

**Appendix 1 - Annual Internal Audit Report
2021/22**

**Audit and Risk Committee
6 June 2022**



Section		Page
1	Introduction	3
2	Internal Audit Opinion	4
3	Performance of the Audit Service	5
4	Summary of Work Undertaken and Key Issues Arising	9

1 Introduction

1.1 Our internal audit work for the period from 1 April 2021 to 31 March 2022 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 2022;
- 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.

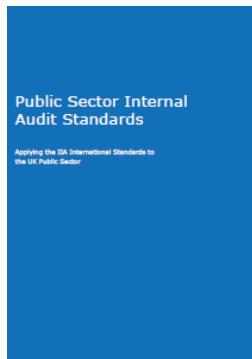
*We are pleased to report that this is an unqualified opinion and the highest level of assurance available to Audit Services. As stated in paragraph 1.3 “In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide is reasonable assurance that 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



Our reviews were carried out in accordance 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	2021/22
Usefulness of audit	4.4
Value of recommendations	5.0
Usefulness of initial discussions	4.4
Fulfilment of scope & objectives	5.0
Clarity of report	5.0
Accuracy of findings	5.0
Presentation of report	5.0
Time span of audit	4.7
Timeliness of audit report	4.7
Consultation on findings/recommendations	5.0
Helpfulness of auditors	5.0
Overall Satisfaction with Audit Services	4.8

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 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 2021/22 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.
	Reasonable 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 opinions)	Limited Assurance	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.
	No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified.	The system of governance, risk management and control is inadequate.

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:

	2020/21	2021/22
Fundamental	-	-
Significant	7	8
Merits attention	4	4
Total	11	12

The following appendices/tables below list all the reports issued by internal audit during 2021/22, 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 2021/22 Internal Audit Opinion

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Data Protection	High	0	1	1	2	2	Substantial
Fire Stations – Management of Fuel	Medium	0	3	1	4	4	Reasonable
Environmental Protection Targets	Medium	0	0	2	2	2	Substantial
Workforce Planning	Medium	0	2	0	2	2	Reasonable
Fixed Asset Accounting	KFS	0	0	0	0	0	Substantial
Accounts Payable	KFS	0	0	0	0	0	Substantial
Budgetary Control	KFS	0	0	0	0	0	Substantial
Accounts Receivable	KFS	0	0	0	0	0	Substantial
Governance	High	0	2	0	2	Draft	Reasonable
Risk Management	High	0	0	0	0	0	Substantial
Payroll	KFS						In progress
TOTAL		0	8	4	12	10	

Key	
KFS	Key Financial System. Generally, this is also a high-risk review.
draft	A draft report has been issued and we are awaiting the management response from the Authority.
N/A	Not applicable.
AAN	Assessment of Assurance Need.
In progress	This review is in progress. To date no issues have arisen that would impact upon our annual audit opinion given in paragraph 2.2.

Key issues arising during the year

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

Data Protection

A review was undertaken to provide assurance that the necessary safeguards were in place to ensure the appropriate use of personal and corporate information. Our review of five subject access requests (SARs) in order to ensure they had been processed within the designated timescales, highlighted that in three cases, there was no documentarian to enable the timescales to be confirmed.

The Authority is currently assessing an automated tool which has the capability to provide a case management functionality and audit trail. As such, the implementation of such a tool should help address this issue.

Management of Fuel

A review was undertaken to provide assurance on compliance with established controls over ordering, receipt and dispensing of fuel at a sample of five stations. The review identified issues relating to:

- Examples were found of fuel orders being placed when the storage tanks were below the specified re-order level.
- Written records relating to fuel deliveries and issues were not always maintained in accordance with the relevant standing order and therefore, not all information was recorded and there were arithmetical errors in the fuel balance figures.
- The issues identified above do increase the risk that fuel levels are not accurately monitored.

A management response has been received and an action plan compiled to address these issues.

