Internal Audit Progress Report

Performance and Overview Committee (Feb 2020)

Cheshire Fire Authority / Fire & Rescue Service

MIAA ASSURANCE

Contents

1. Introduction

This progress report provides an update to the Performance and Overview Committee in respect of the assurances, key issues and progress against the Internal Audit Plan for 2019/20. 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 Audit Committee Attention

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

- IT Service Continuity Review – Limited Assurance
- Financial Systems - Substantial Assurance
- Efficiency Savings Review – Substantial Assurance
- National Fraud Initiative – Separate Briefing

Appendix A provides the categorisation of assurance levels and risk ratings and Appendix B confirms performance against plan. Details of High Level actions agreed are provided in Appendix C however **due to the sensitive nature of the findings we have not included full details in relation to the IT Service Continuity Report.**

Title	Assurance Level	Recommendations	
IT Service Continuity	Limited	0 x Critical	2 x Medium
		2 x High	0 x Low

Management Sponsor: Andrew Leadbetter, Director of Governance and Commissioning/ Andy Robson, Head of IT

Objective: To assess the effectiveness of the IT Service Continuity framework established by management to minimise disruption to Cheshire Fire and Rescue Service (CFRS) in the case of localised or more widespread system or infrastructure outages.

Summary:

- For approximately two years, Cheshire Fire and Rescue Service's infrastructure and IT service provisions have been managed by Cheshire Constabulary. CFRS have two data centres, one is located at their headquarters (primary) and the other is located in Warrington (secondary/failover). Backups are taken and stored onsite within the Service's headquarters, core service backups were then copied and replicated over to

Title	Assurance Level	Recommendations

their Warrington site. The Warrington site is used as CFRS's failover site, in the event systems cannot be recovered at their headquarters.

- CFRS has a primary Data Centre (DC) and secondary DC, geographically remote, which provides the failover site for the Service, thus providing resilience.
- All core services have resilience incorporated in the network infrastructure including multiple lines (and two internet service providers) in and out of core systems, allowing services to continue in the event a line failure/damage.
- Robust security arrangements for the data centres included full auditable access, CCTV, restricted access and supervision for all non-vetted personnel.
- Robust arrangements in place to ensure all environmental controls (air conditioning, fire suppression and generators) are fully serviced regularly.

Areas for Improvement

- CFRS did not have a formal documented Backup Policy in place that would outline their strategy, security and the key objectives of the backup regime. There is a risk that controls in this area do not align to business expectation/needs. However, it was noted that there was a full policy review underway to identify and address gaps relating to CFRS's policies and procedures.
- Upon inspection of a Nessus vulnerability scan of a backups' SQL server, it was evident that the current version being used is unsupported and therefore not subject to any new patches. Due to the out of support version of SQL, there is a risk that the server is exposed to known security vulnerabilities.
- Although all systems were backed up and core systems replicated on a nightly basis, in the event of a recovery being needed, CFRS could potentially lose 24 hours worth of data.
- System owners/senior management had not formally signed off on the CFRS backup regime and therefore may not understand the potential maximum data loss. There is a risk the backup strategy does not align to business expectation/needs.
- CFRS had not undertaken any formal risk assessments against their IT Service Continuity arrangements or the physical environment of the data centres.
- Although CFRS have tested fail over for a number of applications/services, a full failover test has not been undertaken. There is a risk that the full failover will not work as intended or there are prolonged delays due to unforeseen issues.
- CFRS did not regularly reconcile backups to identify gaps in coverage using a different, but comparable source, which may allow omissions to go undetected.

Key areas agreed for action:

Title	Assurance Level	Recommendations	
Two High level risk recommendations were agreed and summarised below: • Create and formalise a robust backup policy that outlines the strategy, security and the key objectives of the arrangements. This should be signed off by senior management and business owners and address the issues raised in terms of regular backups, testing and reporting. • Upgrade all unsupported SQL Servers to a version that is currently supported. In addition implement a logging and monitoring regime for monitoring access to the SQL server backup application and changes made to backups and create and formalise a process to periodically review access and level of access to Veeam to ensure access is appropriately restricted. **Two Medium level risk recommendation were also agreed:** • Schedule and undertake a full failover test to the secondary site, in accordance with the Service's IT Services Business Continuity Plan. This should form part of a formal process detailing lessons learnt which is reported to senior management. • Undertake a formal risk assessment of the environment surrounding the data centres to identify all risks and establish the mitigation. The arrangements should be subject to formal periodic reviews, specifically if there are any material changes made to the accommodation.			
Financial Systems	Substantial	0 x Critical 0 x High	3 x Medium (1 accepted) 0 x Low
Management Sponsor: Wendy Bebbington, Head of Finance **Objective**: To provide assurance that, the most significant key controls in the areas detailed are appropriately designed and operating effectively in practice. The review focused on the key controls within: • General Ledger • Accounts Payable • Accounts Receivable • Treasury Management **Summary**:			

Title	Assurance Level	Recommendations

General Ledger

- Balance sheet control account reconciliations are completed on a monthly basis. Completion is recorded on a reconciliation tracker which shows the status of each control account.
- Audit testing of a sample of control account reconciliations (Sales, Purchases and Bank) for the periods M5 – M7, identified that adequate segregation of duties was in place between the persons preparing and authorising. All accounts reviewed were adequately reconciled to the general ledger and trial balance. Issues were identified with the timeliness of completion of control account reconciliations. In some instances, reconciliations were completed 2 months after the period. In addition, issues were identified where the reconciliations were not dated, therefore MIAA were unable to establish if these had been completed in a timely manner.
- Audit review of journals identified that segregated approval is not required within the Agresso finance system. A paper copy of the journal is retained to evidence who prepared and authorised the journal. Audit testing of a sample of 20 journals between the periods April – October 2019 confirmed that in all instances adequate segregation of duties was in place between the person preparing and authorising the journal. The following issues in relation to journals were identified:
  - 9 instances were identified where journal approval was done retrospectively, after the journal was posted.
  - User privileges in relation to the posting of journals was evident in the system, however there was no financial attachment to these, and therefore there is no limit to the value of journal posting.
- Security arrangements are in place for access to the Agresso system. Discussions with key staff found that there is no formal process in place for the creation of new users to the finance system. We identified that new users are generally set up through receipt of an email or telephone call, and access privileges are based on someone in a similar role.

Accounts Payable

- The authorised signatory list is built into the finance system Agresso. Audit testing of a sample of 20 purchase orders (PO) confirmed that there was adequate segregation of duties between the person requesting and authorising a purchase order. All orders reviewed were approved by a member of Management within delegated limits.
- Audit review found that there were limited invoices raised without a supporting order (Non-PO). Where Non-PO's had been raised, these had been subject to appropriate approval.

Title	Assurance Level	Recommendations

- MIAA review of the invoice payment process highlighted payments are processed online through BACS. A payment report is run and checked by two senior members of Finance staff, prior to payment processing. A clear audit trail to support the payment run is retained.
- MIAA testing highlighted that amendment to supplier details is controlled through the Fire Service Finance Department, on request from suppliers. A log is maintained to evidence all changes and updates to details made. Evidence is in place to support the amendment to supplier details.

Accounts Receivable

- Audit testing of a sample of sales invoices per the debtor's ledger confirmed that there was adequate segregation of duties between the requestor, approver and creator in all instances.
- A sample of credit notes were tested and we confirmed that there was adequate segregation of duties between the requestor and approver. All of the sample had been appropriately approved and supporting documentation had been retained.
- Evidence was in place to demonstrate that the Fire Service actively chase outstanding debt. Audit review of a sample of aged debt found that there was adequate evidence to demonstrate follow-up to recover.
- Audit review confirmed that as at 31st October 2019 total aged debt was £104,401.21 of which £53,954.50 was current debt and therefore not yet due.
- Audit review identified that there had been one write-off within the year, as at the time of our audit. The write off totalled £333.36. There was adequate evidence in place to demonstrate that this had been appropriately approved, in line with the Financial Regulations.

Treasury Management

- Evidence was in place to demonstrate that the financial forecast outturn, including cash flow is regularly reported to the Performance and Overview Committee.
- Audit review of the current bank mandate in place identified there have been 3 amendments to the mandate within the year. Evidence was provided to demonstrate that all changes in year were appropriately authorised before being actioned.

