

REPORTING OFFICER:	Melanie Dexter – Audit Manager
DATE:	26 th May 2014
SUBJECT:	Merseyside Fire and Rescue Service - Annual Internal Audit Report 2014/15

1 Purpose

- 1.1 This report summarises the work that Internal Audit has undertaken across Merseyside Fire & Rescue Service (the 'Service') during the 2014/15 financial year; the service for which is provided by Liverpool City Council, Internal Audit Service.
- 1.2 The purpose of the Annual Internal Audit Report is to meet the Chief Internal Auditor (CIA) annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS). It sets out the requirement for the CIA to report to senior officers and the 'Board' (for the service this is the Audit Sub-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.
- 1.3 The audit work has been carried out in accordance with the 2014/15 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. We have retained the corporate impact opinion which is a measure of the significance of the findings to the organisation as a whole. An explanation of the level of assurance and corporate impact ratings are detailed within this report.
- 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 As a result of this liaison some changes were agreed to the plan during the year. Whilst 2 internal audits have been deleted from the plan, the total number of audits actually undertaken in 2014/15 was 14 compared to 10 in the prior year.

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- 1.6 A summary of the performance of Internal Audit against its performance measures is also included in this report.
- 1.7 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 2014/15 year.
- 1.8 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 Opinion on the overall control environment

- 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 2014/15, it is our opinion that we can provide **Substantial Assurance** that the system of internal control in place at Merseyside Fire & Rescue Service for the year ended 31st March 2014 accords with proper practice.
- 2.2 The 2014/15 fundamental systems audits 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 2014/15 we are not aware of any significant control weaknesses within the Service 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 Deputy Chief Executive 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 5. The table below summarises the opinions given on internal audit work in 2014/15.

Fig 1 Summary of Opinions from the 2014/15 audit plan

Assurance Level	Control Environment	Compliance
Substantial	7	6
Good	1	2
Acceptable	1	1
Limited	0	0
None	0	0
Sub-total	9	9

Assurance Level	Control Environment	Compliance
No Opinion Audits	1	1
Audits not yet reported	4	4
Total Audits Completed	14	14
Audits Deferred	2	2
Total	16	16

3 Summary of findings arising from Internal Audits in 2014/15

- 3.1 The opinion of the Chief Internal Auditor 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. 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 from the 2014/15 audit plan

Audit Title	Control Environment	Compliance	Corporate Impact
Payroll*	Substantial	Good	Minor
Budgetary Control	Substantial	Substantial	Minor
General Ledger	Substantial	Substantial	Minor
Medium Term Financial Plan	Substantial	Substantial	Minor
Treasury Management	Substantial	Substantial	Minor
Debt Management	Substantial	Substantial	Minor
Insurance	Substantial	Substantial	Minor
Procurement	<i>Review stage</i>	<i>Review stage</i>	<i>Review stage</i>
Creditors	<i>Work In Progress</i>	<i>Work In Progress</i>	<i>Work In Progress</i>
Corporate Governance	<i>Work In Progress</i>	<i>Work In Progress</i>	<i>Work In Progress</i>

* *Report issued in draft*

- 3.2 A summary of all other audits completed during 2014/15 are shown in Fig 3 with a brief explanation for all audits. Assurance can also be taken when undertaking advisory work due to gaining an understanding of the relevant systems and how they operate.

Fig 3 Other Strategic/Client directed/Ad hoc audits completed from the 2014/15 audit plan

Audit Title	Control Environment	Compliance	Corporate Impact
Toxteth Fire Fit Hub	Acceptable	Acceptable	Moderate
Financial Management & Integrated HR system	Good	n/a	n/a
Joint Control Centre – SLAs	n/a	n/a	n/a
CSO compliance	<i>Work In Progress</i>	<i>Work In Progress</i>	<i>Work In Progress</i>
Grant Payments x2	n/a	n/a	n/a

Toxteth Fire Fit Hub

- 3.3 The objectives of this audit were to provide assurance to the Authority that the Toxteth Firefit Hub has appropriate internal controls in place and that they are operating effectively. The review examined the overarching controls and procedures in place covering a range of key governance and financial process risks.
- 3.4 We raised a number of recommendations where we believe controls could be improved, the essential/strategic ones being:
- Ensuring that accurate, up to date and relevant financial reports are presented to Trustees at each Financial Committee meeting with a summary of that information reported at full Board meetings;
 - Key risks, of all natures (e.g. operational, reputational, financial etc.) are regularly identified, mitigated and reported on to operational management and also to the Board of Trustees;
 - The banking system is amended to ensure that all transactions require authorisation from 2 persons to reduce the possibility of erroneous payments;
 - A Business Continuity Plan should be produced and reported to the Board of Trustees for approval. Once approved the plan should be subject to testing at an appropriate frequency (annually). In addition to the testing, the plan should be reviewed and approved on an annual basis by the Board

