

**Safest People, Safest Places**

County Durham and Darlington  
**Fire and Rescue Authority**



## **AUDIT AND RISK COMMITTEE**

**31 JULY 2019**

### **ANNUAL INTERNAL AUDIT OPINION AND REPORT 2018/19**

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## **REPORT OF THE HEAD OF INTERNAL AUDIT**

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### **Purpose of the Report**

1. The purpose of this report is to present the Annual Internal Audit Report for 2018/19 which is attached as Appendix 1.

### **Background**

2. The Authority has a responsibility for maintaining sound systems of internal control that support the achieving of its objectives and for reviewing their effectiveness.
3. The Public Sector Internal Audit Standards (PSIAS) as revised from 01 April 2017 are the agreed professional standards for internal audit across the public sector in the UK. PSIAS was the Code under which the Internal Audit Service operated during 2018/19. It sets out the requirement for the Head of Internal Audit (Chief Audit Executive") to report to officers and the Audit and Risk Committee (The Board") to help inform their opinions on the effectiveness of the Internal Control environment.
4. The Annual Internal Audit Report should therefore be considered in the context of fulfilling the above requirement.
5. The opinion on the control environment and any significant issues arising will be reflected in the Authority's Annual Government Statement (AGS) which will be published alongside the Authority's Annual Statement of Accounts for 2018/19. It is specifically timed to be considered as part of the annual review of governance and internal control and is reported alongside the Review of Effectiveness of Internal Audit.
6. Internal Audit therefore has a professional duty to provide an unbiased and objective view of the Internal Control environment. Internal Audit is independent of the processes that it evaluates and as such reports to the Senior Leadership Team and Audit and Risk Committee.
7. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.
8. Based on the work undertaken, Internal Audit is able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Authority in 2018/19.

9. This moderate opinion provides assurance that whilst there is basically a sound system of control, there are some weaknesses, which expose objectives to risk. Given the constant extent of change faced, the reduction in resources and the ever increasing diverse nature of the Internal Audit Plan, this assurance opinion should continue to be regarded as positive.
10. There are no adverse implications for the Annual Governance Statement arising from any of the work that Internal Audit has undertaken in 2018/19. All of the risks raised within Internal Audit reports have been accepted. Internal Audit's recommendations, or alternative proposed actions made by Management in response to the risk issues, have been agreed to be implemented. Full implementation of the agreed actions will realise the benefits of the control improvements detailed in each individual audit report. Internal Audit will follow up the implementation of its recommendations, or any agreed alternative actions, with the relevant responsible officers, as soon as is practically possible, after the target implementation dates. Progress on the implementation of audit recommendations will be reported through to the Audit and Risk Committee in future progress reports on the 2019/20 Internal Audit work.

### **Recommendation**

11. Members are **asked to:**
  - **consider** the Annual Internal Audit Report and the overall opinion provided on the adequacy and effectiveness of the Authority's control environment for 2018/19.
  - **note** that the Annual Internal Audit Report was presented to the Service Leadership Team at their meeting on 19 June 2019.

Stephen Carter, Audit and Fraud Manager, 03000 269665



# **COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY**

**Internal Audit**

**Annual Report  
2018-2019**

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## **Introduction**

1. This report summarises work carried out by Internal Audit during 2018/19 and provides assurance on the effectiveness of the Authority's control environment, risk management and corporate governance arrangements in place during the year.
2. The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972 which requires all relevant bodies to, "make arrangements for the proper administration of their financial affairs and ensure that one of its officers has responsibility for the administration of those affairs".
3. The Accounts and Audit Regulations 2015 require those bodies to, "undertake an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control".
4. The Public Sector Internal Audit Standards (PSIAS), as revised from 01 April 2017, define the proper internal control practice for internal audit alongside the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note.
5. This report fulfils the requirement of PSIAS for the Head of Internal Audit to provide an annual report to the Audit and Risk Committee timed to support the Authority's Annual Governance Statement (AGS).
6. The report sets out:
  - The annual internal audit opinion on the overall adequacy and effectiveness of the governance, risk and control framework (the control environment).
  - A summary of the audit work carried out from which the opinion is derived.
  - Details of the quality assurance arrangements in place during 2018/2019 which incorporates the outcomes of the self-assessment completed by the Audit and Fraud Manager in May 2019 to ensure conformance with the PSIAS.

