

SHROPSHIRE FIRE AND RESCUE AUTHORITY INTERNAL AUDIT ANNUAL REPORT 2013/14

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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 2014. 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 framework of governance, risk management and control, as required by the Public Sector Internal Audit Standards, which in turn contributes to the review of the effectiveness of the systems of internal control as required by the Accounts and Audit Regulations 2011 4(2).

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

Twelve audit reports were issued during the year resulting in five good, four reasonable, one limited and two unsatisfactory assurances being made. An unsatisfactory assurance opinion was given in respect of the computer services command and control system. However, during the year, this audit was followed up together with the 2011/12 IT recommendations and the assurance level was upgraded to limited to reflect improvements made since the original audit giving a positive direction of travel. The second unsatisfactory opinion related to a specific audit review of payroll overpayments. This review focused on known failures within the payroll system and is not deemed to represent the overall payroll system which is still considered to be reasonable. A total of 100 recommendations have been made in the twelve audit reports issued in the year. No fundamental recommendations have been made.

On the basis of the work undertaken and management responses received; the Authority's financial systems, internal control environment, governance framework and risk management procedures 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 2013/14.

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 2014.
- b) That the system of internal control is operating effectively and can be relied upon when considering the Annual Governance Statement for 2013/14.
- c) The Audit Service Manager's positive year end opinion on the Authority's internal control environment for 2013/14 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 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 2011.
- 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 2013/14 and seeks to:

- Provide an opinion on the adequacy of the 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 2011, in that “a relevant body must undertake an adequate and effective internal audit of its accounting records and systems of internal control in accordance with the proper practices in relation to internal control”.

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 the Fire Authority, in accordance with the requirements of the 2011 Accounts and Audit Regulations. The Internal Audit Service is provided by Shropshire Council. In June 2014, a paper is to be presented to Shropshire Council’s Audit Committee which provides assurance on the service, against the PSIAS. Shropshire Fire and Rescue Authority 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 governance, risk management and control environment. The plan contains a small contingency provision of two days; any unforeseen work demands that may arise, i.e. special investigations, would be delivered in addition to the planned work using the contingency first and any additional time in agreement with the Chief Fire Officer. The contingency provision was utilised in 2013/14 to cover part of the time used in respect of the payroll overpayments audit.

Annual Internal Audit Opinion from Internal Audit Work undertaken during 2013/14

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 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 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. Whilst the unplanned work on Payroll Overpayments resulted in an unsatisfactory assurance level, this does not affect the reasonable assurance provided on the Payroll system, since known areas of failure were reviewed for a specific area.
- During 2013/14 we have undertaken a review of the Command and Control system which resulted in an unsatisfactory audit assurance opinion. The recommendations from this report, in agreement with the authority, were followed up during the year together with the 2011/12 outstanding IT recommendations. This resulted in a limited assurance level being given to the follow up work, demonstrating improvement and therefore a positive direction of travel. In addition, audit consultancy was provided to support officers during their discussions with the contractor of the Command and Control system to address improvements.

From other planned 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 financial systems, internal control environment and risk management procedures 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 2013/14.***

Key Assurances provided during 2013/14

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 2013/14

Audit	Good	Reasonable	Limited	Unsatisfactory
Corporate Governance	✓			
Budget Preparation and Control	✓			
Technical Services Assets – Fire Hydrants	✓			
Risk Management	✓			
Members Allowances	✓			
Payroll		✓		
Creditors System		✓		
Recommendation Follow up		✓		
Anti-Fraud, Bribery and Corruption Strategy		✓		
IT Audit Follow Up Review			✓	
Payroll Overpayments				✓
Computer Services - Command and Control				✓
Total for year	5	4	1	2

Audit	Good	Reasonable	Limited	Unsatisfactory
➤ numbers				
➤ percentage	42%	33%	8%	17%

- 5.10 Nine good and reasonable assurances were made in the year. One limited and two unsatisfactory assurances were also issued. 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 Limited audit opinion was issued on the IT follow up audit which followed up progress on the implementation of the recommendations raised in both the command and control audit and the 2012/13 follow up of the recommendations raised in 2011/12 network administration and ICT failure reports. Further work into the IT control environment is scheduled for 2014/15.
- 5.12 Unsatisfactory audit opinions were issued in respect of the Command and Control audit which was carried forward from 2012/13 and superseded by the limited audit opinion given in the IT follow up audit and payroll overpayments. The payroll overpayments work looked at specific known failures within the payroll system in respect of modifications and unpaid leave. Whilst the audit assurance on this particular piece of work was unsatisfactory this is not deemed to effect the reasonable assurance provided on the main payroll system audit as the scope was very specific and looked at the reasons behind known failures.
- 5.13 The team has achieved 100% of the revised plan which is in line with its target.
- 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 significant or 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 100 recommendations have been made in the twelve audit reports issued in the year; these are broken down by audit area in the table below.

Audit opinion and recommendations made on 2013/14 audits

System	Level of Assurance Given	Number of Recommendations made				Total
		BP	RA	S	F	
Corporate Governance	Good					0
Budget Preparation and Control	Good	2	2			4
Technical Services Assets – Fire Hydrants	Good	1	1			2
Risk Management	Good		1			1
Members Allowances	Good	1	1			2
Payroll	Reasonable	1	7	2		10
Creditors System	Reasonable	1	11	1		13
Recommendation Follow up	Reasonable		9	3		12
Anti-Fraud, Bribery and Corruption Strategy	Reasonable	3	5			8
IT Audit Follow Up Review	Limited		2	15		17
Payroll Overpayments	Unsatisfactory		5	10		15
Computer Services - Command and Control	Unsatisfactory		1	15		16
Totals		9	45	46	0	100
Percentage		9%	45%	46%	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, benchmarking the service against others in the sector and evaluating improvements made over the last twelve months. The effectiveness of Internal Audit is further reviewed through the Audit 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	2013/14
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	100%
Number of forms returned	6

5.23 Overall the results are pleasing, showing services delivered consistently at a high level. 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 2013/14 Internal Audit Programme - Audit and Performance Management Committee on 2 November 12
- Public Sector Internal Audit Standards
- Accounts and Audit Regulations 2011.