APPENDIX A

Liverpool City Council

Internal Audit Service

Merseyside Fire & Rescue Service - Annual Internal Audit Report and Opinion 2018/19

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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 2018/19 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 (for the service this is the Head of Internal Audit) to report to senior officers and the 'Board' (for the service this is 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 audit work has been carried out in accordance with the 2018/19 risk-based audit plan. The plan is designed to give reasonable assurance that controls are in place and working effectively. Opinions are formed in respect of each individual audits 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 have liaised with senior management throughout the year to ensure that internal audit work undertaken continues to focus on the high-risk areas and in the light of new and ongoing developments in the service, to help ensure the most appropriate use of our resources.

1.5 The Annual Internal Audit Report is an important source of evidence for the Annual Governance Statement, and this report is timed to support the preparation of this Statement for the 2018/19 year.

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 2018/19

2.1 Internal Audit works to a risk based audit plan. 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 2018/19, 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 2018/19 fundamental systems audits completed to date have shown a substantial level of compliance and none of the audits have identified weaknesses that have required a corporate impact assessment of major or moderate. Based on the audit work carried out in 2018/19 we are not aware of any significant control weaknesses, which impact on the Annual Governance Statement.

2.3 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.

2.4 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 2018/19.

Fig 1 Summary of Opinions provided in 2018/19

Assurance Level	Control Environment	Compliance	
Substantial	6	7	
Good	1	1	
Acceptable	1	-	
Limited	-	-	
None	-	-	
Advisory	1	1	
Sub-total	**9**	**9**	
Audits not yet reported	5	5	
Total Audits Completed	**14**	**14**	
Audits at fieldwork stage			2
Audits Deferred			2
Total			**18**

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 from the 2018/19 audit plan

Audit Title	Control Environment	Compliance	Corporate Impact
General Ledger	Substantial	Substantial	Minor
Creditors	Substantial	Substantial	Minor
Debtors	Substantial	Substantial	Minor
Procurement (National Resilience)	Substantial	Substantial	Minor
Governance (Avon Review)	Substantial	Substantial	Minor
Payroll*	*Draft*	*Draft*	*Draft*
Medium Term Financial Plan	*In Review*	*In Review*	*In Review*
Budgetary Control	*In Review*	*In Review*	*In Review*
Treasury Management	*Fieldwork*	*Fieldwork*	*Fieldwork*

Definition

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

General Ledger, Creditors, Debtors

3.3 Our audit of each of these key financial was finalised in May 2019, and we were able to provide opinions of substantial/substantial/minor 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.

Procurement - National Resilience Initiative

3.5 The objective of this audit was to review the processes and controls that have been established as part of the new National Resilience Initiative. Testing focussed upon staff costs within both Merseyside Fire and Rescue and other fire services, training costs, central support costs, transport and financial reporting. Testing identified that controls are generally satisfactory in those areas examined. One recommendation was made in relation to the review of secondment agreements and we have been informed that this review is already in progress.

Avon Review (Governance)

3.6 In July 2017, a Secretary of State report was published under section 10 of the Local Government Act (LGA) 1999, which identified failings in the areas of governance, leadership and culture at Avon Fire and Rescue Authority. The scope of this audit was therefore to examine existing arrangements within Merseyside Fire and Rescue Authority (MFRA), based upon the directions issued to the Avon inspector, and to report on any areas of weakness. Our findings concluded that we could offer substantial assurance that controls were operating effectively. We identified a minor issue in relation to the Officers' Code of Conduct, in that, although it referred to the Nolan Principles, it did not explain them. We therefore made a recommendation to address this.

Payroll

3.7 In addition to reviewing payroll key controls, additional substantive testing was performed to ensure that honoraria, sickness and maternity leave are reflected accurately in payments/deductions made to employees. The draft audit report with recommendations is currently with the payroll manager for consideration.

Medium Term Financial Plan/budgetary control

3.8 These reviews have examined whether the Authority's medium term financial position reflects 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. 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.

