

Mersey Internal Audit Agency

Internal Audit Progress Report
Performance and Overview Committee
(16th November 2016)

Cheshire Fire Authority / Fire & Rescue Service



CELEBRATING
25 YEARS
OF MIAA

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1. Introduction

This progress report provides an update to the Performance and Overview Committee in respect of the assurances, key issues and progress made in respect of the 2016/17 Audit Plan. Comprehensive reports detailing findings, recommendations and agreed actions are provided to the organisation, and are available to Committee Members on request. In addition, a consolidated follow up position is reported on a periodic basis to the Performance and Overview Committee.

2. Key Messages for Committee Attention

Since the previous meeting of the Performance and Overview Committee we have completed the following reviews: -

Insurance Arrangements - Significant Assurance; and

Follow up of previously agreement recommendations – Included as a separate report on the agenda.

The table below identifies the key areas from that work and the actions to be delivered by management. Section 3 of the report provides details of the work in progress. Appendix A provides the categorisation of assurance levels and risk ratings and Appendix B confirms performance against plan for 2016/17. Details of High Level actions are provided in Appendix C.

Title	Assurance Level	Recommendations	
Insurance Arrangements	Significant	0 x Critical 0 x High	3 x Medium 2 x Low

Background: Until October 2015, the Authority procured insurance as a member of the Fire and Rescue Insurance Consortium (FRIC: a group of nine Fire Authorities across the UK) through joint tendering. The most recent tendering exercise in the summer of 2013 resulted in Zurich Insurance, the traditional insurer in the public sector marketplace, winning most of the business. The contract ran for a year to November 2014, with a year's option to extend.

It appeared unlikely that any further savings from the procurement of insurance would be available under the prevailing market conditions as there was a lack of competition and therefore a risk that costs could significantly increase. FRIC therefore sought to identify and develop potential alternatives. The result of this was that a hybrid

discretionary mutual model was considered to be the best solution. This provides the Authority with protection on a discretionary basis.

The hybrid discretionary mutual model is operated through a company, Fire & Rescue Indemnity Company Limited (the Company). This is jointly owned by the nine authorities, and has been developed by FRIC. It was incorporated on 23rd June 2015 with the Authority as a member.

A contract for Regis (mutual management company) to operationally manage the processing of claims on behalf of members has been agreed by FRIC Ltd.

The financial model does not promise immediate savings as the original level of contribution was based on existing premiums. It is hoped that over time the Company will generate surpluses and the Authority will benefit. At the time of this review it is too early to tell what the position is likely to be in the coming years, but by its nature the provision of protection can be volatile.

Objective: To assess the effectiveness of the revised insurance arrangements in place at the Authority

Summary: The reduction of incident frequency and severity is intrinsically linked to the achievement FRIC Ltd's strategic objectives and its long term success. It is noted that this arrangement is still at an early stage post implementation, although based on the current level of costs incurred and if this was to remain at a similar level for the remainder of the year, would indicate that this new arrangement should support the achievement of the strategic objectives and provide financial benefit to its members.

CFRS contributes as a member of the Fire and Rescue Risk Group (FARRG) which is a working group reporting to the FRIC Ltd Board. FARRG is the principal mechanism for members to work together on projects to reduce risk and share best practice. The roles, responsibilities and membership for these functions have been clearly set out and were being followed. Overall processes for the arrangements covered by FRIC Ltd whilst still embedding are working effectively. Protection outside of the areas covered by FRIC Ltd has been agreed (where applicable) to ensure protection is in place for all areas insured prior to the implementation of FRIC Ltd.

Within FARRG, there are a number of workstreams which are managed collectively in order to reduce the risks of incidents and accidents across the service; these include driver risk assessments and benchmarking exercises. Whilst the FARRG is in its early stages of development it is recommended that all relevant FARRG workstreams are coordinated within internal CFRS workstreams which include the Roads Risk



Management Group and Health and Safety Committee. In addition, each member is required to complete a service wide risk profile to summarise the key risks that each service needs to manage and key mitigating controls in place. Key areas recorded in the risk profile include background, fleet, property, IT security, business interruption, environment and partnerships. A report summarising the comparison of member risk profiles by Regis would aid members to share any identified best practice.

Claims are recorded, processed and managed through a system (Claims Cloud) developed by Regis. Testing confirmed the system and controls were operating effectively. There were a small number of claims which had not been reported on the system in a timely manner. It is noted that these delays were less than 1 month and had not impacted on the decision to approve payment of these claims. It has been agreed that a reminder will be issued to staff in this area.

Information is received on a quarterly basis to update members on the costs, nature and number of claims processed through Regis. A weekly report is also provided to ensure members are informed promptly of any large value claims from all members. Prior to the establishment of FRIC Ltd, information to compare performance across fire services was not available, therefore this should be recognised as a key improvement for benchmarking across member organisations. To ensure members receive all assurances they require, current arrangements could be strengthened by ensuring members receive minutes of FRIC Ltd Board meetings and assurances on the performance of Regis.