Key areas agreed for action:

Three medium level recommendations were raised but only one accepted as below:

Title	Assurance Level	Recommendations	
• Control account reconciliations tracker should be updated to include target dates for reconciliations to be completed and authorised. Following this, reconciliations should be prepared and authorised in line with the expected controls and target dates set. • All journals should be appropriately approved before being processed within the ledger. The Head of Finance should review the delegated limits of staff in regards to journals, to ensure that they are appropriate. – *CFRS Response: Recommendation not accepted, as it is felt sufficient controls are in place. Only Finance staff have the ability to post journals and all are reviewed by a separate member.* • Whilst it is acknowledged that new users are limited and evidence was in place to support the creation of new users, more robust and formal controls should be put in place. A form should be completed for all new users, which is approved by a Senior Manager within Finance. *CFRS Response: Recommendation not accepted as it is felt that sufficient controls are in place. Controls for new user set up and amendment to user details is monitored by the Finance team.*			
Efficiency Savings Review	Substantial	0 x Critical 0 x High	1 x Medium 1 x Low

Management Sponsor: Wendy Bebbington, Head of Finance

Objective: To provide assurance that there are robust systems and processes in place to manage the risks and monitor the delivery of savings efficiencies.

Summary:

Policies and Procedures

- Cheshire Fire and Rescue Service (CFRS) have a number of policies which incorporate guidance to staff and the public on how the budget is produced and maintained. Budget procedures are incorporated in the following approved documents in place at CFRS.

- *Medium Term Financial Plan 2019-2022* – this document provides the Authority, staff, the public and other stakeholders information on the financial outlook, including savings, and the estimated available financing over the next three years. The MTFP takes into account future high level potential revenue and capital expenditure over the period based upon current information.

- *Integrated Risk Management Plan (IRMP)* – this document assesses local fire and rescue related risks and details how these will be addressed. This Annual Action Plan

Title	Assurance Level	Recommendations

outlines the key risks and influences facing Cheshire and how the Authority is currently structured to address them, including savings.

- *A Reserves Strategy (2019-2020)* – this document sets out the reserves held, their intended usage and the strategy for ensuring the funds are maintained at an appropriate level.

Identifying and Assessing Efficiencies

- Our review confirmed that efficiencies are identified through work completed by the CFRS finance staff. This includes a review of the corporate budgets and contingencies for pay awards/inflation, as well as contributions to and from reserves. Discussions are then held between finance staff and operational managers about the need for budgets of a particular level. Potential efficiencies are identified and these are then documented throughout the year on a 'jotting spreadsheet' maintained by the CFRS finance team.

- Although all savings and rationale is documented within the 'jotting spreadsheet', this only documents the reasoning behind identifying particular savings and whether it is a one-off saving. CFRS finance team do not document budget holder – finance team meetings as these are informal discussions to identify savings, and are not formally signed off by the budget holders. Secondly, CFRS finance team do not assess the impact of each saving or the likelihood of achieving this saving.

- The CFRS finance team should look to strengthen its impact assessment with the introduction of a risk scoring process for each identified savings. This would provide an audit trail and assurance that any interdependencies and impact of savings on other areas of the service are reviewed alongside a simple risk assessment aligned to the likelihood of savings delivery.

- The Authority should also look to introduce a process to ensure each saving identified is formally signed off from the cost centre budget holder.

- Our testing on a sample of efficiency savings for 2019/2020 identified that there was sufficient rationale behind each of the savings identified. The budget for 2019/20 included savings of £1.355m and our review confirms that this was approved by the Fire Authority in February 2019.

Agreement of Efficiency Savings

- Our review confirmed that the initial savings outlined within the 'jotting spreadsheet' were first taken to the SMT budget planning meeting in October 2018, a second formal review of growth and savings is then completed by the SMT, this was then presented to the Fire Authority members for comment at their planning day in November 2018.

Title	Assurance Level	Recommendations

Finally the savings are then formalised and agreed by the SMT before forming the draft and final budgets which were agreed by the Fire Authority in February 2019.

