



AGENDA ITEM: 11

NORTH WALES FIRE AND RESCUE AUTHORITY AUDIT COMMITTEE

6 JUNE 2016

INTERNAL AUDIT ANNUAL STATEMENT OF ASSURANCE 2015/16

Report by Mike Halstead, Head of Audit and Procurement Services

Purpose of Report

- 1 Under the terms of the Accounts and Audit regulations, the Authority is required annually to conduct a review of the effectiveness of its system of Internal Control. Internal Audit is an integral part of that system, and is a significant contributor to the preparation of the Annual Governance Statement, which is required to be included in the Annual Statement of Accounts.
- 2 The CIPFA Public Sector Internal Audit Standards 2013 require the Head of Internal Audit to provide the Audit Committee with assurance on the whole system of internal control, including the adequacy of risk management and corporate governance arrangements. It should also be noted that assurance can never be absolute. The most that Internal Audit can provide to the Audit Committee is reasonable assurance that there are no major weaknesses in the whole system of internal control.
- 3 The report contains the assurance statement based on the work of Internal Audit during the year ended March 2016. The report is supported by Appendix A, which details the audit opinions and the key messages of the assignments completed during 2015/16.

Introduction

The Role of Internal Audit

- 4 The role of Internal Audit Services is to provide management with an objective assessment of whether systems and controls are working properly. It is a key part of the organisation's internal control system because it measures and evaluates the adequacy and effectiveness of other controls so that:
- the Audit Committee and senior management are aware of the extent to which they can rely on the whole system; and
 - individual managers are aware of how reliable are the systems and controls for which they are responsible.
- 5 The internal control system comprises the whole network of systems and controls established to manage the Authority, to ensure that its objectives are met. It includes financial and other controls and also arrangements for ensuring that the Authority is achieving value for money from its activities.

Definition of Internal Audit

- 6 The definition of internal audit, as described in the CIPFA Public Sector Internal Audit Standards 2013, is set out below:
- Internal Audit is an independent, objective assurance and consulting function designed to add value and improve and organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
 - Whilst Internal Audit "primarily" provides an independent and objective opinion to the organisation on the control environment, it may also undertake other, non-assurance work at the request of the organisation subject to the availability of skills and resources. This can include consultancy work; indeed, Internal Audit intrinsically delivers consultancy services when making recommendations for improvement arising from assurance work and fraud-related work.

Annual Statement of Assurance

- 7 The Head of Internal Audit is required to provide the Audit Committee with an opinion on the overall adequacy and effectiveness of the Authority's governance, risk management systems and internal control environment, providing details of any weaknesses that would qualify this opinion and bringing attention to any issues that are relevant to the preparation of the Annual Governance Statement. The report also provides evidence and assurance that the Internal Audit Service operates in compliance with Professional internal audit standards contained in the CIPFA Public Sector Standards 2013 to enable the Council to take assurance from this opinion.

Factors Affecting the Extent of Internal Audit Work

- 8 It is evident from the Summary of Internal Audit Activity (Appendix A) that all work planned for 2015/16 was undertaken, with the exception of the Sickness Absence audit. This audit was replaced by an audit of *Facilities Management – Planned Maintenance and Minor Works*, which was undertaken as a result of National Fraud Initiative (NFI) work identifying a significant number of payments being made to a single supplier for minor building works. The audit focused on the arrangements the Authority has in place for procuring this type of work.

THE STATEMENT OF ASSURANCE

Preamble

- 9 The Head of Internal Audit is required to provide the Audit Committee with assurance on the whole system of internal control, including the adequacy of risk management and corporate governance arrangements. It should be noted that assurance can never be absolute. The most that Internal Audit can provide to the Audit Committee is a reasonable assurance that there are no major weaknesses in the whole system of internal control.
- 10 The matters raised in this report are only those that came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Overall Assurance

- 11 The work of Internal Audit Services has been conducted in compliance with CIPFA's Public Sector Internal Audit Standards 2013.

Audit Opinion

- 12 I am satisfied that internal audit work undertaken, together with our maintained knowledge of the organisation and its procedures allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the NWFRA risk management, control and governance processes. In my opinion, for the 12 months ended 31 March 2016, NWFRA has satisfactory internal control and corporate governance processes to manage the achievement of the Authority's objectives.

Assurances

- 13 It is my opinion that NWFRA has adequate and effective control processes to manage its achievement of the Authority's objectives for the 12 month period to 31st March 2016. In reaching this opinion the following factors were taken into consideration:
- Internal Audit undertakes follow up action within six months of the issue of the final report in respect of audit assignments. The purpose of the follow up review is to determine the timeliness and effectiveness of the implementation of recommendations made to management. The follow up review process indicates that management have implemented or are in the process of implementing all of the recommendations made in our audit reports relating to 2014/15.
 - A schedule giving an audit opinion of the adequacy and effectiveness of control processes in respect of all the audit assignments undertaken during the year is attached at Appendix A. All audits undertaken during the year were assessed as providing positive levels of assurance.
- 14 The overall audit opinion may be used in the preparation of the Annual Governance Statement.

