

# Internal Audit Annual Report & Head of Internal Audit Opinion 2018/19

Cheshire Fire Authority/ Fire and Rescue Service

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## 1. Introduction

### 1.1 Purpose of this Report

The purpose of this Director of Internal Audit Opinion is to contribute to the assurances available to the Accountable Officer and the Authority which underpin their own assessment of the effectiveness of the organisation's system of internal control. This Opinion will assist the Authority in the completion of its Annual Governance Statement (AGS), along with considerations of organisational performance, regulatory compliance and wider transformation. Section 3 of the report provides additional information to support your AGS.

### 1.2 Authority and Accountable Officer Roles and Responsibilities

The whole Authority is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement is an annual statement by the Accountable Officer, on behalf of the Authority, including:

- How the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control and governance that supports the achievement of policies, aims and objectives.
- The purpose of the system of internal control as evidenced by a description of the risk management and review processes;
- The conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

In accordance with Public Sector Internal Audit Standards, the Director of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisations' risk management, control and governance processes (i.e. the organisations' systems of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Authority, which can provide assurance, subject to the inherent limitations described below. The outcomes and delivery of the internal audit plan are provided in Section 3.

The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led Strategic Risk Register and Risk Management process. As such, it is one component that the Authority should take into account in making its AGS.

## 2. Executive Summary

This annual report provides the 2018/19 Head of Internal Audit Opinion for Cheshire Fire and Rescue Service, together with the planned internal audit coverage and output during 2018/19 and MIAA Quality of Service Indicators.

Key Area	Summary
<b>Head of Internal Audit Opinion</b>	The overall opinion for the period 1st April 2018 to 31st March 2019 provides Substantial Assurance, in that there is a good system of internal control designed to meet the system objectives, and controls are generally being applied consistently.
<b>Planned Audit Coverage and Outputs</b>	<p>The 2018/19 Internal Audit Plan has been delivered in accordance with the schedule agreed with the Performance and Overview Committee at the start of the financial year, including approved plan variations. This position has been reported within the progress reports across the <b>financial year, with the final report concluding completion of the Internal Audit Plan.</b></p> <p>Review coverage has been across a number of business critical systems, e.g. Finance, Governance, HR, IM &amp; T etc.</p> <p>We have raised 19 recommendations as part of the reviews undertaken during 2018/19. All recommendations raised by MIAA have been accepted by management. MIAA has undertaken follow up reviews during the course of year.</p>
<b>MIAA Quality of Service Indicators</b>	MIAA operate systems to ISO Quality Standards. The External Quality Assessment, undertaken by CIPFA, provides assurance of MIAA's compliance with the Public Sector Internal Audit Standards.

### 3. Head of Internal Audit Opinion

#### 3.1 Opinion

Our opinion is set out as follows:

- *Basis for the opinion*
- *Overall opinion*
- *Commentary*

##### 3.1.1 Basis

The basis for forming our opinion is as follows:

Basis for the Opinion
1. An assessment of the range of individual assurances arising from our risk-based internal audit assignments that have been reported throughout the period. This assessment has taken account of the relative materiality of systems reviewed.
2. An assessment of the organisation's response to Internal Audit recommendations, and the extent to which they have been implemented.

##### 3.1.2 Overall Opinion

Our overall opinion for the period 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019 is:

High Assurance, can be given that there is a strong system of internal control which has been effectively designed to meet the organisation's objectives, and that controls are consistently applied in all areas reviewed.	
<b>Substantial Assurance</b> , can be given that that there is a good system of internal control designed to meet the organisation's objectives, and that controls are generally being applied consistently.	✓
Moderate Assurance, can be given that there is an adequate system of internal control, however, in some areas weaknesses in design and/or inconsistent application of controls puts the achievement of some of the organisation's objectives at risk.	
Limited Assurance, can be given that there is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls impacts on the overall system of internal control and puts the achievement of the organisation's objectives at risk.	

No Assurance, can be given that there is an inadequate system of internal control as weaknesses in control, and/or consistent non-compliance with controls could/has resulted in failure to achieve the organisation's objectives.	
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### 3.1.3 Commentary

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

Our opinion covers the period 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019 inclusive, and is underpinned by the work conducted through the risk based internal audit plan.