## **Service Provided and Audit Methodology**

7. Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
8. The primary objective of Internal Audit is to provide an independent and objective opinion on the Authority's control environment.
9. The Internal Audit Charter, agreed by the Senior Leadership Team and Audit and Risk Committee, establishes and defines the terms of reference and strategy for how the service is to be delivered.

10. The agreed audit strategy to provide independent assurance, is summarised as follows:
- To carry out planned assurance reviews of the effectiveness of the management of operational risks in all key service activities/systems.
  - To carry out assurance reviews of the management of strategic risks where the effective management of risk is heavily dependent on identified controls.
  - To carry out annual reviews of key risks where a high level of assurance is required to demonstrate the continuous effectiveness of internal controls, for example those associated with key financial and non-financial systems.
  - To use a Control Risk Assessment (CRA) methodology to focus audit resources on providing assurance on key controls where there is little or no other independent assurance on their adequacy or effectiveness.

### **Types of Audit Work Carried Out in 2018/19**

#### **Assurance Reviews**

11. Assurance reviews are those incorporated into annual audit plans where the CRA methodology is to be applied. They also include service requests to provide assurance on more specific risks within a particular service activity.
12. On completion of each assurance review an opinion on the adequacy and / or the effectiveness of the control framework in place is provided to inform the annual audit opinion.
13. The audit methodology for arriving at audit opinions on individual assurance reviews is attached at **Appendix C**.

#### **Advice and Consultancy Work**

14. In addition to planned assurance reviews, provision is also made in annual audit plans to support service managers by undertaking advice and consultancy type work. The outcomes from this work can also provide assurance on the control framework even though an assurance opinion is not provided on the completion of this work.

#### **Counter Fraud Work**

15. Provision is made in annual audit plans to support service managers at an operational level to mitigate the strategic risk of fraud and corruption. Control weaknesses identified when fraud is suspected or proven also impacts on the overall opinion on the adequacy and effectiveness of the internal control system.

## **Audit Quality Assurance framework**

16. The Internal Audit Charter sets out the performance and quality framework for the service. This reflects the requirements of the PSIAS.
17. Key elements of the quality assurance framework operating during 2018/19 include:
  - Independent quality reviews undertaken by Audit and Fraud Managers as a matter of routine and periodically by the Chief Internal Auditor and Corporate Fraud Manager to ensure consistent application of agreed processes and procedures and to ensure expected quality standards are maintained.
  - Key contacts, determined by the Authority, agree the Terms of Reference for each audit review and are able to challenge the findings and content of draft reports prior to them being finalised.
18. A summary of performance against agreed indicators is given in **Appendix A**.
19. As at the 31 March 2019, the % of planned work completed indicated that the service achieved 100% of the audit plan against a 90% target.
20. The PSIAS requires that an annual review of the effectiveness of Internal Audit is carried out, with an external assessment every five years. The last external assessment was completed by Newcastle City Council in June 2016 and confirmed Internal Audit's conformance with the PSIAS.
21. The review for 2018/19 took the form of a self-assessment undertaken by the Audit and Fraud Manager in May 2019 and established again, that the service continues to conform with the PSIAS.

## **Summary of audit work carried out**

### ***Assurance Work***

22. Our work programme for the year was determined by the approved Internal Audit Plan. A summary of all assurance opinions provided in year together with the most recent opinion for those activities not included in the plan to provide a better informed opinion on the entire control environment, is attached at **Appendix D**.

### ***Advice and Consultancy Work***

23. All planned reviews are designed to add value as they provide independent assurance, through evaluation and challenge, on the adequacy and effectiveness of arrangements in place to manage risks. This evaluation and challenge supports the effective and efficient use of resources and VFM.
24. Through our advice and consultancy work we are able to add value pro-actively and reactively.
25. Reactive work involves responding to ad-hoc requests for advice and reviews added to the plan to address new or emerging risks. It also includes responding to potential fraud or irregularities and we ensure that all such incidents are properly investigated and that appropriate action is taken by managers, whether or not fraud or malpractice is proven.

