



AGENDA ITEM: 11

NORTH WALES FIRE AND RESCUE AUTHORITY AUDIT COMMITTEE

1st June 2015

INTERNAL AUDIT ANNUAL STATEMENT OF ASSURANCE 2014/15

Report by Mike Halstead, Head of Audit and Procurement Services

Purpose of Report

- 1 Under the terms of the accounts and audit regulations, the Authority is required annually to conduct a review of the effectiveness of its system of internal control. Internal audit is an integral part of that system, and is a significant contributor to the preparation of the Annual Governance Statement, which is required to be included in the Annual Statement of Accounts.
- 2 The CIPFA Public Sector Internal Audit Standards 2013 require the Head of Internal Audit to provide the Audit Committee with assurance on the whole system of internal control, including the adequacy of risk management and corporate governance arrangements. It should also be noted that assurance can never be absolute. The most that Internal Audit can provide to the Audit Committee is reasonable assurance that there are no major weaknesses in the whole system of internal control.
- 3 The report contains the assurance statement based on the work of Internal Audit during the year ended March 2015. The report is supported by Appendix A, which details the audit opinions and the key messages of the assignments completed during 2014/15.

The Role of Internal Audit

- 4 The role of Internal Audit Services is to provide management with an objective assessment of whether systems and controls are working properly. It is a key part of the organisation's internal control system because it measures and evaluates the adequacy and effectiveness of other controls so that:
- the Audit Committee and senior management are aware of the extent to which they can rely on the whole system; and
 - individual managers are aware of how reliable are the systems and controls for which they are responsible.
- 5 The internal control system comprises the whole network of systems and controls established to manage the Authority, to ensure that its objectives are met. It includes financial and other controls and also arrangements for ensuring that the Authority is achieving value for money from its activities.

Definition of Internal Audit

- 6 The definition of internal audit, as described in the CIPFA Public Sector Internal Audit Standards 2013, is set out below:
- Internal Audit is an independent, objective assurance and consulting function 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.
 - Whilst Internal Audit "primarily" provides an independent and objective opinion to the organisation on the control environment, it may also undertake other, non-assurance work at the request of the organisation subject to the availability of skills and resources. This can include consultancy work; indeed, Internal Audit intrinsically delivers consultancy services when making recommendations for improvement arising from assurance work and fraud-related work.

Annual Statement of Assurance

- 7 The Head of Internal Audit is required to provide the Audit Committee with an opinion on the overall adequacy and effectiveness of the Authority's governance, risk management systems and internal control environment, providing details of any weaknesses that would qualify this opinion and bringing attention to any issues that are relevant to the preparation of the Annual Governance Statement. The report also provides evidence and assurance that the Internal Audit Service operates in compliance with Professional internal audit standards contained in the CIPFA Public Sector Standards 2013 to enable the Authority to take assurance from this opinion.

Factors Affecting the Extent of Internal Audit Work

- 8 It is evident from the Summary of Internal Audit Activity (Appendix A) that all work planned for 2014/15 was undertaken, with the exception of the Staff Training and Development audit, which was replaced by an audit of Rhyl Community Fire Station. The amendment to the plan was as a result of delays in the implementation of the appraisal project and was agreed with the Deputy Chief Fire Officer.

THE STATEMENT OF ASSURANCE

Preamble

- 9 The Head of Internal Audit is required to provide the Audit Committee with assurance on the whole system of internal control, including the adequacy of risk management and corporate governance arrangements. It should be noted that assurance can never be absolute. The most that Internal Audit can provide to the Audit Committee is a reasonable assurance that there are no major weaknesses in the whole system of internal control.
- 10 The matters raised in this report are only those that came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Overall Assurance

- 11 The work of Internal Audit Services has been conducted in compliance with CIPFA's Public Sector Internal Audit Standards 2013.

Audit Opinion

- 12 I am satisfied that internal audit work undertaken, together with our maintained knowledge of the organisation and its procedures allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the NWFRA risk management, control and governance processes. In my opinion, for the 12 months ended 31st March 2015, NWFRA has satisfactory internal control and corporate governance processes to manage the achievement of the Authority's objectives.