Budgetary Monitoring and Reporting

- The Authority was required to approve its budget and set the Council Tax precept for the financial year commencing 1st April 2019. Our review confirmed that the Authority took into account Government funding, precept regulations and organisational demands and this is supported by the production of the MTFP. Our review confirmed that commentary and updates on efficiencies are outlined within the mid-year MTFP reported to Performance and Overview Committee in November 2019 and there were no significant issues reported that would impact savings on the forecast to the year end.
- As part of its budget management, the Authority produces the MTFP which covers a three year period. The MTFP is updated regularly to reflect emerging, local, regional and national issues and makes informed assumptions about issues such as future pay, inflation, government funding and council tax levels which our review confirmed was reported to the Fire Authority and Performance and Overview Committee.
- For 2020/2021, The authority has begun to develop a new approach to how it prepares and manages its budgets so that is focuses on the key priorities of the organisation and activities which have the most significant outcomes for the local community. When determining the budget proposals and potential council tax increases, due consideration is taken of budgetary pressures and possible savings alongside anticipated funding changes over the medium term. Government grant funding has been guaranteed up to 2019/20 and this is reflected in the MTFP.

Key areas agreed for action:

One Medium level risk recommendation was agreed:

- CFRS finance team should look to strengthen its impact assessment with the introduction of a risk scoring process for each identified savings.

One Low level risk recommendation was also agreed

- CFRS should ensure each saving scheme identified is formally signed off by the cost centre budget holder.

3. Work in Progress and Planned

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

Work In progress

- Collaboration/ Partnerships - Fire and Rescue Indemnity Company (FRIC) – Draft Report

Work planned

- HMICFRS Action Plan – Phase 2 – Planning (March 2020 Fieldwork)

4. Request for Audit Plan Changes

It is recognised that we may need to update the audit plan during the year as different risks emerge. Any proposed changes to the plan are discussed with the Service Management Team and this will be reported to the Performance and Overview Committee to facilitate the monitoring process.

- The Performance and Overview Committee approved the deferral of the Professional Standards review to late 2020, given the delays to the development of national professional standards.

Appendix A: Assurance Definitions and Risk Classifications

Level of Assurance	Description
High	There is a strong system of internal control which has been effectively designed to meet the system objectives, and that controls are consistently applied in all areas reviewed.
Substantial	There is a good system of internal control designed to meet the system objectives, and that controls are generally being applied consistently.
Moderate	There is an adequate system of internal control, however, in some areas weaknesses in design and/or inconsistent application of controls puts the achievement of some aspects of the system objectives at risk.
Limited	There is a compromised system of internal control as weaknesses in the design and/or inconsistent application of controls puts the achievement of the system objectives at risk.
No	There is an inadequate system of internal control as weaknesses in control, and/or consistent non-compliance with controls could/has resulted in failure to achieve the system 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: • 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: • 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 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 for completion by year end
Timeliness	Green	
Qualified Staff	Green	MIAA Audit Staff consist of: • 65% Qualified (CCAB, IIA etc.) • 35% Part Qualified
Quality	Green	MIAA operate systems to ISO Quality Standards. The External Quality Assessment, undertaken by CIPFA, provides assurance of MIAA's compliance with the Public Sector Internal Audit Standards.

Overview of Output Delivery (2019/20 Plan)

REVIEW TITLE	PLANNED REPORTING TO P & O				ASSURANCE LEVEL	Commentary
	Sep	Nov	Feb	April		
CORPORATE SERVICES						
Financial Systems			✓		Substantial	Complete
Cost Savings Plans			✓		Substantial	Complete
Risk Management Board	●	●	●	o	N/A	Ongoing
IT Service Continuity		●			Limited	Complete
National Fraud Initiative (Carry forward)		●			N/A	Complete
PROTECTION & ORGANISATIONAL PERFORMANCE						
Professional Standards						Deferred to 2020/21 plan
HMICFRS (Carry Forward)		✓		●		Phase 1 complete Phase 2 March 2020
SERVICE DELIVERY / OPERATIONAL POLICY & ASSURANCE						
Collaboration/ Partnerships				✓		Draft Report
PREVENTION						
Safety Central Volunteers	✓				Substantial	Final Report
FOLLOW-UP AND CONTINGENCY						
Follow-up	●	●			N/A	Complete
Contingency						

Key o = Planned ● = In Progress ✓ = Complete

Appendix C: Critical / High Risk Recommendations

Due to the sensitive nature of the audit the detailed findings and high risk recommendations have not been included for the IT Service Continuity review.