

*Mae'r ddogfen yma ar gael yn Gymraeg***Agenda Item 6**

Report to	Audit Committee
Date	19 June 2023
Lead Officer	Head of Audit & Procurement Services
Contact Officer	Keith Williams (Audit Manager)- 01492 576217 keith.williams@conwy.gov.uk
Subject	Internal Audit Annual Report 2022/23

**PURPOSE OF REPORT**

- 1 Under the terms of the Accounts and Audit (Wales) Regulations 2014 Part 3 5. (2), the North Wales Fire and Rescue Authority (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.
- 2 CIPFA's Public Sector Internal Audit Standards 2017 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 analyses the work of the Internal Audit Service for 2022/23 and contains the assurance statement based on the work of Internal Audit during the year ended March 2023.

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 There was a planned allocation of 58 days (50 days plus 8 c/f from 2021/22). The report identifies that 48 days of Internal Audit work was performed during 2022/23. As a result, it has been agreed that 10 days will be utilised in 2023/24 to undertake follow up audits of Payroll & Creditors.

- 6 The audit reviews provide a positive level of assurance upon the adequacy of the systems of internal control in place, although 20 recommendations have been made in the year to address some weaknesses. A formal follow up process is in place to ensure that the recommendations are implemented within agreed timescales.
- 7 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.
- 8 The report also provides assurance that the Internal Audit Service operates in compliance with the UK Public Sector Internal Audit Standards to enable the Authority to take assurance from this opinion.

RECOMMENDATIONS

- 9 That Members:
 - i) note the content of Head of Audit and Procurement's Annual Report and the overall 'opinion' upon the adequacy and effectiveness of the Authority's framework of governance, risk management and control.

BACKGROUND

The Role of Internal Audit

- 10 Under the terms of The Accounts and Audit (Wales) Regulations 2014, Fire Authorities have a statutory responsibility to maintain "an adequate and effective system of internal audit."
- 11 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 the systems and controls for which they are responsible are.
- 12 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.

- 13 In accordance with the Public Sector Internal Audit Standards the Head of Audit is required to deliver an annual internal audit opinion and report that can be used by the Authority to inform its governance statement.

INFORMATION

Internal Audit Opinion 2022/23

- 14 The Head of Audit is satisfied that the internal audit work undertaken, together with our maintained knowledge of the organisation and its procedures allows a reasonable conclusion to be made, as to the adequacy and effectiveness of the Authority's risk management, control and governance processes.
- 15 It is the Head of Audit's opinion that the Authority has **adequate and effective control processes** to manage its achievement of the Authority's objectives for the 12-month period to 31 March 2023.
- 16 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.
- 17 In addition, in arriving at our opinion, we have taken into account:
- The results of all audits undertaken during the year ended 31 March 2023;
 - The results of follow-up action taken in respect of audits from previous years;
 - Whether any Critical or Major 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; and
 - 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.
- 18 The overall audit opinion may be used in the preparation of the Annual Governance Statement.

Summary of Work Supporting the Audit Opinion 2022/23

- 19 A schedule giving an audit opinion of the adequacy and effectiveness of internal control processes and a summary of the key messages in respect of all the audit assignments undertaken during 2022/23 is attached at **Appendix A**.
- 20 The schedule summarises the audit work, opinions and number of recommendations made in respect of each area reviewed, which form the basis of the assurance given to Audit Committee of the overall adequacy and effectiveness of the Authority's governance, risk management and internal control frameworks for 2022/23.
- 21 Where relevant, internal audit reports are categorised to give an audit opinion of the internal control environment for that particular system or establishment. The audit opinions on the assignments are categorised as follows:
- High Assurance
 - Satisfactory Assurance
 - Limited Assurance
 - No Assurance

In support of the audit opinions, the recommendations made during the year have been categorised as Critical, Major, Moderate and Minor, in accordance with the way in which the Authority assesses and measures risk.

