

Report to	Audit Committee
Date	29 July 2019
Lead Officer	Head of Audit & Procurement Services
Contact Officer	Keith Williams (Audit Manager)- 01492 576217
Subject	Internal Audit Annual Report 2018/19



PURPOSE OF REPORT

- 1 Under the terms of the Accounts and Audit (Wales) Regulations 2014 Part 3 5. (2), the North Wales Fire and Rescue Authority (the Authority) is required to conduct an annual 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.
- 2 The UK 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.
- 3 The report analyses the work of the Internal Audit Service for 2018/19 and contains the assurance statement based on the work of Internal Audit during the year ended 31st March 2019.

EXECUTIVE SUMMARY

- 4 The Head of Internal Audit is able to provide assurance to the Audit Committee, based on the internal audit work undertaken, together with our maintained knowledge of the organisation and its procedures, that the Authority has effective corporate governance, risk management and internal control arrangements to manage the achievement of the Authority's objectives.
- 5 The report confirms that 55 days of Internal Audit work were performed during 2018/19, in accordance with the planned allocation.
- 6 The audit reviews provide a level of assurance on the adequacy of the systems of internal control in place, although 28 recommendations have been made in the year to address some weaknesses. A formal follow-up process is in place to ensure that the recommendations are implemented within agreed timescales.

- 7 The work of Internal Audit has not identified any weaknesses that would qualify this opinion and there are no significant issues that are relevant to the preparation of the Annual Governance Statement.
- 8 The report also provides assurance that the Internal Audit Service operates in compliance with the UK Public Sector Internal Audit Standards to enable the Authority to take assurance from this opinion.

RECOMMENDATIONS

- 9 Members are asked to:
 - (i) note the audit work undertaken during 2018/19; and
 - (ii) note the Internal Audit assessment which confirms that the Authority has satisfactory internal control, risk management and corporate governance processes in place to manage the achievement of its objectives.

BACKGROUND

The Role of Internal Audit

- 10 Under the terms of The Accounts and Audit (Wales) Regulations 2014, Fire and Rescue Authorities have a statutory responsibility to maintain "an adequate and effective system of internal audit."
- 11 The role of Internal Audit Services is to provide management with an objective assessment of whether systems and controls are present and 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 the systems and controls are for which they are responsible.
- 12 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.
- 13 In accordance with the Public Sector Internal Audit Standards the Head of Audit is required to deliver an annual internal audit opinion and report that can be used by the Authority to inform its governance statement.

INFORMATION

Internal Audit Opinion 2018/19

- 14 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.
- 15 It is my opinion the Authority has adequate and effective control processes to manage its achievement of its objectives for the 12 month period to 31 March 2019.
- 16 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.
- 17 In addition, in arriving at our opinion, I have taken into account:
- the results of all audits undertaken during the year ended 31 March 2019;
 - 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 effects of any material changes in the Authority's objectives or activities;
 - matters arising from previous reports to the Executive Panel or Audit Committee; and
 - 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.
- 18 The overall audit opinion may be used in the preparation of the Annual Governance Statement.

Summary of Work Supporting the Audit Opinion 2018/19

- 19 A schedule giving an audit opinion of the adequacy and effectiveness of internal control processes and a summary of the key messages in respect of all the audit assignments undertaken during 2018/19 is attached at **Appendix A**.
- 20 The schedule summarises the audit opinions and number of recommendations made in respect of each area reviewed, which form

the basis of the assurance given to Audit Committee of the overall adequacy and effectiveness of the Authority's governance, risk management and internal control frameworks for 2018/19.

21 Where relevant, internal audit reports are categorised to give an audit opinion of the internal control environment for that particular system or establishment. The audit opinions on the assignments are categorised as follows:

- High Assurance
- Satisfactory Assurance
- Limited Assurance
- No Assurance

In support of the audit opinions, the recommendations made during the year have been categorised as Critical, Major, Moderate and Minor, in accordance with the way in which the Authority assesses and measures risk.

