

SHROPSHIRE FIRE AND RESCUE AUTHORITY INTERNAL AUDIT ANNUAL REPORT 2021/22

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1. Synopsis

This report provides a summary of Internal Audit's work over 2021/22. Based on the controls evidenced across the five areas reviewed the Head of Audit's opinion provides 'Reasonable assurance' on the Authority's framework for governance, risk and internal control.

2. Executive Summary

This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2022. It reports on progress against the annual audit plan. It also provides the Head of Audit's opinion on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes when considering the Public Sector Internal Audit Standards or Guidance, as required by the Accounts and Audit Regulations 2015.

Five audit reports were issued during the year resulting in four good and one reasonable assurance opinions being made. Details of the control reviewed in each of these audits are detailed in **Appendix A**.

These assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested. The Committee should ensure that they are receiving appropriate assurance from managers that action plans are being implemented.

A total of 11 recommendations have been made in the five audit reports issued in the year. No fundamental recommendations have been made during 2021/22.

The planned IT Application audit in respect of the Helpdesk Software could not be resourced by the Fire Authority. IT advice has been delivered as requested, and there are no known concerns around the IT environment. However, the Head of Audit would highly recommend given the high reliance upon IT infrastructure, systems and the known increasing risks; independent assurance should be sought by the Authority in these aspects within a reasonable timeframe.

Generally, risks are well managed and 2021/22 has continued to see progress in the embedding of key business system changes. Whilst there are no known concerns around the IT environment, this aspect has not been reviewed in the current year.

Therefore, based on the work undertaken and management responses received; I can offer reasonable assurance for the 2021/22 year that the Authority's framework for governance, risk management and internal control processes is sound and working effectively.

3. Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

- a) Performance against the Audit Plan for the year ended 31 March 2022.
- b) Reasonable assurance can be provided that the system of governance, risk management and internal control is operating effectively and can be relied upon when considering the Annual Governance Statement for 2021/22. The Authority is highly recommended to seek independent IT infrastructure assurance to allow the full control environment to be assessed.
- c) The Head of Audit's reasonable year end opinion on the Authority's internal control environment for 2020/21 based on the work undertaken and management responses received.

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1 The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Authority's financial, governance and risk management systems and procedures and is closely aligned to the Authority's risk register. The Plan is delivered in an effective manner; where Internal Audit independently and objectively examines, evaluates and reports on the adequacy of its customers control environments as a contribution to the proper, economic, efficient and effective use of resources. It provides assurances on the governance, risk management and internal control systems, by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal controls create an environment where poor performance, fraud, irregularity and inefficiency can go undetected leading to financial loss and reputational damage.
- 4.2 Resource pressures at the Fire Authority meant the completion of the IT Application review could not be conducted within the time frames agreed, therefore no assurance can be provided within the year on that aspect of the associated control environment.
- 4.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit

Regulations 2015. There are no direct environmental, equalities or climate change consequences of this proposal.

- 4.4 There are no direct environmental or equalities consequences of this proposal.
- 4.5 Internal Audit customers are consulted on the service that they receive, feedback from which is included in this report and continues to be positive.

5. Financial Implications

- 5.1 The Internal Audit plan is delivered within approved budgets; the work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the Authority.

6. Climate Change Appraisal

- 6.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaptation. However, the work of the Committee will look at these aspects relevant to the governance, risk management and control environment.

7. Background

- 7.1 This report is the culmination of the work of the Internal Audit team during 2021/22 and seeks to:
- Provide an opinion on the adequacy of the risk management, control and governance arrangements;
 - Inform the annual review of the effectiveness of its system of internal control that informs the Annual Governance Statement by commenting on the nature and extent of significant risks; and
 - Inform the review of an effective Internal Audit by providing performance data against the plan.
 - Confirm to the Standards, Audit and Performance Management Committee that the Audit service has been delivered free from interference throughout the year.
- 7.2 The requirement for Internal Audit derives from local government legislation, including section 151 of the Local Government Act 1972 which requires the Authority to plan for the proper administration of its financial affairs. Proper administration includes Internal Audit. More specific

requirements are detailed in the Accounts and Audit Regulations 2015, in that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

