

SHROPSHIRE FIRE AND RESCUE AUTHORITY INTERNAL AUDIT ANNUAL REPORT 2015/16

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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 2016. It reports on progress against the annual audit plan. It also provides the Head of Audit's (Audit Service Manager's) opinion on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes taking into account the Public Sector Internal Audit Standards or Guidance, as required by the Accounts and Audit Regulations 2015.

Final performance has been good with 96% of the revised plan being delivered. It was agreed with the Head of Finance that two days (4% of plan) in respect of fraud and corruption work on the new My View expenses module would be carried forward to 2016/17 due to delays in implementation.

Ten audit reports were issued during the year resulting in five good, three reasonable and two limited assurances being made. A limited assurance opinion was given in respect of the Fire Fighters Pensions' Administration audit due to concerns over the treatment of ill health retirement calculations and the reconciliation processes. Management are committed to addressing the identified issues and action plans are in place. The second limited opinion related to the IT recommendation follow up audit and relates to the issues around the IT control environment. The report recognises that work is ongoing in a number of areas but at the time of the audit there remain significant control weaknesses which are still being actioned by management. Both these audits will be reviewed as part of the 2016/17 plan. A total of 42 recommendations have been made in the ten audit reports issued in the year. No fundamental recommendations have been made during 2015/16.

On the basis of the work undertaken and management responses received; the Authority's governance, risk management and internal control processes are sound and working effectively and the Audit Service Manager is able to deliver a positive year end opinion on the Authority's internal control environment for 2015/16.

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 2016.
- b) 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 2015/16.
- c) The Audit Service Manager's positive year end opinion on the Authority's internal control environment for 2015/16 on the basis of 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.
- 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. Background

- 5.1 This report is the culmination of the work of the Internal Audit team during 2015/16 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.
- 5.2 The requirement for Internal Audit derives from local government legislation, including section 151 of the Local Government Act 1972 which requires the Authority to make arrangements 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”.
- 5.3 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 June 2016, a paper will be presented to Shropshire Council’s Audit Committee which provides assurance on the effectiveness of the Internal Audit service, against the PSIAS. Shropshire Fire and Rescue Service can take assurance from this report.
- 5.4 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. The plan contains a small contingency provision of two days which was used to cover the audit on Fire Fighters Pension Administration.

Annual Internal Audit Opinion from Internal Audit Work undertaken during 2015/16

- 5.5 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 Audit and Performance Management

Committee to deliver their annual assurance statement to the Fire and Rescue Authority (FRA).

5.6 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 on the basis of the work undertaken. In assessing the level of assurance to be given, I have taken into account:

- The work undertaken on the fundamental financial systems: Whilst revealing a small number of areas of weakness and identifying areas for improvement there are no significant material weaknesses that could result in a material misstatement in the Authority’s accounts and reliance can be placed upon them. Plans have been adopted to manage outstanding concerns.
- From other audit work undertaken during the year, there have been no major financial weaknesses or issues identified; the Authority’s financial systems, internal control environment and risk management procedures are sound and working effectively.

5.7 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.

5.8 ***On the basis of the work undertaken and management responses received; the Authority’s governance, risk management and internal control processes are sound and working effectively and the Audit Service Manager is able to deliver a positive year end opinion on the Authority’s internal control environment for 2015/16.***

Key Assurances provided during 2015/16

5.9 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 2015/16

Audit	Good	Reasonable	Limited	Unsatisfactory
Payroll System		✓		
Budget Preparation and Control	✓			
IT Audit Follow Up			✓	
Income and Sundry Debtors		✓		
Purchasing/Procurement	✓			
Technical Services Assets		✓		
Risk Management and Business Continuity	✓			
Corporate Governance	✓			
Recommendation Follow up	✓			
Fire Fighters Pensions Administration			✓	
Total for year				
➤ numbers	5	3	2	0
➤ percentage	50%	30%	20%	0%

- 5.10 Five good, three reasonable and two limited assurances were issued during the financial year. 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.
- 5.11 A limited audit opinion was issued on the IT Follow Up audit, this looked at progress on the implementation of the recommendations in the 2014/15 follow up and the mobile device audit. Positive responses have been received from management in all areas of concern confirm the ongoing work to address the weaknesses identified. Further work into the IT control environment is scheduled for 2016/17.
- 5.12 A limited audit opinion was also issued in respect of the Fire Fighters Pension Administration audit, due to concerns over the treatment of ill health retirement calculations and the reconciliation processes. Management are committed to addressing the identified issues and action plans are in place. Further work on fire fighters pension administration is scheduled for 2016/17.

- 5.13 The Internal Audit team has achieved 96% of the revised plan being delivered. It was agreed with the Head of Finance that two days (4% of plan) in respect of fraud and corruption work on the new My View expenses module would be carried forward to 2016/17 due to delays in implementation.
- 5.14 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.

- 5.15 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, a number of significant recommendations in a small number of areas would not result in a limited opinion if the majority 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 in above. Any fundamental recommendations resulting from a control weakness in the Authority’s control environment would be reported in detail to the Audit and Performance Management Committee.
- 5.16 A total of 42 recommendations have been made in the ten audit reports issued in the year; these are broken down by audit area in the table below.

Audit opinion and recommendations made on 2015/16 audits

System	Level of Assurance Given	Number of Recommendations made				Total
		BP	RA	S	F	
Payroll System	Reasonable	0	9	1	0	10
Budget Preparation and Control	Good	0	1	0	0	1
IT Audit Follow Up	Limited	0	2	6	0	8
Income and Sundry Debtors	Reasonable	0	3	0	0	3
Purchasing/Procurement	Good	0	1	0	0	1
Technical Services Assets	Reasonable	0	5	1	0	6
Risk Management and Business Continuity	Good	0	3	0	0	3
Corporate Governance	Good	0	0	0	0	0
Recommendation Follow up	Good	1	3	0	0	4
Fire Fighters Pensions Administration	Limited	0	4	2	0	6
Totals		1	31	10	0	42
Percentage		2%	74%	24%	0	100%

5.17 It is management's responsibility to ensure that accepted audit recommendations are implemented within an agreed timescale. With the exception of 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. No recommendations have been rejected in the year by management.

Audit Performance

5.18 Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the Public Sector Internal Audit Standards, and evaluating improvements made over the last twelve months. The effectiveness of Internal Audit is further reviewed through the Audit and Performance Management Committee's delivery of its responsibilities and direct from customers as they provided responses to surveys sent out after each audit.

Reporting

5.19 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 seen as 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.

- 5.20 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

- 5.21 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 a number of 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.

- 5.22 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	2015/16
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	83%
Professionalism of approach	100%
Communication skills	100%
Timeliness of report to your business	100%
Number of forms returned	6

- 5.23 Overall the results are pleasing, showing services delivered consistently at a high level. The payroll audit recommendations were assessed as reasonable

upon the feedback form. The long term nature of some of the recommendations means that they remain in place despite progress in these areas. The audit report reflects the progress made by management but recommendations remain outstanding until fully implemented. The practicality of all other recommendations was assessed as excellent. The information 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 2015/16 Internal Audit Programme - Audit and Performance Management Committee on 29 January 15
- Public Sector Internal Audit Standards
- Accounts and Audit Regulations 2015.