Report of the Head of Internal Audit Shared Service

Internal Audit Progress Report 2020/21

Purpose of report

1.   To provide the Committee with an update in regards to the delivery of the Internal Audit plan 2020/21.

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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 that the system is functioning 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 2020/21 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 2020/21, an audit operational programme 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 on 22nd January 2020 for consideration. The original audit programme provided a total audit provision of 111 audit days; 88 operational and 23 management days.

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). The 2020/21 Internal Audit Plan was agreed at the 22nd January 2020 Committee for commencement from April 2020 however the pandemic and national lockdown delayed this. It is our intention to continue to use the agreed plan as a benchmark to which to work during 2020/21. Adjustments have been made to date which indicates a proposed action of potentially rolling 2 reviews forward and a small reduction in the overall days delivered.

2020/2021 Audit Position

8.   The summary results of these audits are included below. Where recommendations have been made, these are being addressed through management actions.

9.   Reviews in regard to the 2020/21 plan finalised since the last committee meeting and reported in summary form include:

Main Ledger

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

- Reconciliations are performed for all key areas
- VAT returns are approved and supported by finance system reports
- Suspense accounts are utilised correctly
- Journals are approved and clear
- Purposeful budget monitoring processes are performed
- Systems access and audit trail controls are evident
- Business continuity arrangements are in place.

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

Assurance assigned: Full

Creditors (Accounts Payable)

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

- Due diligence processes are efficient and documented with supporting evidence
- System parameters are in place to avoid penalties
- Purchase order process is resilient and system driven
- The payment process is well controlled
- Reconciliations are regularly performed.

12.　The review found the following areas of the system where controls could be strengthened:

- Finance Assistant Manual & Business Continuity Plan

There was a 'low' priority recommendation reported but no 'high' or 'medium' priority recommendations reported.

Assurance assigned: Full

Debtors (Accounts Receivable)

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

- Policies and procedures are implemented and adhered to
- VAT is dealt with accurately
- Income is recorded and posted correctly
- Recovery action is timely and justified
- Reconciliations are performed and appropriately documented

14.　It was noted a system issue can result in invoices not appearing on invoice reports however this was confirmed as invoices that were started and not completed which subsequently uses an invoice number. This is mitigated as any created invoice must show and be accessible on the system and therefore the associated risks are reduced.

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

Assurance assigned: Full

KPIs

15.   The review found the following areas were working well:

- The Performance & Information department have a well defined process for the collation and production of performance data, both locally and for HMICFRS reporting purposes.
- The reporting of performance related information is clear while providing a level of detail that is both informative and meaningful.

16.   There were some areas of the system that the critical review has challenged management on:

- Data Request Tracking
- Key Performance Indicators
- Tolerances used in reporting
- Reporting Schedules

17.   No assurance is assigned to a critical friend review, but, overall it is felt that there are no issues of immediate significant concern and the performance and information department is operating effectively with regards to this.

18.   Reviews that were ongoing as at the 30th November 2020 and progressing through testing or planning stages included:

- Payroll
- Capital Budgets

19.   The outcome to the reviews listed in paragraph 18 above will be reported to Committee in summary form as soon as they are finalised. There are no indications at this time of any 'high' priority recommendations to be reported with those progressing through testing.

20.   There is a need to continue to flex the plan as the year continues depending on available resource and ongoing events to maximise coverage. Priorities in regard to audit delivery have been discussed with the Treasurer to ensure that the key risk areas are being considered.   The core financial areas are moving towards completion but there is an expectation that there will be a need to roll forward to 2021/22 two reviews i.e. Safeguarding and Young Fire Fughters and Volunteering as it is unlikely that these will be completed during this financial year.

21.   'Follow up' has taken place in regard to 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. There are no material exceptions to report at this time.

Conclusion/Summary

22. The Internal Audit Plan for 2020/21 will continue on a priority basis agreed by the Treasurer but will not be completed in full and there will be a requirement to roll over certain reviews to next financial year based on risk.

Corporate Considerations

Resource Implications (identify any financial, legal, property or human resources issues)	There are no financial issues that require consideration.
Strategic Policy Links (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.
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 – 2020/21 Audit Plan summary.

Appendix 2 – 'High' priority recommendations for completed audits.

Appendix 3 – 'Assurance' and 'priority' definitions.