- 7.3 The Public Sector Internal Audit Standards (PSIAS) define the scope of the annual report on internal audit activity. The annual report must incorporate an annual internal audit opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. This annual report provides information to support that assessment and that an effective Internal Audit is established at Shropshire Fire and Rescue Service, in accordance with the requirements of the 2015 Accounts and Audit Regulations. The Internal Audit Service is provided by Shropshire Council. In February 2022, a report to Shropshire Council Audit Committee confirmed that following an external review by Chartered Institute of Public Finance Accountants (CIPFA), it was concluded that Shropshire Council Internal Audit Services fully conforms to the requirements of the PSIAS. In addition to the external review, in June 2022 an annual paper will be presented to Shropshire Council’s Audit Committee which provides assurance on the effectiveness of the Internal Audit service, against the PSIAS. Shropshire Fire and Rescue Service can take assurance from both reports.
- 7.4 Internal Audit operates a strategic risk-based plan. The plan is reviewed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk, this results in a comprehensive range of audits undertaken in the year, to support the overall opinion on the control environment.

Annual Internal Audit Opinion from Internal Audit Work undertaken during 2021/22

- 7.5 It is the responsibility of Shropshire Fire and Rescue Service to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under the Public Sector Internal Audit Standards to deliver an annual internal audit opinion and report. The annual internal audit opinion will conclude on the overall adequacy and effectiveness of the authority’s framework of governance, risk management and internal control. This opinion plays a key part in informing the Authority’s Annual Governance Statement and enabling the Standards, Audit and Performance Management Committee to deliver their annual assurance statement to the Fire and Rescue Authority (FRA).
- 7.6 The results of individual audits, when combined, form the basis for the overall opinion on the adequacy of the Authority’s internal control systems. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that absolute assurance. The work of Internal Audit is intended only to

provide reasonable assurance on controls based on the work undertaken. In assessing the level of assurance to be given, I have considered:

- No limitations were placed on the scope of the audits that were completed during the year and key systems, attracted good and reasonable assurances. However, resource pressures at the Fire Authority meant the completion of the IT Application review could not be conducted within the time frames agreed. IT advice has been delivered as requested and there are no known concerns around the IT environment. The absence of assurance in this area has restricted the overall assurance on the control environment and the Head of Audit would highly recommend given the reliance upon IT infrastructure, application systems and the known increasing risks, that independent assurance should be sought by the Authority in a timely manner.
- From other audit work undertaken during the year, in respect of recommendations outstanding from 2019/20, the review found significant progress in implementation of 18 significant recommendations raised across the Authority, with only three remaining unaddressed, Management have provided positive plans in respect of addressing the final three recommendations.
- No fundamental recommendations were raised during the financial year.

7.7 These assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested.

Generally, risks are well managed and 2021/22 has continued to see progress in the embedding of key business system changes. Whilst there are no known concerns around the IT environment, this aspect has not been reviewed in the current year.

Therefore, based on the work undertaken and management responses received; I can offer reasonable assurance for the 2021/22 year that the Authority's framework for governance, risk management and internal control processes is sound and working effectively.

Key Assurances provided during 2021/22

7.8 Audit assurance opinions are awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows:

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound
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	system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key control.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Authority to high risks that should have been managed.

Audit assurance opinions delivered in 2021/22

Audit	Good	Reasonable	Limited	Unsatisfactory	Direction of Travel
Payroll System		✓			Improved ¹
Financial System Review	✓				No Change
Risk Management and Business Continuity	✓				No Change
Corporate Governance	✓				No Change
Recommendation Follow up	✓				Improved ²
IT Application					No assurance
Total for year					
➤ numbers	4	1	0	0	
➤ percentage	80%	20%	0%	0%	

7.9 Four good and one reasonable assurance opinions were issued during the financial year. A summary of these reports is included in **Appendix A**. In each case positive responses have been received by management. It is the responsibility of Shropshire Fire and Rescue Service to ensure that these are followed up next year to determine whether satisfactory improvements have been made. No audit opinion could be given in respect of the IT helpdesk application for the reasons explained within this report. Due to the impact of COVID 19 the audits have been

¹ The 2020/21 audit covered the implementation of the new payroll system and gave a Limited Assurance opinion based on the development of the system. This full audit of the payroll system since reflects that controls have now been embedded in working practices.

² Of the 18 outstanding recommendations made in 20/21, only three remain in respect of the 2019/20 Contract Management Audit. Management have provided positive action plans in respect of the outstanding recommendations.

undertaken on a remote basis with full cooperation from the officers at the Fire Authority.

