

County Durham and Darlington
Fire and Rescue Authority



Safest People, Safest Places

Audit and Finance Committee

30 September 2021

Annual Internal Audit Opinion and Report 2020/21

Report of the Head of Internal Audit

Purpose of the Report

1. The purpose of this report is to present the Annual Internal Audit Report for 2020/21 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. All Internal Audit work carried out in 2020/21 was in accordance with proper internal audit practices as described within the Public Sector Internal Audit Standards (PSIAS).
4. This report fulfils the requirements of PSIAS and the CIPFA Local Government Application note for the Chief Internal Auditor and Corporate Fraud Manager to deliver an annual audit opinion and a report on the effectiveness of the Internal Control environment.
5. The Annual Internal Audit Report should therefore be considered in the context of fulfilling the above requirement.
6. 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 2020/21. 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.
7. 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 Finance Committee.

8. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.
9. Whilst the coronavirus pandemic had an impact in reducing the overall number of audits delivered than would normally be expected at 31 March, in working with the service, four reviews that were already well progressed were able to be completed in a timescale that still enabled them to be completed in time for them to be included within the overall Internal Audit opinion. When taking this into account with all other work delivered, it is considered that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of internal control operating across the Authority in 2020/21.
10. 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 2020/21.
11. 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 unprecedented impact of the coronavirus pandemic which was evident throughout the whole of the financial year 2020/2021 and which required the Authority to adapt and deliver its services in new and innovative ways which when taken within a context of change the Authority continues to face, the reduction in resources and the increasing diverse nature of the Internal Audit Plan, the sustainment of this assurance opinion should be regarded as positive.
12. As a result, there are no adverse implications for the Annual Governance Statement arising from any of the work that Internal Audit has undertaken in 2020/21. 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 this Committee in future progress reports on the 2021/22 Internal Audit work.

Recommendation

13. 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 2020/21.
 - **note** that the Annual Internal Audit Report was presented to the Service Leadership Team at their meeting on 1st September 2021

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COUNTY DURHAM AND DARLINGTON FIRE AND RESCUE AUTHORITY

Internal Audit

**Annual Report
2020-2021**

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- Appendix C Assurance Opinion Methodology
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Introduction

1. This report summarises work carried out by Internal Audit during 2020/21 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) 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 Finance 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 2020/2021 which incorporates the outcomes of the self-assessment completed by the Audit Manager in May 2021 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 Finance 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 2020/21

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 2020/21 include:
 - Independent quality reviews undertaken by Audit 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 2021, the % of planned work completed indicated that the service achieved 67% of the audit plan against a 90% target. This reflects that delivery of the audit plan was impacted by the ongoing impact of the coronavirus pandemic. This resulted in agreement being reached with the Service that four reviews that were already well progressed would be completed in a timescale that would enable them to still be included within the overall Internal Audit opinion to be delivered. When these four reviews are also taken into account, the overall % of planned work completed increases to 93% which is in accordance with the agreed 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 2020/21 took the form of a self-assessment undertaken by the Audit Manager in May 2021 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 VAT.
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 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 2020/21 Annual Governance Statement to be monitored and which will be reported to the Audit and Finance 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 Finance 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. Whilst the coronavirus pandemic has had an impact in reducing the overall number of audits delivered than would normally be expected at 31 March, in working with the service, four reviews that were already well progressed were able to be completed in a timescale that still enabled them to be completed in time for them to be included within the overall Internal Audit opinion. When taking this into account with all other work delivered that supports the assurance opinion it is considered that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of internal control operation across the Authority in 2020/21.
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 2020/21.
37. The moderate opinion provides assurance that there is a sound system of control in place however there are some weaknesses and evidence of ineffective controls. Given the unprecedented impact of the coronavirus pandemic which was evident throughout the whole of the financial year 2020/2021 and which required the Authority to adapt and deliver its services in new and innovative ways which when taken within a context of change the Authority continues to face, the reduction in resources and the increasing diverse nature of the Internal Audit Plan, the sustainment of 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.

