

SHROPSHIRE FIRE AND RESCUE AUTHORITY INTERNAL AUDIT ANNUAL REPORT 2020/21

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1. Summary

This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2021. It reports on progress against the annual audit plan. It also provides the Head of Audit's opinion on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes when considering the Public Sector Internal Audit Standards or Guidance, as required by the Accounts and Audit Regulations 2015.

Final performance has been good with 100% of the plan being delivered.

Seven audit reports were issued during the year resulting in four good, a reasonable, a limited and an unsatisfactory assurance opinion being made. Limited assurance was given to the Payroll System Audit and an unsatisfactory opinion in respect of the Recommendation Follow Up Audit. Specific details of the control issues raised in each of these audits are detailed in **Appendix A** and paragraphs 6.11 to 6.12 in this report.

These assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested. The Committee should ensure that they are receiving appropriate assurance from managers that action plans are being implemented.

A total of 35 recommendations have been made in the seven audit reports issued in the year. No fundamental recommendations have been made during 2020/21.

Based on the work undertaken and management responses received; I can offer reasonable assurance for the 2020/21 year that the Authority's framework for governance, risk management and internal control processes is sound and working effectively.

Generally, risks are well managed, but some areas require robust action plans to address significant recommendations that have remained outstanding for over 12 months, to ensure the achievement of the Authority's objectives and protect the control environment. 2020/21 has continued to see the embedding of key business system changes, delivered in the areas of financial and human resources, whilst working in a COVID secure manner and alongside the challenge to continue to deliver savings and increased efficiency.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

- a) Performance against the Audit Plan for the year ended 31 March 2021.
- b) Reasonable assurance can be provided that the system of governance, risk management and internal control is operating effectively and can be relied upon when considering the Annual Governance Statement for 2020/21. Focus should be given to plans to address significant recommendations that have remained outstanding for over 12 months.
- c) The Head of Audit's reasonable year end opinion on the Authority's internal control environment for 2020/21 based on the work undertaken and management responses received.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Authority's financial, governance and risk management systems and procedures and is closely aligned to the Authority's risk register. The Plan is delivered in an effective manner; where Internal Audit independently and objectively examines, evaluates and reports on the adequacy of its customers control environments as a contribution to the proper, economic, efficient and effective use of resources. It provides assurances on the governance, risk management and internal control systems, by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal controls create an environment where poor performance, fraud, irregularity and inefficiency can go undetected leading to financial loss and reputational damage.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015. There are no direct environmental, equalities or climate change consequences of this proposal.
- 3.3 There are no direct environmental, equalities or climate change consequences of this proposal.
- 3.4 Internal Audit customers are consulted on the service that they receive, feedback from which is included in this report and continues to be positive.

4. Financial Implications

- 4.1 The Internal Audit plan is delivered within approved budgets; the work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the Authority.

5. Climate Change Appraisal

- 5.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaptation. Therefore, no effect.

6. Background

- 6.1 This report is the culmination of the work of the Internal Audit team during 2020/21 and seeks to:
- Provide an opinion on the adequacy of the risk management, control and governance arrangements;
 - Inform the annual review of the effectiveness of its system of internal control that informs the Annual Governance Statement by commenting on the nature and extent of significant risks; and
 - Inform the review of an effective Internal Audit by providing performance data against the plan.
 - Confirm to the Standards, Audit and Performance Management Committee that the Audit service has been delivered free from interference throughout the year.
- 6.2 The requirement for Internal Audit derives from local government legislation, including section 151 of the Local Government Act 1972 which requires the Authority to plan for the proper administration of its financial affairs. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2015, in that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.
- 6.3 The Public Sector Internal Audit Standards (PSIAS) define the scope of the annual report on internal audit activity. The annual report must incorporate an annual internal audit opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. This annual report provides information to support that assessment and that an effective Internal Audit is established at Shropshire Fire and Rescue Service, in accordance with the requirements of the 2015 Accounts and Audit Regulations. The Internal Audit Service is provided by Shropshire Council. In July 2021, a paper will be presented to Shropshire Council’s Audit Committee which provided assurance on the effectiveness of the Internal Audit service, against the PSIAS. Shropshire Fire and Rescue Service can take assurance from this report.
- 6.4 Internal Audit operates a strategic risk-based plan. The plan is reviewed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk, this results in a comprehensive range of audits undertaken in the year, to support the overall opinion on the control environment.

