Liverpool City Council

Internal Audit Service

Merseyside Fire & Rescue Service - Annual Internal Audit Report and Opinion 2017/18



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1 Introduction

1.1 This report summarises the work that Internal Audit has undertaken across Merseyside Fire & Rescue Service (the 'Service') during the 2017/18 financial year; the service for which is provided by Liverpool City Council, Internal Audit Service.

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 & Scrutiny Sub-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.

1.3 The audit work has been carried out in accordance with the 2017/18 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 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 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 2017/18 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 2017/18

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 2017/18, 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.

2.2 The 2017/18 fundamental systems audits 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 2017/18 we are not aware of any significant control weaknesses within the Service 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 2017/18.

Fig 1 Summary of Opinions provided in 2017/18

Assurance Level	Control Environment	Compliance
Substantial	5	5
Good	1	1
Acceptable	0	0
Limited	0	0
None	0	0
Advisory	1	1
Sub-total	**7**	**7**
Audits not yet reported	4	4
Total Audits Completed	**11**	**11**
Audits at planning stage	2	2
Audits Deferred	1	1
Total	**14**	**14**

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 2017/18 audit plan

Audit Title	Control Environment	Compliance	Corporate Impact
Payroll	Substantial	Substantial	Minor
General Ledger	Substantial	Substantial	Minor
Treasury Management	Substantial	Substantial	Minor
Creditors	Substantial	Substantial	Minor
Debt Management	Substantial	Substantial	Minor
Medium Term Financial Plan	*In Review*	*In Review*	*In Review*
Budgetary Control	*In Review*	*In Review*	*In Review*
Procurement	*Planning Stage*	*Planning Stage*	*Planning Stage*

Payroll

3.3 In addition to reviewing payroll key controls additional substantive testing was performed to ensure that voluntary and statutory deductions are processed accurately and paid promptly to the relevant bodies. No areas for improvement were identified and as a result we were able to provide a **substantial** level of assurance.

General Ledger

3.4 As standard practice with this audit area we made use of Computer Assisted Audit Techniques (CAATs) to confirm the accuracy and completeness of the information held on the system, and established that there were appropriate processes in place for the use of journals, suspense accounts and bank reconciliations. As above we were able to provide a **substantial** level of assurance.

Treasury Management

3.5 The audit work comprised of detailed testing on a sample of investments made throughout the year, involving a review of transactions and respective documentation. An agreed service level agreement between MFRA and Liverpool City Council was in place covering the provision of treasury management services for the period 1st April 2017 to 31st March 2018. We therefore also made reference and placed assurance on the audit work undertaken of the LCC Treasury Management system where the systems overlap. There were 5 short-term loans in the year (up to 22nd March) which were all repaid. There were the usual outs and ins re investments, with cash balances roughly the same at the end of the year, as at the beginning. No recommendations were made in this area, and as a result we were able to provide a **substantial** level of assurance.

Creditors

3.6 In line with the audit plan, an audit of the creditors system was performed. CAATs testing was utilised to enable a consideration of the full population. This testing found no duplicate supplier accounts or invoices for this period. Testing also showed that there is an adequate separation of duties to ensure that checks and authorisation controls are in place before payments are made. No

recommendations were made after this review, and we were able to provide a **substantial** level of assurance.

Debt Management

3.7 The review of sundry debtors involved reviewing the controls in place for the collection of sundry debts owed to MFRS. CAATs testing was also utilised in this audit review to provide a detailed level of analysis of debts raised on the financial system.

3.8 The procedures for both the raising and cancelling of invoices were reviewed and subsequent testing found that controls were working effectively. Testing also confirmed that regular reconciliations are undertaken between the number of invoices produced and the information in the financial system, to ensure that there are no missing invoices or duplications. The debtors' system was found to be working well, with no areas for improvement identified.

Medium Term Financial Plan

3.9 The Authority, like other organisations across the public sector, has faced, and is facing, some challenging issues in respect of financial sustainability. The focus of this audit is to ensure that the Authority's medium term financial position reflects this and that proposals have been developed for the majority of these savings requirements. The continued focus and delivery of these savings will be a key to the Authority delivering an efficient an effective service.

Budgetary Control

3.10 This review is examining the budget monitoring arrangements for the 2017/18 financial year in order to provide an overall opinion as to whether the controls in place were 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.

Procurement

3.11 The objective of this audit review is to review the processes and controls that have been established as part of the new National Resilience Initiative.