### Risk Based Reviews

We issued

1 <b>high</b> assurance opinions:	<ul style="list-style-type: none"> <li>• Vehicle Fleet</li> </ul>
2 <b>substantial</b> assurance opinions:	<ul style="list-style-type: none"> <li>• Operational Training</li> <li>• Performance Reporting and Data Quality</li> <li>• Station Management Framework</li> <li>• Safe and Well</li> </ul>
0 <b>moderate</b> assurance opinions:	
0 <b>limited</b> assurance opinions:	
0 <b>no</b> assurance opinions:	

We raised 0 **high risk recommendations** in respect of the above assignments.

### Follow Up

During the course of the year we have undertaken follow up reviews and can conclude that the organisation has made **good progress** with regards to the implementation of recommendations. We will continue to track and follow up outstanding actions.

In providing this opinion I can confirm continued compliance with the definition of internal audit (as set out in your Internal Audit Charter), code of ethics and professional standards. I also confirm organisational independence of the audit activity and that this has been free from interference in respect of scoping, delivery and reporting.

*Tim Crowley*

**Head of Internal Audit, MIAA**

**31<sup>st</sup> March 2019**

## 4. Internal Audit Coverage and Outputs

The Internal Audit Plan has been delivered in accordance with the schedule agreed with the Performance and Overview Committee at the start of the financial year. This position has been reported within the progress reports across the financial year, with the final report concluding completion of the Internal Audit Plan with the exception of the NFI data matching and the HMICFRS review which are being completed in Q1 2019/20.

Of the reviews completed in the year, assurance ratings were given in 5 cases. Assurance rating were not applicable within 1 review, due to the nature of this work. The audit assignment element of the Opinion is limited to the scope and objectives of each of the individual reviews. Detailed information on the limitations (including scope and coverage) to the reviews has been provided within the individual audit reports and through the Performance and Overview Committee Progress Reports throughout the year.

A summary of the reviews performed in the year is provided below:

	Review	Assurance Opinion	Recommendations Raised				
			Critical	High	Medium	Low	Total
1	Vehicle Fleet	High	0	0	0	1	1
2	Operational Training	Substantial	0	0	2	1	3
3	Performance Reporting and Data Quality	Substantial	0	0	2	2	4
4	Station Management Framework	Substantial	0	0	1	1	2
5	Safe & Well	Substantial	0	0	8	1	9
6	Finance Support Review	N/A	0	0	0	0	0
		<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>13</b>	<b>6</b>	<b>19</b>

All recommendations raised were accepted by management.

**ADVISORY SUPPORT AND GUIDANCE:** Areas where MIAA have supported the organisation in strengthening arrangements in respect of governance, risk management and internal control.

**National Fraud Initiative** – MIAA matches electronic data within and between public and private sector bodies to prevent and detect fraud. These bodies include police constabularies, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.

This participation offers a range of matches (payroll and creditors) designed to target fraud as well as providing assurance on a range of corporate governance issues. In addition, the inclusion of your data will help identify overpayments and uncover fraud at other participating bodies.

**Risk Management Board** – Attendance and participation at the Risk Management Board throughout the year.

**Raising Awareness** – Presentation to SMT and Senior Managers on the role of internal audit to raise awareness of our role in the organisation and a greater understanding of the audit plan work scheduled for 2019/20. A further presentation is scheduled for new Fire Authority Members.

**HMICFRS** – MIAA have agreed to support CFRS with their development of an action plan in response to the in-year HMICFRS inspection. This will be two phased, an initial review of the Action Plan to ensure that it meets all aspects of the Inspection report findings, this is scheduled for Q1 2019/20 and a further review later in the year of the evidence to support implementation of the actions.

## 5. Areas for consideration – your Annual Governance Statement

The Head of Internal Audit Opinion is one source of assurance that the organisation has in providing its AGS other third party assurances should also be considered. In addition the organisation should take account of other independent assurances that are considered relevant.

