

**Mersey Internal Audit Agency**

# Director of Audit Opinion and Annual Report 2016/17

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 such as the Blue Light Collaboration. 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. Director of Internal Audit Opinion – Executive Summary

My opinion is set out as follows:

- Basis for the opinion;
- Overall opinion; and
- Commentary

2.1 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 and management's progress in respect of addressing control weaknesses identified.
2. An assessment of the organisation's response to Internal Audit recommendations, and the extent to which they have been implemented.
3. An assessment of the assurance arrangements in place to underpin the AGS and provide reasonable assurance that there are effective systems of internal control to manage the principal risks identified by each organisation.

My 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 Authority should take account of other independent assurances that are considered relevant.

### 1.2 Overall Opinion

My overall opinion for the period covering 2016/17 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 generally being applied consistently.

## 2.3 Commentary

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. Cheshire Fire Authority's Medium Term Financial Position reflects this and has identified the need for savings of between £3.9m and £4.5m in the four year period from 2017-18 to 2020-21. The Authority has already delivered almost £9m of savings in the previous CSR period and an additional £900k in the current year. Proposals have been developed for the majority of these savings requirements. The continued focus and delivery of these savings will be a key to the Authority delivering an efficient and effective service.

Strategic monitoring of the organisation's performance is carried out by the Fire Authority, including quarterly reports to the Performance and Overview Committee. More detailed scrutiny is carried out by an internal Performance and Programme Board and through the Service's unitary performance groups which involve both local councillors and staff. A mixture of nationally accepted fire and rescue service performance indicators together with local targets are used to track progress and monitor progress in achieving the Authority's vision of a Cheshire where there are no deaths, injuries or damage from fires or other emergencies.

Over the past two years the Fire Authority has been working on a blue light collaboration programme with Cheshire Constabulary to bring together each organisation's support services into single teams and establish a new joint headquarters at the police's current site at Clemonds Hey in Winsford. A timetable for the establishment of the new joint support teams has been agreed and a number of staff have already relocated to Clemonds Hey, with the remainder due to move by April 2018. 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 2017-18 and this should provide an excellent opportunity for the Authority to assess its arrangements against this framework.

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*

**Director of Audit, MIAA**  
**May 2017**



### 3. Director of Internal Audit Opinion – Detailed Commentary

#### Performance against Plan

The Internal Audit Plan has been delivered in accordance with the plan and any agreed changes reported to the Fire Authority, Performance and Overview Committee and agreed with the Policy Approval Group 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 two reviews. The review of Site Specific Risk Information is close to finalisation and the review of IT Critical Applications has been deferred to 2017/18. These reviews will be reported to the Performance and Overview Committee and will form part of the 2017/18 Director of Audit Opinion.

#### 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 table below provides a summary of the reviews and overall objectives contributing to this element of the Opinion.

Title	Overall Objective	Recommendations			
		C	H	M	L
<b>HIGH ASSURANCE:</b> <i>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.</i>					
Treasury Management	To provide assurance on the design and operation of the key controls within Treasury Management.	-	-	-	-
<b>SIGNIFICANT ASSURANCE:</b> <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>					



Title	Overall Objective	Recommendations			
		C	H	M	L
<b>Cash and Bank</b>	To provide assurance on the design and operation of the key controls within Cash and Bank.	-	-	1	1
<b>Insurance Arrangements</b>	To assess the effectiveness of the revised insurance arrangements in place at the Authority.	-	-	3	2
<b>On Call Availability</b>	To assess the effectiveness of the management and monitoring of arrangements in place relating to on call availability.	-	5	-	-
<b>Payroll</b>	To provide assurance on the design and operation of the key controls within Payroll.	-	-	-	2
<b>Partnership Arrangements</b>	To assess the effectiveness of the arrangements in place to manage prevention partnerships to achieve the best outcomes and that the reporting routes through the Authority are clear.	Report currently in draft - To be agreed with management			
<b>Station Management Framework</b>	To provide assurance on the effectiveness of the controls and processes in place at a local level for compliance with the maintenance and operational preparedness parts of the Station Management Framework.	-	-	-	4
<b>LIMITED ASSURANCE:</b> <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>					
No reviews have received this assurance rating.					
<b>NO ASSURANCE:</b> <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>					
No reviews have received this assurance rating.					



**CONTRIBUTION TO GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL ENHANCEMENTS:** *Areas where MIAA have supported the organisation in strengthening arrangements in respect of governance, risk management and internal control.*

**Local Code of Corporate Governance:** Involvement with the organisation in respect of advice and guidance relating to compliance with the guidance 'Delivering Good Governance in Local Government'.

**ALARM Benchmarking:** To provide advisory support on the organisations benchmarking against the ALARM standards for Risk Management.

