

Internal Audit Progress Report Performance and Overview Committee (June 2020)

Cheshire Fire Authority / Fire & Rescue Service

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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 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:

- Collaboration/ Partnerships - Fire and Rescue Indemnity Company (FRIC) Substantial Assurance
- HMICFRS 2018 Inspection Improvement Plan Audit- Phase 2 - Assurance Not applicable

The audit plan for 2019/20 is complete.

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.

Title	Assurance Level	Recommendations	
Collaboration/ Partnerships - Fire and Rescue Indemnity Company (FRIC)	Substantial	0 x Critical 0 x High	2 x Medium 2 x Low
Management Sponsor: Andrew Leadbetter, Director of Governance and Commissioning			
Objective: To review the controls and governance arrangements in place at Cheshire Fire and Rescue Service for managing the partnership arrangement.			
Summary:			
FRIC was formed originally to buy insurance for a group of Fire and Rescue Service's however it reached the point where the only insurance company prepared to offer cover was Zurich Municipal. At that point, what was the Fire and Rescue Insurance Consortium started to explore the possibility of forming a mutual to provide their own cover. The members of FRIC are Cheshire, Kent, Essex, Leicester, Devon and Somerset, Cambridge, Bedfordshire, Hampshire, Royal Berkshire and Buckinghamshire.			

Title	Assurance Level	Recommendations
<p>The members of the mutual originally pooled what would have been their premiums to create a pot of money out of which to pay claims. Liability for the mutual is limited to £250,000 with reinsurance having been placed to deal with any claims greater than that. The original agreement allowed for a five year period after which any surplus would be shared between the members. Annual contributions are based on claims history and performance against a set of Key Performance Indicators (KPIs) agreed by the FRIC Board.</p> <p>The mutual is managed by Regis Mutual Management, they provide the actuarial expertise, claims handling and performance manage the mutual on behalf of FRIC. There is a FRIC Board comprised of senior officers from the Fire and Rescue Service's (FRS) members. FRIC set up a group to try to manage the risks the mutual faced this is known as the Fire and Rescue Risk Group (FARRG).</p> <p>Policies and Procedures</p> <p>Our review confirmed that Fire and Rescue Indemnity Company (FRIC) has an approved 'Rules and Articles of Association' which was last updated in November 2019 and has been formally agreed by all members. We confirmed that Cheshire Fire and Rescue Service (CFRS) has formally signed this document to evidence agreement and formally agreed a liability schedule and limits for protection.</p> <p>Our audit confirmed that CFRS has an approved Partnerships Policy in place, which defines partnership working as 'where we agree to work with one or more independent bodies to jointly achieve a shared objective or outcome'. Our review identified the following issues regarding partnership documentation outlined within the Partnership Policy in relation to FRIC:</p> <ul style="list-style-type: none">• A partnership agreement template had not been completed in relation to FRIC (Low Risk – refer to recommendation 1)• The FRIC partnership had not been included in the Partnership Register and had not been entered into the central record of all signed agreements held by the Democratic Services team. (Low Risk – refer to Recommendation 1) <p>Governance Arrangements</p> <p>We confirmed that there are no automatic rights of access for members to FRIC Board minutes. This is in place to protect the interests of individual members and encourage full and open discussion at Board meetings, however our audit highlighted that CFRS does not have director representation on the FRIC Board. Therefore CFRS does not currently have the opportunity to have any input into strategic decisions made by FRIC and cannot automatically access the minutes that detail any decisions made at FRIC board meetings. We recommend that CFRS should look to strengthen their processes in respect of receiving assurance from FRIC on their effectiveness and decision making and re-evaluate the position of director membership on the FRIC board. (Medium Risk)</p> <p>FRIC has developed a risk management assessment process in the form of the Fire and Rescue Risk Group (FARRG). This group is a risk management group formed by the member</p>		

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<p>authorities of FRIC. FARRG meets quarterly to assess performance against the KPIs and to look at ways to reduce any risks to FRIC.</p> <p>A review of FARRG minutes confirmed CFRS attendance and that the group has a number of work streams including risk management activity such as driver risk assessments and benchmarking assessments. From our review we can confirm that FARRG work streams are fed into the CFRS work streams, primarily through the Roads Road Risk Management Group and Health & Safety Committee.</p> <p>FARRG has a newly appointed Chairman as of January 2020 in order to maintain communication and active links with the FRIC Board. The group reports to the FRIC Board on its activities via a quarterly report from the Chair of the Group and our review confirmed that CFRS data contributes and forms part of the FARRG quarterly report. Action logs and minutes from each FARRG meeting are made and shared with the FRIC Board and minutes and all other group documentation are shared via the Group's on-line document management system encouraging the sharing of best practice between members.</p> <p>From our review it was confirmed that FARRG does have a Terms of Reference (ToR) in place. However we found that the ToR does not state a review date and has not been updated since the development of FRIC. It is recommended that the ToR is reviewed annually by FRIC and FARRG to ensure the document reflects current practice and procedures. The document should also state when it was reviewed for document version control. (Low Risk)</p>		
<p>Monitoring and Reporting</p>		
<p>Our review confirmed that FRIC members receive a report from Regis (mutual management company) on a quarterly basis. It was evidenced that a contract for Regis to operationally manage the processing of claims on behalf of members has been formally agreed by FRIC. The quarterly report provides a large amount of information on the number, cost and type of claims, Areas covered in the report include total number of motor claims, cost of motor claims, claim ratios, forecasts and heat maps. Prior to the establishment of FRIC Ltd this level of information to provide a comparison with other fire authorities was not available and allows CFRS to continually monitor the claims of other members to assess value for money.</p>		
<p>CFRS have regular meetings with representatives of Regis to discuss claims, risks and receive relevant updates from other members. A weekly report is received from Regis that records all claims across the nine authorities and this report allows each authority to know the number and type of actions as they occur.</p>		
<p>Our review confirmed however that updates on performance and financial savings regarding FRIC are not escalated to the Senior Management Team (SMT). Our review highlighted that Performance and Overview Committee are not updated on FRIC and do not receive any reports from FRIC or FARRG. SMT may not receive information it needs to assess the effectiveness of FRIC Ltd and Regis and may not have a full understanding of the governance and performance of FRIC. It is recommended that SMT receive key information from FRIC</p>		