- 7.10 Audit recommendations are also an indicator of the effectiveness of the Authority's internal control environment and are rated according to their priority:

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

- 7.11 Recommendations are rated in relation to the audit area rather than the Authority's control environment, for example, a control weakness deemed serious in one area which results in a significant or fundamental recommendation may not affect the Authority's overall control environment. Similarly, several significant recommendations in a small number of areas would not result in a limited opinion if most of areas examined were sound, consequently, the number of significant recommendations in the table below will not necessarily correlate directly with the number of limited assurance opinions issued. Any fundamental recommendations resulting from a control weakness in the Authority's control environment would be reported in detail to the Standards, Audit and Performance Management Committee.

- 7.12 A total of 11 recommendations have been made in the five audit reports issued in the year; which is a large reduction in the 35 recommendations issued in 2020/21 and is reflected in the improved assurance levels in two of the areas reviewed.

Audit opinion and recommendations made on 2021/22 audits

System	Level of Assurance Given	Number of Recommendations made				
		BP	RA	S	F	Total
Payroll System	Reasonable	0	4	3	0	7
Financial System Review	Good	0	0	1	0	1
Risk Management & Business Continuity	Good	0	0	0	0	0
Corporate Governance	Good	0	0	0	0	0

System	Level of Assurance Given	Number of Recommendations made				
		BP	RA	S	F	Total
General Recommendation Follow up	Good	0	0	3	0	3
Totals		0	4	7	0	11
Percentage		0%	36%	64%	0%	100%

7.13 It is management's responsibility to ensure that accepted audit recommendations are implemented within an agreed timescale. The responsibility for monitoring implementation of the remaining recommendations will fall on the Shropshire Fire and Rescue Service following the ending on the contract for provision of internal audit services.

7.14 No recommendations have been rejected by management during 2021/22.

Audit Performance

7.15 Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the Public Sector Internal Audit Standards (PSIAS), and evaluating improvements made over the last twelve months. A public report of effectiveness against the PSIAS is made annually to the Shropshire Council, June Audit Committee. Shropshire Council Audit Service are also externally reviewed every five years for compliance with the PSIAS and passed the review undertaken by CIPFA in December 2021. The effectiveness of Internal Audit is further reviewed through the Standard Audit and Performance Committee's delivery of its responsibilities and direct from customers as they provided responses to surveys sent out after each audit.

Reporting

7.16 All Internal Audit work is reviewed by a senior auditor to ensure it complies with Internal Audit's standards and that the recommendations made are supported by the work undertaken before any audit reports are issued. This is a fundamental part of ensuring audit quality and that clients receive reports which are both informative, useful and add value to their work processes and procedures.

7.17 All audit assignments are subject to formal feedback to management. Draft reports are issued to the managers responsible for the area under review for agreement to the factual accuracy of findings and recommendations. After agreement, a formal implementation plan containing management's agreed actions and comments is issued to

relevant officers. Follow up reviews capture evidence of implementation of recommendations.

Quality Assurance/Customer Feedback Survey

7.18 A customer feedback survey form is sent out with all audits completed. These provide key feedback on the quality of audit service in relation to several areas, including:

- Pre-auditing arrangements;
- Post audit briefing;
- Audit coverage/scope of the audit;
- Timeliness of production of the report;
- Accuracy and clarity of report;
- Practicality of recommendations;
- Professionalism of approach;
- Communication skills and
- Timeliness of report to your business.

7.19 The surveys are a key part of ensuring the work meets our client expectations and that the quality of audit work is maintained. The results have been analysed over the last year and the percentage of responses are identified in the table below:

Customer Feedback Survey Forms - percentage of excellent and good responses

Item Being Scored	2021/22
Pre-audit arrangements	100%
Post-audit briefing	100%
Audit coverage/scope of the audit	100%
Timeliness of production of report	100%
Accuracy and clarity of report	100%
Practicality of recommendations	100%
Professionalism of approach	100%
Communication skills	100%
Timeliness of report to your business	100%
Number of forms returned	2

7.20 Overall the results are pleasing, showing services delivered at a high level. There continues to be open communication between officers of the Fire Service and Internal Audit to ensure that both the audit plan and delivery remain up to date and valid to the service. Therefore, based on the level of open communication we are satisfied that there is opportunity for any concerns regarding the service to be raised as appropriate. The information from the surveys is used both to improve techniques overall within the team and at annual performance appraisals

to identify future development focus relating to individual skills or competences.