Assurances

- 13 It is my opinion that NWFRA has adequate and effective control processes to manage its achievement of the Authority's objectives for the 12 month period to 31st March 2015. In reaching this opinion the following factors were taken into consideration:
- Internal Audit undertakes follow up action within six months of the issue of the final report in respect of audit assignments. The purpose of the follow up review is to determine the timeliness and effectiveness of the implementation of recommendations made to management. The follow up review process indicates that management have implemented or are in the process of implementing all of the recommendations made in our audit reports relating to 2013/14. However, the follow up of the Corporate Governance audit issued in May 2014 has been carried forward into 2015/16.
 - A schedule giving an audit opinion of the adequacy and effectiveness of control processes in respect of all the audit assignments undertaken during the year is attached at Appendix A. All audits undertaken during the year were assessed as providing positive levels of assurance.
- 14 The overall audit opinion may be used in the preparation of the Annual Governance Statement.

ANALYSIS OF WORK UNDERTAKEN AND DEFINITION OF AUDIT RECOMMENDATIONS AND OPINIONS

15 The schedule at Appendix A details the conclusions and key messages of the assignments Internal Audit has reported upon during the year. Standard 10 of the CIPFA Code of Practice for Internal Audit in Local Government in the U.K. 2006 requires that Internal Audit recommendations are prioritised to identify clearly their respective risk. The categorisation of recommendations informs the audit opinion in respect of each audit. Subsequently, a summary of each audit opinion made during the financial year informs the process whereby the Head of Audit and Procurement Services is required under the above Code to include an opinion on the overall adequacy and effectiveness of the Authority's internal control environment, in his formal annual report to the Audit Committee.

Risk Ranking Categories

16 Audit recommendations are categorised to reflect the way in which the Authority assesses and measures risk. The standard risk assessment criteria are shown below:

LIKELIHOOD	Event is almost certain to occur in most circumstances	>70%	Almost Certain	A					
	Event likely to occur in most circumstances	30-70%	Likely	B					
	Event will possibly occur at some time	10-30%	Possible	C					
	Event unlikely and may occur at some time	1-10%	Unlikely	D					
	Event rare and may occur only in exceptional circumstances	<1%	Rare	E					
						5	4	3	2
					Very Low	Low	Medium	High	Very High
	Service Performance		Minor errors or disruption	Some disruption to activities/customers	Disruption to core activities/ customers	Significant disruption to core activities. Key targets missed	Unable to delivery core activities. Strategic aims compromised		
	Reputation		Trust recoverable with little effort or cost	Trust recoverable at modest cost with resource allocation within budgets	Trust recovery demands cost authorisation beyond existing budgets	Trust recoverable at considerable cost and management attention	Trust severely damaged and full recovery questionable and costly		
	Financial	Cost (£)	<£50k	£50k - £350k	£350k - £1 m	£1 m - £5 m	>£5m		
IMPACT									

	Severity	Management Intervention
	Minor	Findings which are easily addressed by line management.
	Moderate	Findings that identify non-compliance with established procedures but do not represent any major risk to the Authority, containable at service level.
	Major	Important findings that need to be resolved by Principal Officers and Executive Panel may need to be informed.
	Critical	Findings that are fundamental to the management of risk in the business area, representing weaknesses in control that require the immediate attention of the Executive Panel.

Audit Opinion

- 17 The outcome of each audit and the evaluation of the adequacy of the internal control environment is based on the number of recommendations made and their risk rating. This process informs the Audit Opinion and the following definitions have been produced to enable auditors to make appropriate assessments in respect of the Audit Opinion contained at the end of each audit report.

DEFINITIONS OF ASSURANCE RATINGS

LEVELS OF ASSURANCE	CONTROLS	RISKS
HIGH ASSURANCE	Key controls are in place to ensure the achievement of service objectives and to protect the Authority against significant foreseeable risks and are applied consistently and effectively. No significant or material errors were found.	Low priority actions required which are easily managed.
SATISFACTORY ASSURANCE	Key controls exist to enable the achievement of service objectives and to mitigate against significant foreseeable risks. However, there was some inconsistency in application and opportunities still exist to mitigate further against potential risks.	Some opportunities still exist to mitigate further against potential risks. Some risk of loss, fraud, impropriety or damage to reputation.