Annual Internal Audit Opinion from Internal Audit Work undertaken during 2020/21

- 6.5 It is the responsibility of Shropshire and Wrekin Fire and Rescue Authority to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under the Public Sector Internal Audit Standards to deliver an annual internal audit opinion and report. The annual internal audit opinion will conclude on the overall adequacy and effectiveness of the authority's framework of governance, risk management and internal control. This opinion plays a key part in informing the Authority's Annual Governance Statement and enabling the Standards, Audit and Performance Management Committee to deliver their annual assurance statement to the Fire and Rescue Authority (FRA).
- 6.6 The results of individual audits, when combined, form the basis for the overall opinion on the adequacy of the Authority's internal control systems. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that absolute assurance. The work of Internal Audit is intended only to provide reasonable assurance on controls based on the work undertaken. In assessing the level of assurance to be given, I have considered:
- No limitations were placed on the scope of the audits and the internal work during the year. Early discussions ensured appropriate Internal Audit access to the new payroll system. The assurance levels provided in respect of the Finance system and key IT applications all improved as controls became embedded. Whilst control improvements are still required, in respect of the Payroll system to increase the overall assurance level, it is noted that the level of significant issues has reduced year on year. Management are monitoring the situation and are keen to see Payroll back to a reasonable level of assurance. Auditors have a level of confidence from the governance around projects in the management processes to identify, acknowledge and address the control environment issues as they become known.
 - From other audit work undertaken during the year, in respect of recommendations outstanding from 2019/20, the review found unsatisfactory implementation. 18 significant recommendations raised across the Authority remain unaddressed, the majority in respect of a review into the use of corporate credit cards and web-based accounts. It is recognised that these are not the Authorities key systems but failure to address significant recommendations in a timely manner has an adverse effect on the control environment.
 - No fundamental recommendations were raised during the financial year.
- 6.7 These assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested.
- 6.8 ***Based on the work undertaken and management responses received; I can offer reasonable assurance for the 2020/21 year that the Authority's framework for governance, risk management and internal control processes is sound and working effectively.***

Generally, risks are well managed, but some areas require robust action plans to address significant recommendations that have remained outstanding for over 12 months, to ensure the achievement of the Authority's objectives and protect the control environment. 2020/21 has continued to see the embedding of key business system changes, delivered in the areas of financial and human resources, whilst working in a COVID secure manner and alongside the challenge to continue to deliver savings and increased efficiency.

Key Assurances provided during 2020/21

6.9 Audit assurance opinions are awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows:

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key control.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Authority to high risks that should have been managed.

Audit assurance opinions delivered in 2020/21

Audit	Good	Reasonable	Limited	Unsatisfactory	Direction of Travel
Payroll System			✓		No Change
Financial System Review	✓				Improved ¹
Risk Management and Business Continuity	✓				No Change
Corporate Governance	✓				No Change
Recommendation Follow up		✓		✓	Weakening ²

¹ The 2019/20 audit covered the implementation of the new financial management system and gave a Limited Assurance opinion based on the development of the system. This full audit of the new financial system since reflects that controls have now been embedded in working practices.

