

APPENDIX A



Liverpool  
City Council

Internal Audit Service

**Merseyside Fire & Rescue Service -  
Annual Internal Audit Report and Opinion  
2019/20**

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Reporting Officer:	Melanie Dexter – Audit Manager
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## 1 Introduction

- 1.1 This report summarises the work that Internal Audit has undertaken across Merseyside Fire & Rescue Service during the 2019/20 financial year, the service for which is provided by Liverpool City Council, Internal Audit.
- 1.2 The purpose of the Annual Internal Audit Report is to meet the Chief Audit Executive's (CAE) annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS). It sets out the requirement for the CAE (for the service this is the Head of Internal Audit) to report to senior officers and the 'Board' (for the service this is the Audit Committee) to help inform their opinions on the effectiveness of the framework of governance, risk and control in operation within the Authority. The PSIAS requirements are that the report must incorporate:
- An annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (the control environment);
  - a summary of the audit work that supports the opinion; and
  - a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme (QAIP).
- 1.3 The audit work has been carried out in accordance with the 2019/20 risk-based audit plan. The plan is designed to give reasonable assurance that controls are in place and working effectively. Opinions are formed in respect of each individual audit and the audit opinion is separated between control environment (the controls in place) and compliance (whether or not the controls have been adhered to) so it is easier to identify where corrective action is needed.
- 1.4 We have liaised with senior management throughout the year to ensure that internal audit work undertaken continues to focus on the high-risk areas and in the light of new and ongoing developments in the service, to help ensure the most appropriate use of our resources.
- 1.5 The Annual Internal Audit Report is an important source of evidence for the Annual Governance Statement, and this report is timed to support the preparation of this Statement for the 2019/20 year.
- 1.6 We would like to thank those officers throughout the Authority who provided their assistance and cooperation in the course of our work throughout the year.

**2 Internal Audit Opinion 2019/20**

- 2.1 Internal Audit works to a risk based audit plan. The plan is designed to give reasonable assurance that controls are in place and working effectively. From the Internal Audit work undertaken in compliance with the PSIAS in 2019/20, it is our opinion that we can provide **Substantial** Assurance that the system of internal control in place at Merseyside Fire & Rescue accords with proper practice. This opinion is based on the individual assurance levels we have provided for each of the audit reviews undertaken during the year, and includes consideration of the wider sources of assurance provided to the Authority.
- 2.2 The 2019/20 fundamental systems audits completed to date have shown a substantial level of compliance and none of the audits have identified weaknesses that have required a corporate impact assessment of major or moderate. Based on the audit work carried out in 2019/20 we are not aware of any significant control weaknesses, which impact on the Annual Governance Statement.
- 2.3 We undertake individual internal audits with the overall objective of providing members, the Chief Fire Officer, the Director of Finance and other officers with reasonable, but not absolute, assurance against material misstatement or loss and, accordingly, this opinion does not provide such an absolute assurance.
- 2.4 Internal Audit uses an overall opinion grading for audits and certain responsive work which is based on the ratings of the audit recommendations being made and is explained in more detail in section 8. The table below summarises the opinions given on internal audit work in 2019/20.

**Fig 1 Summary of Opinions provided in 2019/20**

Assurance Level	Control Environment	Compliance
Substantial	8	8
Good	2	2
Acceptable / Limited / None	-	-
<b>Total Audits Completed</b>	<b>10</b>	<b>10</b>

**Limitations on our opinion arising from Covid-19**

- 2.5 The delivery of the internal audit work for 2019/20 has not been impacted by the global Covid-19 pandemic. However, the consequences of this unprecedented event are expected to continue in the new financial year and will continue to pose significant risks to all organisations. The potential impact on Merseyside Fire & Rescue Service’s control systems has not been assessed and our opinion takes no account of this. This opinion is based solely on the matters that came to our attention during the course of our internal audit reviews and is not an opinion on all elements of the risk management, control and governance processes of the Service.