LEVELS OF ASSURANCE	CONTROLS	RISKS
LIMITED ASSURANCE	Key controls are in place and to varying degrees are complied with but there are gaps in the process which leave the service exposed to risks. Objectives are not being met or are being met without achieving value for money.	There is a need to introduce additional controls and/or improve compliance with existing ones, to reduce the risk exposure to the Authority. A high risk of loss, fraud, impropriety or damage to reputation.
NO ASSURANCE	Key controls are considered to be insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls and errors and omissions have been detected.	Key controls do not exist and objectives are not met or are being met without achieving VFM. The Authority is exposed to very significant risk, which could lead to major financial loss, reputational risk of embarrassment or failure to achieve key service objectives.

Common Weaknesses

- 18 There is no common factor that links the weaknesses identified as part of our internal work for 2014/15 and there are no particular issues or concerns relevant to the preparation of the Annual Governance Statement.

OTHER MATTERS

Qualifications to the Audit Opinion

- 19 In giving an audit opinion, it should be noted that assurance can never be absolute. The most that the Internal Audit Service can provide to the Audit Committee is a reasonable assurance based upon the work undertaken in that year, that there are no major weaknesses other than those identified.
- 20 Qualifications to the Audit Opinion are set out in paragraphs 9 and 10. In addition, in arriving at our opinion, we have taken into account:
- the results of all audits undertaken during the year ended 31st March 2015;
 - the results of follow-up action taken in respect of audits from previous years;

- whether any High or Medium category of recommendations have not been accepted by management and the consequent risks;
- the affects of any material changes in the Authority's objectives or activities;
- matters arising from previous reports to the Executive Panel or Audit Committee;
- whether or not any limitations have been placed on the scope of internal audit;
- the resource constraints placed upon Internal Audit that have impinged on the Service's ability to meet the full internal audit needs of the Authority;
- what proportion of the Authority's internal audit needs have been covered to date.

Acceptance of Recommendations

21 Management have accepted 100% of the recommendations made by the Internal Audit Service during the year. There are no Critical or Major category recommendations that we consider are not receiving adequate management attention.

Reliance Placed Upon Work by Other Assurance Bodies

22 Internal Audit places some reliance on work undertaken by KPMG, the Authority's external auditors, particularly in relation to the financial statements, risk management and corporate governance arrangements in drafting the annual reports and forming our annual opinion of the period.

Issues Judged Relevant to the Statement on Internal Control

23 Based on the work of the Internal Audit Section during 2014/15 there are no significant areas of weakness that warrant attention in the Annual Governance Statement for 2014/15.

Compliance with Internal Audit Standards

- 24 Internal Audit employ a risk-based approach to determining the audit needs of the Authority at the start of the year and use a risk based methodology in planning and conducting our audit assignments. The work of Internal Audit Services has been performed in compliance with the CIPFA Public Sector Internal Audit Standards 2013.
- 25 Internal Audit is subject to annual review by External Audit to determine compliance with the auditing standards contained in the Code of Practice.
- 26 The Head of Internal Audit has made provision for internal quality reviews to be undertaken periodically by experienced members of the internal audit function to appraise:
- compliance with the organisational and operational standards referred to in paragraph 25,
 - the quality of audit work,
 - the quality of supervision,
 - compliance with the local audit manual,
 - the achievement of performance indicators.
- 27 The review conducted in respect of the work performed during 2014/15 has demonstrated compliance with both internal and external standards.

Internal Quality Assurance Programmes

- 28 In order to ensure the quality of the work performed by Internal Audit, a range of quality measures are in place which include:
- supervision of staff conducting audit work;
 - documented review of all files of working papers and reports by managers;
 - an annual appraisal of audit staff resulting in personal development and training action plans;
 - the maintenance of the Section's Internal Audit Manual.

RECOMMENDATION

- 29 The Internal Audit Annual Statement of Assurance be accepted and utilised to contribute to the evidence content of the 2014/15 Annual Governance Statement.

