APPENDIX B

Internal Audit Service

Merseyside Fire & Rescue Service - Internal Audit Progress Report 2022/23 January 2023

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1.   **Introduction**

1.1   The Accounts and Audit Regulations require councils to undertake an effective internal audit to evaluate the effectiveness of their risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards (PSIAS).

1.2   This progress report forms part of the framework of assurances that is received by the Audit Committee and is used to help inform Internal Audit's Annual Opinion, the Annual Governance Statement and to assist the Audit Committee in discharging its remit to consider reports on Internal Audit's performance during the year.

1.3   Internal audit's professional responsibilities as internal auditors are set out within Public Sector Internal Audit Standards (PSIAS) produced by the Internal Audit Standards Advisory Board.

2.   **Audit Work Completed up to January 2023**

2.1   The table below summarises the work completed during the financial year up to January 2023. This includes previous year's work that was yet to be finalised at the time of the annual opinion in May 2022. The majority of the fundamental systems work is scheduled to take place between now and the end of April. Ordinarily, this work is performed in the final quarter to provide assurance on the control environment across the full financial year.

2.2   The audit opinion formed in respect of individual audits is separated between the control environment (the controls in place) and compliance (whether or not the controls have been adhered to). The corporate impact opinion 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 below at section 6. None of these audits has resulted in a limited or no assurance opinion.

Table 1: Audits completed up to January 2023

Audit Title	Control Environment	Compliance	Corporate Impact
Review asset management of ICT devices and phones (old year)	Good	Acceptable	Minor
Walk-through current data flow for POD/Payroll/Finance (old year)	Draft	Draft	Draft
Audit Title	Control	Compliance	Corporate

	Environment		Impact
Governance of Contracts managed by a 3rd Party	Good	Good	Minor
Counter Fraud Policies (old year)	ongoing	ongoing	ongoing

Definition
*Draft - Draft report issued and awaiting management response prior to final opinion being issued.

2.3 **Review asset management of ICT devices and phones** - The scope of the review included a consideration of the accuracy of the ICT asset register; including whether there is a nominated officer responsible for maintaining it. That new stock and obsolete stock is added / removed from the asset register and that disposals are in line with industry standards. There is generally a sound system of internal control in place. There were some areas of improvement in relation to leavers' equipment, which should be returned to Telent in line with the contractual arrangements for them to be 'wiped' and reused where appropriate, rather than be retained by the relevant department.

2.4 **Walk-through current data flow for POD/Payroll/Finance** - This was 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. The audit is currently in review so it would be inappropriate at this stage to provide an overall opinion.

2.5 **Governance of Contracts managed by a 3rd Party –** This was a review of control measures to ensure MFRA officers engaged in contract succession arrangements following an MFRA contract managed by Liverpool City Council not being renewed prior to Scottish Power closing its trade desk and subsequently withdrawing from the industrial and commercial energy market. This resulted in LCC and thus MFRA being subject to a standard variable rate from 1st April 2022, resulting in significantly increased costs. The review identified that there is generally a sound system of internal control in place for the governance of such contracts.

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

2.7 **Contingency/Responsive/Advice and Assistance** - 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.   Audits in Progress up to January 2023

3.1   The core financial systems reviews have now commenced and are on target for completion for the financial year end.

3.2   The following audits are scheduled to be performed in March:

Table 2: Remaining audits in 2022-2023 audit plan

Audit Title
Asset Registers – review documentation/ processes in individual fire stations, prevention and protection directorates including the stock management processes
Ancillary Vehicles – review of use and management of vehicles.
Ethics – compliance review of processes (declarations of interests & gifts & hospitality)
Overall Governance - assurance on the adequacy of governance arrangements, through our review of the minutes of SLT and the Authority.
Cyber Security

4   Follow up of recommendations

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   Internal audit follow up actions arising from both planned and unplanned audit work to ensure that where recommendations have been made, they have been implemented.

4.3   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.

4.4   There are existing recommendations 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 are due to 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.

4.5   More recent recommendations made will be followed up as they fall due. A full position statement on outstanding recommendations will be reported as part of the annual audit opinion in June.

5   Internal Audit Performance

Compliance with professional standards

Internal Audit employ a risk-based approach in planning and conducting audit assignments. Work is performed in accordance with PSIAS

Conflicts of Interest

There have been no instances during the period which have impacted on Internal Audit's independence

Internal Audit Quality Assurance

To ensure the quality of the work performed, Internal Audit have a programme of quality measures which includes:

- Supervision of staff conducting audit work.
- Review of files of working papers and reports by managers.
- Regular networking with professional / technical bodies and peers

Performance Measures

- Percentage delivery of audit plan (target 100%), actual - 13% against profiled target of 25% 🟠
- Delivery of audits within agreed timescales (target 100%) actual – *0* 🔴 *based upon small numbers*
- Delivery of an annual audit plan in good time to advise the Annual Governance Statement – Annual indicator but on track 🟢
- Auditees confirmation that audit reports address the key issues – awaiting return of auditee feedback forms 🟢

6. Guidance on assurance levels

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.