**National Fraud Initiative:** To provide advisory support in relation to completion of the National Fraud Initiative (NFI) data matching exercise.

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.

Follow Up, demonstrating progress against previously agreed recommendations to improve systems and controls.



## 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 follow up reviews and can conclude that the good progress has been made with regards to the implementation of recommendations. A report on follow up reviews will next be presented to the Performance and Overview Committee early in 2017/18.

## 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:

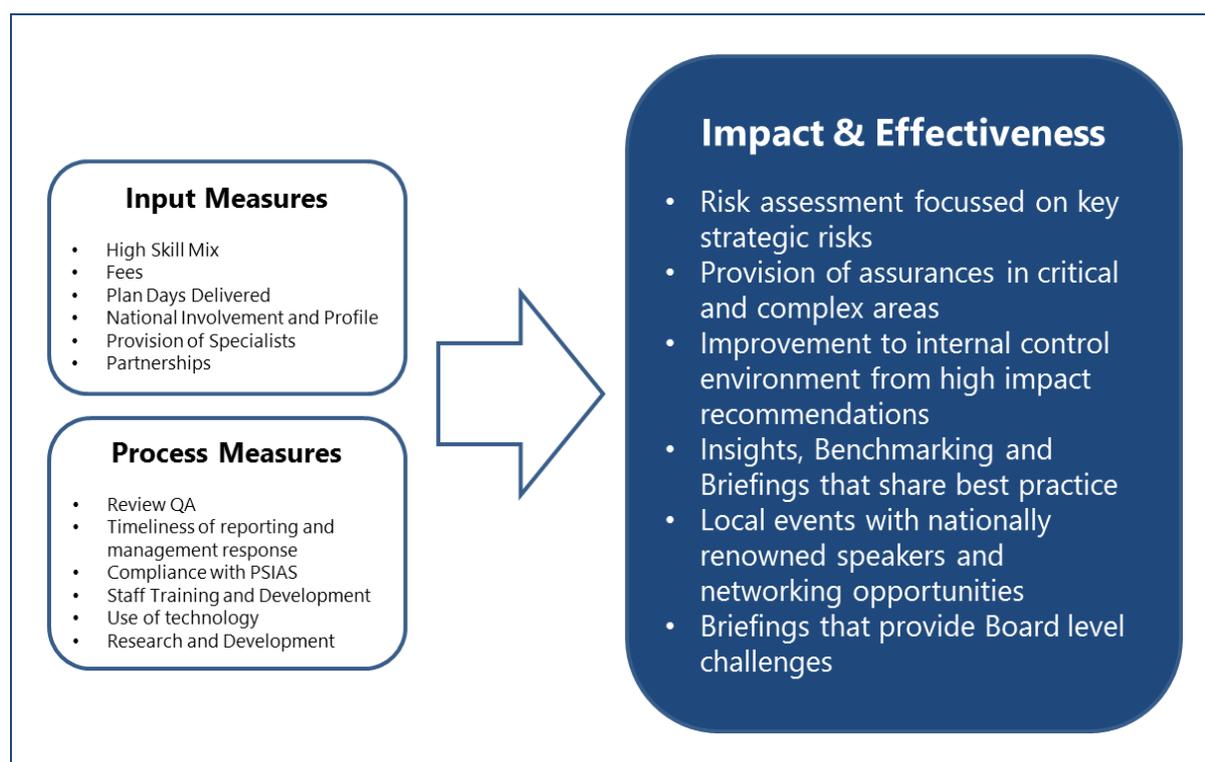
- Regulatory compliance, including National Framework, Fire Safety Order and DCLG Health and Safety Framework.
- Responding to changes as a result of the responsibility for fire and rescue policy moving from the Department for Communities and Local Government to the Home Office and development of a new 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.



## 4. 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 Audit Advisory Committee 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.

1.4

Average score across all elements  
of our Post Audit Questionnaires  
(where 1= good and 4 = poor)

98%

Of attendees rated  
our event speakers as Good, Very  
Good or Excellent

We recognize that there is a need to modernize the way in which we seek and receive feedback and will continue to look at approaches during 2017/18.

## 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).

The outcome MIAA's recent External Quality Assessment (EQA), undertaken by CIPFA, which evaluated the organisation's compliance with Public Sector Internal Audit Standards confirmed that MIAA conforms to the standards. An EQA is required every 5 years and is of huge significance, as it provides assurance both internally and externally of MIAA's compliance with these Standards across all of the functions that are provided as part of the internal audit plan and via advisory services.



## 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 Accreditations (including ACCA Gold and CIPFA Platinum Accreditations)
- Continued adoption of the EFQM Business Excellence Model

