

## **Annual Internal Audit Report 2017/18**

**Audit Committee – 4 June 2018**



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## 1 Introduction

1.1 Our internal audit work for the period from 1 April 2017 to 31 March 2018 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 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 considered:

- All audits undertaken for the year ended 31 March 2018;
- Any follow-up action taken in respect of audits from previous periods;
- Any fundamental or significant 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.

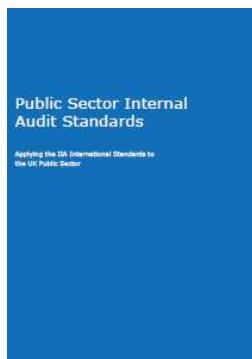
\*We are pleased to report that this is an unqualified opinion and the highest level of assurance available to Audit Services. As stated in paragraph 1.3 “In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide is reasonable assurance that 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 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 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  | 2017/18    |
|---|------------|
| 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 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 Authority on internal control and related issues, including on the development of an assurance framework.

#### 4 Summary of Work Completed to inform the 2017/18 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      | 1         |
| Significant      | 8         |
| Merits attention | 6         |
| Total            | <b>15</b> |

The following appendices/tables below list all the reports issued by internal audit during 2017/18, 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 2017/18 Internal Audit Opinion

| Auditable Area                     | ANA Rating | Recommendations |             |                  |           |                 | Level of Assurance |
|------------------------------------|------------|-----------------|-------------|------------------|-----------|-----------------|--------------------|
|                                    |            | Fundamental     | Significant | Merits attention | Total     | Number accepted |                    |
| Risk Management                    | High       | -               | -           | -                | -         | -               | Substantial        |
| Fixed Asset Accounting             | KFS        | -               | -           | -                | -         | -               | Substantial        |
| Fire Stations – Management of Fuel | Medium     | -               | 3           | 2                | 5         | draft           | Satisfactory       |
| Accounts Receivable                | KFS        | -               | 1           | -                | 1         | 1               | Substantial        |
| Partnerships                       | Medium     | -               | 2           | 2                | 4         | 4               | Satisfactory       |
| Accounts Payable                   | KFS        | -               | -           | -                | -         | -               | Substantial        |
| Absence Management                 | Medium     | 1               | 1           | -                | 2         | 2               | Limited            |
| Budgetary Control                  | KFS        | -               | -           | -                | -         | -               | Substantial        |
| Payroll                            | KFS        | -               | 1           | -                | 1         | draft           | Substantial        |
| Governance                         | High       | -               | -           | -                | -         | -               | Substantial        |
| Environmental Protection Targets   | Medium     | -               | -           | 1                | 1         | draft           | Substantial        |
| Data Protection/IT                 | High       | -               | -           | -                | -         | -               | Substantial        |
| Pension Certification              | High       | -               | -           | -                | -         | -               | Substantial        |
| <b>TOTAL</b>                       |            | <b>1</b>        | <b>8</b>    | <b>6</b>         | <b>15</b> |                 |                    |

| Key |   |
|-----|---|
| KFS | Key Financial System (reviewed in line with External Audit requirements). Generally, this is also a high-risk review. |

## Key issues arising during the year

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

### 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. No issues of significance were identified.

### 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.

### Fire Stations – Management of Fuel

The procedures for management of fuel are contained within Standing Order 9/1. The purpose of the review was to provide assurance on compliance with established controls relating to ordering, receipt and dispensing of fuel at a sample of stations.

Issues of significance identified related to:

- fuel being ordered when the tank was below the re-order level. In addition, it is a requirement that fuel is delivered within two days. This target was not always achieved. This exposes the authority to the risk of having insufficient fuel to provide the level of service required.
- it is a requirement of the standing order to report variances between fuel book stock and physical stock, which exceed 150 litres. Examples were found where such variances were not reported and as such, not investigated.

