

# Director of Audit Opinion and Annual Report 2015/16

Cheshire Fire Authority / Fire and Rescue Service



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## 1. Director of Audit's Opinion

### 1.1 Introduction

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

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 such as the Blue Light Collaboration. Appendix B provides additional information to support your AGS.

### 1.2 Opinion

My overall opinion is:

**Significant Assurance**, can be given that there is a generally sound system of internal control designed to meet the organisation's objectives, and that controls are being applied consistently. However, some weaknesses in the design or inconsistent application of controls may put the achievement of particular objectives at risk

This opinion is provided in the context that the Fire Authority, like other organisations across the public sector, has faced, and is facing, some challenging issues in respect of financial sustainability. The Chancellor announced the results of the Comprehensive Spending Review (CRS) in 25th November 2015 which indicated that reductions in government spending will continue, as the Government seeks to move the national budget into surplus by 2019-20.



Cheshire Fire Authority's Medium Term Financial Position reflects this and has identified the need for savings of between £5.2m and £5.7m in the four year period from 2016-17 to 2019-20. The Authority has already delivered almost £9m of savings in the previous CSR period and has agreed proposals for savings in 2016/17 and for planning to meet the savings targets to 2019/20. The continued focus and delivery of these savings will be a key to the Authority delivering an efficient and effective service.

The Authority, the Police and Crime Commissioner and Chief Constable for Cheshire have agreed a major collaboration programme aimed at protecting front line emergency services. This will involve bringing together most of the back office and professional services which support Cheshire Fire and Rescue Service and Cheshire Constabulary and establishing a single, shared headquarters site by April 2018. These areas will bring new opportunities to allow for greater integrated working, produce recurrent savings to help minimise the impacts of the significant financial challenges on frontline services. As such the Fire Authority will need to ensure that the governance arrangements to support these developments are robust and support the scale and level of pace of this projects.

The Fire and Rescue Service formally moved from Department for Communities and Local Government (DCLG) to the Home Office in early 2016 and it has been highlighted that the Home Office are looking at options for Fire & Rescue Services undertaking more formal assessments and inspections in the future. It is noted that the Authority is keen to take part in any pilot inspection exercises in 2016-17 and this should provide an excellent opportunity for the Authority to assess its arrangements against this framework.

### 1.3 Basis of Forming the Opinion

The basis for forming my opinion is as follows:

#### **Assurance**

Assurance arrangements are in place to underpin the AGS and provide reasonable assurance that there is an effective system of internal control to manage the principal risks identified by the organisation.



## Assurance across the organisation's critical business systems:

### FINANCIAL SYSTEMS

Documentation, evaluation and review of the **Core Financial Systems: Accounts Payable / Receivable and Financial Ledger**, which provided significant assurance, and identified that all key controls were operating effectively.

Significant assurance was provided on a review of the processes and arrangements in place for the operation of the **Fire Cadets**.

A review of the Authority's **Prince's Trust** programme provided significant assurance and confirmed that the programme is producing positive outcomes and the processes and procedures are operating effectively. A key area highlighted related to the need to continue to look at opportunities to reduce the overall cost of operating the scheme.

A review of the **Capital Programme** which provided significant assurance, and identified that all key controls were operating effectively.

### PERFORMANCE

Significant assurance was provided on a review of **Unitary Performance Groups**, and confirmed that the groups are operating to address community and local safety concerns and that staff effectively engage with the local community as directed by their respective Community Action Plans.

### OPERATIONAL COMPLIANCE

A review of **Operational Training** provided significant assurance and confirmed that there is a strong commitment from the Service in ensuring that its operational staff, from people joining the service through to experienced firefighters obtain, and maintain, the skills and competencies needed to fulfil their roles.

### GOVERNANCE, RISK AND LEGALITY

A review of the effectiveness of the governance and 3<sup>rd</sup> party assurance arrangements in place regarding the management, reporting and performance monitoring of the **North West Fire Control Centre** provided significant assurance.

A review of the Authority's compliance with the **Local Code of Corporate**



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**Governance** provided significant assurance and confirmed that overall, sufficient evidence was available to support the conclusions recorded within the Local Code of Corporate Governance Framework (Principles 1 & 2).