- 22 Two audit reports and a follow up audit was completed during the year covering:
- **Payroll (Key Controls)** – A review was undertaken to provide a level of assurance to management that internal controls are operating effectively, potential risks well managed and corporate objectives are being achieved. The audit included a review of the following areas:
 - Policies and office procedures,
 - iTrent System access rights,
 - Starters & Leavers,
 - Retained pay & amendments to wholetime pay,
 - HMRC submissions,
 - Deductions from pay,
 - BACS payments,
 - Overpayments,
 - Payroll control accounts and reconciliations.

The audit made eight recommendations and provided a *Satisfactory* level of assurance.

- **Creditors (Key Controls)** - A review was undertaken to provide a level of assurance to management that internal controls are operating effectively, potential risks well managed and corporate objectives are being achieved. The audit included a review of the following areas:
 - Policies & Procedures,
 - Authorised Signatories and Declarations of Interests,
 - Ordering of works, goods and services,
 - Receipt of Goods and Services,
 - Invoice Checks, Duplicate Payments & Discrepancies,
 - BACS Payments,
 - Creditor Control Account and Bank Reconciliations,
 - Performance Indicators.

The audit made 12 recommendations and provided a *Satisfactory* level of assurance.

- 23 The outcome of each audit, and the evaluation of the adequacy of the internal control environment, is based on the number of recommendations and their risk rating. All audits undertaken during the year were assessed as providing positive levels of assurance.
- 24 To address the weaknesses identified during the audit reviews, twenty recommendations have been made. Action plans setting out the agreed response to the audit recommendations were issued with the audit reports and these have been returned from Fire and Rescue Authority management, completed with the action to be taken to ensure implementation of the recommendations. Management agreed to implement eighteen of the audit recommendations. In the Creditors audit report, two recommendations (Recs 8 and 11) were categorised as *Minor*, and management consider that compensating controls are in place.
- 25 To comply with CIPFA's Public Sector Internal Audit Standards a formal follow up process is in operation within the Section to confirm that the recommendations made in Internal Audit reports have been implemented by management within agreed timescales. A follow up audit will normally take place six months after the issue of the final report.

- 26 A schedule of the follow up audits conducted during 2022/23 is attached at **Appendix B**. It demonstrates the number of recommendations accepted and subsequently implemented by management in each area and reveals changes that impact on the original audit opinion. It is evident that there was an improvement in the levels of internal control with regards to the Emergency Fire Appliance Driving (EFAD) audit completed in 2021/22, with a revised audit opinion of *High Assurance*.
- 27 During 2022/23, 48 audit days were provided in comparison with the planned allocation of 58 days, as indicated in the annual audit plan. A summary of audit activity is attached at **Appendix C** and shows the planned allocation of audit resources in terms of allocated days over departments and services and compares actual work done for 2022/23 with the plan. It has been agreed with management that the balance of 10 days will be utilised in 2023/24 to undertake follow ups of the Payroll and Creditors audits.
- 28 In accordance with the Public Sector Internal Audit Standards, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Authority. The plan was reviewed during the year and updated as necessary. The Central Stores audit was cancelled at the request of management due to the fact that the Stores Manager retired in February 2023 at the time the audit was scheduled to commence, and the work pressures that staff were under.

Compliance with Public Sector Internal Audit Standards

- 29 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 UK Public Sector Internal Audit Standards 2017.
- 30 The Internal Audit Service has developed a Quality Assurance and Improvement Programme (QAIP), which covers all aspects of internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated.
- 31 The Public Sector Internal Audit Standards (PSIAS) 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. An assessment of the Internal Audit Service has recently been completed by the Head of Regional Audit Service (Bridgend CBC, Merthyr Tydfil CBC, Vale of Glamorgan Council and Rhondda Cynon Taf CBC). The Final Report was issued in December 2022, and it confirmed that the results of the assessment are positive and the Service 'generally conforms' with the PSIAS and Code of Ethics.

IMPLICATIONS

Wellbeing Objectives	This report links to the Authority'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	Internal Audit Services is provided as part of an SLA and within budget constraints.
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>