Fig 3 Other Strategic/Client directed audits completed in 2017/18

Audit Title	Control Environment	Compliance	Corporate Impact
Procurement *(cfwd)*	Good	Good	Moderate
Compliance with Protective Security Strategy	Advisory memo	Advisory memo	Advisory memo
Avon Review (Governance)	*In Review*	*In Review*	*In Review*
Management of Ancillary Fleet	*In Review*	*In Review*	*In Review*
Counter Fraud Policies	*Planning*	*Planning*	*Planning*
Firefighters Pensioners Payroll	*Deferred*	*Deferred*	*Deferred*

Procurement (old year)

3.12 The objective of this audit review was to provide assurance on the adequacy and effectiveness of the process of evaluating tenders, to ensure that it is applied consistently, fairly and transparently and to ensure compliance with requirements as set out in the UK Public Contracts Regulations (2015) and locally agreed Contract Standing Orders.

3.13 The audit identified that whilst Creditsafe checks were performed on tenderers the approach to undertaking due diligence checks could be formalised so that there is consistency in approach by the authority. The audit established that the decision to award a £650,000 contract was not supported by a documented approved Authority decision, and was therefore contrary to Contract Standing Orders 13.1. We were informed that retrospective approval would be sought in this instance. We also recommended that it is good practice for potential conflicts of interest to be identified by each member of the evaluation team for every tender evaluation exercise they participate in. Testing also established that an error had occurred with regards to the inclusion of a tenderer at the pricing stage of a tender exercise although they should have been eliminated by that point. Their inclusion however did not affect the outcome, although it did effect the scores awarded.

3.14 Based on the testing undertaken, although the audit review produced seven recommendations to improve working practices, we were able to provide a **good** level of assurance that the controls tested were operating effectively.

Compliance with Protective Security Strategy

3.15 As part of the agreed planned work for 2017/18, Internal Audit were asked to review the process followed by MFRS to establish how they would assess their compliance with the Fire and Rescue Protective Security Strategy 2012. Although this document, along with a Framework and Toolkit is still on the Chief Fire Officers Association website the Framework was updated by the Cabinet Office in early 2014. We therefore have used the more recent framework to perform the review.

3.16 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.

Avon Review (Governance)

3.17 The scope of this audit is to review governance and leadership arrangements in MFRA against the scope and the subsequent findings of the Statutory Inspection of Avon Fire and Rescue Authority. 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.

Management of Ancillary Fleet

3.18 The objective of this review was to ensure that the ancillary fleet is utilised and managed effectively and efficiently to establish whether current operating practices represent best value for MFRS. The review is considering whether current records

available offer sufficient detailed information to allow senior management to ensure that best use is made of the ancillary fleet.

Counterfraud Policies

3.19 The scope of this review is currently being discussed with management.

Firefighters Pensioners Payroll

3.20 This audit review has not been undertaken but as this year's planned days will have been utilised with the completion of other work; it has been agreed that the audit will be carried forward to the 2018/19 audit plan.

Contingency/Responsive/Advice and Assistance

3.21 Internal Audit were asked to provide advisory support in relation to CIPFA's Technical Information Service's web pages for Fire Services. Advisory support was also provided in relation to external audit assurance requirements.

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. There were four recommendations made in 2017/18 in respect of Procurement Tender Evaluation audit which were followed up within 6 months and we are awaiting confirmation of implementation. All other recommendations followed up were from previous years and were confirmed as implemented. There are also a few other recommendations outstanding relating to four former audits; the implementation dates have been extended for three 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. Specifically, the assessment identified that the Internal Audit Charter required updating to be brought in line with the updated Standards, this was completed and a decision made to review annually. The annual review of both the Charter and the QAIP is scheduled to take place shortly and will be brought to the next Audit Committee.

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 2017/18 the Head of Internal Audit can confirm that internal audit activity conforms with 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 and Scrutiny Sub Committee the organisational independence of the internal audit activity. Organisational independence is effectively achieved when the Head of Internal Audit reports functionally to the Board.

6.2 The arrangements in place to ensure organisational independence of the Internal Audit Service are outlined in the Internal Audit Charter. Key elements of this include:

- Approval of the Internal Audit Charter by the Audit and Scrutiny Sub Committee.
- Approval of the Annual Audit Plan by the Audit and Scrutiny Sub Committee.
- Reporting to the Audit and Scrutiny Sub Committee on the audit activity for the year.

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 by Glasgow City Council, as conforming to PSIAS.

7.2 The table below summarises budgeted and actual audit days for information, based on an agreed 112 days' work. It is expected that the remaining balance will be used finalising the audits that are currently in review/in progress.

Fig 5 Actual v Budgeted Days

Audit Title	Planned	Actual
Fundamentals	40	38
Strategic reviews/client directed/ad-hoc reviews	45	48
Contingency	14	5
Follow Up	5	3
Audit management	8	8
Finalising audit reports		10
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.