Appendix 4 – 'Follow Up' reporting

FIRE & RESCUE SERVICE
INTERNAL AUDIT PLAN FOR 2020/21

Audit Area	Source	Planned days 2020/21		Service	Comment/Outline Scoping	Strategy link	Indicative Delivery date
Accountancy & Finance Systems							
Main Ledger (inc Budgetary Control & Bank Rec)	Fundamental to HWFRS CRMP delivery	10		Finance	Increase in days for a full system audit returning to light touch 2021/22	Resourcing for the Future	Finalised – 2nd December 2020
Creditors (a/c's payable)	Fundamental to HWFRS CRMP delivery	9		Finance	Increase in days for a full system audit returning to light touch 2021/22	Resourcing for the Future	Finalised – 2nd December 2020
Debtors (a/c's receivable)	Fundamental to HWFRS CRMP delivery	6		Finance	Increase in days for a full system audit returning to light touch 2021/22	Resourcing for the Future	Finalised – 2nd December 2020
Payroll & Pensions inc GARTAN	Fundamental to HWFRS CRMP delivery	20		Service Support	Full Payroll audit. ToR: to ensure everything has embedded and all scenarios have been encountered depending on Payroll procurement outcome. Pensions to include governance due to changes. (See 'Asset Management Registers' below re. potential budget reallocation).	Resourcing for the Future	Testing currently underway
Capital Budgeting	Fundamental to HWFRS CRMP delivery	10		Finance	Full system audit. Required per prudential code. ToR: process -v- reality.	Resourcing for the Future	Planning Stage
SUB TOTAL		**55**					

Audit Area	Source	Planned days 2020/21		Service	Comment/Outline Scoping	Strategy link	Indicative Delivery date
Corporate Governance							
Key Performance Indicators	Fundamental to HWFRS CRMP delivery	**7**		Service Support	Critical friend review to consider why the KPI's are useful, process of capture, interpretation, consistency, and the strategic alliance reporting and outcomes. Underpins everything HWFRS report on and are changing.	Fire & Rescue Authority	Finalise 18th December 2020
SUB TOTAL		**7**					
System / Management Arrangements							
Young Fire Fighters & Volunteering	Identified risk and priority area	**-**		All	Potential for reputational risk, cost and value added requirements. Focus will be Droitwich as Redditch has closed. ToR: to be agreed at commencement of review.	Fire & Rescue Authority	Roll to 2021/22 Plan
Safeguarding	Priority area	**-**		All	Continuing risk associated with this area of the business. Last looked at 2016/17. ToR: Corporate ownership and embedded responsibilities.	Fire & Rescue Authority	Roll to 2021/22 Plan
Charge cards	Potential for emerging risk	**6**		Finance	Cards limited to certain requirements but looking to extend the number of card holders which has the potential to increase the risk. ToR: good governance re. process and practice.	Resourcing for the Future & Services	Q4
Asset Management Registers	Fundamental to HWFRS CRMP delivery	**8**		Service Support	ToR: consistency with finance asset list and whether the same information is reported. Potential budget to come from unused Payroll (i.e. contingency depending on payroll procurement outcome 2020/21).	Fire & Rescue Authority	Q4
SUB TOTAL		**14**					

Audit Area	Source	Planned days 2020/21		Service	Comment/Outline Scoping	Strategy link	Indicative Delivery date
Follow up Reviews	Good Governance	**7**		All	Good governance and best practice	N/a	Q1 – Q4 inclusive
Advice, Guidance, Consultation, Investigations	N/a	**5**		N/a	Contingency and pull down	N/a	Q1 – Q4 inclusive
Audit Cttee support, reports and meetings	N/a	**11**		N/a	Delivery Support requirement	N/a	Q1 – Q4 inclusive
SUB TOTAL		**23**					
TOTAL CHARGEABLE		**99**					

'High' Priority Recommendations Reported for 2020/21 Finalised Reviews.

There were no 'high' priority recommendations to report from reviews completed since the last Committee that could potentially lead to increased risk for the Fire and Rescue Service.

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

Definition of Priority of Recommendations

Priority	Definition
High	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.
Medium	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.
Low	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
Full Assurance	The system of internal control meets the organisation's objectives; all of the expected system controls tested are in place and are operating effectively. No specific follow up review will be undertaken; follow up will be undertaken as part of the next planned review of the system.
Significant Assurance	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. 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.
Moderate Assurance	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. 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.
Limited Assurance	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. 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.
No Assurance	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. 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.

Follow Ups have been limited to the core financial reviews that are undertaken on an annual basis with no exceptions to report before Committee.