

# WEST MIDLANDS FIRE SERVICE

Annual Internal Audit Report – 2016/17

Audit Committee – 12 June 2017



[ILO: UNCLASSIFIED]

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## 1 Introduction

- 1.1 Our internal audit work for the period from 1 April 2016 to 31 March 2017 was carried out in accordance with the approved Internal Audit Plan. The plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the Authority's governance, risk management and control processes.

In this way our annual report provides one element of the evidence that underpins the Governance Statement the Authority is required to make within its annual financial statements. This is only one aspect of the assurances available to the Authority as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the Authority may rely could include:

- The work of the External Auditors (currently Grant Thornton)
- The result of any quality accreditation
- The outcome of visits by HMRC
- Other pieces of consultancy or third party work designed to alert the Authority to areas of improvement
- Other external review agencies

- 1.2 The definition of internal audit, as described in the Public Sector Internal Audit Standards, is set out below:

"Internal auditing is 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."

### Overall Assurance

- 1.3 As the providers of internal audit, we are required to provide the Fire Authority with an opinion on the adequacy and effectiveness of the governance, risk management and control processes. In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide is reasonable assurance that there are no major weaknesses in the Authority's governance, risk management and control processes. In assessing the level of assurance to be given, we have taken into account:

- All audits undertaken for the year ended 31 March 2017;
- Any follow-up action taken in respect of audits from previous periods;
- Any significant or fundamental recommendations not accepted by management and the consequent risks;
- Any limitations which may have been placed on the scope of internal audit; and
- The extent to which any resource constraints may impinge on the ability to meet the full audit needs of the Authority.

## 2 Internal Audit Opinion

2.1 We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out in paragraph 1.3 above, our opinion is as follows:

2.2 Based on the work undertaken during the year and the implementation by management of the recommendations made, Internal Audit can provide **\*reasonable assurance** that the Fire Authority has an adequate and effective framework of governance, risk management and control.

\*We are pleased to report that this is an unqualified opinion and the highest level of assurance available to Audit Services. As stated in paragraph 1.3 "In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide is reasonable assurance that there are no major weaknesses in the Authority's governance, risk management and control processes".

### Factors Influencing the Opinion and Issues Relevant to the Statement on Internal Control

- 2.3 In reaching this opinion, the following factors were taken into particular consideration:
- The need for management to plan appropriate and timely action to implement both our and the External Auditor's recommendations.
  - Key areas of significance, identified as a result of our audit work performed in year are detailed in the Appendix to this report.
- 2.4 The overall opinion can be used by the Authority in the preparation of the Governance Statement.
- 2.5 Internal audit activity is organisationally independent and further details behind the framework within which internal audit operates, can be found in the internal audit charter.

### 3 Performance of the Audit Service

#### Compliance with the Public Sector Internal Audit Standards



During the year we complied with the revised Public Sector Internal Audit Standards which specify rules of conduct for objectivity, due professional care and confidentiality.

#### Customer Satisfaction

Customer satisfaction questionnaires are issued for all audits. From the responses returned, the average scores were as follows:

Question	2016/17
Usefulness of audit	4.4
Value of recommendations	4.5
Usefulness of initial discussions	4.4
Fulfilment of scope & objectives	4.6
Clarity of report	4.7
Accuracy of findings	4.6
Presentation of Report	4.5
Time span of audit	4.3
Timeliness of audit report	4.3
Consultation on findings/recommendations	4.7
Helpfulness of auditors	4.6
<b>Overall Satisfaction with Audit Services</b>	<b>4.5</b>

Scores range between 1 = Poor and 5 = very good. We have a target of achieving on average a score of **4 = good**.

**Quality Assurance and Improvement Programme**

Sandwell Audit Services have a Quality Assurance and Improvement Programme. During the year, the internal audit activity has followed this programme and there have been no significant areas of non-conformance or deviations from the standards as set out in the Public Sector Internal Audit Standards

Staff are recruited, trained and provided with opportunities for continuing professional development. Staff are also supported in order to undertake relevant professional qualifications. All staff are subject to a formal staff appraisal process, which leads to an identification of training needs. In this way, we ensure that staff are suitably skilled to deliver the internal audit service. This includes the delivery of specialist skills which are provided by staff within the service with the relevant knowledge, skills and experience.