22 Four audits reports were completed during the year covering:

- **Creditors (Proactis P2P System)** – A review was undertaken to ensure procedures are in place to ensure that the Service's ordering of works, goods and services and payment of creditors are well controlled, with regard to authorised signatories, declarations of Interests, receipt of goods, invoice checks, duplicate payment controls, BACS & Cheque Payments and bank reconciliations. The audit made 9 recommendations and provided a high level of assurance.
- **Income & Debtors** – A review was undertaken to ensure procedures are in place to ensure that all income due to the Service is properly received, the collection, receipt & banking of income at HQ is well controlled, sundry debtor invoices are raised promptly and accurately, outstanding debts are properly monitored, recovery action is appropriate and write-offs well controlled. The audit made 7 recommendations and provided a high level of assurance.
- **Purchase Cards** – A review of the Service's management and control of purchase card expenditure to provide a level of assurance to management that internal controls are operating effectively, potential risks are well managed and corporate objectives are being achieved. The audit made 12 recommendations and provided a satisfactory level of assurance.
- **Special Investigation (Unauthorised User Activity on the Local Network)** – An investigation was performed by Internal Audit upon Unauthorised User Activity on the IT Network. The investigation was

undertaken subsequent to a data breach incident in July 2018, which was reported to the Information Commissioner's Office.

- 23 The outcome of each audit and the evaluation of the adequacy of the internal control environment are based on the number of recommendations and their risk rating. All audits undertaken during the year were assessed as providing positive levels of assurance.
- 24 To address the weaknesses identified during the audit reviews 28 recommendations have been made. Action plans setting out the agreed response to the audit recommendations were issued with the audit reports and these have been returned from Fire and Rescue Authority management, completed with the action to be taken to ensure implementation of the recommendations. Management have agreed to implement all the audit recommendations.
- 25 To comply with CIPFA's Public Sector Internal Audit Standards a formal follow up process is in operation within the Section to confirm that the recommendations made in Internal Audit reports have been implemented by management within agreed timescales. A follow up audit will normally take place six months after the issue of the final report.
- 26 A schedule of the follow up audits conducted during 2018/19 is attached at **Appendix B**. It demonstrates the number of recommendations accepted and subsequently implemented by management in each area and reveals changes that impact on the original audit opinion. Further follow up work will be performed in those areas where a significant number of recommendations remain outstanding.
- 27 During 2018/19, 55 audit days were provided, in accordance with the planned allocation of 55 days as indicated in the annual audit plan. A summary of audit activity is attached at **Appendix C** and shows the planned allocation of audit resources in terms of man days over departments and services and compares actual work done for 2018/19 with the plan.
- 28 In accordance with the Public Sector Internal Audit Standards, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Authority. The plan was reviewed during the year and updated as necessary; the special investigation and review of the use of purchase cards replaced the planned audits of retained fire stations & further work on cyber security.

Compliance with Public Sector Internal Audit Standards

- 29 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 UK Public Sector Internal Audit Standards 2013.
- 30 The Internal Audit Service has developed a Quality Assurance & Improvement Programme (QAIP), which covers all aspects of internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated.
- 31 The Public Sector Internal Audit Standards (PSIAS) became effective from 1st April 2013 and introduced a requirement for an external assessment of all internal audit services, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. Wrexham County Borough Council's (WCBC) Service Manager – Audit & Technical performed the assessment in November 2016. The Institute of Internal Auditor's suggest a scale of three ratings, 'Generally Conforms,' 'Partially Conforms', and 'Does Not Conform.' The external assessors' overall opinion is that the Internal Audit Service generally conforms with the PSIAS and Code of Ethics in all significant areas and that it operates independently and objectively.

IMPLICATIONS

Wellbeing Objectives	This report links to NWFRA's long-term well-being objective which is "To facilitate high quality, responsive and better integrated fire and rescue services so that prevention activity and emergency response can continue to be available when and where required, affordably, equitably and on the basis of risk."
Budget	Internal Audit Services are provided as part of an agreed service legal agreement and within budget constraints.
Legal	This report satisfied the Authority's requirements arising from the Accounts and Audit Regulations.
Staffing	None
Equalities/Human Rights/ Welsh Language	None
Risks	<p>The Statement of Assurance is submitted in compliance with the Accounts & Audit Regulations and the Public Sector Internal Audit Standards. Without such assurance from the Head of Internal Audit Services, Members would be unaware of the adequacy & effectiveness of the corporate governance, risk management & internal control arrangements and its associated ability to achieve its objectives.</p> <p>Any significant issues or weaknesses identified by Internal Audit would not be considered in the preparation of the Annual Governance Statement.</p>