26. A summary of key advice and consultancy work completed during the year is attached at **Appendix B**.

### **Key Areas for Opinion**

27. The key areas of the control environment where assurance is required to inform our overall opinion are:
- Financial Management
  - Risk Management
  - Corporate Governance
28. Assurance has been provided on some aspects of key financial systems during the year. Reviews undertaken include Headquarters (income and expenditure), Payroll, Treasury Management, Budgetary Control and Precepting.
29. Assurance on the effectiveness of the Authority's risk management arrangements has been provided through the identification of operational risks and effectiveness of mitigating controls within each review undertaken. In addition, a review of Service Strategic Risk Management arrangements that considered the Service Performance & Programme Board's and Service Leadership Team's consideration of the content, scoring and refreshing of activities included in the strategic risk register was undertaken.
30. Internal Audit has worked with key officers from the Authority to complete the Annual Governance Statement. An action plan is to be completed to enable significant areas identified for improvement in the 2018/19 Annual Governance Statement to be monitored and which will be reported to the Audit and Risk Committee during the year to come.

### **Audit Opinion Statement**

31. The Authority has responsibility for maintaining a sound system of internal control that supports the achievement of its objectives.
32. Internal Audit is required to provide an opinion on the Authority's risk management, control and governance process.
33. In giving this opinion it should be noted that assurance can never be absolute and therefore only reasonable assurance can be provided that there are no major weaknesses in these processes.
34. In assessing the level of assurance to be given, we based our opinion on:
- All audits undertaken during the year
  - Follow up action on audit recommendations
  - Any significant recommendations not accepted by management and the consequent risk
  - The effects of any significant changes in the Authority's systems
  - Matters arising from previous reports to the Audit and Risk Committee
  - Limitations which may have been placed on the scope of the internal audit
  - The reliability of other sources of assurance when determining the scope of audit reviews.



35. We are satisfied that sufficient Internal Audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Authority's system of internal control.
36. Based on the work undertaken, Internal Audit is able to provide a Moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Authority in 2018/19. The opinion ranking provides assurance that whilst there is basically a sound system of control, there are some weaknesses, which expose objectives to risk.
37. Given the constant extent of change faced, the reduction in resources and the ever increasing diverse nature of the Internal Audit Plan this assurance opinion should be regarded as positive.
38. Where Internal Audit has identified areas for improvement, recommendations are made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management. Whilst the % of actions implemented within target dates is high, in many cases there is a time gap between a control weakness being reported and the date determined by management for when the action can practically and realistically be implemented. Consequently, the added assurance provided on implementation cannot always be recognised and evidenced in arriving at our overall annual assurance opinion. Work is ongoing with management with regards to timely and realistic implementation dates for actions being agreed.

## PERFORMANCE INDICATORS

<b>Efficiency</b>		<b>Objective: To provide maximum assurance to inform the annual audit opinion</b>	
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>	<b>Q4 Actual</b>
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage as at 31 March 2019.	90% (Quarterly)	100% (10 out of 10 reviews completed)
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview Average time taken is also reported for information	90% (Quarterly)	100% (9 reports issued)  4 days
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response Average time taken is also reported for information	95% (Quarterly)	100% (9 reports issued)  1 day
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	100% (11 TOR's issued)
<b>Quality</b>		<b>Objective: To ensure that the service is effective and adding value</b>	
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>	
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Quarterly)	100% (36 accepted out of 36 made)
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (3 out of 5) where 1 is poor and 5 is very good Average score is also reported for information	100% (Quarterly)	100% (5 out of 5 returned)  Overall average score 4.72
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	71% (5 surveys returned out of 7 issued)

**KEY ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2018/19**

**Development of CDDFRS Assurance Framework**

An Advice and Consultancy review to work with the Service lead officer in developing the format and content of an Assurance Framework that links to the HMICFRS inspection programme and to enable performance to be tracked against it.

Further work is to be undertaken directed by the outcome of the inspection as part of the 2019/20 Internal Audit Plan.