NORTH WALES FIRE AND RESCUE AUTHORITY
Internal Audit Section – 2014/15 Annual Summary of Recommendations and Audit Opinions

APPENDIX A

	Auditable Area	Audit Findings and Key Messages	Critical	Major	Moderate	Minor	Total	Agreed by Mgmt	Audit Opinion
1	<p align="center">Payroll – Starters and Leavers</p>	<p>It was confirmed that generally the HR procedures are operating effectively and consistently, with staff being selected and recruited in an open, fair and transparent process, providing equality of opportunity and ensuring the timely appointment of candidates. Similarly, Conwy's Payroll Section ensure that new employees are paid correctly in accordance with their contract and in relation to leavers, pay ceases on the last service with the correct deductions made.</p> <p>However, the audit has identified some weaknesses in internal control and areas of potential risk; A recommendation made in 2007 regarding the importance of periodic checks between the payroll and HR systems has not been appropriately implemented and the salary overpayment has highlighted an area where internal control may be improved by the submission of starter and leaver forms to payroll via secure e-mail. In addition, it is important that a procedure is established between HR and Payroll, whereby a list is produced on a monthly basis by payroll of all starters and leavers and submitted to HR for checking and certification to ensure all starters and leavers have been dealt with appropriately.</p> <p>Starters are properly provided with letters and contracts of employment, starter forms are promptly completed and submitted to payroll and the appropriate recruitment checks are performed in relation to proof of identity, references, medical reports and DBS checks. In addition, the Payroll Section performs the appropriate checks on the starter forms to ensure new employees are correctly paid in accordance with their contract and any deductions correctly made. However, the submission of starter forms to the Payroll Section via e-mail would improve the level of internal control and the audit trail.</p> <p>Properly authorised leaver forms are completed in all instances of an employee leaving a post and it was confirmed that procedures are in place to ensure that pay ceases on the last day of service with the correct deductions made. However, the salary overpayment has identified weaknesses in internal control; Leaver forms not being e-mailed but posted to Conwy Payroll and there not being any monthly checks to ensure that all leavers have been removed from the Payroll System.</p>	0	0	7	0	7	7	Satisfactory

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	Auditable Area	Audit Findings and Key Messages	Critical	Major	Moderate	Minor	Total	Agreed by Mgmt	Audit Opinion
2	Fuel Management	<p>An office procedures manual has not been established, to define the procedures to be operated, clearly explaining the day to day duties and responsibilities of officers regarding fuel usage management and monitoring. The procedures should include the routine use of fuel consumption and exception reports to monitor fuel usage.</p> <p>The Quality Assurance and Audit Officer maintains an accurate and up to date register of all the Service's Arval fuel cards, which includes the card group, registration number of the vehicle or allocated driver, card number and card expiry date. Fuel cards are well controlled and all cards are signed for upon receipt by the responsible officer.</p> <p>Generally the Quality Assurance and Audit Officer effectively monitors the refuelling and fuel usage of the vehicle fleet and maintains a satisfactory level of internal control over fuel transactions by utilising, on an ad hoc basis, data within the Fleet Management System, <i>Fleetwave</i> to identify any exceptions or suspect transactions. However, the <i>Fleetwave's</i> Fuel Module is currently still being developed and is currently not being utilised to its full potential to provide automatic fuel consumption and other fuel exception reports, which would assist in the detection of possible suspect transactions and for identifying vehicles with exceptionally low or high fuel consumption for further scrutiny.</p> <p>Arval Allstar fuel invoices are promptly and accurately paid by the Finance Section, with all payments properly checked, coded and authorised. The consolidated VAT invoices are approved by HMRC for tax records, so there is no need to keep or process individual fuel receipts and electronic check controls provide a level of assurance upon the integrity and accuracy of the invoices. However, the current procedure regarding the submission of <i>Trans3</i> fuel logs to the Finance Section is considered an unnecessary administrative burden that does not enhance the level of internal control.</p>	0	0	5	2	7	7	Satisfactory