Conclusion

7.21 This will be the last report received from Shropshire Council Internal Audit as part of the contract with the Authority and the Team would like to take the opportunity to place on record their thank you to all officers that have interacted in delivering the planned audit work on a professional basis and the Authority all the best in the future.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

- Proposed 2021/22 Internal Audit Programme – Standards, Audit and Performance Committee on 29 July 2021
- Public Sector Internal Audit Standards
- Accounts and Audit Regulations 2015, 2018 and Accounts and Audit (Coronavirus) (Amendment) Regulations 2020

Appendices

Appendix A - Summary of Findings from Fire Authority Audit Reports 2021/22

APPENDIX A

Summary of Findings from Fire Authority Audit Reports 2021/22

- 1 Payroll System** - This area was reviewed on an annual basis. The audit concentrated on key controls in the following areas:
- ✓ There are procedures and policies available to relevant officers which comply with Brigade Orders and National Joint Council guidance.
 - ✓ The Officers who receive payroll payments exist and are employed by the Service.
 - ✓ Starters and leavers are actioned accurately and in a timely manner. Payment claims submitted by Officers are checked, authorised and are accurately processed.
 - ✓ Permanent and temporary variations to Officer's contracts are valid, authorised, and processed accurately.
 - ✓ The payroll payments made to Officers are correct, processed accurately and made on a timely basis.
 - ✓ Management Information is produced in an accurate and timely manner and is subject to review.

Assurance Level: Reasonable

There is generally a sound system of control in place, but there is evidence of non-compliance with some of the controls.

Objectives indicated with a ✓ demonstrate a level of internal control. Three significant recommendations were raised to improve internal controls.

2 Financial System Review – Elements of the finance system were reviewed on an annual basis. The 2021/22 audit concentrated on key controls in the following areas:

- ✓ There is effective revenue and capital budget setting, preparation and monitoring.
- ✓ The correct creditors are paid the correct amounts at the correct time.
- ✓ Income is complete and is collected on a timely basis as expected.
- ✓ There are appropriate banking reconciliations and arrangements.
- ✓ There are appropriate general ledger reconciliations and controls.

Assurance Level: Good

There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.

Objectives indicated with a ✓ demonstrate a level of internal control. One significant recommendation was raised to improve internal controls.

3 Risk Management and Business Continuity - This area was reviewed on an annual basis. The audit concentrated on key controls in the following areas:

- ✓ Statements of Assurance are prepared and signed on an annual basis.
- ✓ Corporate risks are recorded in a suitable format in the Risk Register.
- ✓ Departmental Risks are recorded in a suitable format in the Risk Register.
- ✓ Risks are regularly reviewed and the Risk Register is updated as appropriate.
- ✓ Management and members are kept informed of the processes in place for the management of risk.
- ✓ There is a process to identify the critical service areas which if not delivered would cause disruption to operations.

Assurance Level: Good

There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.

Objectives indicated with a ✓ demonstrate a level of internal control. No significant recommendations were raised to improve internal controls.

4 Corporate Governance - This area was reviewed on an annual basis. The audit concentrated on key controls to review the evidence of compliance in the following areas.

- ✓ The code of Corporate Governance has been reviewed for 21/22.
- ✓ Action is being taken to implement the Annual Governance Statement Improvement Plan and this is being appropriately monitored.

Assurance Level: Good

There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.

Objectives indicated with a ✓ demonstrate a level of internal control. No significant recommendations were raised to improve internal controls.

5 General Recommendation Follow Up - This area is reviewed on an annual basis and picks up outstanding recommendations not covered in the current years plan. The audit concentrated on key controls in the following areas:

- ✓ The recommendations made in the Resource Link/ Agresso Project and IT Recommendation Follow Up Audit 2018/19 have been implemented.
- ✓ The recommendations made in the Investigation Recommendation Follow Up Audit 2019/20 have been implemented.
- ✓ The recommendations made in the General Recommendation Follow Up Audit 2019/20 have been implemented.

The recommendations made in the Contract Management Audit 2019/20 have been implemented.

Assurance Level: Good

There is a sound system of control in place which is designed to address relevant risks, with controls being applied consistently.

Objectives indicated with a ✓ demonstrate a level of internal control. Three significant recommendations remain outstanding in respect of the 2019/20 Contract Management Audit.