**Findings**

Individual risks are assessed on their impact and likelihood based on the assessment rationale in the tables below:

<b>Impact Rating</b>	<b>Assessment Rationale</b>
<b>Critical</b>	<b>A risk that could have a:</b>
	<b>Critical</b> impact on operational performance (Significant disruption to service delivery)
	<b>Critical</b> monetary or financial statement impact (In excess of 5% of service income or expenditure budget )
	<b>Critical</b> breach in laws and regulations that could result in significant fine and consequences (Intervention by regulatory body or failure to maintain existing status under inspection regime)
	<b>Critical</b> impact on the reputation of the Authority (Significant reputational damage with partners/central government and/or significant number of complaints from service users)
	<b>Critical</b> impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public)
<b>Major</b>	<b>A risk that could have a:</b>
	<b>Major</b> impact on operational performance (Disruption to service delivery)
	<b>Major</b> monetary or financial statement impact (1-5% of service income or expenditure budget )
	<b>Major</b> breach in laws, regulations or internal policies and procedures (non compliance will have major impact on operational performance, monetary or financial statement impact or reputation of the service)
	<b>Major</b> impact on the reputation of the service within the Authority and/or complaints from service users
<b>Minor</b>	<b>A risk that could have a:</b>
	<b>Minor</b> impact on operational performance (Very little or no disruption to service delivery)
	<b>Minor</b> monetary or financial statement impact (less than 1% of service income or expenditure budget )
	<b>Minor</b> breach in internal policies and procedures (non compliance will have very little or no impact on operational performance, monetary of financial statement impact or reputation of the service)

<b>Likelihood</b>	<b>Assessment criteria</b>
<b>Probable</b>	Highly likely that the event will occur (>50% chance of occurring)
<b>Possible</b>	Reasonable likelihood that the event will occur (10% - 50% chance of occurring)
<b>Unlikely</b>	The event is not expected to occur (<10% chance of occurring)

**Overall Risk Rating**

This grid is used to determine the overall risk rating.

LIKELIHOOD			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	M
	Minor	Major	Critical
	<b>IMPACT</b>		

**Priority of our recommendations**

We define the priority of our recommendations arising from each overall finding as follows;

<b>High</b>	Action required, that is considered <b>imperative</b> , to improve the control environment so that objectives are not exposed to unacceptable risks through lack of or weaknesses in critical or key controls.
<b>Medium</b>	Action required to improve the control environment so that objectives are not exposed to risks through weaknesses in controls.
<b>Best Practice</b>	The issue merits attention and its implementation will enhance the control environment.

**Overall Assurance Opinion**

Based upon the ratings of findings and recommendations arising during the audit as summarised in the risk matrix above we define the overall conclusion of the audit through the following assurance opinions:

<b>Substantial Assurance</b>	There is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risk.
<b>Moderate Assurance</b>	Whilst there is basically a sound system of control, there are some weaknesses, which expose objectives to risk.
<b>Limited Assurance</b>	There are weaknesses in key areas in the system of control, which expose objectives to unacceptable levels of risk.

<b>SUMMARY OF ASSURANCE WORK CARRIED OUT</b>			
<b>Audit Area</b>	<b>Latest Opinion</b>		
Risk Management	2018/19		
Ethics - Transparency / Gifts and Hospitality and Register of Interests	2016/17		
Partnerships	2018/19		
Business Continuity Planning	2017/18		
Absence Management	2018/19		
Core Systems – Headquarters, Payroll, Budgetary Control, Short Term Investments	2018/19		
Bank Reconciliation	2015/16		
Procurement and Contracts	2016/17		
Vehicle / Plant Management	2015/16		
Pension Arrangements	2015/16		
Mobile Device Security	2017/18		
IT Disaster Contingency Planning	2014/15		
Security Incident Management	2018/19		
Cloud Security	2018/19		
Patch Management	2017/18		
Firewall	2017/18		
Infrastructure - Software Licenses	2014/15		
Infrastructure - Physical Security	2014/15		
SQL Server	2017/18		
ICT Systems Management - Windows Active Directory	2016/17		
IT Risk Register	2015/16		
Performance – Data Quality	2016/17		
Change Control	2016/17		
Back Up Achieve Procedure	2016/17		
Review of Fire Authority Efficiency and Effectiveness	2016/17		
<b>COUNTER FRAUD</b>			
National Fraud Initiative	N/A		
Fraud and Corruption Survey	N/A		
<b>EXTERNAL AUDIT</b>			
Statement of Accounts and Value for Money Conclusion	Unqualified 2017/18		
Assurance Opinion Key	Substantial	Moderate	Limited