

## **Report of the Head of Internal Audit Shared Service**

### **Internal Audit Progress Report 2021/22**

#### **Purpose of report**

1. To provide the Committee with an update in regards to the delivery of the Internal Audit plan 2021/22.
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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 2018. 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 systems function correctly.

#### **Objectives of Internal Audit**

3. The Public Sector Internal Audit Standards (as amended) 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 (as amended).

#### **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 will work with external audit to try and avoid duplication of effort, provide adequate coverage for the 2021/22 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. The audit plan is made available to the external auditors for information.

### **Audit Planning**

6. To provide audit coverage for 2021/22, an audit operational programme delivered by WIASS was discussed and agreed with the Authority's Section 151 Officer and Treasurer and was brought before Committee on 28<sup>th</sup> July 2021 for consideration. The audit programme provided a total audit provision of 111 audit days; including support days and draw down budgets which may not be used in full during the year.

### **Audit Delivery**

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 3). Also, the findings are prioritised into 'high', 'medium' and 'low' within audit reports with all 'high' priority recommendations being reported before committee (Appendix 2 and 3).

### **Assurance Sources**

8. We recognise there are other review functions providing other sources of assurance (both internally and externally) over aspects of the Authority's operations. Where possible we seek to place reliance on such work thus reducing the internal audit coverage as required.

### **Independence and Safeguards**

9. WIASS internal audit activity is organisationally independent. Internal Audit reports to the Treasurer but has a direct and unrestricted access to the senior management board and the Audit Committee Chair. Where WIASS provide assistance with the preparation of areas of work there are clear safeguards in place to ensure independence is not compromised. Safeguards include review within the audit service by an independent person to those who have completed the work as well as independent scrutiny by the Treasurer of the authority. Audit Committee can also challenge the reported findings and the minutes would record this.

## **Risk Management**

10. Risk Management is a high profile activity due to the nature of the Authority. Regular updates are brought before Committee and a robust and embedded risk management process exists within the Fire Authority. Regular review of the risk profile takes place with appropriate mitigation agreed and reported.

## **2021/2022 Audit Position**

11. There have been four reviews finalised regarding the 2021/22 plan since the last progress report:
  - Main ledger
  - Debtors (a/c's receivable)
  - Creditors (a/c's payable)
  - Payroll
12. Reviews progressing for Q4 through testing stages included:
  - Procurement and contracts
  - Covid-19 Lessons Learnt, business resilience planning and implementation
13. The outcome to the reviews listed in paragraph 12 above will be reported to Committee in summary form as soon as they are finalised.
14. Due to delays being experienced regarding the Tech 1 Financial Processes (security) deployment this review will not be taking place this year as there is insufficient progress to review. The adjustment has been agreed with the Treasurer. Resource has been reallocated across the plan during the year to maximise coverage based on available resource and any emerging events.

## **2021/22 Audit Reviews:**

### **Main Ledger**

15. This review was undertaken to provide assurance that Hereford & Worcester Fire and Rescue Service has suitable controls in place in regard to the main ledger and processes are working at an operational level to ensure a robust control environment. This light touch audit was undertaken to provide assurance that the data within the system is valid, accurate, complete and timely for decision making and the production of the annual statement of accounts
16. The review found the following areas of the system were working well:
  - Reconciliations are undertaken with the main feeder systems on a monthly basis.
  - Journals can only be undertaken by officers within Finance. The Journals are created and posted by separate officers and are supported by relevant documentation.
  - The suspense account is monitored and cleared. The balance at the time of the audit was not material.
  - VAT returns have been completed on time.

17. At the time of the review the payroll data had not been fully reconciled with the general ledger. Work on this has commenced and will be completed prior to the end of year external audit.

There were no risks identified and no recommendations reported.

Final report was issued: 22<sup>nd</sup> December 2021

Assurance: Full

### **Debtors (accounts receivable)**

18. This review was undertaken to provide assurance that Hereford & Worcester Fire and Rescue Service has suitable controls in place in regard to Debtors (accounts receivable) and processes are working at an operational level to ensure a robust control environment. This light touch review has been undertaken to provide assurance that debts owed to the Service are managed in line with Service Policy.

