



Liverpool
City Council

Internal Audit Service

Merseyside Fire & Rescue Service -
Annual Internal Audit Report and Opinion
2021/22



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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 2021/22 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 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 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 2021/22

- 2.1 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 2021/22, 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 priority work on fundamental systems audits completed to date have shown a substantial level of compliance. Based on the audit work carried out in 2021/22 we are not aware of any significant control weaknesses, which impact on the Annual Governance Statement. One area of weakness in control was identified (stores) but action was agreed to immediately address the findings and recommendations made.
- 2.3 Wider sources of assurance available to the Fire Authority include the results of the latest HMICFRS inspection on the effectiveness and efficiency with which MFRS prevents and protects the public, and responds to fires and other emergencies, published in December 2021. HMICFRS graded MFRS as:
- Outstanding at efficiently keeping people safe and secure from fire and other risks
 - Good at effectively keeping people safe and secure from fire and other risks
 - Good at looking after its people
- 2.4 Assurance is also provided by Grant Thornton as the Authority's external auditor. In October 2021, Grant Thornton issued an unqualified opinion on the 2020/21 financial statements, that they provided a true and fair view of the financial position of the Authority as at 31 March 2021 and had been properly prepared in accordance with the CIPFA / LASAAC code or practice 2020/21.
- 2.5 We undertake individual internal audits with the overall objective of providing members, the Chief Fire Officer, the Director of Finance and Procurement 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.
- 2.6 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.

2.7 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 2021/22.

Fig 1 Summary of Opinions provided in 2021/22

Assurance Level	Control Environment	Compliance	
Substantial	6	6	
Good	-	-	
Acceptable / Limited / None	1	1	
Audits not yet reported	1	1	
Total Audits Completed	8	8	
Audits at fieldwork stage			3
Audits deferred			1
Total Planned Audits			12

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 2021/22

Audit Title	Control Environment	Compliance	Corporate Impact
General Ledger	Substantial	Substantial	Minor
Creditors			
Debtors			
Medium Term Financial Plan			
Budgetary Control			
Payroll			
Treasury management	WIP	WIP	WIP

Fundamental Systems

3.3 We completed all our fundamental systems work in May 2021. 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.
- 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. Sample testing is also performed of MFRA transactions and documentation as part of the audit.

Fig 3 Other Strategic/Client directed audits in 2021/22

Audit Title	Control Environment	Compliance	Corporate Impact
Stores – review of stock management processes	Limited	Acceptable	Moderate
Review asset management of ICT devices and phones	In review	In review	In review
Walk-through current data flow for POD/Payroll/Finance	WIP	WIP	WIP
Counter Fraud Policies	WIP	WIP	WIP

Stores – review of stock management processes

- 3.7 The scope of this audit was to provide assurance that the stores department had clear and up to date stock management and security procedures. Following the Covid-19 global pandemic, inventory levels increased due to the increased need for Personal Protection Equipment (PPE) products. A stocktake was not conducted in April 2020 due to the focus being on the outbreak of the pandemic and the 2020/21 year-end stock check (completed in April 2021) recorded a high number of manual stock adjustments.
- 3.8 The audit identified that the stores department does not have documented procedural notes; the accuracy of dispatch notes and the security of stock, were also highlighted as areas for improvement.
- 3.9 Ten audit recommendations were made, for which the stores team agreed to ensure prompt implementation. Internal Audit will review action taken against the recommendations during quarter one of this financial year.

Review asset management of ICT devices and phones

- 3.10 The scope of the audit includes examining controls relating the accuracy of the ICT asset register. Including whether there is a nominated officer responsible for maintaining the ICT asset register. That new stock is added to asset register on receipt. That obsolete stock is disposed of in line with industry standards and the asset register is updated. Also that assets allocated to staff who leave are returned to ICT, 'wiped' and reused where appropriate. The audit is currently in review so it would be inappropriate at this stage to provide an overall opinion until it has been agreed by management.

Walk-through current data flow for POD/Payroll/Finance

- 3.11 This is a review of the data flow for POD/Payroll/Finance to consider potential improvements, improve integration and the automation of information. To reduce double entry and utilise workflows to improve efficiency and effectiveness. This review is currently in progress so it would be inappropriate at this stage to provide an overall opinion.

Counterfraud Policies

- 3.12 Internal Audit is currently reviewing the authority's counter fraud policies to provide advice and support on whether any updates are necessary.

Contingency/Responsive/Advice and Assistance

- 3.13 No contingency/responsive work was identified this financial year; however the fundamental system audits performed required more time than initially envisaged. The contingency budget was used to complete this programmed work.
- 3.14 The cyber security review has been deferred and will be incorporated into the 2022/23 audit plan. In addition to having access to relevant training resources which can be disseminated across the organisation to enhance awareness of the risks and how to reduce them; Internal Audit is also looking at a number of options to procure technical IT audit specialists to further enhance audit provision.

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

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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.

- 4.3 During the period June 2021 to May 2022, Internal Audit followed up on 20 historic audit recommendations covering audits from up to 10 years ago. The review confirmed 8 recommendations had been implemented, with the remaining 12 relating to two areas that have either changed systems or due to the age require an audit revisit to determine the applicability of the recommendations. Both areas will be reviewed as part of the 2022/23 internal audit plan; asset registers and ancillary vehicles;
1. 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.
 2. The COVID-19 pandemic necessitated different working practices within departments 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 the service looking to reduce the number of vehicles used but increase in usage and efficiency. The planned review of ancillary vehicles will consider whether the recommendations have since been superseded.

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 In the main, the development of the QAIP involved bringing together Internal Audit's existing arrangements in a formalised framework. The QAIP is made up of internal and external assessments and it is a requirement of the PSIAS for the results of assessments against the QAIP to be reported in the Annual Report.
- 5.3 External assessments are required to be undertaken at least every five years. An external peer review against the PSIAS was undertaken by Bristol City Council between December 2021 and March 2022 as part of this five yearly cycle. It is yet to be formally reported but any recommendations arising will form part of an improvement plan.
- 5.4 The annual review of both the Charter and the QAIP is scheduled to take place in July 2022, and will incorporate any recommendations arising from the above external review.

5.5 Based on the results of the QAIP for 2021/22 the Head of Internal Audit can confirm that internal audit activity generally 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 As referenced above the external peer review is yet to be formally reported in full to Liverpool City Council, however it is acknowledged that there is general compliance with the PSIAS.

7.2 The table below summarises actual audit days based on an agreed 122 days' work, but this includes carried forward day from 20/21. As can be seen, 90% of the planned days were performed and resource will be prioritised to complete the strategic audits that were deferred to the financial year end.

Fig 4 Actual v Budgeted Days

Audit Title	Planned	Actual
Fundamentals	39	50
Strategic reviews/client directed/ad-hoc reviews	58	46
Contingency	12	0
Follow Up	5	6
Audit management	8	8
Total	122	110

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.

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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 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.