Financial Management & Integrated HR system

- 3.5 The audit review was specifically scoped to provide advice and assistance in relation to changes in the control environment affected by the project to implement an integrated HR and Payroll solution. The review did not extend to the testing of the effectiveness of the controls as this formed part of the planned audit of the payroll system performed later in the year. Phase one of the project had been implemented at the time of the review with basic human resource and payroll functions integrated within the new system along with new elements of employee self-service functionality. Further developments are planned around TRM & recruitment.
- 3.6 We raised four medium level recommendations as part of this review around:
- management incorporating an independent review of all new starters and leavers as part of the high level overview of the monthly payroll;
 - monthly system reports being produced identifying all leavers in the period for review;
 - staff being prompted to periodically access the system and review their information;
 - ensuring that all employees are reasonably able to access information issued electronically where paper information is not provided; to comply with statutory requirements.

Joint Control Centre SLAs

- 3.7 In order to offer some assurance to both the Service and Merseyside Police on the suitability and accuracy of the SLA, audit examined the process adopted by the Service to arrive at an apportionment percentage to be applied to costs.
- 3.8 Testing established that the data used to calculate both occupied floor area and “weighted” floor area was accurate and reflected the details shown on original floor plans. Each of the apportionment methods applied to share costs were reasonable. The cost against which the apportionment was applied was, where possible, actual cost based on known charges with the remainder being estimated. The cost calculated is simply indicative (with the method of apportionment being more important at this stage) and the amount ultimately paid will be based on actual expenditure.

CSO Compliance

- 3.9 The objective of this review is to ensure that the Contract Standing Orders are being complied with for obtaining written quotations and competitive tenders from suppliers for the provision of goods and services and the awarding of contracts. We have not completed the fieldwork for this review so it would be inappropriate to include an overall opinion at this stage.

Contingency/Responsive/Advice and Assistance

- 3.10 Time spent related to Grant certification work was undertaken in respect of the final two Heritprot Grant claims, claims 5 & 6. Expenditure on the grant was reviewed and checked to the grant criteria. Both claims were submitted and approved by the grant governing board.
- 3.11 The following two audits were not undertaken as they were no longer required for the 2014/15 year but they will be included in the 2015/16 audit plan:

Fig 4 Audits deleted from the 2014/15 audit plan

Audit Title	Notes
Asset Management Plans	These audits will be rolled forward into 2015/16
Future Workforce Planning	

Follow Up

- 3.12 It is our policy to follow up all recommendations that are given either a three star (essential/strategic) or a two star (high) priority rating. All recommendations made in 2013/14 were followed up within 6 months of the agreed implementation date and were found to have been implemented, with the exception of 3 procurement recommendations as these are being followed up as part of this year's audit work and will be reported accordingly.

4 Internal Audit service delivery

- 4.1 The key performance indicators for Internal Audit are set out in the table below, together with the outturn at the year end compared to target and those achieved in 2013/14.

Fig 5 Internal Audit Performance

Performance Measure	Target 2014/15	Actual 2014/15	Actual 2013/14
Completion of audit exercises consistent with the audit plan	90%	88% (100%)	90%

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Performance Measure	Target 2014/15	Actual 2014/15	Actual 2013/14
% of audit reports issued within time target	80%	64%	60%
Average score out of 5 for overall value added by IA work based on returned satisfaction questionnaires.	4.5	4.7	4.7

4.2 Actual performance for performance measure one (completion of audit exercises consistent to audit plan) appears poor compared to the previous year but this is because two planned audits were dropped from the agreed plan at the request of Service management. If these audits are excluded actual performance achieved is 100%.

4.3 Measure two (% of audits issued within time target) continues to require improvement through more consultation with management and the establishment of more realistic timescales.

Quality Assurance and Improvement Programme

4.4 The Public Sector Internal Audit Standards (PSIAS) require each Chief Internal Auditor to assess the Internal Audit service and ascertain any improvements that are required to be made. Whilst this requirement is new that activity has always been undertaken on a continuous basis using our corporate approach and therefore we have not changed the format.

Compliance with the PSIAS

4.5 Internal Audit has been assessed internally by the Chief Internal Auditor against the PSIAS and has concluded that Internal Audit complies with the PSIAS in all material respects. An external review will be carried out in line with the requirements of the PSIAS.

4.6 The table below summarises budgeted and actual audit days for information, based on an agreed 112 days work; reduced from 120 as 8 days were used in 14/15 to complete previous year's work.

Fig 6 Actual v Budgeted Days

Audit Title	Planned	Actual
Fundamentals	42	64
Strategic reviews/client directed/ad-hoc reviews	50	32
Contingency	7	5
Follow Up	5	1
Audit management	8	10
Total	112	112

5 Definitions of audit assurance

- 5.1 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.
- 5.2 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.

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

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	impact upon the organisation as a whole.
Moderate	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.
Minor	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.