19. The review found the following areas of the system were working well:
- Fees were raised, where applicable in line with the approved 2021/22 Fees and Charges
  - Policies and procedures are implemented and adhered to
  - VAT is dealt with accurately
  - Income is recorded and posted correctly
  - Reconciliations are performed and appropriately documented

There were no risks identified and no recommendations reported.

Final report was issued: 22<sup>nd</sup> December 2021

Assurance: Full

### **Creditors (accounts payable)**

20. This review was undertaken to provide assurance that Hereford & Worcester Fire and Rescue Service has suitable controls in place in regard to Creditors (accounts payable) and processes are working at an operational level to ensure a robust control environment. This light touch review was undertaken to provide assurance that payments to suppliers are only made where goods/services have actually been received, have only been made once and for the correct amount.

21. The review found the following areas of the system were working well:
- There is segregation of duties between the officers ordering, authorising and paying for the goods/services
  - Goods are receipted before payments are made
  - Payments are made within 30 days of the date of the Invoice or there is a justified reason
  - There are controls over payments to ensure the correct authorisation has been obtained
  - Regular reconciliations are undertaken

22. The recommendation made within the 2020/21 audit was a low priority recommendation in relation to the updating of the Finance Assistant Manual detailing the process for BACS payment runs. This has not yet been undertaken due to resource availability but was only an advisory and poses a very low risk to the Authority.

There were no risks identified and no recommendations reported.

Final report was issued: 22<sup>nd</sup> December 2021

Assurance: Full

## **Payroll**

23. This review was undertaken to provide assurance that Hereford & Worcester Fire and Rescue Service has suitable controls in place in regard to Payroll and processes are working at an operational level to ensure a robust control environment. The review was undertaken to provide assurance only bona fide employees are being paid correctly and in a timely manner including the payment of overtime and, the codings requirements are fully understood by all parties including Warwickshire County Council, enabling accurate importing of payroll files into the finance system.
24. The review found the following areas of the system were working well:
- Starters and leavers are only actioned upon correct authorisation
  - Statutory deductions
  - Only Bona Fide employees are paid through the system
25. The review found the following areas of the system where controls could be strengthened:
- Mileage Claims
  - Identification of Coding Errors
  - Overtime Claims
26. There were three 'medium' priority recommendations reported.

Final report was issued: 4<sup>th</sup> January 2022

Assurance: Significant

## **Follow Up Reviews**

27. Follow up takes place regarding previously completed audits to provide assurance that recommendations have been implemented and any risk mitigated. Where there is a programmed annual visit to an area the 'follow up' is included as part of the audit review e.g. financials. Any material exceptions arising from audit 'follow up' will be brought to the attention of the Audit Committee. A key performance indicator and computer follow up review are in the process of being arranged and will be reported before Committee on completion. For the follow ups undertaken to date there are no material exceptions to report.

## Quality Assurance Improvement Plan

28. WIASS delivers the audit programme in conformance with the International Standards for the Professional Practice of Internal Auditing (ISPPA) as published by the Institute of Internal Auditors. A self assessment took place in August 2020 to identify potential areas for improvement. An action plan was drawn up in August 2020 and agreed before the Client Officer Group in September 2020. Progress reports regarding the QAIP as at the end of the quarter have periodically been brought Committee. The continuing progress is reported for information at Appendix 5 as at the end of Q3, 31st December 2021.

## Conclusion/Summary

29. The Internal Audit Plan for 2021/22 is almost complete but will continue on a risk basis agreed by the Treasurer. The reviews currently being worked on will be finalised in due course and reported to Committee on completion.

