



## **AGENDA ITEM: 7**

### **NORTH WALES FIRE AND RESCUE AUTHORITY AUDIT COMMITTEE**

**3 June 2013**

#### **INTERNAL AUDIT ANNUAL STATEMENT OF ASSURANCE 2012/13**

**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's Code of Practice for Internal Audit in Local Government in the UK 2006 requires 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 2013. The report is supported by Appendix A, which details the audit opinions of the assignments completed during 2012/13.

## **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 Code of Practice for Internal Audit in Local Government in the U.K. 2006, is set out below:
  - Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
  - 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 to the standards set out in the Code of Practice for Internal Audit in Local Government in the UK 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 an additional unplanned item of work was undertaken at the request of NWFRS management. A Special Investigation was undertaken at management's request during 2011/12 upon time off in lieu (toil) and other HR issues. The Principal Auditor that performed the investigation was involved in the disciplinary process during 2012/13. This piece of work replaced the planned work upon Payroll Starters & Leavers.

## **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 internal auditing standards contained in the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

### **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 31st March 2013, 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 31<sup>st</sup> March 2013. 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 2011/12.

- 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 on the assignments 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:

<b>LIKELIHOOD</b>	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	1
					Very Low	Low	Medium	High	Very High
<b>Service Performance</b>					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
<b>Reputation</b>					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
<b>Financial</b>		<b>Cost (£)</b>			<£50k	£50k - £350k	£350k - £1 m	£1 m - £5 m	>£5m
<b>IMPACT</b>									

## 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

<b>LEVELS OF ASSURANCE</b>	<b>CONTROLS</b>	<b>RISKS</b>
<b>HIGH ASSURANCE</b>	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.
<b>SATISFACTORY ASSURANCE</b>	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.
<b>LIMITED ASSURANCE</b>	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.
<b>NO ASSURANCE</b>	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 2012/13 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 & 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 2013;
  - 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 KPMG, the Authority's external auditors, particularly in relation to 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 2012/13 there are no significant areas of weakness that warrant attention in the Annual Governance Statement for 2012/13.

## **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 Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
- 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 24,
  - 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 2012/13 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 2012/13 Annual Governance Statement.

## NORTH WALES FIRE AND RESCUE AUTHORITY

## Internal Audit Section – 2012/13 Annual Summary of Recommendations and Audit Opinions

	Auditable Area	Audit Findings & Key Messages	Critical	Major	Moderate	Minor	Total	Agreed by Mgmt	Audit Opinion
1	<b>Retained Stations (Flintshire &amp; Wrexham)</b>	<p>A review of payments to retained firefighters (Electronic FIN8's), the maintenance of station &amp; appliance inventories (as part of follow up of Station Inventories audit undertaken in 2007/08) and the completion of vehicle fuel, maintenance &amp; usage log books.</p> <p><b>The key messages of the audit were to establish procedural guidance for the completion &amp; submission of FIN8s, Response Managers must consistently undertake the 6 monthly Appliance Inventory verification checks and all retained stations must ensure the welfare fund accounts are audited annually.</b></p>	0	0	3	3	6	6	High Assurance
2	<b>Creditors</b>	<p>A review was performed of the Service's Creditors System. A new computerised ordering system was implemented during 2012/13 (MRC) &amp; creditor invoices are now input directly by NWFRS officers onto Conwy's Accounts Payable Masterpiece 3 System.</p> <p><b>The Key messages were that written procedures are required to provide guidance to staff, official orders must be raised for the supply of goods &amp; services and additional controls should be established to mitigate the risk of duplicate payments.</b></p>	0	0	2	5	7	7	High Assurance

	Auditable Area	Audit Findings & Key Messages	Critical	Major	Moderate	Minor	Total	Agreed by Mgmt	Audit Opinion
3	Stores	A review was undertaken of the Service's Stores System. <b>The key message was that overall the Stores Department is well controlled &amp; effectively managed. The weaknesses identified were the need to provide staff with a stores manual and to update the SAPPO specifying the procedures for requesting uniforms, operational equipment and consumable items. In relation to the MRC Stores System, a system of perpetual stocktaking should be introduced, the stock records should show the total value of the stores at any given time and stock should be valued by the weighted average method not at current price.</b>	0	0	2	5	7	7	High Assurance
4	Special Investigation - Disciplinary	In December 2011, NWFERS requested an independent appraisal of time off in lieu (toil) & other HR issues. <b>The audit investigation generated an internal disciplinary investigation – The investigating officer was required to perform further work and was involved in the officer's disciplinary hearing.</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
		<b>Totals</b>	0	0	7	13	20	20	
								High	3
								Satisfactory	0
								Limited	0
								No Assurance	0

\* Not appropriate to provide an Audit Opinion upon the special investigation undertaken.