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**FOLLOW UP**

A **follow-up** review demonstrated good progress against action plans to improve systems and control, in line with agreed timeframes.

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Action has been agreed by Management to address the recommendations made in the internal audit reviews and we will continue to follow these up to provide assurance to the Authority that the issues raised have been addressed.

**Our contribution to Governance, Risk Management and Internal Control enhancements:**

- Detailed insight into the overall Governance and Assurance processes gained from liaison throughout the year with various officers of the management team and with the s151 Officer and regular review of Committee papers.
- Involvement and relationship with the organisation e.g. attendance at the Authority's Risk Management Board and regular attendance at the Performance and Overview Committee.
- Involvement with the organisation in respect of advice and guidance relating to the consultation document 'Delivering Good Governance in Local Government'.
- Specific advisory support in relation to completion of the National Fraud Initiative (NFI) data matching exercise.
- Follow Up, demonstrating progress against previously agreed recommendations to improve systems and controls.

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.

*The opinion is derived from the conduct of risk based plans generated from a robust and organisation-led Strategic Risk Framework. The opinion does not imply that Internal Audit have reviewed all risks and assurances relating to the Authority.*



*Tim Crowley*

**Director of Audit, MIAA**  
**May 2016**

**Appendix A** provides a summary of the Audit Reviews undertaken during the year.

**Appendix B** provides further information to consider when compiling the Annual Governance Statement (AGS).

**Appendix C** provides assurance regarding the quality of MIAA's service and compliance with Public Sector Internal Audit Standards (PSIAS).



# Appendix A: Audit Review Outcomes and Delivery

## Performance against Plan

The Internal Audit Plan has been delivered in accordance with the schedule agreed with the Fire Authority in April 2015. Delivery against the plan has been reported through regular update reports to the Policy Approval Group and Performance and Overview Committee. This Annual Report and Opinion draws its conclusions from completed Internal Audit Reviews and includes all areas of the core elements of the Internal Audit Plan.

## Risk Based Reviews

The audit assignment element of the Opinion is limited to the scope and objective of each of the individual reviews. Detailed information on the limitations to the reviews has been provided within the individual audit reports and through the Performance and Overview Committee Progress reports throughout the year. The schedule below provides a summary of the reviews and overall objectives contributing to this element of the Opinion.

### HIGH ASSURANCE

*Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process*

None of the reviews resulted in High Assurance.

### SIGNIFICANT

*There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be minimal or they would be unlikely to occur*





SIGNIFICANT	<i>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be minimal or they would be unlikely to occur</i>
TASSURA	<ul style="list-style-type: none"><li><b>COMBINED FINANCIAL SYSTEMS: Accounts Payable / Receivable and Financial Ledger</b> <b>Objective:</b> To provide assurance on the design and operation of the controls within the systems for Accounts Payable / Receivable and Financial Ledger. <b>Recommendations:</b> 0 x Critical, 0 x High, 1 x Medium, 2 x Low.</li><li><b>CAPITAL PROGRAMME</b> <b>Objective:</b> To evaluate the systems and process in place to effectively manage the Capital Programme. <b>Recommendations:</b> 0 x Critical, 0 x High, 0 x Medium, 1 x Low.</li><li><b>FIRE CADET GROUPS</b> <b>Objective:</b> To review the processes and arrangements in place for the operation of the Fire Cadet groups including controls for fundraising, expenditure and financial management. <b>Recommendations:</b> 0 x Critical, 0 x High, 4 x Medium, 2 x Low.</li><li><b>PRINCES TRUST</b> <b>Objective:</b> To review the processes and financial arrangements in place for managing income and expenditure for projects through the Prince's Trust partnership. In addition, to assess how these budgets are being utilised, the approval process for new projects and the arrangements in place to monitor success against the required outcomes. <b>Recommendations:</b> 0 x Critical, 1 x High, 2 x Medium, 1 x Low.</li><li><b>UNITARY PERFORMANCE GROUPS</b> <b>Objective:</b> To assess how Unitary Performance Groups budgets are being utilised, the approval process for new projects and to establish the level to which the Authority is achieving required outcomes in addressing local safety concerns and issues. <b>Recommendations:</b> 0 x Critical, 0 x High, 5 x Medium, 2 x Low.</li></ul>