**3 Summary of Audit Work Completed**

- 3.1 The opinion of the Head of Internal Audit is informed significantly by the results of audits of the Authority’s fundamental systems. These are the major systems which underpin the system of internal control and financial reporting.
- 3.2 No significant issues were identified in the course of the fundamental systems audits. The audit coverage during the year has provided sufficient evidence that controls in place to govern the core financial systems are sound and that they are

substantially adhered to. A summary of the outcomes of the audits for these systems for the year is set out below in Fig 2.

**Fig 2 Completed fundamental systems audits in 2019/20**

Audit Title	Control Environment	Compliance	Corporate Impact
General Ledger	Substantial	Substantial	Minor
Creditors			
Debtors			
Medium Term Financial Plan*			
Budgetary Control*			
Treasury Management*	Good	Good	Minor
Payroll*			
Payroll	Fieldwork	Fieldwork	Fieldwork

**Definition**

\*Old year carry fwd, completed in 19/20

**General Ledger, Creditors, Debtors**

3.3 Our audit of each of these key financials was finalised in May 2020, and we were able to provide positive opinions for all of these reviews. No significant control weaknesses were identified and a strong control environment continues to be maintained.

3.4 As standard practice, we made use of Computer Assisted Audit Techniques (CAATs) when performing these audit reviews to confirm the accuracy and completeness of the information held on the systems. The controls within these systems contribute significantly to mitigating risks and reducing errors.

**Medium Term Financial Plan/Budgetary Control**

3.5 These reviews have examined whether the Authority’s medium term financial position reflects savings requirements and that appropriate proposals have been developed to achieve them. We have also considered the budget monitoring arrangements to provide an overall opinion as to whether the controls in place are adequate and effective in order to underpin an effective budgetary control process. A positive opinion was also identified for these reviews and no recommendations were identified.

**Treasury Management**

3.6 A service level agreement exists between MFRA and Liverpool City Council covering the provision of treasury management services. We therefore place assurance on the audit work undertaken of the LCC Treasury Management system where the systems overlap. The audit’s aim was to provide assurance on the following key risk areas: governance of investments, investment in appropriate institutions as per the Treasury Management strategy, monitoring of the Authority’s cash flow, maintenance of investment/loan records, investment/loan authorisation controls; and documentation of processes. The audit found that the Treasury Management

team has an appropriate control environment in place and identified high and consistent levels of monitoring and compliance

**Payroll**

- 3.7 In addition to reviewing payroll key controls, additional substantive testing was performed to ensure that honoraria, sickness and maternity leave are reflected accurately in payments/deductions made to employees. An appropriate control environment is in place; however, recommendations were made in relation to the documenting of policies in relation to honorarium and discretionary sickness payments.

**Fig 3 Other Strategic/Client directed audits completed in 2019/20**

<b>Audit Title</b>	<b>Control Environment</b>	<b>Compliance</b>	<b>Corporate Impact</b>
Review of data protection processes	Good	Good	Minor
Review of firefighters pensioners administration control	Substantial	Substantial	Minor
Review of new debit card payment process	Substantial	Substantial	Minor
Lease / Provided ESV car controls	<i>In review</i>	<i>In review</i>	<i>In review</i>

**Data Protection Processes**

- 3.8 The General Data Protection Regulation (GDPR) was first published on April 2016 and has been enforceable from 25th May 2018. GDPR applies to all organisations that collect, use, store and transfer personal data in the EU or about individuals in the EU. As the Data Controller, MFRS can be liable for substantial fines and penalties for non-compliance with the regulation. The objective of this audit review was to provide an opinion as to whether the key controls that are in place to ensure the Authority is compliant with GDPR requirements are effective. Based on the findings of this review we can provide good assurance that the controls in place to ensure compliance with GDPR are operating effectively.

**Firefighters Pensioners Payroll**

- 3.9 The administration of the firefighter pension scheme is performed by Your Pension Service (Lancashire County Council) The objective of this audit was to obtain assurance on the arrangements in place to ensure that new recruits are entered on the correct pension scheme, contributions are allocated correctly, variances are investigated, overtime is correctly classified and payments to leavers are correct. Based upon the overall findings of the testing performed we can provide substantial assurance that the risks examined are being effectively managed and substantial assurance that the controls in place are being complied with.