### 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. We identified one issue of significance relating to:

- appropriate checks were being undertaken by the authority to confirm the validity of write-offs, but the authority's constitution states that only the Treasurer has the delegated authority to approve debt write-offs. Currently, this approval is not being formally provided.

### Partnerships

A review was undertaken to provide assurance that partnership agreements had been properly established and that effective governance and monitoring arrangements were in place to ensure that expected outcomes were achieved. We identified two issues of significance relating to:

- the “Partnerships Governance Arrangements and Framework” document, which details the key processes to be followed in setting up a partnership, states that the Partnerships Team will undertake quality assurance checks and provide assurance that:

- each partnership agreement has clearly defined roles and responsibilities and strong governance arrangements in place.
- effective partnership monitoring arrangements are in operation.

These quality assurance checks had yet to commence. As such, there was a risk that the initial momentum generated by the Partnership Team could stall, resulting in a lack of consistency in approach by partnership facilitators and learning opportunities missed. Thus, undermining a key goal of the authority of establishing effective partnership arrangements.

- it is a policy of the authority, that as part of the governance and planning of all partnership arrangements and partnership activity, that as a minimum an Initial Equality Impact Assessment (IEIA) is undertaken. However, IEIAs were not being completed and the authority could therefore, be in breach of the Equality Act 2010. This could expose the authority to the risk of enforcement action being taken by the Equality and Human Rights Commission or result in a legal challenge.

## **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. No issues of significance were identified.

## **Absence Management**

A review was undertaken to provide assurance on the level of compliance with the requirements of the absence management policy. We identified one fundamental and one significant issue relating to:

- examples were found of managers uploading copies of fit notes to HMRS. The sharing of data without the specific consent of the employee is a breach of the data protection regulations and could lead to action being taken by the Information Commissioner's Office (ICO) and fines applied. The introduction of the new General Data Protection Regulations (GDPR), effective from 25 May 2018, will have a greater impact in terms of fines, as the maximum potential fine per breach will increase from £500,000 to £17million.
- during the review, one manager reported that they still received absence triggers/alerts in respect of staff for whom they no longer had operational responsibility. Again, the sharing of this data is a breach.

## **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.

## **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. We identified one issue of significance relating to:

- the Human Resources section did not have formal procedure notes which detailed the process for obtaining and evidencing approval for new starters.

## Governance

A review of three of the seven principles detailed in the CIPFA/SOLACE model:

- Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- Principle F: Managing risks and performance through robust internal control and strong public financial management.
- Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

was undertaken to provide assurance on the level of compliance, plus a follow up on the significant issue identified during the 2016/17 review. No issues of significance were identified and the action from the previous review had been implemented.

## Environmental Protection Targets

A review was undertaken to provide assurance on the progress made towards implementing an Environmental Management System or the equivalent strategies put in place to further advance the Authority's environmental initiatives. No issues of significance were identified and the Authority has made good progress in reducing its carbon footprint.

## Data Protection/IT

An audit of Data Protection was undertaken as part of the approved Internal Audit Plan for 2016/17. This audit identified a number of significant issues relating to the education of employees on the importance of data protection and the lack of clear processes and procedures for identifying, reporting and monitoring data breaches. As part of the Internal Audit Plan for 2017/18, a follow up exercise was undertaken to provide assurance that the key actions had been implemented. The review identified that significant improvements had been made and there were clear processes in place to educate staff and to identify, report, monitor and address data breaches.

## Pension Certification

An audit was undertaken to assist with the provision of assurance on the accuracy of the 2016/17 return to the Local Government Pension Scheme. All tests proved satisfactory.

## 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 2018 meeting of the Audit Committee.

### **Internal Audit Plan 2018/19**

We submitted the Internal Audit annual plan for 2018/19 to the committee for approval at the March 2018 meeting.

### **Internal Audit Annual Report 2016/17**

We presented the Internal Audit annual report for 2016/17 to the committee for comment and approval at the June 2017 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.