviews.**