We have identified a number of other strategic challenges that should be considered by the Accountable Officer when drafting the AGS. Whilst the scope of the Internal Audit Plan would have considered elements of these, it is important that the organisation reflects more widely on how these should be factored into the AGS. Areas for consideration include-

- Regulatory Compliance.
- Outcomes of the recent HMICFRS Inspection.
- Organisational Performance, e.g. achieving financial duties, operational delivery etc.
- Third party assurance from organisations who provide services on behalf of the Authority, e.g. Financial Systems, Payroll etc.
- Outcomes of any investigations into incidents in year.
- Any reportable information governance breaches reported to the Information Commissioner.
- Any known gaps in the management of risk to the organisational objectives.
- Any significant changes to the senior management team.
- Any significant changes to the governance structure of the Authority.

## 6. MIAA quality service indicators

MIAA's strategy has quality at the heart of everything we do and our overall approach to quality assurance includes ISO9001:2015 accreditation, compliance with Public Sector Internal Audit Standards, the quality of our people and outcome measures.

### 6.1 Externally accredited quality systems

Since 1992 we have held ISO9001:2015 quality certification for our audit process. This includes, but is not limited to, the scoping, conduct and review of audit assignments and is independently assessed every year.

The MIAA Audit (Quality) Manual defines the operational procedures and processes within which all our work is delivered. Audit work is supervised, reviewed and signed off at each stage prior to review by the Audit Manager for overall quality assurance and reporting. As part of the quality control process "coaching notes" are raised electronically on the audit assignment working paper file to ensure the assignment is delivered to the highest standard. In addition, Audit Committee Reports are subject to Quality Assurance at Director Level.



The latest confirmation of our ongoing ISO9001:2015 accreditation was received in 2018.

### 6.2 Compliance with Internal Audit Standards

MIAA comply fully with professional best practice, internal audit standards and legal requirements. We assess our compliance with the Public Sector Internal Audit Standards (PSIAS) each year.

Internal Audit Standards	MIAA Compliance
1000 - Purpose, Authority & Responsibility	MIAA undertakes audit work to evaluate and improve the effectiveness of risk management, control and governance processes. An annual Director of Audit Opinion is provided to support the Annual Governance Statement.
1100 - Independence & Objectivity	MIAA is managed independently from, and with no executive responsibilities for, the audited body. MIAA have direct access to the Audit Committee Chair and are represented at meetings. All MIAA staff complete an annual declaration of interest, including actions taken to mitigate these.
1200 - Proficiency & Due Professional Care	Professional care is monitored and achieved through compliance with MIAA's quality and review systems. The Director of Audit is a CCAB Qualified accountant and MIAA's staff are either fully or part qualified (including CCAB, IIA, CISA, QICA, and LCFS).

Internal Audit Standards	MIAA Compliance
1300 - Quality Assurance & Improvement	MIAA have accreditations for systems, processes and training. We are ISO9001:2015 quality assessed, Investors in People, Finance Skills Development (Level 2) and training accreditations with CCABs. All reports follow a strict quality assessment process.
2000 - Managing the Internal Audit Activity	MIAA have a defined approach for risk assessment, planning, performance and reporting. Three-year risk based audit plans are developed for our client organisations, with regular progress reported to the Audit Committee.
2100 - Nature of Work	MIAA's internal audit activity evaluates and contributes to the improvement of governance, risk management and internal control. There is regular liaison with the Local Counter Fraud Specialist, External Auditor and other review bodies to facilitate effective coordination of work.
2200 - Engagement Planning	MIAA's work is structured to comply with Public Sector requirements and the role as defined in the Audit Committee Handbook. We establish risk based audit plans in conjunction with the organisation and with the approval of the Audit Committee.
2300 - Performing the Engagement	Terms of Reference are established and agreed for each review, including objectives, scope, timing and resource allocations. MIAA staff identify, analyse, evaluate and document sufficient information to achieve the assignment objectives. All assignments are properly supervised.
2400 - Communicating Results	MIAA communicate the results of each assignment. Working with the organisation, the Director of Internal Audit ensures that communications are accurate, objective, clear, concise, constructive, complete and timely.
2500 - Monitoring Progress	MIAA establish follow up processes to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk. This is operated alongside the organisations own management follow up and provides independent assurance to the Audit Committee.
2600 – Communicating the Existence of Risks	MIAA recognise the professional role of Internal Audit to challenge the level of risk accepted by management, support resolution and ensure transparency in reporting to Audit Committee.

