

Report to	Audit Committee
Report no	AC/2017/07/09
Date	10/07/17
Lead Officer	Head of Audit and Procurement Services
Contact Officer	Mike Halstead (01492 576210)
Subject	Internal Audit Annual Statement of Assurance



PURPOSE OF REPORT

- 1 Under the terms of the Accounts and Audit regulations, the Authority is required annually to conduct a review of the effectiveness of its system of Internal Control. Internal Audit is an integral part of that system, and is a significant contributor to the preparation of the Annual Governance Statement, which is required to be included in the Annual Statement of Accounts.
- 2 The CIPFA Public Sector Internal Audit Standards 2013 require the Head of Internal Audit to provide the Audit Committee with assurance on the whole system of internal control, including the adequacy of risk management and corporate governance arrangements.
- 3 The report contains the assurance statement based on the work of Internal Audit during the year ended March 2017. The report is supported by Appendix A, which details the audit opinions and the key messages of the assignments completed during 2016/17.

EXECUTIVE SUMMARY

- 4 The Head of Internal Audit is able to provide assurance to the Audit Committee, based on the internal audit work undertaken, together with our maintained knowledge of the organisation and its procedures, that the Authority has effective corporate governance, risk management and internal control arrangements to manage the achievement of the Authority's objectives.
- 5 The work of Internal Audit has not identified any weaknesses that would qualify this opinion and there are no significant issues that are relevant to the preparation of the Annual Governance Statement.
- 6 The report also provides assurance that the Internal Audit Service operates in compliance with the Public Sector Internal Audit Standards to enable the Authority to take assurance from this opinion.

RECOMMENDATION

- 7 It is recommended that Members note the Internal Audit Annual Statement of Assurance and approve its contribution to the evidence content of the 2016/17 Annual Governance Statement.

BACKGROUND

The Role of Internal Audit

- 8 The role of Internal Audit Services is to provide management with an objective assessment of whether systems and controls are working properly. It is a key part of the organisation's internal control system because it measures and evaluates the adequacy and effectiveness of other controls so that:
- the Audit Committee and senior management are aware of the extent to which they can rely on the whole system; and
 - individual managers are aware of how reliable are the systems and controls for which they are responsible.
- 9 The internal control system comprises the whole network of systems and controls established to manage the Authority, to ensure that its objectives are met. It includes financial and other controls and also arrangements for ensuring that the Authority is achieving value for money from its activities.

INFORMATION

Factors Affecting the Extent of Internal Audit Work

- 10 The Internal Audit work performed during 2016/17 is reported in the *Summary of Internal Audit Activity* (Appendix A). During 2016/17, 45 audit days were provided compared to a planned allocation of 50 days as indicated in the strategic audit plan. The audit of the Retained Firefighter's Modified Pension Scheme was not performed in the year; since the Scheme had actually been implemented in 2015 and the 2016/17 audit of Pensions (Data Quality) had reviewed aspects of the Scheme's implementation, it was agreed with the Authority's Head of Finance that the risk to the Authority was low and there would be little benefit in performing any further work in this area. It was agreed with the Deputy Chief Fire Officer that 5 days audit work will be carried forward into 2017/18, increasing the audit resource in 2017/18 to 55 days.

- 11 The 2016/17 planned Cyber Security audit is currently work in progress; Conwy's Senior Auditor (IT) was on a period of long term sickness absence during March and April 2017, which has resulted in the completion of the audit being delayed. The results of the Cyber Security audit will be reported to the next meeting of the Audit Committee in September 2017.

THE STATEMENT OF ASSURANCE

Preamble

- 12 The Head of Internal Audit is required to provide the Audit Committee with assurance on the whole system of internal control, including the adequacy of risk management and corporate governance arrangements. It should be noted that assurance can never be absolute. The most that Internal Audit can provide to the Audit Committee is a reasonable assurance that there are no major weaknesses in the whole system of internal control.
- 13 The matters raised in this report are only those that came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Overall Assurance

- 14 The work of Internal Audit Services has been conducted in compliance with CIPFA's Public Sector Internal Audit Standards 2013.

Audit Opinion

- 15 I am satisfied that internal audit work undertaken, together with our maintained knowledge of the organisation and its procedures allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the NWFRA risk management, control and governance processes. In my opinion, for the 12 months ended 31st March 2017, NWFRA has satisfactory internal control and corporate governance processes to manage the achievement of the Authority's objectives.