² The areas reviewed under the recommendation follow up are different year on year. In 2020/21 this picked up recommendations from the Investigation Follow Up, General rec Follow Up, Contract Management Audit

Audit	Good	Reasonable	Limited	Unsatisfactory	Direction of Travel
IT Payroll Application Review		✓			Improved ³
IT Finance System Application Review	✓				Improved ⁴
Total for year					
➤ numbers	4	1	1	1	
➤ percentage	58%	14%	14%	14%	

- 6.10 Four good, one reasonable, one limited and one unsatisfactory assurance were issued during the financial year. A summary of these reports is included in **Appendix A**. In each case positive responses have been received by management and will be followed up next year to determine whether satisfactory improvements have been made.
- 6.11 The unsatisfactory opinion related to the Recommendation Follow Up audit. This audit covers a variety of areas but found that several significant issues remain outstanding beyond the agreed action date. In respect of the IT follow up two significant recommendations remain outstanding from 2018/19 and the Investigation Follow Up, 11 of the original 18 significant recommendations remain outstanding which leaves the authority at risk of potential fraud. One significant recommendation remains outstanding from the General Recommendation Follow up audit for an issue raised in 2018/19 and three of the four significant issues raised in the 2019/20 Contract Management Audit remain outstanding. Positive responses have been received from Management with respect of addressing these recommendations, but such assurances have been made previously, delivery here should receive clear management oversight.
- 6.12 The payroll system continues to receive a limited assurance though it is recognised that there have been developments in embedding controls around this new system and the number of significant issues has reduced from seven in 2019/20 to three in 2020/21. The significant areas of concern remain around the review process for creation and amendment of records, the review of final payments to leavers and the Fire Service Rota System for banked shifts. Positive responses have been received from Management within respect of addressing these recommendations.
- 6.13 The Internal Audit team has achieved 100% delivery of the plan. Due to the impact of COVID 19 the audits have been undertaken on a remote basis with cooperation from the officers at the Fire Authority.

and IT Recommendation Follow Up the rating reflects that 18 of the 34 recommendations reviewed remain outstanding and these recommendations are all rated as significant.

³ The payroll application review has moved from Limited in 2019/20 to Reasonable in 2020/21 reflecting the system becoming more embedded and as a result the control environment improves.

⁴ The finance application audit has moved from Limited in 2019/20 to Good in 2020/21 reflecting the embedding of controls in respect of the new system.

- 6.14 Audit recommendations are also an indicator of the effectiveness of the Authority's internal control environment and are rated according to their priority:

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

- 6.15 Recommendations are rated in relation to the audit area rather than the Authority's control environment, for example, a control weakness deemed serious in one area which results in a significant or fundamental recommendation may not affect the Authority's overall control environment. Similarly, several significant recommendations in a small number of areas would not result in a limited opinion if most of areas examined were sound, consequently, the number of significant recommendations in the table below will not necessarily correlate directly with the number of limited assurance opinions issued. Any fundamental recommendations resulting from a control weakness in the Authority's control environment would be reported in detail to the Standards, Audit and Performance Management Committee.
- 6.16 A total of 35 recommendations have been made in the seven audit reports issued in the year; which is a large reduction in the 93 Recommendations issued in 2019/20 and is reflected in the improved assurance levels in three of the areas reviewed.

Audit opinion and recommendations made on 2020/21 audits

System	Level of Assurance Given	Number of Recommendations made				
		BP	RA	S	F	Total
Payroll System	Limited	0	10	3	0	13
Financial System Review	Good	0	0	0	0	0
Risk Management & Business Continuity	Good	0	0	0	0	0
Corporate Governance	Good	0	0	0	0	0
General Recommendation Follow up	Unsatisfactory	0	0	18	0	18
IT Payroll Application Review	Reasonable	0	0	2	0	2
IT Finance Application Review	Good	0	2	0	0	2
Totals		0	12	23	0	35
Percentage		0%	34%	66%	0%	100%

- 6.17 It is management's responsibility to ensure that accepted audit recommendations are implemented within an agreed timescale. Except for annual audits where recommendations are revisited as a matter of course; remaining recommendations

are followed up annually by obtaining an update from management on progress made and performing sample testing.

