



Liverpool  
City Council

Internal Audit Service

Merseyside Fire & Rescue Service -  
Annual Internal Audit Report and Opinion  
2023/24



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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 2023/24 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 2023/24

- 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 2023/24, 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 2023/24 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. The most recent HMICFRS inspection was published in October 2023. HMICFRS graded MFRS as outstanding in three areas and good in five others and the service has made progress since its last inspection. The principal findings were as follows:
- The service is outstanding at preventing fires and other risks. It carries out a high number of home fire safety checks and safe and well visits (SAWVs) and gives priority to those most at risk in the community.
  - The service is outstanding at responding to major and multi-agency incidents. It is well prepared to respond to these types of emergency incidents, and it works well with partners to make sure that there is an effective response.
  - The service is outstanding at making best use of its resources. It has comprehensive financial and resourcing plans aligned with its strategic priorities and sustainability strategies that are achieving value for money for the public.
  - The service should use its enforcement powers in a more proportionate way.
  - The service needs to do more to make sure its values and behaviours are demonstrated at all levels of the organisation and diversify its future and current leaders.
- 2.4 Assurance was also provided by Grant Thornton as the Authority's external auditor. In February 2024, Grant Thornton confirmed they were finalising their audit work and intend to issue an unqualified opinion on the Authority's 2022/23 financial statements, that they provided a true and fair view of the

financial position of the Authority as at 31 March 2023 and had been properly prepared in accordance with the CIPFA / LASAAC code or practice 2022/23.

- 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 2023/24.

**Fig 1 Summary of Opinions provided in 2023/24**

Assurance Level	Control Environment	Compliance	
Substantial	8	6	
Good	0	2	
Acceptable / Limited / None	-	-	
Audits not yet reported	4	4	
<b>Total Audits Completed</b>	<b>12</b>	<b>12</b>	
<b>Total Planned Audits</b>			<b>12</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 2023/24**

Audit Title	Control Environment	Compliance	Corporate Impact
General Ledger	Substantial	Substantial	Minor
Medium Term Financial Plan			

Audit Title	Control Environment	Compliance	Corporate Impact
Debtors			
Treasury management			
Budgetary Control			
Creditors	Substantial	Good	Draft
Payroll	WIP	WIP	WIP

**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 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 2023/24**

Audit Title	Control Environment	Compliance	Corporate Impact
Vehicle fuel cards	Substantial	Good	Minor
Foreign, Commonwealth & Development Office Grant Funding	Substantial	Substantial	Minor
Bullying, harassment, discrimination processes	Draft	Draft	Draft
Enforcement powers	Draft	Draft	Draft
Flexi Duty Provided Vehicles	WIP	WIP	WIP

- 3.7 **Vehicle Fuel Cards** – The objective of this audit was to provide an opinion on the effectiveness of the arrangements in place to manage its fuel cards to safeguard against the risk of fraud and theft. The majority of controls

assessed were found to provide substantial assurance. There is an appropriate service instruction in place on the issue, monitoring and use of fuel cards which is accessible to all officers. However, the service instruction could benefit from review and a few minor additions to enhance clarity and the control environment.

- 3.8 Fuel card transactions are checked internally against the monthly invoices and any queries raised are resolved prior to their payment. Receipts are not always retained and provided; however, the transactions can be easily confirmed from the system. Allstar also have systems in place to highlight irregular/potentially fraudulent transactions, which are investigated where necessary.
- 3.9 **Foreign, Commonwealth & Development Office (FCDO) Grant Funding**  
The aim of this review was to provide assurance that FCDO funds have been used for the intended purposes. All payments sample tested were made using the official payments system and all expenditure reclaimed was eligible and supported by appropriate documentation.
- 3.10 **Bullying, harassment, discrimination processes** – this review was performed following concerns raised at a national level over potential risks within the fire sector. The audit is to evaluate the effectiveness of MFRS policies, procedures, and practices related to addressing and preventing bullying, harassment, and discrimination. This audit is currently at draft report stage so it would be inappropriate to include an assurance opinion at this stage.
- 3.11 **Enforcement powers** – this review was also performed following concerns raised at a national level over potential risks within the fire sector. The audit is to provide assurance that there are appropriate arrangements for the effective use of enforcement powers as outlined within the Fire Safety Order 2005 and the Fire Safety Regulations 2022. This audit is currently at draft report stage so it would be inappropriate to include an assurance opinion at this stage.
- 3.12 **Flexi Duty Provided Vehicles** – this is a review to confirm controls are in place to ensure vehicles only used for business activity. Fieldwork is currently in progress.

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

- 3.13 No contingency/responsive work was identified this financial year.

**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 2023 to May 2024, Internal Audit made the 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 2023 and May 2024.

Audit Area	Ongoing Recommendations			Total
	E/S	H	M	
Asset Management	1	1	2	4
Payroll	-	1	-	1
Creditors	-	1	-	1
Ethics	-	3	-	3
Vehicles – Fuel cards	-	1	3	4
<b>Total</b>	<b>1</b>	<b>7</b>	<b>5</b>	<b>13</b>

- 4.4 The above recommendations are yet to pass their agreed implementation date but there are 10 others that require following up from the previous year. However, Internal Audit have recently launched ‘self-serve’ functionality to enable MFRS to update their progress in implementing the agreed actions directly into the audit system. As this is at an early stage we are yet to follow up previously agreed actions. However, this new streamlined approach will ensure the process is efficient, as well as robust. Progress of implementation against target date will be tracked and reported via the regular Internal Audit Reports presented to Audit Committee.

**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.



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- 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 2023/24 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 - 83% 2 reviews WIP ●
- Delivery of audits within agreed timescales (target 100%) actual – 92% ●
- Delivery of an annual audit plan in good time to advise the Annual Governance Statement – Annual indicator ●
- Auditees confirmation that audit reports address the key issues – ●

## **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.