Assurances

- 16 It is my opinion that NWFRA has adequate and effective control processes to manage its achievement of the Authority's objectives for the 12 month period to 31st March 2017. In reaching this opinion the following factors were taken into consideration:

- Internal Audit undertakes follow up action within six months of the issue of the final report in respect of audit assignments. The purpose of the follow up review is to determine the timeliness and effectiveness of the implementation of recommendations made to management. The follow up review process indicates that management have implemented or are in the process of implementing all of the recommendations made in our audit reports relating to 2015/16.
- A schedule giving an audit opinion of the adequacy and effectiveness of control processes in respect of all the audit assignments undertaken during the year is attached at Appendix A. All audits undertaken during the year were assessed as providing positive levels of assurance.

17 The overall audit opinion may be used in the preparation of the Annual Governance Statement.

ANALYSIS OF WORK UNDERTAKEN AND DEFINITION OF AUDIT RECOMMENDATIONS AND OPINIONS

18 The schedule at Appendix A details the conclusions and key messages of the assignments Internal Audit has reported upon during the year. The categorisation of recommendations informs the audit opinion in respect of each audit. Subsequently, a summary of each audit opinion made during the financial year informs the process whereby the Head of Audit and Procurement Services is required to include an opinion on the overall adequacy and effectiveness of the Authority's internal control environment, in his formal annual report to the Audit Committee.

Risk Ranking Categories

19 Audit recommendations are categorised to reflect the way in which the Authority assesses and measures risk. The standard risk assessment criteria are shown below:

LIKELIHOOD	Event is almost certain to occur in most circumstances	>70%	Almost Certain	A						
	Event likely to occur in most circumstances	30-70%	Likely	B						
	Event will possibly occur at some time	10-30%	Possible	C						
	Event unlikely and may occur at some time	1-10%	Unlikely	D						
	Event rare and may occur only in exceptional circumstances	<1%	Rare	E						
					5	4	3	2	1	
					Very Low	Low	Medium	High	Very High	
Service Performance					Minor errors or disruption	Some disruption to activities/customers	Disruption to core activities/ customers	Significant disruption to core activities. Key targets missed	Unable to delivery core activities. Strategic aims compromised	
Reputation					Trust recoverable with little effort or cost	Trust recoverable at modest cost with resource allocation within budgets	Trust recovery demands cost authorisation beyond existing budgets	Trust recoverable at considerable cost and management attention	Trust severely damaged and full recovery questionable and costly	
Financial					Cost (£)	<£50k	£50k - £350k	£350k - £1 m	£1 m - £5 m	>£5m
IMPACT										

Severity

Management Intervention



Minor

Findings which are easily addressed by line management.



Moderate

Findings that identify non-compliance with established procedures but do not represent any major risk to the Authority, containable at service level.



Major

Important findings that need to be resolved by Principal Officers and Executive Panel may need to be informed.



Critical

Findings that are fundamental to the management of risk in the business area, representing weaknesses in control that require the immediate attention of the Executive Panel.

Audit Opinion

- 20 The outcome of each audit and the evaluation of the adequacy of the internal control environment is based on the number of recommendations made and their risk rating. This process informs the Audit Opinion and the following definitions have been produced to enable auditors to make appropriate assessments in respect of the Audit Opinion contained at the end of each audit report.

DEFINITIONS OF ASSURANCE RATINGS

LEVELS OF ASSURANCE	CONTROLS	RISKS
HIGH ASSURANCE	Key controls are in place to ensure the achievement of service objectives and to protect the Authority against significant foreseeable risks and are applied consistently and effectively. No significant or material errors were found.	Low priority actions required which are easily managed.
SATISFACTORY ASSURANCE	Key controls exist to enable the achievement of service objectives and to mitigate against significant foreseeable risks. However, there was some inconsistency in application and opportunities still exist to mitigate further against potential risks.	Some opportunities still exist to mitigate further against potential risks. Some risk of loss, fraud, impropriety or damage to reputation.
LIMITED ASSURANCE	Key controls are in place and to varying degrees are complied with but there are gaps in the process which leave the service exposed to risks. Objectives are not being met or are being met without achieving value for money.	There is a need to introduce additional controls and/or improve compliance with existing ones, to reduce the risk exposure to the Authority. A high risk of loss, fraud, impropriety or damage to reputation.
NO ASSURANCE	Key controls are considered to be insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls and errors and omissions have been detected.	Key controls do not exist and objectives are not met or are being met without achieving VFM. The Authority is exposed to very significant risk, which could lead to major financial loss, reputational risk of embarrassment or failure to achieve key service objectives.