Updates on FRIC Ltd have been reported to the Cheshire Fire Authority in April 2016. Although performance information is received by CFRS, clarity is required on how updates on FRIC Ltd are to be reported internally within CFRS, for example should there be a required change to member contribution levels.

Key areas agreed for action (due to be completed by March 2017):

Three Medium recommendations to be actioned focused on: -

- The Head of Finance incorporating regular monitoring of protection arrangements into the Authority's performance reporting process;
- Developing a mechanism to ensure the workstreams and learning from FARRG are coordinated within CFRS's existing arrangements such as Road Risk Management Group and the Health and Safety Committee.
- Developing and agreeing with Regis reporting mechanisms covering claim lifecycle information and public and employer liability claims. Ensuring that



the outcome following completion of a performance review as detailed within the FRIC/Regis contract is reported and shared with all members. To develop a report summarising the business conducted by FRIC Ltd on a quarterly basis for members information.

Two low recommendations to be actioned focused on developing a report through FARRG which summarises the learning from the analysis of risk profiles from members, and to issue a reminder to staff of the need to promptly notify the OPA Admin Hub where a claim needs to be recorded on the Claims Cloud System.

Executive/ Management Sponsor: Head of Finance

3. Work in Progress

The following pieces of work are in progress and will be reported to Committee following completion:

Work In progress

- **On Call Availability** – to assess the effectiveness of the On Call Availability arrangements in place at the Authority. **Fieldwork complete, report being drafted.**
 - **Site Specific Risk Information (SSRI)** – to provide assurance that the Service has an effective process in place to gather, store and disseminate Site Specific Risk Information (SSRI). **Planning meeting held, terms of reference under development.**
 - **Station Management Framework** – to review the processes and controls in place at a local level to ensure standards, routines and risk critical activities required to ensure well managed operational sites are in place. Specific areas will be risk assessed and agreed with management. **Planning meeting arranged.**
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Request for Audit Plan Changes

Policy Approval Group approval will be requested for any amendments to the original plan and this will be reported to the Performance and Overview Committee to facilitate the monitoring process. There are no proposed amendments to the audit plan.



Appendix A: Assurance Definitions and Risk Classifications

Level of Assurance	Description
High	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.
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.
Limited	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.
No	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.

Risk Rating	Assessment Rationale
Critical	Control weakness that could have a significant impact upon, not only the system, function or process objectives but also the achievement of the organisation's objectives in relation to: <ul style="list-style-type: none"> the efficient and effective use of resources the safeguarding of assets the preparation of reliable financial and operational information compliance with laws and regulations.
High	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisation objectives.
Medium	Control weakness that: <ul style="list-style-type: none"> has a low impact on the achievement of the key system, function or process objectives; has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
Low	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.



Appendix B: Contract Performance

The primary measure of your internal auditor's performance is the outputs deriving from work undertaken. The plan has also been discussed with lead officers to determine the appropriate timing of individual work-streams to accommodate organisational priorities, availability, mandatory requirements and external audit views.

General Performance Indicators

The following provides some general performance indicator information to support the Committee in assessing the performance of Internal Audit.

Element	Status	Summary
Progress against plan	Green	Audit reviews are on track in terms of planned completion.
Timeliness	Green	Generally, reviews are progressing in line with planned delivery.
Qualified Staff	Green	MIAA Audit Staff consist of: <ul style="list-style-type: none"> • 65% Qualified (CCAB, IIA etc.) • 35% Part Qualified
Quality	Green	MIAA operate systems to ISO Quality Standards. Triennial review by External Audit was positive.

Overview of Output Delivery

REVIEW TITLE	PLANNED COMPLETION				ASSURANCE LEVEL	Commentary
	Aug	Nov	Feb	Apr	High / Significant / Limited / No	
FINANCE & RESOURCES						
Counter Fraud Arrangements				O		
Financial Systems			O			
Insurance Arrangements		●			Significant	Final Report issued
PERFORMANCE						



REVIEW TITLE	PLANNED COMPLETION				ASSURANCE LEVEL	Commentary
	Aug	Nov	Feb	Apr	High / Significant / Limited / No	
On Call Availability		●				Fieldwork complete, report being drafted
Partnership Arrangements				○		
OPERATIONAL COMPLIANCE						
IT Critical Applications				○		
Pilot Inspection Exercise			○			
Site Specific Risk Information			●			Terms of reference in development
Station Management Audits			●			Planning meeting arranged
GOVERNANCE, RISK AND LEGALITY						
Risk Maturity – Departmental/Station Level				○		
Statement of Assurance				○		
FOLLOW-UP AND CONTINGENCY						
Follow-up		●		○		See Follow Up Report
Contingency						

Key ○ = Planned ● = In Progress / Complete



Appendix C: Critical/ High Risk Recommendations

There were no high or critical risk recommendations included within the reports.