Treasury Management

3.9 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 completed in 2018/19

Audit Title	Control Environment	Compliance	Corporate Impact
PFI – review of monthly payment and adjustment process between tripartite authorities.	Substantial	Substantial	Minor
Review workshop arrangements for procurement of small value items*	Good	Substantial	Minor
Management of ancillary fleet*	Acceptable	Acceptable	Moderate

Audit Title	Control Environment	Compliance	Corporate Impact
Compliance with Protective Security Strategy	Advisory memo	Advisory memo	Advisory memo
Review of firefighters pensioners administration control	*In Review*	*In Review*	*In Review*
Review of data protection processes	*In Review*	*In Review*	*In Review*
Counter Fraud Policies	*Fieldwork*	*Fieldwork*	*Fieldwork*
Special Services charging process	*Deferred*	*Deferred*	*Deferred*
MFRS applications	*Deferred*	*Deferred*	*Deferred*

Definition
*Draft - Draft report issued and awaiting management response.

PFI Unitary Charge

3.10 The audit provided a substantial level of assurance that systems and procedures are in place to provide assurance that the recovery of the unitary charge from Lancashire and Cumbria is accurate and paid within the specified time scale.

Workshops - Corporate Cards

3.11 The scope of the audit was to examine the controls in place that are designed to ensure expenditure incurred on corporate cards is accurately recorded both on the fleet management system and the financial ledger and that the usage and administration of the corporate cards within the department is appropriate and achieves value for money. Testing identified effective post transaction checks. However, there are limited controls in advance of purchase; we have therefore made recommendations in this regard.

Management of Ancillary Fleet

3.12 The scope of the review was to assess whether the ancillary fleet is utilised and managed effectively and efficiently and to establish whether current operating practices represent best value. We noted a number of good practices adopted during our audit such as the transport asset management plan 2017/2022. However, a formally approved ancillary vehicle management strategy does not exist, which limits the scope to measure and monitor the efficiency and effectiveness of the vehicles, and the role of the ancillary vehicles in the delivery of the Authority's commitment to providing best value for money.

Compliance with Protective Security Strategy

3.13 Internal Audit were asked to review the process followed by the Authority to establish how compliance with the Fire and Rescue Protective Security Strategy 2012 is assessed. Although this document, along with a Framework and Toolkit is still on the Chief Fire Officers Association website the Cabinet Office updated the Framework in early 2014. We therefore have used the more recent framework to perform the review.

3.14 We have detailed on both areas of compliance and any areas where there are potential gaps / improvements required. As this was a piece of advisory work, no opinion has been given.

Firefighters Pensioners Payroll

3.15 The scope of the audit is to ensure that new recruits are entered on the correct pension scheme, contributions are allocated correctly, variances are investigated, overtime is correctly classified and payments to leavers are correct. 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.

Data Protection Processes

3.16 This review focusses upon determining if roles and responsibilities, policies and procedures have been developed and implemented in line with Data Protection Act 2018 requirements. Testing encompasses reviewing, and ensuring privacy notices are in place and consent obtained where appropriate, and that data is collected and stored in line with minimum legislative requirements. This audit is currently also in review so it would be inappropriate at this stage to provide an overall opinion.

Counterfraud Policies

3.17 Internal Audit is currently reviewing the authority's counter fraud policies to advise on whether any updates are necessary.

Contingency/Responsive/Advice and Assistance

3.18 No contingency/responsive time was allocated this financial year.

4 Recommendation Implementation

4.1 It is our policy to follow up all recommendations that are given either a three star (essential/strategic) or a two star (high) priority rating. Whilst five of this year's audits contained recommendations, only two contained recommendations requiring follow up, and the implementation dates for these are yet to fall due. There are three recommendations outstanding relating to three former audits; the implementation dates have been extended for two and we are awaiting information for the other.

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. Areas for improvement were

identified and actions have been put in place against these. The annual review of both the Charter and the QAIP is scheduled to take place in July 2019.

5.5 External assessments are required to be undertaken at least every five years. During 2016/17 Internal Audit were subject to an external assessment by Glasgow City Council. The assessment concluded that Internal Audit complies with the main requirements of the standards. Of these recommendations made, all have been fully implemented.

5.6 During the year, the Internal Audit Service also retained ISO accreditation (to a new ISO standard) following an audit of the quality system arrangements. This was based on an external assessment.

5.7 Based on the results of the QAIP for 2018/19 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 and external peer review, as conforming to PSIAS.

7.2 The table below summarises budgeted and projected actual audit days, when accounting for time required to finalise the four audits that are currently in review and the two audits in progress, based on an agreed 112 days' work.

Fig 5 Actual v Budgeted Days

Audit Title	Planned	Actual
Fundamentals	40	45
Strategic reviews/client directed/ad-hoc reviews	45	58
Contingency	14	0
Follow Up	5	1
Audit management	8	8
Total	112	112

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.

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.