

Report of the Head of Internal Audit Shared Service

Internal Audit Progress Report 2019/20

Purpose of report

1. To provide the Committee with a progress update on the delivery and progress to date on 2019/20.
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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 has worked with external audit to try and avoid duplication of effort, provide adequate coverage for the 2019/20 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 2019/20, 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 24th April 2019 for consideration. The audit programme provided a total audit provision of 111 audit days; 88 operational and 23 management days.

Audit Delivery

7. 2019/20 audits commenced after the Committee had agreed the 2019/20 plan at the 24th April 2019 Committee (Appendix 1).
8. 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).

2019/20 Audits:

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

10. Reviews in regard to the 2019/20 plan finalised since the last committee meeting and reported in summary form include:

Embedding of the National Operational Guidance

11. The critical review evaluated and assessed the controls for implementing the National Operational Guidance within the Hereford & Worcester Fire and Rescue Service. The review did not provide assurance on the completeness of this project area, but provided challenges on the current processes where suitable for the purpose of identifying areas of potential improvement.
12. It was found that the Hereford & Worcester Fire and Rescue Service have developed an effective process for managing the implementation of the National Operational Guidance. This is in conjunction with the support provided with the online toolkits which help to identify the gaps in achieving full compliance and assess the necessary changes required. The process of implementing changes will be over a long period, and has been affected by prioritised work demands. However, the project has continued to make improvements and amendments to local working arrangements, and is supported by the Senior Management Board to ensure the changes are effectively embedded.
13. The audit work has sought to assess and challenge the actions taken by management to implement the full programme of activities in an effective and timely manner, including the ongoing monitoring of areas already implemented to ensure working practices remain fit for purpose and in compliance with the national good practice.
14. No significant concerns were identified during this critical review.

Type of Review: Critical Friend Review
Final Report Issued: 15th November 2019
Assurance: N/a

Equality and Diversity

15. The review found the following areas of the system were working well:
- There are numerous positive action initiatives currently underway which are helping the Service to understand, promote and demonstrate Equality and Diversity both internally and externally.
 - The Organisational Development and Challenge Group (ODCG) plays an important role in determining the direction of travel in regards to the actions undertaken by the Service to strengthen in this subject area.
 - There is regular monitoring of equality and the gender pay gap with regular reporting before Committee.
16. The review found the following area of the system where controls could be strengthened:

- Training

17. There was 1 'medium' priority recommendation reported.

Type of Review: Full System

Final Report Issued: 17th September 2019

Assurance: Significant

Main Ledger

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

- Reconciliations are undertaken on a regular basis
- Management of suspense accounts, including the timely resolution of discrepancies.
- Budget Monitoring controls are capable of identifying significant variances and these are reported to Members on a quarterly basis.

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

- Segregation of Duties – Journal Entry

20. There was 1 'low' priority recommendation reported.

Type of Review: Light Touch

Final Report Issued: 29th November 2019

Assurance: Significant

Debtors

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

- Debts raised were supported by relevant documentation
- Debts where applicable were raised in line with the approved fees and charges
- Invoice cancellations had been used correctly. No credit notes had been issued during the financial year.
- Debts are actively chased

22. There were no recommendations reported.

Type of Review: Light Touch

Final Report Issued: 29th November 2019

Assurance: Full

Creditors

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

- System segregation of duties for the raising an order, authorising and receipting of goods
- Access rights for direct input in to the system are appropriate
- Payments are made within 30 days of receipt of the invoice
- BACS payments are authorised in line with current levels of authorisation
- Management of new creditor accounts on the system.

24. There were no recommendations reported.

Type of Review: Light Touch
Final Report Issued: 29th November 2019
Assurance: Full

25. Reviews progressing through clearance and draft report stages at time of reporting included:

- Payroll
- Communication and Engagement

26. A review in regard to the 2019/20 audit plan progressing through the planning and testing stage at the time of reporting included:

- Human Resources

27. The outcome to the reviews listed in paragraphs 24 and 25 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 nearing completion.

28. 'Follow up' is continuing 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.

29. There are no exceptions to report in regards to 'follow up' findings.

Conclusion/Summary

30. The Internal Audit Plan for 2019/20 is progressing steadily. It is anticipated that any recommendations that are made in regards to the reports produced throughout the year will be addressed through robust management action plans and in a timely manner.

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 – 2019/20 Audit Plan summary.

Appendix 2 – ‘High’ priority recommendations for completed audits.

Appendix 3 – ‘Assurance’ and ‘priority’ definitions.

APPENDIX 1

Detailed Programme of Work for 2019/20

Audit Area	Planned days 2019/20	Proposed Review	Priority and indicative delivery date
Accountancy & Finance Systems			
Main Ledger (inc Budgetary Control & Bank Rec)	5	Light touch	Finalised 29 th November 2019
Creditors	6	Light touch	Finalised 29 th November 2019
Debtors	4	Light touch	Finalised 29 th November 2019
Payroll and Pensions incl. GARTAN	10	Full	Awaiting management sign off
SUB TOTAL	25		
Corporate			
Embedding of National Operational Guidance	10	Full	Finalised 15 th November 2019
Business Continuity	10	Full	Medium Q4
SUB TOTAL	20		
System / Management Arrangements			
Equality and Diversity	12	AC Chair request. Full	Finalised 17 th September 2019
Computer Audit	14	Full	Medium Q4
Human Resources	9	Full	Medium Planning underway
Communication and Engagement Strategy	8	Full	Awaiting management sign off
SUB TOTAL	43		
General			
Follow up Reviews	7	Pull Down Budget	Q1 – Q4
Advice, Guidance, Consultation, Investigations	5	Pull Down Budget	Q1 – Q4
Audit Committee Support	5	Pull Down Budget	Q1 – Q4
Reports & Meetings	6	Pull Down Budget	Q1 – Q4
SUB TOTAL	23		
PLAN TOTAL	111		

Appendix 2

'High' Priority Recommendations reported (2019/20 Reviews)

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

Appendix 3

Definition of Priority of Recommendations

Priority	Definition
High	<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>
Medium	<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>
Low	<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>

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>