6.18 No recommendations have been rejected by management during 2020/21.

Audit Performance

6.19 Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the Public Sector Internal Audit Standards (PSIAS), and evaluating improvements made over the last twelve months. A public report of effectiveness against the PSIAS is made annually to the Shropshire Council, June Audit Committee. Shropshire Council Audit Service are also externally reviewed every five years for compliance with the PSIAS and passed the review undertaken by CIPFA in November 2016. The effectiveness of Internal Audit is further reviewed through the Finance Audit and Risk Committee's delivery of its responsibilities and direct from customers as they provided responses to surveys sent out after each audit.

Reporting

6.20 All Internal Audit work is reviewed by a senior auditor to ensure it complies with Internal Audit's standards and that the recommendations made are supported by the work undertaken before any audit reports are issued. This is a fundamental part of ensuring audit quality and that clients receive reports which are both informative, useful and add value to their work processes and procedures.

6.21 All audit assignments are subject to formal feedback to management. Draft reports are issued to the managers responsible for the area under review for agreement to the factual accuracy of findings and recommendations. After agreement, a formal implementation plan containing management's agreed actions and comments is issued to relevant officers. Follow up reviews capture evidence of implementation of recommendations.

Quality Assurance/Customer Feedback Survey

6.22 A customer feedback survey form is sent out with the all audits completed. These provide key feedback on the quality of audit service in relation to several areas, including:

- Pre-auditing arrangements;
- Post audit briefing;
- Audit coverage/scope of the audit;
- Timeliness of production of the report;
- Accuracy and clarity of report;
- Practicality of recommendations;
- Professionalism of approach;
- Communication skills and
- Timeliness of report to your business.

6.23 The surveys are a key part of ensuring the work meets our client expectations and that the quality of audit work is maintained. The results have been analysed over the last year and the percentage of responses are identified in the table below:

Customer Feedback Survey Forms - percentage of excellent and good responses

Item Being Scored	2020/21
Pre-audit arrangements	100%
Post-audit briefing	100%
Audit coverage/scope of the audit	100%
Timeliness of production of report	100%
Accuracy and clarity of report	100%
Practicality of recommendations	100%
Professionalism of approach	100%
Communication skills	100%
Timeliness of report to your business	80%
Number of forms returned	3

6.24 Overall, the results are pleasing, showing services delivered at a high level. There continues to be open communication between officers of the Fire Service and Internal Audit to ensure that both the audit plan and delivery remain up to date and valid to the service. Therefore, based on the level of open communication we are satisfied that there is opportunity for any concerns regarding the service to be raised as appropriate. The information from the surveys is used both to improve techniques overall within the team and at annual performance appraisals to identify future development focus relating to individual skills or competences.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

- Proposed 2020/21 Internal Audit Programme - Audit and Performance Management Committee on 16 July 2020
- Public Sector Internal Audit Standards
- Accounts and Audit Regulations 2015, 2018 and Accounts and Audit (Coronavirus) (Amendment) Regulations 2020

Appendices

Appendix A - Summary of Findings from Fire Authority Audit Reports 2020/21

Summary of Findings from Fire Authority Audit Reports 2020/21

- 1 Payroll System** - This area is reviewed on an annual basis. The audit concentrated on key controls in the following areas:
- ✓ There are procedures and policies available to relevant officers which comply with Brigade Orders and National Joint Council guidance.
 - ✓ The Officers who receive payroll payments exist and are employed by the Service.
Starters and leavers are actioned accurately and in a timely manner.
Payment claims submitted by Officers are checked, authorised and are accurately processed.
 - ✓ Permanent and temporary variations to Officer's contracts are valid, authorised, and processed accurately.
 - ✓ The payroll payments made to Officers are correct, processed accurately and made on a timely basis.
 - ✓ Management Information is produced in an accurate and timely manner and is subject to review.