Common Weaknesses

- 21 There is no common factor that links the weaknesses identified as part of our internal work for 2016/17 and there are no particular issues or concerns relevant to the preparation of the Annual Governance Statement.

OTHER MATTERS

Qualifications to the Audit Opinion

- 22 In giving an audit opinion, it should be noted that assurance can never be absolute. The most that the Internal Audit Service can provide to the Audit Committee is a reasonable assurance based upon the work undertaken in that year, that there are no major weaknesses other than those identified.
- 23 Qualifications to the Audit Opinion are set out in paragraphs 10 and 11. In addition, in arriving at our opinion, we have taken into account:
- The results of all audits undertaken during the year ended 31st March 2017;
 - The results of follow-up action taken in respect of audits from previous years;
 - Whether any High or Medium category of recommendations have not been accepted by management and the consequent risks;
 - The effects of any material changes in the Authority's objectives or activities;
 - Matters arising from previous reports to the Executive Panel or Audit Committee;
 - Whether or not any limitations have been placed on the scope of internal audit;
 - The resource constraints placed upon Internal Audit that have impinged on the Service's ability to meet the full internal audit needs of the Authority;
 - What proportion of the Authority's internal audit needs have been covered to date.

Acceptance of Recommendations

- 24 Management have accepted 100% of the recommendations made by the Internal Audit Service during the year. There are no Critical or Major category recommendations that we consider are not receiving adequate management attention.

Reliance Placed Upon Work by Other Assurance Bodies

- 25 Internal Audit places some reliance on work undertaken by the Wales Audit Office, the Authority's external auditors, particularly in relation to the financial statements, risk management and corporate governance arrangements in drafting the annual reports and forming our annual opinion of the period.

Issues Judged Relevant to the Statement on Internal Control

- 26 Based on the work of the Internal Audit Section during 2016/17 there are no significant areas of weakness that warrant attention in the Annual Governance Statement for 2016/17.

Compliance with Internal Audit Standards

- 27 Internal Audit employ a risk-based approach to determining the audit needs of the Authority at the start of the year and use a risk based methodology in planning and conducting our audit assignments. The work of Internal Audit Services has been performed in compliance with the CIPFA Public Sector Internal Audit Standards 2013.
- 28 Internal Audit is subject to annual review by External Audit to determine compliance with the auditing standards contained in the Code of Practice.
- 29 The Public Sector Internal Audit Standards (PSIAS) became effective from 1st April 2013 and introduced a requirement for an external assessment of all internal audit services, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation. Wrexham County Borough Council's (WCBC) Service Manager – Audit and Technical performed the assessment in November 2016. The Institute of Internal Auditor's suggest a scale of three ratings, 'Generally Conforms,' 'Partially Conforms', and 'Does Not Conform.' The external assessors' overall opinion is that the Internal Audit Service generally conforms with the PSIAS and Code of Ethics in all significant areas and that it operates independently and objectively.
- 30 The Head of Internal Audit has made provision for internal quality reviews to be undertaken periodically by experienced members of the internal audit function to appraise:
- compliance with the organisational and professional standards,
 - the quality of audit work,
 - the quality of supervision,
 - compliance with the local audit manual,
 - the achievement of performance indicators.
- 31 The review conducted in respect of the work performed during 2016/17 has demonstrated compliance with both internal and external standards.

Internal Quality Assurance Programmes

- 32 In order to ensure the quality of the work performed by Internal Audit, a range of quality measures are in place which include:
- Supervision of staff conducting audit work;
 - Documented review of all files of working papers and reports by managers;
 - An annual appraisal of audit staff resulting in personal development and training action plans;
 - The maintenance of the Section's Internal Audit Manual.