SIGNIFICANT	<i>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be minimal or they would be unlikely to occur</i>
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<b>SIGNIFICANT</b>	<p><i>There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be minimal or they would be unlikely to occur</i></p>
<b>TASSURANCE</b>	<ul style="list-style-type: none"> <li> <p>• <b>OPERATIONAL TRAINING</b>  <b>Objective:</b> To review the arrangements in place to deliver, record and monitor compliance with Cheshire Fire Authority's Operational Training Strategy.  <b>Recommendations:</b> 0 x Critical, 0 x High, 4 x Medium, 2 x Low.</p> </li> <li> <p>• <b>NW FIRE CONTROL CENTRE</b>  <b>Objective:</b> To evaluate the effectiveness of the governance and 3<sup>rd</sup> party assurance arrangements in place regarding the management, reporting and performance monitoring of the North West Fire Control Centre.  <b>Recommendations:</b> 0 x Critical, 0 x High, 5 x Medium, 0 x Low.</p> </li> <li> <p>• <b>LOCAL CODE OF CORPORATE GOVERNANCE</b>  <b>Objective:</b> To undertake an independent review of the evidence which supports the Local Code of Corporate Governance Principles 1 &amp; 2 (including supporting principles) as included in the Framework to ensure it is relevant and robust; and to identify any areas of improvement.</p> </li> </ul>

<b>LIMITED ASSURANCE</b>	<p><i>There are weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of the key system, function or process objectives but should not have a significant impact on the achievement of organisational objectives.</i></p> <p>None of the reviews resulted in Limited Assurance.</p>
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<b>NO ASSURANCE</b>	<p><i>There are weaknesses in the design and/or operation of controls which [in aggregate] have a significant impact on the achievement of key system, function or process objectives and may put at risk the achievement of organisational objectives.</i></p> <p>None of the reviews resulted in No Assurance.</p>
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CONTRIBUTION TO CONTROL  
ENVIRONMENT

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

- **NATIONAL FRAUD INITIATIVE**  
**Objective:** To review the data reports provided by the Cabinet Office and to investigate any identified discrepancies by providing a reason for the match and, where required, make the appropriate changes
- **DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT (CONSULTATION DOCUMENT)**  
**Objective:** To review the new consultation document to identify changes/updates against the existing 'Delivering Good Governance Framework'.

## Follow up

An important aspect of the internal audit process is the follow up to ensure that opportunities for enhancement are delivered. During the course of the year we have undertaken periodic follow up reviews, which are reported to the Performance and Overview Committee.

We have also noted that an internal process is in place to monitor the completion of actions, which is used to inform readiness for internal audit review.

The overall completion rate of actions including high risk areas is an indication of the effectiveness of the internal process and the manner in which audit reports are received and taken forward by the Service. Management are looking to continue to develop the internal process further and how this will be reported both internally and to the Authority. We will continue to track and follow up outstanding actions dovetailing with the internal process.

# Appendix B: Contribution to Annual Governance Statement

## 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.

## Director of Internal Audit Opinion

The purpose of the Director of Audit Opinion is to contribute to the assurances available to underpin the Authority's own assessment of the effectiveness of the organisation's system of internal control. This opinion will therefore assist in the completion of its Annual Governance Statement.

The Director of Audit Opinion is based upon the work completed and the risk based audit assignments across the critical business systems, along with contributions to improving governance, risk management and internal control.



## Other key areas for consideration in the completion of your Annual Governance Statement

In addition to the Director of Audit Opinion, we have identified a number of other strategic challenges that should be considered by the Authority when drafting the AGS. Whilst the scope of the Internal Audit Plan would have considered elements of these, it is important that the Authority reflects more widely on how these should be factored into the AGS. Areas for consideration include:

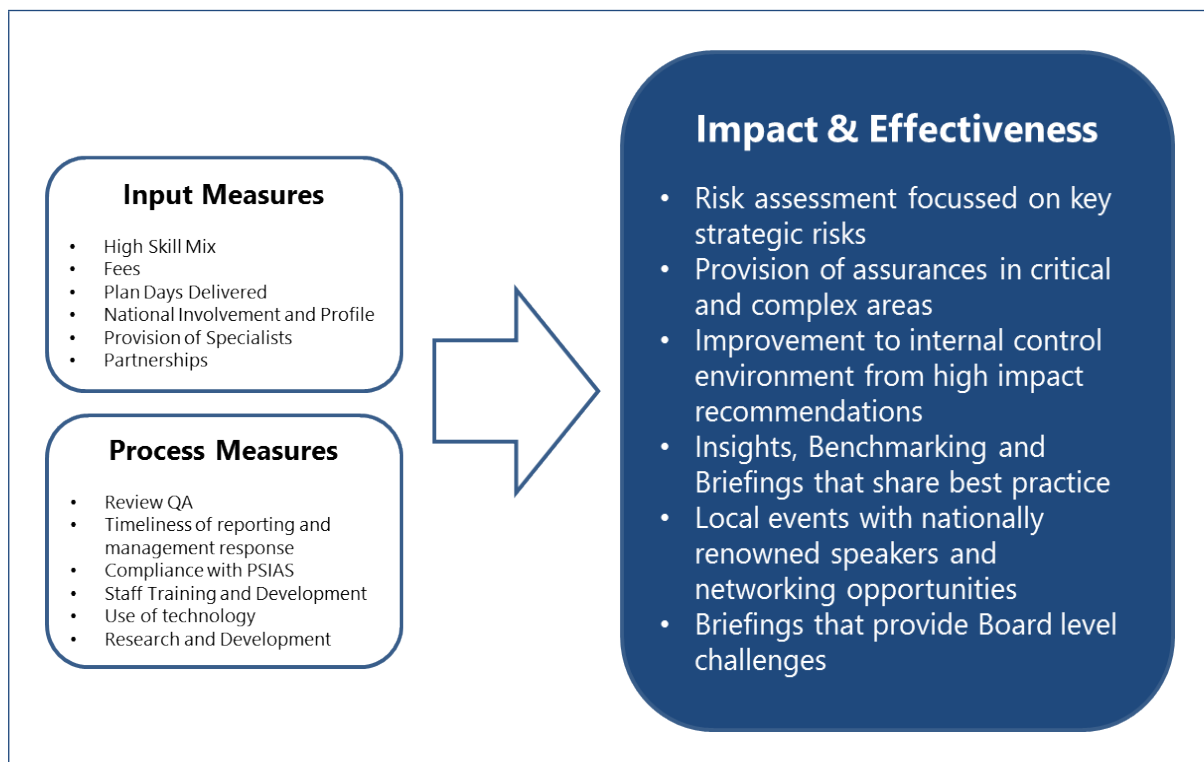
- Regulatory compliance, including National Framework, Fire Safety Order and DCLG Health and Safety Framework.
- Responding to changes as a result of the responsibility for fire and rescue policy moving from the Department for Communities and Local Government to the Home Office and development of a new assessment and inspection regime.
- Organisation performance, including unprecedented challenges in achieving financial duties, on-going financial viability, service pressures and key relationships with all Blue Light Services.
- Wider partnership working across local public sector services including development and progression of the Blue Light Collaboration;
- Relationship and management of 3<sup>rd</sup> party providers upon which the Authority places reliance, and the provision of assurances from these (e.g. Northwest Fire Control Centre); and
- Development of Authority Members throughout the year, along with communication and engagement with key stakeholders and other partners.



## Appendix C: MIAA Quality Service Indicators

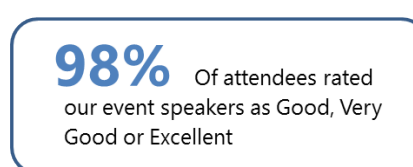
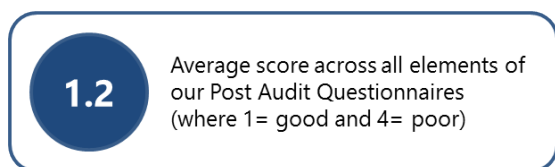
### MIAA Service Delivery

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 Progress reports, and the impact and effectiveness measures can be assessed through the HOIA Opinion.