Assurance Level: Limited

Whilst there is basically a sound system of control in place, the system contains weaknesses which leave some risks unaddressed and there is evidence of non-compliance with some key controls.

Objectives indicated with a ✓ demonstrate a level of internal control. Three significant recommendations were raised to improve internal controls.

- 2 Financial System Review** – Elements of the finance system are reviewed on an annual basis. The 2020/21 audit concentrated on key controls in the following areas:
- ✓ There is effective revenue and capital budget setting, preparation and monitoring.
 - ✓ The correct creditors are paid the correct amounts at the correct time.
 - ✓ Income is complete and is collected on a timely basis as expected.
 - ✓ There are appropriate banking reconciliations and arrangements.
 - ✓ There are appropriate general ledger reconciliations and controls.

Assurance Level: Good

There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.

Objectives indicated with a ✓ demonstrate a level of internal control. No significant recommendations were raised to improve internal controls.

- 3 Risk Management and Business Continuity** - This area is reviewed on an annual basis. The audit concentrated on key controls in the following areas:
- ✓ Statements of Assurance are prepared and signed on an annual basis.
 - ✓ Corporate risks are recorded in a suitable format in the Risk Register.
 - ✓ Departmental Risks are recorded in a suitable format in the Risk Register.

- ✓ Risks are regularly reviewed and the Risk Register is updated as appropriate.
- ✓ Management and members are kept informed of the processes in place for the management of risk.
- ✓ There is a process to identify the critical service areas which if not delivered would cause disruption to operations.

Assurance Level: Good

There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.

Objectives indicated with a ✓ demonstrate a level of internal control. No significant recommendations were raised to improve internal controls.

- 4 Corporate Governance** - This area is reviewed on an annual basis. The audit concentrated on key controls to review the evidence of compliance against the seven principles set out in the code.
- ✓ Principle A Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
 - ✓ Principle B Ensuring openness and comprehensive stakeholder engagement.
 - ✓ Principle C Defining outcomes in terms of sustainable economic, social and environmental benefits.
 - ✓ Principle D Determining the interventions necessary to optimise the achievement of intended outcomes.
 - ✓ 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.

Assurance Level: Good There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.

Objectives indicated with a ✓ demonstrate a level of internal control. No significant recommendations were raised to improve internal controls.

- 5 General Recommendation Follow Up** - This area is reviewed on an annual basis and picks up outstanding recommendations not covered in the current years plan. The audit concentrated on key controls in the following areas:
- The recommendations made in the Resource Link/ Agresso Project and IT Recommendation Follow Up Audit 2018/19 have been implemented.
 - The recommendations made in the Investigation Recommendation Follow Up Audit 2019/20 have been implemented.
 - The recommendations made in the General Recommendation Follow Up Audit 2019/20 have been implemented.
 - The recommendations made in the Contract Management Audit 2019/20 have been implemented.

Assurance Level: Unsatisfactory

The system of control is weak and there is evidence of non-compliance with the controls that do exist.

18 significant recommendations remain outstanding across the four areas reviewed.

- 6 IT Payroll Application Review** - This area was added into the plan for 2020/21 to review the progress against the 2019/20 audit of the new payroll system.
- ✓ To ensure that the recommendations made in the 2019/20 ResourceLink Application audit report have been implemented as per the original management responses.

Assurance Level: Reasonable

There is generally a sound system of control in place but there is evidence of non-compliance with some of the controls.

Objectives indicated with a ✓ demonstrate a level of internal control. Two significant recommendations were raised to improve internal controls.

- 7 IT Finance Application Review** - This area was added into the plan for 2020/21 to review the progress against the 2019/20 audit of the new finance system.
- ✓ To ensure that the recommendations made in the 2019-20 Agresso Application audit report have been implemented as per the original management responses.

Assurance Level: Good

There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.

Objectives indicated with a ✓ demonstrate a level of internal control. No significant recommendations were raised to improve internal controls.