**Advice and assistance**

Finally, throughout the year we provide ongoing advice and assistance to all areas of the Fire Authority on internal control and related issues, including on the development of an assurance framework.

#### 4 Summary of Work Completed to inform the 2016/17 Internal Audit Opinion

A detailed written report and action plan is prepared and issued for every internal audit review. The responsible officer will be asked to respond to the report by completing and returning the action plan. This response must show what actions have been taken or are planned in relation to each recommendation. If the recommendation is not accepted, this must also be stated. Audit Services are responsible for assessing whether the managers response is adequate.

Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

	Level	System Adequacy	Control Application
(positive opinions)	Substantial Assurance	Robust framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.
	Satisfactory Assurance	Sufficient framework of key controls for objectives to be achieved, but control framework could be stronger.	Controls are applied, but with some lapses.
(negative opinion)	Limited Assurance	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.

This is based upon the number and type of recommendations we make in each report. Each recommendation is categorised in line with the following:

Fundamental	Action is imperative to ensure that the objectives for the area under review are met.
Significant	Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.
Merits attention	Action advised to enhance control or improve operational efficiency.

During the year we made the following number of recommendations:

Fundamental	0
Significant	5
Merits attention	0
Total	<b>5</b>

The following appendices/tables below list of all the reports issued by internal audit during 2016/17, alongside their original Assessment of Assurance Need (AAN) risk score, the number and type of recommendations made, whether those recommendations have been accepted and an overall level of assurance for each review.



### Summary of Internal Audit Work Completed for the 2016/17 Internal Audit Opinion

Auditable Area	ANA Rating	Recommendations					Level of Assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Accounts Receivable	KFS	-	-	-	-	-	Substantial
Accounts Payable	KFS	-	-	-	-	-	Substantial
Fixed Asset Accounting/Asset Planning	KFS	-	-	-	-	-	Substantial
Payroll	KFS	-	-	-	-	-	Substantial
Budgetary Control	KFS	-	-	-	-	-	Substantial
Pension Certification	High	-	-	-	-	-	-
Governance	High	-	1	-	1	1	Substantial
Risk Management	High	*	*	*	*	*	*
Data Protection/IT	High	-	4	-	4	4	Limited
Absence Management	Medium	*	*	*	*	*	*
Partnerships	Medium	Carried forward to 2017/18 plan					
<b>Total</b>		-	<b>5</b>	-	<b>5</b>	<b>1</b>	

Key	
KFS	Key Financial System (reviewed in line with External Audit requirements). Generally this is also a high risk review.
*	At the time of the preparation of this report, our review of this area was underway and nearing completion. No key issues had been identified during the review that would impact upon our overall audit opinion.

## Key issues arising during the year

The following is a brief overview of the key issues identified during the year.

### Accounts Receivable

A review of the accounts receivable system was undertaken to ensure that an effective system was in place for raising invoices and managing debtors. This included the integrity and reliability of charging information recorded in the accounts, the collection of payments and the process to monitor and report the debtor position.

### Accounts Payable

A review of the accounts payable system was undertaken to ensure that adequate key controls were in place. Our review focused on the controls designed to prevent, overpayments, fraud and incorrect accounting.

### Fixed Asset Accounting/Asset Planning

An audit of fixed asset accounting was undertaken in respect of planned capital expenditure. The review was undertaken to provide assurance that an appropriate process was in place to maintain details of fixed assets and to record them correctly in the accounts.

### Payroll

A review of the payroll process was undertaken to ensure that the Fire Service had appropriate controls in place to mitigate the risk of fraud and error in the calculation, recording and payment of the payroll via BACS.

### Budgetary Control

A review of the budgetary control system was undertaken to ensure the Fire Service had established its budget and was managing it appropriately. Our review covered controls over monitoring, reporting, changes to budgets and the process to link budgets to medium and long term plans.