**Debit Card Payment Process introduced in SHQ Canteen**

- 3.10 The audit reviewed the key controls including ensuring all income received is accurately recorded and that access rights are appropriate, a separation of duties exists and cost savings highlighted in the business case are measurable and are being measured. Based upon the scope of this review and the results of our testing

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we can provide a substantial level of assurance on the effectiveness of the control environment. There were no recommendations arising from this audit.

**Leases / Provided ESV car controls**

3.11 The scope of this audit was to ensure the robustness of Flexi Duty Managers’ mileage records for provided and leased vehicles. The review examined the vehicle records to ensure they adequately demonstrate accurate and appropriate mileage ie business only for provided vehicles apart from the limited personal mileage allowed for home/office/home use. The audit is currently in review so it would be inappropriate to provide an overall opinion at this time.

**Contingency/Responsive/Advice and Assistance**

3.12 No contingency/responsive work was identified this financial year; however the majority of audits performed required more time than initially envisaged and the contingency budget was used to complete this programmed work. The following audits were not undertaken but they may be carried forward to the 2020/21 audit plan.

**Fig 4 Audits deleted/deferred from the 2019/20 audit plan**

Audit Title
HMICFRS Inspection outcome – review of action plan progress
Cyber Security
Special Services charging process
Workshops – Controls/Process around work for 3rd parties

**4 Recommendation Implementation**

4.1 Where applicable, Internal Audit reports will include action plans detailing recommendations for improvement supported by agreed management actions. An officer is nominated with responsibility for each recommendation and an implementation date agreed.

4.2 Audit recommendations are graded as medium, high or essential/strategic with the latter being the most critical and indicating, for example, an absence or failure of a fundamental control where there is no compensating control. Internal Audit aims to follow up all essential / strategic recommendations within a month of their target implementation date, and all high recommendations within three months. It has recently been agreed, that to allow a more complete assurance to be obtained on the implementation of recommendations, medium recommendations will also be followed up.

4.3 During the period June 2019 to May 2020, Internal Audit followed up 39 recommendations. The overall position at the end of the period is that of the 39 recommendations actively followed up, 16 recommendations have been closed and the implementation of 23 is ongoing. The majority of these outstanding recommendations relate to audits reported in the last 18 months. Table 5 below details the recommendations that are still ongoing.

**Figure 5: Analysis of recommendations followed up between June 2019 and May 2020. The table identifies the number of Essential/ Strategic (E/S) and High (H) audit recommendations issued that have yet to be implemented.**

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Audit Area	Ongoing Recommendations			Total
	E/S	H	M	
Payroll	2	1	-	3
Data Protection Regulations	2	1	-	3
Procurement	1	-	2	3
Ancillary Fleet	-	4	5	9
Governance	-	-	1	1
<b>Older Audits</b>				
Devolved Arrangements	-	3	-	3
Income Generation	-	1	-	1
<b>Total</b>	<b>5</b>	<b>10</b>	<b>8</b>	<b>23</b>

- 4.4 There are also a few recommendations outstanding relating to two former audits; where the implementation dates were extended. If there are sound operational reasons for extending the time required to complete actions, implementation dates are extended.
- 4.5 Of the 16 recommendations that were closed, 11 had been fully implemented, with the remaining 5 mitigated. These five were all closed with agreement between Internal Audit and the relevant service areas and justification given ie where processes have been changed or superseded and the recommendations were therefore no longer appropriate.