Client feedback is a key part of assessing effectiveness and ensuring continuous improvement. We seek and receive this in a number of ways across our client base, including regular contact and relationships with you, formal questionnaires after each assignment, periodic client surveys and regular post event feedback. A snapshot of this feedback is provided below.



We recognise that there is a need to modernise the way in which we seek and receive feedback and will be launching a new approach in 2016.

## MIAA Compliance with Internal Audit Standards

MIAA comply fully with professional best practice, internal audit standards and legal requirements. This includes guidelines issued by the Auditing Practice Board, professional bodies, MONITOR's Audit Code and the Institute of Internal Auditors. The Public Sector Internal Audit Standards (wef. 2013) and our operational Internal Audit Manual are central to our continued external quality accreditation (BS EN ISO 9001:2000).

In terms of background, Tim Crowley (Director, MIAA) led the work on the production of NHS Internal Audit Standards, in addition to being the NHS member of the National Public Sector Internal Audit Standards Board. MIAA is also at the forefront of shaping professional standards through our national roles; Chair of CIPFA's Audit Panel (cross sector), and member of HfMA's Governance and Audit Committee. This puts MIAA in a unique position to provide early insight to our clients and ensures that we keep up to date, adopt and promote current practice within the profession (internal and external to the NHS).

MIAA prides itself in exceeding the basic standards, in particular the quality of our staff, qualifications and provision of an exceptional skill mix recognising the need for this to match the complexity of the organisations with which we work. The table below demonstrates MIAA's continued compliance with Public Sector Internal Audit Standards (PSIAS).

Internal Audit Standards	MIAA Compliance
1000 - Purpose, Authority & Responsibility	Our Internal Audit Charter sets out the purpose and nature of internal audit, including the ethical standards which underpin our service.
1100 - Independence & Objectivity	MIAA is managed independently from, and with no executive responsibilities for, the audited body. MIAA have direct access to the Chair of the Authority and are represented at meetings. All MIAA staff complete an annual declaration of interest, including actions taken to mitigate these.



Internal Audit Standards	MIAA Compliance
1200 - Proficiency & Due Professional Care	Professional care is monitored and achieved through supervision and quality assurance processes as defined and externally assessed through 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, CIIA, CISA, QICA, and AFS) and undertake continuing professional development. Specialist expertise is used within our core delivery (e.g. IM&T, healthcare quality etc.).
1300 - Quality Assurance & Improvement	MIAA have accreditations for systems, processes and training. We have successfully achieved external accreditation for ISO9001:2000 quality standards, Investors in People, and CCAB employer accreditations. All audit reviews are subject to strict quality assurance process.
2000 - Managing the Internal Audit Activity	MIAA have a clearly defined approach for risk assessment, planning, resourcing, performance and reporting to ensure we add value through our work. We work in partnership with our clients to develop three year risk based audit plans and regular progress against this is reported to the Performance and Overview Committee, along with the outcomes.
2100 - Nature of Work	MIAA's internal audit activity evaluates and contributes to the improvement of governance, risk management and internal control through reports, recommendations and development support. There is regular liaison with other review bodies to facilitate effective coordination of work.
2200 - Engagement Planning	Terms of Reference are established and agreed for each review, including objectives, scope, timing and resource allocations.
2300 - Performing the Engagement	MIAA staff identify, analyse, evaluate and document sufficient information to achieve the assignment objectives. All assignments are properly supervised and subject to robust quality assurance processes. All our records are electronic and these are retained in line with policy.
2400 - Communicating Results	MIAA communicate the results of each assignment to management, lead Directors and to the Authority. Working with the organisation, we ensure that communications are accurate, objective, clear, concise, constructive, complete and timely. An annual opinion is provided through the Director of Audit Opinion.
2500 - Monitoring Progress	MIAA establish follow up processes with client organisations 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 Authority.
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 the Authority.





## MIAA Quality Assurance

MIAA continue to ensure that quality remains central to our core objective of providing our clients with the best service. To achieve this we have in place a number of internal and external quality processes. These include:

- Investors in People
- BS EN ISO 9001/2000 underpinned by comprehensive internal quality assurance processes
- Professional Body and FSD Level 3 Accreditations
- Continued adoption of the EFQM Business Excellence Model

MIAA will also be planning for an External Quality Assessment during 2016/17.