### Local Government Pension Scheme Certification

An audit was undertaken to assist with the provision of assurance on the accuracy of the 2015/16 return to the Local Government Pension Scheme. All tests proved satisfactory.

### Governance

The review was based on the principles of the CIPFA/Solace document "Delivering Good Governance in Local Government: Framework" and focused on the demonstration of the values of good governance through upholding high standards of conduct and behaviour and the taking of informed and transparent decisions which are subject to effective scrutiny and management of risk. The review focused on two of the core principles:

- Defining outcomes in terms of sustainable economic, social and environmental benefits.
- Determining the interventions necessary to optimise the achievement of the intended outcomes.

Only one issue of significance was identified, in that although the individual elements were in place to meet the requirements of the two principles reviewed, there was not a

policy which encapsulated the governance arrangements for the authority and which provided a centralised approach to evidencing compliance with the principles of good governance, as detailed by the CIPFA SOLACE guidance and the requirements of the Nolan report. Organisations are encouraged to develop and maintain an up to date code of governance, which details how an organisation will meet its governance requirements and evidences its application and effectiveness.

### **Risk Management**

An audit of the risk management processes was undertaken. Our review focused on providing assurance that the mitigating controls for risk CR6 – relating to business continuity and preparedness, were being effectively operated and monitored. At the time of reporting, this review was being finalised.

### **Data Protection/IT**

A review of data protection was undertaken to provide assurance that the necessary safeguards were in place to ensure the appropriate use of personal and corporate information and where data breaches occurred, they were managed effectively. The review identified issues of significance relating to:

- There were no procedures in place for defining/reporting data breaches.
- There was not an effective training regime in place to educate employees on the importance of data protection and their responsibilities for it.
- Data breaches were not documented and recorded.
- Data breaches were not reported to management.

Although only three data breaches had been reported to the Data Manager, due to the lack of formal policies and processes being in place and the low take up of training by employees, little assurance could therefore be provided that all data breaches were being identified and dealt with appropriately and in a consistent manner. As such, the Authority could be exposed to the risk of continued data breaches and potential sanctions being applied by the Information Commissioner's Office.

It should be noted however, that management has recognised the importance of these issues as part of the Management of Information plan and has taken prompt action to address these matters. Protocols have been agreed and put in place, which if complied with, will strengthen the control environment. A follow up review will be undertaken as part of the 2017/18 plan and an assurance update provided to management and the Audit Committee.

### **Absence Management**

A review of absence management was undertaken to provide assurance of compliance with the requirements of the absence management policy and that employees received appropriate support to promote a return to work at the earliest opportunity. At the time of reporting, this review was being finalised.

### **Follow Up**

A review of actions taken in response to recommendations from the 2015/16 audits was completed. All recommendations had been implemented.

## Other areas of assistance provided

### **Audit Committee – Self Assessment of Good Practice and Effectiveness**

The Audit Committee commenced a self-assessment of good practice and effectiveness exercise, based on the model provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) in their Audit Committees – Practical Guidance for Local Authorities. We are facilitating this exercise.

### **CIPFA – Audit Committee Updates**

We continue to present the regular CIPFA Audit Committee Updates to the Audit Committee.

### **Audit Committee – Terms of Reference**

We submitted the Audit Committee Terms of Reference for annual review at the March 2017 meeting of the Audit Committee.

### **Internal Audit Plan 2016/17**

We submitted the Internal Audit annual plan for 2017/18 to the committee for approval at the March 2017 meeting.

### **Internal Audit Annual Report 2015/16**

We presented the Internal Audit annual report for 2015/16 to the committee for comment and approval at the June 2016 meeting.

### **Audit Committee Annual Report**

We provided assistance in the preparation of the Annual Report of the Chair, on the work of the Audit Committee.

### **Counter Fraud**

We continue to lead on the Cabinet Office's National Fraud Initiative and their other associated fraud related activity (such as the Annual Fraud Survey), on behalf of the Authority and to provide the main point of contact for any investigations into potential fraudulent activity.