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3	Home Fire Safety Checks	<p>It was identified that 26,621 HFSC were delivered in 2013/14 an increase of 20% on the previous year. Performance in relation to the number of HFSC checks delivered and in particular those delivered to 'vulnerable' adults is closely monitored and reported upon.</p> <p>It was identified that 8,528 (32%) of HFSC during 2013/14 were following referral from a partner agency and performance is monitored in relation to reaching the most 'vulnerable' members of the community. The CSD works effectively in partnership with local authorities, housing associations, the local health board and voluntary sector agencies to identify and reach the most vulnerable members of the community.</p> <p>However, it was identified that a number of MoU, which were established in 2008/09 e.g. NW Police, have expired and have not yet been renewed as it was decided that the MoU needed to be developed to be WASPI compliant. Similarly DDA have not been established with the voluntary sector agencies referring vulnerable people. It is also important that checks are performed to ensure that all referrals made by agencies via email are securely sent using the Egress Secure Email software. In addition, it was identified that 30% of HFSC designated as 'High Priority' were not delivered within the target of 28 days.</p> <p>Partner agencies delivered 2,396 HFSC during 2013/14, which is the most delivered in a single year since the project commenced in 2009 and an increase of 23% on 2012/13. It was confirmed that Service Level Agreements are in place with the 16 agencies contracted to deliver HFSC, a comprehensive training package is in place, regular meetings are held with the agencies to review progress, a quality assurance programme is operating and an annual progress report has been completed.</p> <p>However, it was identified that the PISP that were in place with all the third sector agencies expired on 31 March 2014; the protocols were not renewed at the time as it was decided that the protocols needed to be developed to be WASPI compliant, which is work in progress. The quality assurance checks should include the shadowing of agency personnel and the review forms held more consistently in a folder on the shared drive.</p>	0	0	7	3	10	10	Satisfactory

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Internal Audit Section – 2014/15 Annual Summary of Recommendations and Audit Opinions

	Auditable Area	Audit Findings and Key Messages	Critical	Major	Moderate	Minor	Total	Agreed by Mgmt	Audit Opinion
	<p>Home Fire Safety Checks (continued)</p>	<p>It is evident that the financial records maintained to record payments to agencies since 2008/09 are not completely reliable or accurate, which effects the agency targets for remaining HFSC. In addition, where agencies have been paid for HFSC and it appears that they are not in a viable position to deliver e.g. Victim Support, consideration should be given to terminating the contracts and the outstanding funding repaid to NWFRS.</p>							
<p>4</p>	<p>Rhyl Community Fire Station</p>	<p>It was confirmed that a Station procedural manual has been prepared and is available to staff, all staff have detailed job descriptions, the general security of the Station is appropriate and fire and premises risk assessments have been established and reviewed regularly. However, it was identified that the Station does not have in place an operational business plan and does not produce an Annual Report providing a written progress report and development plan for the forthcoming year.</p> <p>It was identified that a cash limited budget is not set for RCFS; although the Financial Performance reports to the Fire Authority in 2011/12 and 2012/13 identify that the trading account is budgeted to breakeven, this is not detailed in a business plan or in a cash limited budget set and approved at the start of each financial year. In addition, the responsible officers, the Head of Community Safety and the RCFS Co-ordinator, are not provided with reports during the year of actual income and expenditure to enable the financial performance of the Station to be effectively and economically managed. However, it is evident that the RCFS Co-ordinator exercises discretion in managing expenditure responsibly and prudently.</p> <p>It is evident that internal room hire recharges were used in the first 3 years of operation to reduce the trading account deficit. However, in the last 3 years due to the deficit decreasing the recharges have not been posted to revenue. This inconsistent treatment of internal room hire recharges in the accounts does not provide the Authority with meaningful, comparative data to enable the financial performance of the Station to be effectively monitored.</p> <p>It was identified that the Station's room hire charges have not been reviewed and approved in writing by the DCFO on an annual basis, which does not comply with Financial Regulations 5.25 and 5.26.</p>	<p>0</p>	<p>0</p>	<p>7</p>	<p>4</p>	<p>11</p>	<p>11</p>	<p>Satisfactory</p>

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	Auditable Area	Audit Findings and Key Messages	Critical	Major	Moderate	Minor	Total	Agreed by Mgmt	Audit Opinion
	Rhyl Community Fire Station (continued)	<p>It was confirmed that invoices are generally raised promptly and accurately for room hire, the room hire records are of a good standard and may be linked to the associated invoice number and the debt recovery procedures are operating effectively to ensure all outstanding debts are paid. However, it was identified that an invoice had not been raised for a block booking of 6 hires between November and January 2015 and the majority of room hire bookings are not supported by a Booking Form and a signed copy of the standard terms and conditions of hire.</p> <p>RCFS is maintaining an inventory record of all furniture and equipment, with annual inventory checks performed to ensure that physical items agree to the items listed on the inventory. However, instances have been identified of items being recorded during annual checks as no longer on site; but the inventory record has not been appropriately endorsed with the reason that items are no longer present i.e. lost, stolen or disposed of; and correctly certified by an authorised officer.</p>							
								High	0
								Satisfactory	4
								Limited	0
								No Assurance	0