Environmental Protection Targets

A review was undertaken to provide assurance on the systems in place to support the Fire Authority in achieving its environmental objectives. No issues of significance were found, and generally sound systems were in place to enable environmental targets to be monitored.

Absence Management Follow-Up

Previously a review of Absence Management had been undertaken as part of the approved Internal Audit Plan for 2020/21. At that time, five significant issues were identified which resulted in the issue of a limited assurance report. An action plan was produced by the Fire Authority to remedy the issues identified and it was stated that the actions would be implemented by the end of April 2021 (4 * actions) and the remaining issue by September 2021.

As part of the 2021/22 Internal Audit Plan, a follow-up review was due to be completed to ensure the matters had been addressed. As at November 2021, the actions had not been addressed and the Fire Authority had set a revised completion date of the first quarter in 2022. As such, we are currently unable to provide further assurance on the matters previously reported upon. We have been advised that the delay in meeting the original completion dates is due to a key member of staff responsible for implementing the actions having left the Fire Authority and that only recently had responsibility been

re-assigned to another officer. We will now undertake the follow-up as part of the 2022/23 Internal Audit Plan.

Workforce Planning

Workforce planning is integral to the operation of the Fire Authority and the delivery of its strategic plan. The purpose of the review was to assess the adequacy of the workforce planning processes and to provide assurance on how well they were embedded within the Fire Authority. In general, the processes in place effectively support the Fire Authority in delivering its strategic plan. The review did identify two issues relating to:

A system of multiple spreadsheets is used to maintain and monitor the staffing establishment. It was identified that process notes had not been established to document the system to be followed to maintain and monitor the various spreadsheets. As such, there was a risk of inconsistencies in approach, or loss of knowledge should key staff be unavailable. They would also be a useful training aid for any new staff.

- The policies which formed part of the appraisal/performance management/appraisal framework had not been reviewed on a regular basis. It is acknowledged that these documents were currently under review by relevant officers, but there was no set timescale for completion.
- Due to issues experienced with the reporting functionality in respect of the new Oracle Fusion system, it had not been possible to produce and publish the performance indicators which are required to support the management of absence within the Fire Authority. As such, there is a risk that absences may not be effectively managed.

The Fire Authority has devised a plan to address these issues. A follow-up review of these issues will be undertaken as part of the Internal Audit Plan for 2022/23.

Governance

The objective of our review of governance for the current year was focussed upon the adoption, adequacy and application of the Local Government Transparency Code and to ensure that the control system in place mitigated risks to the achievement of the Authority's objectives in this area. The review identified two issues where improvements could be made, arising from the following:

- The policies which formed part of the appraisal/performance management/appraisal framework had not been reviewed on a regular basis. It is acknowledged that these documents were currently under review by relevant officers, but there was no set timescale for completion.
- The Whistleblowing policy and Anti-fraud and Corruption policy had also not been subject to a recent review. It was understood that this document is also currently under review, but again there was no set timescale for completion.

This report is at draft stage and we are awaiting a management response to the suggested actions.

Risk Management

An audit of the risk management processes was undertaken to review the management of risk by the authority and to provide assurance that there is a clear understanding of

how risk is to be managed and that risks are identified, recorded and effectively managed. No issues of concern were identified.

Key Financial Systems Reviews

No issues of concern were identified in the following areas:

- **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.

- **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.

Other areas of assistance provided

CIPFA – Audit Committee Updates

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

Internal Audit Plan 2022/23

We submitted the Internal Audit annual plan for 2022/23 to the committee for approval at the March 2022 meeting.

Internal Audit Annual Report 2020/21

We presented the Internal Audit annual report for 2020/21 to the committee for comment and approval at the June 2021 meeting.

Internal Audit Charter

We undertake and present to the committee an annual review of the Internal Audit Charter. The latest version was presented for comment and approval at the March 2022 meeting.

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.

Training

We provided training to the committee on "Fraud Awareness". This took place at the meeting held in March 2022.