ANALYSIS OF WORK UNDERTAKEN AND DEFINITION OF AUDIT RECOMMENDATIONS AND OPINIONS

15 The schedule at Appendix A details the conclusions and key messages of the assignments that Internal Audit has reported upon during the year. Standard 10 of the CIPFA Code of Practice for Internal Audit in Local Government in the U.K. 2006 requires that Internal Audit recommendations are prioritised to identify clearly their respective risk. The categorisation of recommendations informs the audit opinion in respect of each audit. Subsequently, a summary of each audit opinion made during the financial year informs the process whereby the Head of Audit and Procurement Services is required under the above Code to include an opinion on the overall adequacy and effectiveness of the Authority's internal control environment, in his formal annual report to the Audit Committee.

Risk Ranking Categories

16 Audit recommendations are categorised to reflect the way in which the Authority assesses and measures risk. The standard risk assessment criteria are shown below:

LIKELIHOOD	Event is almost certain to occur in most circumstances	>70%	Almost Certain	A					
	Event likely to occur in most circumstances	30-70%	Likely	B					
	Event will possibly occur at some time	10-30%	Possible	C					
	Event unlikely and may occur at some time	1-10%	Unlikely	D					
	Event rare and may occur only in exceptional circumstances	<1%	Rare	E					
						5	4	3	2
					Very Low	Low	Medium	High	Very High
	Service Performance				Minor errors or disruption	Some disruption to activities/customers	Disruption to core activities/ customers	Significant disruption to core activities. Key targets missed	Unable to delivery core activities. Strategic aims compromised
	Reputation				Trust recoverable with little effort or cost	Trust recoverable at modest cost with resource allocation within budgets	Trust recovery demands cost authorisation beyond existing budgets	Trust recoverable at considerable cost and management attention	Trust severely damaged and full recovery questionable and costly
	Financial	Cost (£)			<£50k	£50k - £350k	£350k - £1 m	£1 m - £5 m	>£5m
	IMPACT								

	Severity	Management Intervention
	Minor	Findings which are easily addressed by line management.
	Moderate	Findings that identify non-compliance with established procedures but do not represent any major risk to the Authority, containable at service level.
	Major	Important findings that need to be resolved by Principal Officers and Executive Panel may need to be informed.
	Critical	Findings that are fundamental to the management of risk in the business area, representing weaknesses in control that require the immediate attention of the Executive Panel.

Audit Opinion

17 The outcome of each audit and the evaluation of the adequacy of the internal control environment is based on the number of recommendations made and their risk rating. This process informs the Audit Opinion and the following definitions have been produced to enable auditors to make appropriate assessments in respect of the Audit Opinion contained at the end of each audit report.

DEFINITIONS OF ASSURANCE RATINGS

LEVELS OF ASSURANCE	CONTROLS	RISKS
HIGH ASSURANCE	Key controls are in place to ensure the achievement of service objectives and to protect the Authority against significant foreseeable risks and are applied consistently and effectively. No significant or material errors were found.	Low priority actions required which are easily managed.
SATISFACTORY ASSURANCE	Key controls exist to enable the achievement of service objectives and to mitigate against significant foreseeable risks. However, there was some inconsistency in application and opportunities still exist to mitigate further against potential risks.	Some opportunities still exist to mitigate further against potential risks. Some risk of loss, fraud, impropriety or damage to reputation.

LEVELS OF ASSURANCE	CONTROLS	RISKS
LIMITED ASSURANCE	Key controls are in place and to varying degrees are complied with but there are gaps in the process which leave the service exposed to risks. Objectives are not being met or are being met without achieving value for money.	There is a need to introduce additional controls and/or improve compliance with existing ones, to reduce the risk exposure to the Authority. A high risk of loss, fraud, impropriety or damage to reputation.
NO ASSURANCE	Key controls are considered to be insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls and errors and omissions have been detected.	Key controls do not exist and objectives are not met or are being met without achieving VFM. The Authority is exposed to very significant risk, which could lead to major financial loss, reputational risk of embarrassment or failure to achieve key service objectives.

Common Weaknesses

- 18 There is no common factor that links the weaknesses identified as part of our internal work for 2015/16 and there are no particular issues or concerns relevant to the preparation of the Annual Governance Statement.