Appendix A

PERFORMANCE INDICATORS

Efficiency	Objective: To provide maximum assurance to inform the annual audit opinion		
KPI	Measure of Assessment	Target & (Frequency of Measurement)	Q4 Actual
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage as at 31 March 2020.	90% (Quarterly)	93% (14 out of 15 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% (11 reports issued) 6 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% (11 reports issued) 3 days
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	100% (13 TOR's issued)
Quality	Objective: To ensure that the service is effective and adding value		
KPI	Measure of Assessment	Target & (Frequency of Measurement)	
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Quarterly)	100% (20 accepted out of 20 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% (9 out of 10 returned) Overall average score 4.50
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	90% (9 returned from 10 surveys issued in 2020/21)

KEY ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2020/21

Whilst no formal advice and consultancy reviews have been undertaken for the Authority during 2020/21, Internal Audit has maintained its links with the Authority's key officers to discuss ongoing matters on an ad hoc / informal basis.

Findings

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

Impact Rating	Assessment Rationale
Critical	A risk that could have a:
	Critical impact on operational performance (Significant disruption to service delivery)
	Critical monetary or financial statement impact (In excess of 5% of service income or expenditure budget)
	Critical 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)
	Critical impact on the reputation of the Authority (Significant reputational damage with partners/central government and/or significant number of complaints from service users)
	Critical impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public)
Major	A risk that could have a:
	Major impact on operational performance (Disruption to service delivery)
	Major monetary or financial statement impact (1-5% of service income or expenditure budget)
	Major 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)
	Major impact on the reputation of the service within the Authority and/or complaints from service users
Minor	A risk that could have a:
	Minor impact on operational performance (Very little or no disruption to service delivery)
	Minor monetary or financial statement impact (less than 1% of service income or expenditure budget)
	Minor 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)

Likelihood	Assessment criteria
Probable	Highly likely that the event will occur (>50% chance of occurring)
Possible	Reasonable likelihood that the event will occur (10% - 50% chance of occurring)
Unlikely	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
	IMPACT		

Priority of our recommendations

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

High	Action required, that is considered imperative , to improve the control environment so that objectives are not exposed to unacceptable risks through lack of or weaknesses in critical or key controls.
Medium	Action required to improve the control environment so that objectives are not exposed to risks through weaknesses in controls.
Best Practice	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:

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

SUMMARY OF ASSURANCE WORK CARRIED OUT		Latest Opinion
Audit Area		
Risk Management		2020/21
Ethics - Transparency / Gifts and Hospitality and Register of Interests/FOI/Members Allowances and Expenses		2020/21
Partnerships		2018/19
Business Continuity Planning		2017/18
General Data Protection Regulation (GDPR) - Community Risk Management		2019/20
Absence Management		2018/19
Recruitment and Selection - GDPR and HMG Baseline Personnel Security Standard		2019/20
Core Systems – Headquarters, Payroll, Budgetary Control, Short Term Investments		2020/21
VAT		2019/20
Procurement and Contracts		2020/21
Asset Management / Building Maintenance		2019/20
Vehicle / Plant Management		2019/20
Vital Fire Solutions		2020/21
Mobile Working		2019/20
Security Incident Management		2018/19
Removeable Media		2019/20
Cloud Security		2018/19
Patch Management		2017/18
Firewall		2017/18
SQL Server		2017/18
ICT Systems Management - Identity and Access Management		2020/21
Performance – Data Quality		2016/17
Change Control		2016/17
Back Up Achieve Procedure		2016/17
ICT Procurement		2020/21
Review of Fire Authority Efficiency and Effectiveness		2016/17
COUNTER FRAUD		
National Fraud Initiative		N/A
Fraud and Corruption Survey		N/A
Overall Opinion		2020/21
EXTERNAL AUDIT		
Statement of Accounts and Value for Money Conclusion		Unqualified 2019/20
Assurance Opinion Key	Substantial	Moderate
		Limited