

Report of the Head of Internal Audit Shared Service

Internal Audit Progress Report 2018/19

Purpose of report

1. To provide the Committee with a progress update on the 2018/19 audit 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 (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”. WAISS is committed to conforming to the requirements of the Public Sector Internal Audit Standards (as amended).

Aims of Internal Audit

4. The objectives of WAISS 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 2018/19 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 2018/19, 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 on 25th April 2018 for consideration. The audit programme provides a total audit provision of 111 audit days; 95 operational and 16 management days.

Audit Delivery

7. 2018/19 audits commenced after the Committee had agreed the 2018/19 plan at the 25th April 2018 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).

2018/19 Audits

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

Pensions

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

- The Procurement exercise was undertaken in line with procurement rules and was transparent with details being placed on the authority's website.
- The Project was run in line with a Project Initiation Document (PID) and a project action plan.
- Regular meetings were held
- Reconciliations were undertaken and reasons for differences sought between the old Pension administration system and the new Pension administration system.

11. There were no unacceptable risks or weaknesses in control identified in this review.

Audit Type: Full System Audit

Report Date: 8th January 2019

Assurance: Significant

Payroll

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

- Processing of starters and leavers
- Mileage expenses
- Statutory deductions
- Reconciliations to the main ledger

13. There are two areas where controls are in place but need to be reinstated or continued to ensure that they do not become a risk to the service.

- KPI's have not been monitored until recently as the implementation of the new payroll system by Warwickshire County Council has been the priority and where the risk to the Service has been. Recent reports have been received which provide current data and will continue to be monitored going forward. This is important for decision making on provision of the service going forward (the current contract ends March 2020) and to identify how the new system is affecting the service previously provided.
- At the start of the financial year the Payroll officers attended a CIPP (Chartered Institute of Payrolls and Pensions) course. This was the first year of attendance and it is intended that this will be attended in future years. This should happen in order to help maintain knowledge of current changes.

14. There were 2 'medium' and 1 'low' priority recommendations reported.

Audit Type: Full System Audit

Report Date: 8th March 2019

Assurance: Significant

Payroll - Transfer of System

15. Hereford & Worcester Fire and Rescue Service were not part of the decision to change the Payroll System as this was the decision of Warwickshire County Council who has a contract with the Fire Service for the provision of the payroll system. The first parallel run was undertaken by Warwickshire County Council without the input of the Fire Services Payroll Team so there was only one true parallel run where the system was tested in line with normal processing procedures. The Fire Service did ensure that the variances on net pay between the two systems could be fully explained and that there was nothing that would be of a major risk to the service if it went 'live' with the new payroll system. There were some issues with the costing file for financial reporting but these were resolved to the satisfaction of the Finance team.
16. For the first live runs additional checks to those normally undertaken were carried out by the Payroll Team e.g. normally checks on expenses would be undertaken on a random basis but 100% check was undertaken. These checks will continue until the Payroll Manager is happy that the Payroll team are fully conversant with the new system especially as training has been minimal. However Warwickshire County Council has provided an Administrator User Guide with a section specific to Hereford and Worcester Fire and Rescue Services payroll processes and the project team will be available for a period of time to answer system related queries.
17. At the first visit in September 2018 on the day of the first four weekly payroll live run audit asked if a log could be kept of all officer queries that related to system issues. Officers had already been informed of the system change, provided with a sample of the new payslip and were requested to check all details when they received their personal payslips. The queries relating to the system for the four weekly and monthly payroll related mainly to one off items that would not necessarily be present in a payroll run and therefore may not have been identified via the parallel runs. These have been reviewed and found to have affected less than 5 employees. The one that could have a greater impact for some employees is in relation to statutory payments e.g. Statutory Sick Pay (SSP). As this is a set figure input direct from the 'Gartan' system for retained firefighters the system has no information (such as dates) to calculate this and therefore it is a manual process. In the last parallel run an adjustment was made manually and needed to be reversed manually in the live run but this was missed. It should be noted that this was also an issue with the old system. Warwickshire County Council have been asked to undertake a 100% check on all statutory payments for Retained Firefighters and to develop some system notes for this manual process so that it is consistently dealt with going forward.
18. There were no recommendations reported as this was a finite project that was completed except for on going checking by the Payroll Team over the next few months.

Audit Type: Critical Friend
Report Date: 19th December 2018
Assurance: Significant

Creditors

19. 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;
- Disputed invoices are tracked and action taken logged.

20. There were no recommendations reported.

Audit Type: Light Touch System Audit
Report Date: 18th December 2018
Assurance: Full

Main Ledger

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

- Reconciliations are undertaken on a regular basis;
- System controls ensure that Journals are not raised and posted by the same officer;
- Although there were balances on the suspense accounts at the time of the audit these could be identified and justified;
- Budget Monitoring identifies significant variances and these are reported to Members on a quarterly basis.

22. There were no recommendations reported.

Audit Type: Light Touch System Audit
Report Date: 18th December 2018
Assurance: Full

Debtors

23. 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;
- Credit notes had been used correctly;
- Debts are actively chased;
- Authorisation of Write offs.

24. There were no recommendations reported.

Audit Type: Light Touch System Audit

Report Date: 18th December 2018

Assurance: Full

25. Reviews currently at draft report or clearance stage include:

- Fleet Maintenance - Draft Report stage
- Urban Search and Rescue (USAR) – Clearance stage
- Retained Duty System – Clearance stage

26. Other reviews progressing through the fieldwork stage at the time of reporting included:

- Performance Indicators

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 completed.

28. 'Follow up' is continuing in regard to previously completed audits to provide assurance that recommendations have been implemented and any risk mitigated e.g. payroll. 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 2018/19 has progressed steadily with all of the reviews either nearing completion or completed. The final management sign off of the remaining reports will be achieved early in April 2019. Recommendations that have been made in regards to the reports produced throughout the year are being 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	Yes, whole report.

proposed control measures and risk evaluation scores).	
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 – 2018/19 Audit Plan summary.

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

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

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APPENDIX 1

Detailed Provisional Programme of Work for 2018/19

Audit Area	Planned days 2018/19	Proposed Re view	Priority Audit/Quarter and Progress
Accountancy & Finance Systems			
Main Ledger (inc Budgetary Control & Bank Rec)	5	Light Touch	Final Report 18/12/18
Creditors	6	Light Touch	Final Report 18/12/19
Debtors	4	Light Touch	Final Report 18/12/19
Payroll x2	18	Full & Critical Friend	Final Report 19/12/18 & Final Report 08/03/19
& Pensions incl. GARTAN	5	Full	& Final Report 08/1/19
SUB TOTAL	38		
Corporate (incl. Health & Safety arrangements)			
Key Performance Indicators	9	Full	High / Q4 In progress
Retained Duty System	10	Full	Medium / Q4 Clearance Stage
System / Management Arrangements			
Fleet Maintenance	10	Full	Medium / Q4 Draft report
GDPR Application	9	Full	Final Report 17 th October 2018
USAR and Technical Rescue	12	Full	Medium / Q4 Clearance Stage
SUB TOTAL	50		
General			
Follow up Reviews	7		
Advice, Guidance, Consultation, Investigations	5	Pull down budget	
Audit Cttee Support	5		
Reports & Meetings	6		
SUB TOTAL	23		
TOTAL CHARGEABLE	111		

Appendix 2

'High' Priority Recommendations reported (2018/19 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 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>
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>