OTHER MATTERS

Qualifications to the Audit Opinion

- 19 In giving an audit opinion, it should be noted that assurance can never be absolute. The most that the Internal Audit Service can provide to the Audit Committee is a reasonable assurance based upon the work undertaken in that year, that there are no major weaknesses other than those identified.
- 20 Qualifications to the Audit Opinion are set out in paragraphs 9 and 10. In addition, in arriving at our opinion, we have taken into account:
- the results of all audits undertaken during the year ended 31st March 2016;

- the results of follow-up action taken in respect of audits from previous years;
- whether any High or Medium category of recommendations have not been accepted by management and the consequent risks;
- the affects of any material changes in the Authority's objectives or activities;
- matters arising from previous reports to the Executive Panel or Audit Committee;
- whether or not any limitations have been placed on the scope of internal audit;
- the resource constraints placed upon Internal Audit that have impinged on the Service's ability to meet the full internal audit needs of the Authority;
- what proportion of the Authority's internal audit needs have been covered to date.

Acceptance of Recommendations

21 Management have accepted 100% of the recommendations made by the Internal Audit Service during the year. There are no Critical or Major category recommendations that we consider are not receiving adequate management attention.

Reliance Placed Upon Work by Other Assurance Bodies

22 Internal Audit places some reliance on work undertaken by the Wales Audit Office, the Authority's external auditors, particularly in relation to the financial statements, risk management and corporate governance arrangements in drafting the annual reports and forming our annual opinion of the period.

Issues Judged Relevant to the Statement on Internal Control

23 Based on the work of the Internal Audit Section during 2015/16 there are no significant areas of weakness that warrant attention in the Annual Governance Statement for 2015/16.

Compliance with Internal Audit Standards

24 Internal Audit employ a risk-based approach to determining the audit needs of the Authority at the start of the year and use a risk based methodology in planning and conducting our audit

assignments. The work of Internal Audit Services has been performed in compliance with the CIPFA Public Sector Internal Audit Standards 2013.

- 25 Internal Audit is subject to annual review by External Audit to determine compliance with the auditing standards contained in the Code of Practice.
- 26 The Head of Internal Audit has made provision for internal quality reviews to be undertaken periodically by experienced members of the internal audit function to appraise:
 - compliance with the organisational and operational standards referred to in paragraph 26,
 - the quality of audit work,
 - the quality of supervision,
 - compliance with the local audit manual,
 - the achievement of performance indicators.
- 27 The review conducted in respect of the work performed during 2015/16 has demonstrated compliance with both internal and external standards.

Internal Quality Assurance Programmes

- 28 In order to ensure the quality of the work performed by Internal Audit, a range of quality measures are in place which include:
 - supervision of staff conducting audit work;
 - documented review of all files of working papers and reports by managers;
 - an annual appraisal of audit staff resulting in personal development and training action plans;
 - the maintenance of the Section's Internal Audit Manual.

RECOMMENDATION

- 29 The Internal Audit Annual Statement of Assurance be accepted and utilised to contribute to the evidence content of the 2015/16 Annual Governance Statement.

Internal Audit Section – 2015/16 Annual Summary of Recommendations and Audit Opinions

	Auditable Area	Audit Findings and Key Messages	Critical	Major	Moderate	Minor	Total	Agreed by Mgmt	Audit Opinion
1	<p>Payroll – Amendments to Pay</p>	<p>It was confirmed that payments to employees and members is covered by the Authority’s Financial Regulations and detailed guidance regarding firefighter’s entitlements and allowances is covered in the Fire Brigades’ Union – NJC Pay and Conditions Grey Book 2004 (updated 2009). Additional guidance is provided to officers in the SAPPO <i>Wholetime Pay and Allowances</i>, however, the Orders have not been reviewed and updated since 1998. It was identified that the Payroll Authorised Signatories List was compiled in 2009 and although some amendments and additions have been made by the Payroll Officer to the list in the meantime, it is in need of review and updating, particularly as a result of the recent operational manager restructure.</p> <p>It was confirmed that all the permanent amendments to wholetime pay were made in accordance with the NJC’s Scheme of Conditions (Grey Book); they were correctly calculated and made to officers eligible to the payment. The payments were based upon properly authorised written instructions and the documentation was signed and dated by the payroll officers responsible for the checking and inputting of the payroll data. A level of assurance may be provided that permanent amendments to wholetime pay are well controlled.</p> <p>It was confirmed that all payments for overtime, incident fees and temporary promotions are supported by properly authorised claim forms; the payments were accurate and the transfer of the data onto the payroll feeder system well controlled. However, in relation to Temporary Promotions it was identified that although a <i>calculation sheet</i> is completed by the Payroll Officer, the sheet is not signed and dated and the accuracy of the calculation is not checked by a second officer, which is considered a weakness in internal control.</p>	0	0	1	2	3	3	Satisfactory