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<p>and FARRG to ensure escalation of risk and appropriate governance arrangements (Medium Risk)</p> <p>Value for Money</p> <p>Our review confirms through review of documentation and analysis of reports that the FRIC arrangement is currently significantly more cost-effective than previous insurance costs. The costs benefits result from the Pool not be profit-making and so the cost of each member's, including CFRS, contributions is lower than the cost of previous external insurer contributions to obtain the same cover, since there is no need to build in a profit element. Secondly the insurance for large single losses is cheaper as it is bought collectively by multiple authorities, rather than bought individually by each Fire Service.</p> <p>Finally surpluses are primarily achieved due to a lower than anticipated number of costs and claims, but the fast notification of motor claims through FRIC has also enabled claims handlers to determine liability quickly and make early contact with third parties promptly to arrange repairs, reducing third party claims' costs.</p> <p>The FRIC arrangements have provided some protection from the insurance premium tax increase as there is less direct insurance and therefore less to pay by way of premiums.</p> <p>Key areas agreed for action:</p> <p>Two Medium level risk recommendations were agreed and summarised below:</p> <ul style="list-style-type: none"> • CFRS has applied for Alex Waller, Assistant Chief Fire Officer, to become a director. • SMT to receive assurances in respect of FRIC and FARRG on a regular formal basis, Initial report prepared by end June 2020 (covering 2019/20) with formal reporting taking place Q2/Q3 depending on meeting schedule. <p>Two low level risk recommendation were also agreed:</p> <ul style="list-style-type: none"> • Application of Partnership Policy monitoring to the FRIC partnership. • Put forward to members that there should be an annual review of Terms of Reference to ensure they are up to date, version controlled and relevant. 	<p>Not Applicable</p>	<p>Not Applicable</p>
<p>HMICFRS 2018 Inspection Improvement Plan Audit- Phase 2</p>	<p>Not Applicable</p>	<p>Not Applicable</p>
<p>Management Sponsor: Lee Shears, Head of Protection and Organisational Performance and Anthony Jones, Group Manager, Organisational Performance Manager/ HMICFRS – Service Liaison Officer</p> <p>Objective: CFRS have requested that MIAA undertake a review of a sample of the actions within the HMICFRS Improvement Plan to provide independent assurance that evidence is</p>		

Title	Assurance Level	Recommendations
<p>available to support the Service's self-assessment of progress and the associated Red/Amber /Green (RAG) ratings of progress to date.</p> <p>The overall objectives of the review was to independently assess and verify on a sample basis:</p> <ul style="list-style-type: none">• Completed actions to determine that evidence was available to support this conclusion.• Actions in progress to ensure that there is robust evidence to support progress and that progress is in line with agreed timeframes. <p>The review included a greater sample of "People" related actions given that this was the area that required improvement. We also undertook two site visits to obtain feedback from a sample of staff as part of our evidence triangulation.</p> <p>Summary:</p> <p>Completed Actions</p> <p>We reviewed 6 actions from the Service's Action Plan and requested evidence to confirm the completed status of the actions. We made two site visits and interviewed a selection of staff to assess their knowledge and understanding of the actions taken and cited as complete.</p> <p>We found evidence, which supported the conclusion that the actions were completed.</p> <p>We could see that the Chief Fire Officer and other managers were committed to delivering the Action Plan, e.g. there had been a considerable investment of time in visiting fire stations and these visits had been taking place for some time, were regular and the activity was embedded. This kind of activity will be critical as the Service seeks to deliver the more challenging cultural change elements of the Action Plan (and People Strategy). Regular two-way communication will be key to bringing all staff along and successfully completing the actions in the Action Plan.</p> <p>Open Actions</p> <p>We looked at 3 " open" actions to check that evidence was available to support progress to date and that progress was in line with agreed timeframes. For all three actions there was evidence to note ongoing progress.</p>		

3. Request for Audit Plan Changes

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. We have received a subsequent request to change this to a review of Pensions in 2020/21. This is noted in the audit plan for 2020/21.

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: <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 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 plan is complete
Timeliness	Green	
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. 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	June		
CORPORATE SERVICES						
Financial Systems			✓		Substantial	Complete
Cost Savings Plans			✓		Substantial	Complete
Risk Management Board	✓	✓	✓	✓	N/A	Complete
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)		✓		✓	N/A	Phase 1 Complete Phase 2 Complete
SERVICE DELIVERY / OPERATIONAL POLICY & ASSURANCE						
Collaboration/ Partnerships				✓	Substantial	Complete
PREVENTION						
Safety Central Volunteers	✓				Substantial	Complete
FOLLOW-UP AND CONTINGENCY						
Follow-up	✓	✓		✓	N/A	Complete
Contingency						

Key ○ = Planned ● = In Progress ✓ = Complete

Appendix C: Critical / High Risk Recommendations

There were no critical / high level recommendations made.