IMPLICATIONS

Wellbeing Objectives	This report links to NWFRA's long-term well-being objective which is "To facilitate high quality, responsive and better integrated fire and rescue services so that prevention activity and emergency response can continue to be available when and where required, affordably, equitably and on the basis of risk."
Budget	N/A
Legal	N/A
Staffing	N/A
Equalities/Human Rights/ Welsh Language	N/A
Risks	<p>The Statement of Assurance is submitted in compliance with the Accounts and Audit Regulations and the Public Sector Internal Audit Standards. Without such assurance from the Head of Internal Audit Services, Members would be unaware of the adequacy and effectiveness of the corporate governance, risk management and internal control arrangements and its associated ability to achieve its objectives.</p> <p>Any significant issues or weaknesses identified by Internal Audit would not be considered in the preparation of the Annual Governance Statement.</p>

NORTH WALES FIRE AND RESCUE AUTHORITY

APPENDIX A

Internal Audit Section – 2016/17 Annual Summary of Recommendations and Audit Opinions

	Auditable Area	Audit Findings and Key Messages	Critical	Major	Moderate	Minor	Total	Agreed by Mgmt	Audit Opinion
1	Attendance Management	<p>The Service has a clear, well communicated attendance management policy, with an issue date of April 2014 (SAPPO Section 7 Order 4). A revised <i>Attendance Management Policy</i> came into effect in July 2016, which made a number of revisions to the original policy, due primarily to changes in legislation. However, it was identified that the Policy has not thus far been approved by the Executive Group.</p> <p>It was confirmed that HR keep track of the levels of sickness across the Service; it is monitored by short term and long term sickness, by occupational groups, by causes of sickness and the overall cost. Detailed sickness absence reports are provided to the Health Management Panel and Locality Meetings on a 6 weekly basis and Overview reports are produced for the Executive Group. However, the Service does not at the start of each year set sickness absence estimates / targets for each occupational group to enable performance to be measured and improved; the performance target and actual data should be reported to senior management and Members.</p> <p>It was confirmed in relation to short term sickness absence that it is generally being managed in accordance with the Policy; Service Control is promptly notified of non-attendance and a Sickness Absence form is emailed to HR and line manager, if still absent on the 8th day the employee has received a medical certificate from their GP and medical certificates run continuously for the entire period of absence. Control were notified when the employee intended to return to work, a <i>booking fit form</i> promptly completed and a return to work interview was arranged with the results recorded on a Self-Certification form (Parts B & C). All sickness absence paperwork must be received by HR within 10 days and it was confirmed that Senior HR Advisors monitor the prompt receipt of medical certificates and self-certification forms and issue reminders to watch managers to promptly submit paperwork. However, an instance was identified of the late receipt of a</p>	0	0	2	2	4	4	Satisfactory

		<p>medical certificate and significant delays of between 10 days and 2 months were identified in the receipt of self-certification forms from Stations, in the majority of cases reviewed.</p> <p>The Service has determined a threshold by calculating employee's attendance by implementing defined trigger points to manage attendance. It is acknowledged that individual circumstances are taken into consideration, the merits of each case are different and adjustments made in instances where employees fall under the remit of the Equality Act. However, there were instances identified of non-compliance with the policy; 2 employees hit a stage 1 trigger and despite reminders from HR, the responsible WM had not provided any paperwork to record if any action was taken. In addition, although an employee had hit a Stage 4 trigger there was no paperwork on file to record the meetings that took place and the outcomes. It is considered that watch managers would benefit from additional training upon the use of triggers to manage sickness absence and the requirement for paperwork to be properly completed and promptly submitted to HR.</p> <p>It was confirmed in relation to long term absence, where the employee was absent from work for over 28 days, they were referred to Occupational Health, a Physician's report was promptly received by HR and the case was considered appropriately by the Health Management Panel.</p> <p>It was confirmed that periodic medicals are undertaken on a 3 yearly basis for those under 50 years of age and on an annual basis for those over 50 years of age (new Attendance Management policy has amended the requirement for annual medicals to over 60 years of age); there is currently a backlog with occupational health appointments which were due in the last 3 or 4 months (primarily due to retained recruitment, asbestos medicals and the changes to the policy ie. 3 yearly medicals up to 60). However, the Attendance Management Assistant is monitoring the situation and ensuring that appointments are arranged prior to the end of the year. It was confirmed that a record is maintained of employees assessed as <i>Unfit for Duty</i> and it was confirmed that these cases are dealt with appropriately. To ensure that Operational employees maintain the required physical standards to complete their duties safely and effectively, every employee with an</p>							
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		<p>operational commitment is required to undertake routine health & fitness assessments, dependent on the type of role they perform. The SAPPO Section 7 Order 34 <i>Health and Fitness Procedures</i> provides detailed guidance and the HR & Fitness Advisor maintains comprehensive records of the health & fitness checks performed and those checks that are overdue.</p> <p>It was identified that 6 employees were ill-health retired during 2015/16; the written opinion of an independent qualified medical practitioner had been obtained in each case and the retirement approved by the Health Management Panel. In relation to employees that were put on modified duties it was confirmed that it had been on the advice of an occupational health physician, a modified duties information sheet and risk assessment had been completed and the case reviewed by the Health Management Panel. It was confirmed that employees that have not had any absence in a 12 month period are credited with an additional 1 days leave, providing an application is made within 3 months of the qualifying date; a register is maintained of applications and it was identified that 18 applications were properly declined in 2015 due to the employee having had some sickness absence in the year.</p>								
4	Pensions (Data Quality)	<p>Although the audit has provided a Satisfactory level of assurance upon the quality of firefighter pension data, it is considered that Conwy payroll officers would benefit from some training upon each of the three pension schemes; FPS 1992, NFPS 2007 and the FPS 2015. The Head of Finance has delivered a training presentation to the Members of the Local Pension Board and has offered to provide the training to the payroll officers, which would provide a level of assurance that the schemes are being managed in accordance with legislation.</p> <p>It was confirmed that new starters are provided with guidance upon the benefits of FPS 2015 and in accordance with legislation they are auto-enrolled into the Scheme with the option for them to 'Opt Out' by informing Dyfed Pensions in writing. However, it was identified that 7 Retained Firefighters that commenced duties in April 2015 were not auto-enrolled into FPS 2015. In accordance with legislation these firefighters must be enrolled to enable them to decide whether to remain in or 'opt-out' of the Scheme. It is acknowledged that information is available on the Dyfed Pensions' website upon transfers of</p>	0	0	4	5	9	9		