2	NFI – Facilities Management (Planned Maintenance and Minor Works)	<p>The review raised serious concerns that NWFRS is not obtaining value for money in respect of its facilities management service. In particular the selection of contractors for minor building and alteration works is not carried out on a competitive basis, there appears to be instances of officers circumventing Contract Standing Orders by breaking down works to avoid going out to market when procuring works and repeatedly using the services of a single contractor to undertake works.</p> <p>In addition, it is considered that the replacement door programme does not represent value for money and the use of a contractor to manage the works on a station by station basis has considerably increased the cost of the works, when it would have been more appropriate and prudent to tender the work as a complete package.</p> <p>Officers also appear to have failed to provide the facilities management service as detailed in the SLA in regard to the following:</p> <ul style="list-style-type: none"> ➤ Specifications / estimates etc have not been produced for the alteration works carried out at the Rhyl Training Centre, Llangollen Fire Station and Aberdyfi Fire Station. ➤ Quotations and / or tenders have not been obtained when procuring works to demonstrate best value in the procurement process. ➤ Works are not appropriately managed or supervised resulting in invoices being paid prior to completion of works or prior to works being undertaken. 	0	4	1	0	5	5	Limited
3	National Fraud Initiative (NFI)	<p>NFI is a comprehensive and thorough 'data matching' exercise organised by the Audit Commission in partnership with the Wales Audit Office (WAO). There were no issues arising from the investigations, which provides a level of assurance that the systems of internal control are working well and that frauds and irregularities are being minimized. The exercise also assists to strengthen anti-fraud and corruption arrangements and instill an anti-fraud culture.</p>	0	0	0	0	0	0	High

4	Pensions (Data Quality)	<p>Although the audit has provided a Satisfactory level of assurance upon the quality of firefighter pension data, it is considered that Conwy payroll officers would benefit from some training upon each of the three pension schemes; FPS 1992, NFPS 2007 and the FPS 2015. The Head of Finance has delivered a training presentation to the Members of the Local Pension Board and has offered to provide the training to the payroll officers, which would provide a level of assurance that the schemes are being managed in accordance with legislation.</p> <p>It was confirmed that new starters are provided with guidance upon the benefits of FPS 2015 and in accordance with legislation they are auto-enrolled into the Scheme with the option for them to 'Opt Out' by informing Dyfed Pensions in writing. However, it was identified that 7 Retained Firefighters that commenced duties in April 2015 were not auto-enrolled into FPS 2015. In accordance with legislation these firefighters must be enrolled to enable them to decide whether to remain in or 'opt-out' of the Scheme. It is acknowledged that information is available on the Dyfed Pensions' website upon transfers of previous pension rights into the Scheme and the payment of death grants. However, it is considered that HR should provide new starters with a pensions information pack, which not only provides information upon the option to 'opt out', but also information on the transfer of previous pension benefits (<i>Declaration of Previous Benefits Form</i>) and the nomination forms; <i>Death Grant Expression of Wish</i> and the <i>Dependent Partner for Survivor's Pension</i>.</p> <p>It was confirmed that generally the record keeping is of a good standard. However, some variances were identified between firefighter pension data held on Workforce and the data held on ITrent. The variances between the Workforce and ITrent firefighter records (addresses, date of births and NI number) have been provided to HR and Conwy Payroll and enquiries should be made and the Systems amended with the up to date and accurate data. Conwy payroll must ensure that Dyfed Pensions are subsequently informed of the accurate data records.</p> <p>Contributions are deducted from firefighters' pay correctly, using the correct contribution rate to deduct from pensionable earnings; firefighters are enrolled in the correct scheme, with the exception of a Retained Watch Manager, currently enrolled in FPS 2007, who is unprotected and should have been transferred into FPS 2015. It was confirmed that those firefighters whose tapered protection ended in 2015/16 have correctly transferred into FPS 2015.</p>	0	0	4	5	9	9	Satisfactory
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		<p>However, it is considered that to improve the system, the transitional protection, <u>tapered end dates</u>, should be input into iTrent (Consolidated Pension Details) to ensure all transfers to FPS 2015 are made on a timely basis.</p> <p>It was identified that the year-end pension reports issued by Conwy Payroll to Dyfed Pensions in April 2015 were incomplete and omitted 102 wholetime and 47 retained firefighters. Dyfed Pensions' validation checks identified the error and amended reports were submitted by Conwy at the end of May. It is important that robust data validation checks are performed by Conwy Payroll upon the year end reports, prior to the data being submitted to Dyfed Pensions, to ensure that they are complete and accurate. The year-end pension reports submitted to Dyfed Pensions should be transmitted using an encrypted channel ie. Egress Secure Email Software.</p> <p>It was confirmed that Dyfed Pensions perform robust validation checks upon the year end pension reports to ensure they are complete and accurate; and the management of the fund is periodically audited by Carmarthenshire Internal Audit Services.</p>								
									High	1
									Satisfactory Limited	2
									Limited	1
									No Assurance	0