



Liverpool  
City Council

Internal Audit Service

Merseyside Fire & Rescue Service -  
Annual Internal Audit Report and Opinion  
2020/21



	<b>Contents</b>	<b>Page</b>
1	Introduction	3
2	Internal Audit Opinion 2020/21	4
3	Summary of Audit Work Completed	5
4	Recommendation Implementation	6
5	Quality Assurance and Improvement Programme Results	7
6	Organisational Independence	8
7	Statement on Conformance with PSIAS	8
8	Definitions of Audit Assurance	9

## 1 Introduction

- 1.1 This report summarises the work that Internal Audit has undertaken across Merseyside Fire & Rescue Service during the 2020/21 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 (the Head of Internal Audit) to report to senior officers and 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 impact of COVID-19 on the public sector has been significant, including changes to ways of working, reprioritising services, redeploying staff and stretching capacity. For internal audit, it has raised the question of whether we have been able to undertake sufficient internal audit work to gain assurance during 2020/21. This is a key consideration to fulfil the requirement of the PSIAS for the CAE when issuing their annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 1.4 Internal Audit's approach to the completion of the 2020/21 work was to prioritise the completion of key activities to support the Internal Audit Annual Report and Annual Governance Statement.
- 1.5 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.
- 1.6 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 2020/21**

- 2.1 There has been minimal impact on the delivery of the internal audit work for 2020/21 because of the COVID-19 pandemic. There have been no changes to the planned work although there are elements of the work yet to be finalised.
- 2.2 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 2020/21, 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.
- 2.3 The priority work on fundamental systems audits completed to date have shown a substantial level of compliance. No significant areas of weakness in governance, risk management or control have been identified from our audit work. Wider sources of assurance available to the Fire Authority include the results of the previous HMICFRS inspection on the effectiveness and efficiency with which MFRS prevents and protects the public, and responds to fires and other emergencies, and how well it looks after its personnel; which was published in June 2019. HMICFRS graded MFRS as 'Outstanding' in relation to preventing fires and other risks and responding to national risks; 'Good' in all other elements, apart from one 'Requires Improvement' in ensuring fairness and promoting diversity.
- 2.4 Assurance is also provided by Grant Thornton as the Authority's external auditor. In November 2020, Grant Thornton issued an unqualified opinion on the 2019/20 financial statements and they were also satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.
- 2.5 Based on the audit work carried out in 2020/21 we are not aware of any significant control weaknesses, which impact on the Annual Governance Statement.
- 2.6 We undertake individual internal audits with the overall objective of providing members, the Chief Fire Officer, the Treasurer 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.
- 2.7 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.
- 2.8 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 2020/21.

**Fig 1 Summary of Opinions provided in 2020/21**

Assurance Level	Control Environment	Compliance
Substantial	5	7
Good	2	-
Acceptable / Limited / None	-	-
<b>Total Audits Completed</b>	<b>7</b>	<b>7</b>

### 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 2020/21**

Audit Title	Control Environment	Compliance	Corporate Impact
General Ledger	Substantial	Substantial	Minor
Creditors			
Debtors			
Medium Term Financial Plan			
Budgetary Control			
Payroll*	Good (tbc)	Substantial (tbc)	Minor (tbc)
Payroll	Good (tbc)	Substantial (tbc)	Minor (tbc)

**Definition**

\*Old year carry fwd, completed in 20/21

**Fundamental Systems**

- 3.3 In our audit of each of these key financials 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.
- 3.5 These reviews included examining whether the Authority’s medium-term financial position continues to reflect 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.
- 3.6 We completed our work on payroll in May 2021. In addition to reviewing payroll key controls, additional substantive testing was performed to ensure that, maternity leave is reflected accurately in payments/deductions made to employees. An appropriate control environment is in place; however, a couple of earlier recommendations are yet to be fully actioned.

**Fig 3 Other Strategic/Client directed audits completed in 2020/21**

Audit Title	Control Environment	Compliance	Corporate Impact
HMICFRS Inspection outcome	n/a	n/a	n/a
Lease / Provided ESV car controls	<i>In review</i>	<i>In review</i>	<i>In review</i>

**HMICFRS Inspection outcome**

3.7 A review of the action plan to determine appropriateness / quality check of each action was performed, and assurance was obtained that actions were being progressed. Preparation for the next inspection has already been initiated; no formal audit opinion was deemed necessary.

**Leases / Provided ESV car controls**

3.8 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.

**Contingency/Responsive/Advice and Assistance**

3.9 No contingency/responsive work was identified this financial year; however the fundamental system audits performed required more time than initially envisaged, in part due to the necessity to work remotely. The contingency budget was used to complete this programmed work. The following audits were not undertaken but those deferred will be incorporated into the 2021/22 audit plan.