		<p>previous pension rights into the Scheme and the payment of death grants. However, it is considered that HR should provide new starters with a pensions information pack, which not only provides information upon the option to 'opt out', but also information on the transfer of previous pension benefits (<i>Declaration of Previous Benefits Form</i>) and the nomination forms; <i>Death Grant Expression of Wish</i> and the <i>Dependent Partner for Survivor's Pension</i>.</p> <p>It was confirmed that generally the record keeping is of a good standard. However, some variances were identified between firefighter pension data held on Workforce and the data held on iTrent. The variances between the Workforce & iTrent firefighter records (addresses, date of births & NI number) have been provided to HR and Conwy Payroll and enquiries should be made and the Systems amended with the up to date and accurate data. Conwy payroll must ensure that Dyfed Pensions are subsequently informed of the accurate data records.</p> <p>Contributions are deducted from firefighters' pay correctly, using the correct contribution rate to deduct from pensionable earnings; firefighters are enrolled in the correct scheme, with the exception of a Retained Watch Manager, currently enrolled in FPS 2007, who is unprotected and should have been transferred into FPS 2015. It was confirmed that those firefighters whose tapered protection ended in 2015/16 have correctly transferred into FPS 2015. However, it is considered that to improve the system, the transitional protection, <u>tapered end dates</u>, should be input into iTrent (Consolidated Pension Details) to ensure all transfers to FPS 2015 are made on a timely basis.</p> <p>It was identified that the year-end pension reports issued by Conwy Payroll to Dyfed Pensions in April 2015 were incomplete and omitted 102 wholetime and 47 retained firefighters. Dyfed Pensions' validation checks identified the error and amended reports were submitted by Conwy at the end of May. It is important that robust data validation checks are performed by Conwy Payroll upon the year end reports, prior to the data being submitted to Dyfed Pensions, to ensure that they are complete and accurate. The year-end pension reports submitted to Dyfed</p>							Satisfactory
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		<p>Pensions should be transmitted using an encrypted channel ie. Egress Secure Email Software.</p> <p>It was confirmed that Dyfed Pensions perform robust validation checks upon the year end pension reports to ensure they are complete and accurate; and the management of the fund is periodically audited by Carmarthenshire Internal Audit Services.</p>								
3	Cyber Security	<p>The 2016/17 planned Cyber Security audit is currently work in progress; Conwy's Senior Auditor (IT) was on a period of long term sickness absence during March & April 2017, which has resulted in the completion of the audit being delayed. The results of the Cyber Security audit will be reported to the next meeting of the Audit Committee in September 2017.</p>	N/A	N/A						
									High	0
									Satisfactory	2
									Limited	0
									No Assurance	0