## Corporate Considerations

<b>Resource Implications</b> (identify any financial, legal, property or human resources issues)	There are no financial issues that require consideration.
<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).	Selected audits are risk based and linked to the delivery of priorities and policy framework.
<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 – 2021/22 Audit Plan summary.
- Appendix 2 – ‘High’ priority recommendations for completed audits.
- Appendix 3 – ‘Assurance’ and ‘priority’ definitions.
- Appendix 4 – ‘Follow Up’ reporting
- Appendix 5 – Quality Assurance Improvement Plan







<b>Audit Area</b>	<b>Source</b>	<b>Planned days 2021/22</b>	<b>Service</b>	<b>Comment/Outline Scoping</b>	<b>Strategy link</b>	<b>Indicative Timing of Review</b>	<b>Latest Position</b>
Young Fire Fighters & Volunteering		<b>10</b>	All	Roll forward from 2020/21. Links to reputational risk, cost and value added requirements. Focus will be Droitwich as Redditch has closed. ToR to be agreed.	Fire & Rescue Authority	Q1	Final Report Issued 30 <sup>th</sup> September 2021. Moderate Assurance
Safeguarding		<b>10</b>	All	Roll forward from 2020/21. Risk associated with this area of the business. Last looked at 2016/17. ToR to be Corporate ownership and responsibility?	Fire & Rescue Authority	Q1	Final Report Issued 30 <sup>th</sup> September 2021. Moderate Assurance
<b>SUB TOTAL</b>		<b>20</b>					
Follow up Reviews	Good governance	<b>7</b>					KPI's completed with no exceptions to report.
Advice, Guidance, Consultation, Investigations	Support	<b>8</b>		Draw Down Budget			N/a
Audit Cttee support, reports and meetings	Support	<b>11</b>		Draw Down Budget			N/a

Audit Area	Source	Planned days 2021/22		Service	Comment/Outline Scoping	Strategy link	Indicative Timing of Review	Latest Position
<b>SUB TOTAL</b>		<b>26</b>						
<b>TOTAL CHARGEABLE</b>		<b>111</b>						

**'High' Priority Recommendations Reported for 2021/22 Finalised Reviews.**

For the finalised reviews there are no 'high' priority recommendations to report.

(Where recommendations are reported these definitions can also be applied to Appendix 4 where applicable)

**Definition of Priority of Recommendations**

<b>Priority</b>	<b>Definition</b>
<b>High</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>Medium</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>Low</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.

## Definition of Audit Opinion Levels of Assurance

Opinion	Definition
<p style="text-align: center;"><b>Full Assurance</b></p>	<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>
<p style="text-align: center;"><b>Significant Assurance</b></p>	<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>
<p style="text-align: center;"><b>Moderate Assurance</b></p>	<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>
<p style="text-align: center;"><b>Limited Assurance</b></p>	<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>
<p style="text-align: center;"><b>No Assurance</b></p>	<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>

**Follow Up Reviews**

There are no exceptions to report before Committee for 'follow up' reviews that have been completed.

## Quality Assurance Improvement Plan.

Action Number	Area for Action and Standards Reference	Outcome Required	Action	Lead person	Target Date for completion	Date of Completion	Latest Position (Quarterly)
1	1210.A1 - Training Requirements	Professional qualifications to be obtained.	Auditors to enhance their skills and qualifications through professional study e.g. IIA	Auditors	2023/24	Ongoing	December 2021: Auditor enrolled with IIA and continuing training to obtain further professional qualifications. <b>Progressing. On target.</b>
2	2420 - Timely Completion of Review Stages	Improvement in issuing the 'Draft Report' to the agreed date as set out in the Brief. To make improvements in the monitoring of the management response after the issue of a Draft Report.	Monitor the issue of Draft Reports and the receipt of management response during the financial year taking appropriate and timely action where the target dates are stressed.	Auditors	Mar-22	Ongoing	December 2021: Being monitored <b>Progressing. On target.</b>
3	2500.A1 - Follow Up	More efficient and timely follow up regarding reported management action plans.	To review and enhance the follow up process, and monitor progress to reduce potential slippage.	Audit Team Leader	Mar-22	Ongoing	December 2021: Included in Auditors work plan for the year. Being monitored and tracked and discussed at 1:2:1s <b>Progressing. On target.</b>