**Fig 4 Audits deleted/deferred from the 2020/21 audit plan**

Audit Title	
Special Services charging process	Deleted
Asset and inventory processes	Deferred
Cyber Security	Deferred

**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 and medium recommendations within three months.

Annual Internal Audit Report 2020/21

- 4.3 During the period June 2020 to May 2021, Internal Audit followed up audit recommendations from historic audit reviews going back as far as 2012/13. The review found 25 recommendations yet to be certified as being actioned by the Service. The overall position is that of the 25 recommendations actively followed up, 5 recommendations have been closed and the implementation of the other 20 has either
- been actioned and is awaiting Internal Audit confirmation, or
  - a new system or process has been introduced and Internal Audit will evaluate if the required control measures have been satisfied at the next review of that Service area, or
  - MFRS officers require an extension to the agreed deadline due to either staff changes or resources have been redirected to manage COVID-19 challenges.

Table 5 below details the recommendations that are still ongoing.

**Fig 5: Analysis of recommendations followed up between June 2020 and May 2021. The table identifies the number of Essential/ Strategic (E/S) and High (H) audit recommendations issued that have yet to be implemented.**

Audit Area	Ongoing Recommendations			Total
	E/S	H	M	
Payroll	-	2	-	2
Data Protection Regulations	2	-	-	2
Procurement	1	-	2	3
<b>Older Audits</b>				
Ancillary Fleet	-	4	5	9
Devolved Arrangements	-	3	-	3
Income Generation	-	1	-	1
<b>Total</b>	<b>3</b>	<b>10</b>	<b>7</b>	<b>20</b>

- 4.4 Payroll – the Service agreed to formalise its approach to honorarium / additional responsibility payments. MFRS officers have amended the current ARA policy to incorporate ARA authorisation procedures but the amendment has yet to be shared formally with Internal Audit. In addition, the Service agreed to prepare a new policy/instruction covering pay adjustments that would include recommendation that the Director of POD be given the discretion over the terms to be applied in the recovery of overpayments. It is understood that this policy has now been drafted but the change has yet to be shared formally with Internal Audit.
- 4.5 Data Protection Regulations – the Service have completed Information Asset Registers, but Internal Audit recommended that the privacy notices should be reviewed, and, documentation developed to outline how processes for managing and updating the registers will operate. Although Internal Audit understand that the privacy notices have been reviewed and updated we have not yet confirmed this to be so. The Service has yet to complete the documentation for managing the registers due to MFRS staff vacancies and the impact of COVID-19 on staff working arrangements. MFRS staff have committed to resolving these outstanding issues in the coming months.
- 4.6 Procurement – The E/S recommendation related to the due diligence checks on tender bids. Internal Audit have been advised that MFRS Procurement staff have launched a new e-procurement portal in May 2021 that will fulfil the requirements of

## Annual Internal Audit Report 2020/21

the audit review, Internal Audit will review the use of the new live portal in due course.

- 4.7 Ancillary Fleet - due to the COVID-19 pandemic working practices within various departments changed as they have been temporarily disseminated to new locations with movement of staff and vehicles. A pool system was put in place for the vehicles used by departments in SHQ with looking to reduce the number of vehicles used but increase in usage and efficiency. Therefore, the writing of the Ancillary Vehicle Policy and the implementation of the associated audit recommendations are still ongoing.
- 4.8 Devolved Arrangements - as part of our planned asset management audit we will perform a review to identify whether previous devolved arrangement recommendations around the management of operational equipment held on stations have been superseded and identify whether there are any further areas of risk.
- 4.9 Income Generation – Following a review of the TDA commercial activity Internal Audit recommended officers consider developing a strategy for the planned commercial activity particularly around planned course provision, frequency and subscription. Due to COVID-19 Internal Audit have been advised the TDA have now brought forward plans to progress the offer of on-line and remote learning to generate future income. Therefore, we will review the recommendation with TDA staff once they have implemented their online proposals.

## **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. The annual review of both the Charter and the QAIP is scheduled to take place in July 2021.
- 5.5 External assessments are required to be undertaken at least every five years. The previous assessment concluded that Internal Audit complies with the main requirements of the standards. The next external assessment is due in the latter half of 2021.
- 5.6 Based on the results of the QAIP for 2020/21 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 an external peer review, as conforming to PSIAS.
- 7.2 The table below summarises actual audit days based on an agreed 112 days' work. (of which 7 days were used in 19/20, leaving 105 days for 20/21). As can be seen, just under 80% of the contractual days were performed and resource will be prioritised to complete the strategic audits that were deferred to the financial year end.

**Fig 5 Actual v Budgeted Days**

<b>Audit Title</b>	<b>Planned</b>	<b>Actual</b>
Fundamentals	47	60
Strategic reviews/client directed/ad-hoc reviews	31	12
Contingency	14	0
Follow Up	5	4
Audit management	8	6
<b>Total</b>	<b>105</b>	<b>82</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.