Independent confirmation of our compliance with professional standards is required every 5 years and is provided through our External Quality Assessment.

*“From the evidence reviewed as part of the External Quality Assessment, no areas of non-compliance with the standards have been identified that would affect the overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance.*

*On this basis it is our opinion that Mersey Internal Audit Agency conforms to the requirements of the Public Sector Internal Audit Standards.”*

**MIAA EQA, CIPFA, 2016**



### 6.3 Quality of our staff

The majority of MIAA’s staff are qualified or progressing towards qualification, with either CCAB bodies (e.g. CIPFA, ACCA, ICAEW) or the IIA or relevant specialist qualification. The high quality of the staff that deliver your Internal Audit service ensures that we have a clear focus on providing the quality of work that is required to add value to you. All of our senior team that work at the Trust are CCAB/CIIA qualified and we ensure at least 65% of the work is delivered by qualified staff.

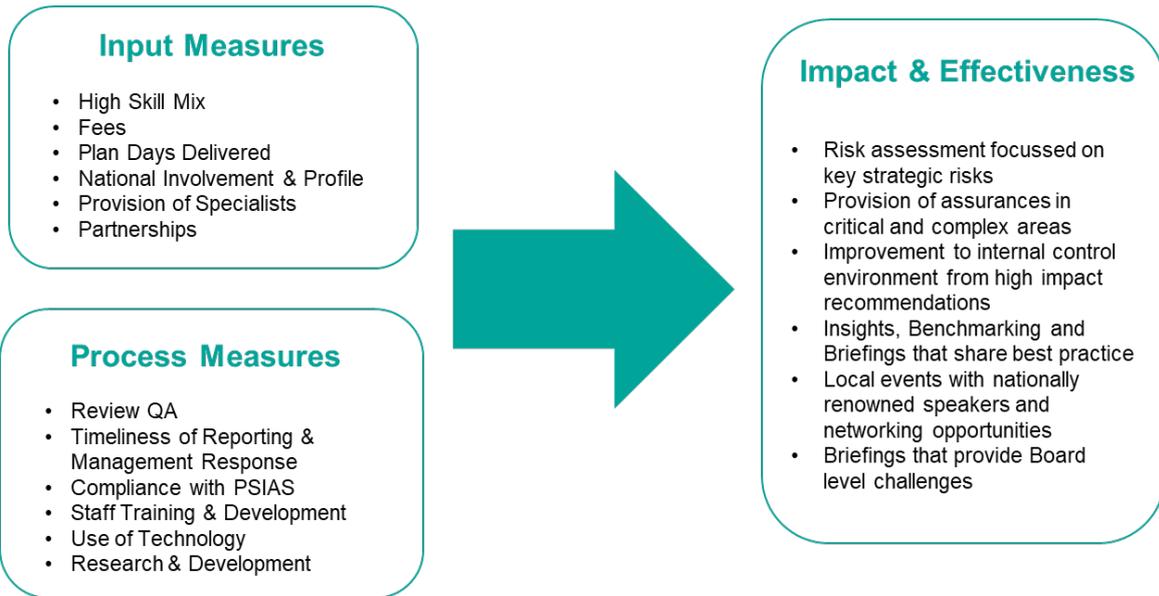
Since 1994 we have been an Investor in People. We are accredited to Finance Skills Development (FSD) Level 2 and have successfully gained training and CPD accreditations with all CCAB bodies.

We were short-listed for the Public Finance Innovation Award 2017 in the category for “Finance Training & Development Initiatives” and in 2018 won the HFMA “Governance Award” in partnership with the Northern Care Alliance.



### 6.4 Service delivery and outcome measures

It is important that client organisations ensure an effective Internal Audit Service, and whilst input and process measures offer some assurance, the focus should be on outcomes and impact from the service. The figure below confirms the measures that we believe demonstrate an effective service to you.



MIAA regularly report on input and process KPIs as part of our Performance and Overview Committee Progress reports, and the impact and effectiveness measures can be assessed through the HOIA Opinion.