## 5 Quality Assurance and Improvement Programme

- 5.1 It is a requirement of PSIAS for the Chief Audit Executive to develop and maintain a QAIP that covers all aspects of internal audit activity.
- 5.2 The Internal Audit Service has had long-standing governance arrangements in place for quality assurance and improvement that pre-date the introduction of the PSIAS and the QAIP. In the main, the development of the QAIP involved bringing together the existing arrangements in a formalised framework.
- 5.3 The QAIP is made up of internal and external assessments. It is a requirement of the PSIAS for the results of assessments against the QAIP to be reported in the Annual Report.
- 5.4 Based on the results of the internal assessments we can conclude that Internal Audit complied with the main requirements of the standards. Areas for improvement were identified and actions have been put in place against these. The annual review of both the Charter and the QAIP is scheduled to take place in July 2020.
- 5.5 External assessments are required to be undertaken at least every five years. During 2016/17 Internal Audit were subject to an external assessment by Glasgow City Council. The assessment concluded that Internal Audit complies with the main requirements of the standards. The next external assessment is due in 2021.
- 5.6 During the year, the Internal Audit Service also retained its ISO accreditation following an audit of the quality system arrangements. This was based on an external assessment.

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5.7 Based on the results of the QAIP for 2019/20 the Head of Internal Audit can confirm that internal audit activity conforms to the International Standards for the Professional Practice of Internal Auditing and with the requirements of PSIAS and the Code of Ethics.

## 6 Organisational Independence

6.1 PSIAS require the Head of Internal Audit to confirm to the Audit Committee the organisational independence of the internal audit activity.

6.2 The arrangements in place to ensure organisational independence of the Internal Audit Service are outlined in the Internal Audit Charter. The Charter establishes the framework within which Liverpool City Council's Internal Audit Service operates to best serve MFRA and to meet its professional obligations under applicable professional standards.

6.3 Underpinning the Internal Audit Charter, operational procedures are in place to govern day-to-day audit activity and this includes arrangements to ensure independence and objectivity.

## 7 Statement of Conformance with PSIAS

7.1 Internal Audit has been assessed internally by the Chief Audit Executive, and through and external peer review, as conforming to PSIAS.

7.2 The table below summarises actual audit days based on an agreed 112 days' work.

**Fig 5 Actual v Budgeted Days**

<b>Audit Title</b>	<b>Planned</b>	<b>Actual</b>
Fundamentals	40	60
Strategic reviews/client directed/ad-hoc reviews	45	47
Contingency	14	0
Follow Up	5	5
Audit management	8	7
<b>Total</b>	<b>112</b>	<b>119</b>

## 8 Definitions of audit assurance

8.1 Internal Audit uses an overall opinion grading for audits and some responsive work. Where no issues surrounding the control environment are found, a substantial level of assurance will be given on the controls tested. However, where weaknesses with controls have been identified, depending on the potential impact of those weaknesses, a lower graded assurance level will be given.

8.2 The grades, which are summarised in the table below, are based on the ratings of the audit recommendations being made. The corporate impact rating sets the audit findings in context based on the overall risk to the Service.

<b>Control Environment Assurance</b> – Opinion on the design and suitability of the current internal controls.	
<b>Level</b>	<b>Definition</b>
<b>Substantial</b>	There are minimal control weaknesses that present very low risk to the control environment
<b>Good</b>	There are minor control weaknesses that present low risk to the control environment
<b>Acceptable</b>	There are some control weaknesses that present a medium risk to the control environment
<b>Limited</b>	There are significant control weaknesses that present a high risk to the control environment
<b>None</b>	There are fundamental control weaknesses that present unacceptable level of risk to the control environment
<b>Compliance Assurance</b> – Opinion on the level of compliance with current internal controls.	
<b>Level</b>	<b>Definition</b>
<b>Substantial</b>	The control environment has substantially operated as intended.
<b>Good</b>	The control environment has largely operated as intended although some minor errors have been detected
<b>Acceptable</b>	The control environment has mainly operated as intended although errors have been detected
<b>Limited</b>	The control environment has not operated as intended. Significant errors have been detected
<b>None</b>	The control environment has fundamentally broken down and is open to significant error or abuse
<b>Organisational impact</b> – The potential impact on the organisation if the recommendations are not implemented.	
<b>Level</b>	<b>Definition</b>
<b>Major</b>	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
<b>Moderate</b>	The weaknesses identified during the review have left the Council open to moderate risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
<b>Minor</b>	The weaknesses identified during the review have left the Council open to a low level of risk. If the risk materialises it would have a minor impact on the organisation as a whole.