



Liverpool  
City Council

Internal Audit Service

Merseyside Fire & Rescue Service -  
Annual Internal Audit Report and Opinion  
2022/23



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## 1 Introduction

- 1.1 This report summarises the work that Internal Audit has undertaken across Merseyside Fire & Rescue Service (MFRS) during the 2022/23 financial year the service for which is provided by Liverpool City Council (LCC), Internal Audit.
- 1.2 The purpose of the Annual Internal Audit Report is to meet the Chief Audit Executive's (CAE) (the Head of Internal Audit) annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS). The Chartered Institute of Public Finance and Accountancy's (CIPFA's) 'Role of the Head of Internal Audit' also requires that an annual report is produced by the CAE on the work undertaken by Internal Audit during the year. It sets out the requirement for the CAE 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 It is not the intention of this report to give detailed information on audits that have been previously provided in the progress reports to the Audit Committee. This report provides a summary of the work done, the main issues that have arisen and the overall opinion on the Authority's control environment.
- 1.5 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 2022/23

- 2.1 The plan is designed to give reasonable assurance that controls are in place and working effectively. Based on the Internal Audit work undertaken in compliance with the PSIAS in 2022/23, it is our opinion that we can provide **Substantial** Assurance that the system of internal control in place at MFRS 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 have shown a substantial level of compliance. Based on the audit work carried out in 2022/23 we are not aware of any significant control weaknesses, which impact on the Annual Governance Statement.
- 2.3 Wider sources of assurance available to the Fire Authority include the results of HMICFRS inspections on the effectiveness and efficiency with which MFRS prevents and protects the public, and responds to fires and other emergencies. Whilst a current HMICFRS inspection is ongoing the most recent inspection prior to this was 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 November 2022, Grant Thornton issued an unqualified opinion on the 2021/22 financial statements, that they provided a true and fair view of the financial position of the Authority as at 31 March 2022 and had been properly prepared in accordance with the CIPFA / LASAAC code or practice 2021/22. They also confirmed their opinion that there were no significant weaknesses in the arrangements for financial sustainability, governance and economy, efficiency and effectiveness in the use of resources.
- 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 2022/23.

**Fig 1 Summary of Opinions provided in 2022/23**

Assurance Level	Control Environment	Compliance	
Substantial	7	6	
Good	2	3	
Acceptable / Limited / None	1	1	
Audits not yet reported	1	1	
<b>Total Audits Completed</b>	<b>11</b>	<b>11</b>	
Audits deferred			2
<b>Total Planned Audits</b>			<b>13</b>

**3 Summary of Audit Work Completed**

- 3.1 The opinion of the CAE 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 2022/23**

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

**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. Two recommendations have been made one minor and another recommendations in relation to service areas ensuring they raise purchase orders in advance of due to a number of instances where invoices were received in advance of purchase orders being raised.
- 3.4 As standard practice, we made use of Computer Assisted Audit Techniques (CAATs) when performing a number of 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 the Fire Authority 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 MFRS transactions and documentation as part of the audit.

**Fig 3 Other Strategic/Client directed audits in 2022/23**

Audit Title	Control Environment	Compliance	Corporate Impact
Review asset management of ICT devices and phones (old year)	Good	Acceptable	Minor
Governance of Contracts managed by a 3 <sup>rd</sup> Party	Good	Good	Minor
Ethics – compliance review of processes (declarations of interests & gifts & hospitality)	Acceptable	Good	Minor
Asset Registers – review documentation/ processes in individual fire stations, prevention and protection directorates including the stock management processes	In review	In review	In review
Walk-through current data flow for POD/Payroll/Finance	Advisory		
Counter Fraud Policies	Advisory		

- 3.7 **Ethics** – The objective of this audit was to assess the compliance of MFRS

with regard to declarations of interests and gifts and hospitality frameworks. The audit aimed to ensure that both officers and members adhere to the established policies and procedures and that potential conflicts of interest are identified and managed appropriately. Recommendations have been made relating to more frequent review of corporate policies and for the introduction of a formal requirement for officers to make an annual declaration as members are required to do.

- 3.8 **Asset Registers** - The aim of this review was to provide assurance on the controls for the management of assets by the Operational Equipment Team and included a review of the asset registers. This audit is currently in review so it would be inappropriate to include an assurance opinion at this stage.
- 3.9 **Walk-through current data flow for POD/Payroll/Finance** - This was an advisory piece of work reviewing 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. Discussions on potential improvements are in progress.
- 3.10 **Counter fraud Policies** – We have shared our new LCC counter fraud, and whistleblowing policies and fraud risk assessment plan with Legal Services to assist in the review of existing counter fraud policies. We have also recommended several training providers for good quality fraud management/prevention and investigative training, especially in respect of managing fraud and supporting whistle-blowers. MFRS are also now members of the Mersey Region Fraud Group.

#### **Contingency/Responsive/Advice and Assistance**

- 3.11 No contingency/responsive work was identified this financial year.
- 3.12 The ancillary vehicles review of the use and management of vehicles has been incorporated into a 23/24 vehicles audit review and whilst support is provided via the Mersey Region Fraud Group referenced above the planned cyber security review will also be incorporated into the 2023/24 audit plan as Internal Audit looks to procure additional external audit resource which will include technical IT audit specialists to support this work.

### 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.
- 4.3 During the period June 2022 to June 2023, Internal Audit followed up on 29 audit recommendations identified in Figure 4 below.

Fig 4: The table identifies the Essential/ Strategic (E/S) High (H) and Medium (M) audit recommendations followed up between June 2022 and June 2023.

Audit Area	Ongoing Recommendations			Total
	E/S	H	M	
Governance of Contracts managed by 3rd parties	-	-	2	2
IT Asset Management	1	1	4	6
Budgetary Control	-	1	-	1
Stores	3	5	2	10
Payroll	-	3	1	4
GDPR	3	2		5
PFI	-	-	1	1
<b>Total</b>	<b>7</b>	<b>12</b>	<b>10</b>	<b>29</b>

- 4.4 The overall position at the end of the period is that of the 29 recommendations actively followed up, 20 recommendations have been closed and the implementation of 9 is ongoing; including 3 stores; 5 IT asset management and 1 GDPR.

### 5 Quality Assurance and Improvement Programme

- 5.1 It is a requirement of PSIAS for the CAE to develop and maintain a QAIP that covers all aspects of internal audit activity.
- 5.2 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 Based on the results of the internal assessments we can conclude that Internal Audit complied with the main requirements of the standards.
- 5.4 In accordance with the PSIAS the Internal Audit function is required to have an external quality assessment (EQA) undertaken at least once every 5 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. Following the assessment, a number of recommendations were made; the Internal Audit Service is working towards addressing these.
- 5.5 The annual review of the Charter has taken place and is attached at Appendix One.
- 5.6 Based on the results of the QAIP for 2022/23 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.

**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 - 85% 2 reviews c/fwd ●
- Delivery of audits within agreed timescales (target 100%) actual – 82% ●
- 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 Organisational Independence**

- 6.1 PSIAS require the CAE 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 Appendix One. 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 The external peer review confirmed there is general compliance with the PSIAS.

## **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.