

Director of Audit Opinion and
Annual Report (2016/17)

Humberside Fire Authority



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1. Director of Audit's Opinion

1.1 Introduction

In accordance with Public Sector Internal Audit Standards, the Director of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and the Governance, Audit and Scrutiny (GAS) Committee and approved by the Fire Authority, which should provide a reasonable level of assurance subject to the inherent limitations described below.

The purpose of this Director of Internal Audit Opinion is to contribute to the assurances available to the Accountable Officer and the Authority which underpin their own assessment of the effectiveness of the organisation's system of internal control. This Opinion will assist the Authority in the completion of its Annual Governance Statement (AGS).

1.2 Opinion

My overall opinion is:

Significant Assurance can be given that there is a generally sound system of internal control designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, some weaknesses in the design or inconsistent application of controls put the achievement of particular objectives at risk and for which recommendations for improvement have been made.

1.3 Basis of Forming the Opinion

The basis for forming my opinion is as follows:

Assurance

A range of assurance processes are in place to underpin the AGS and provide reasonable assurance that there is an effective system of internal control to manage the principal risks identified by the organisation.

Coverage of the organisation's business systems:



Action has been agreed by Management to address the recommendations made in the internal audit reviews and we will undertake follow up activity during 2017/18 to provide assurance to the Authority that the issues raised have been addressed.

Contribution to Governance, Risk Management and Internal Control enhancements:

- Detailed insight into the overall Governance and Assurance processes gained from continued liaison throughout the year with the s151 Officer, Corporate Management Team and the Tactical Management Team.
- Involvement with the organisation in respect of advice and guidance relating to governance documentation and assurance including regular attendance at the GAS Committee and Fire Authority meetings;
- Delivery of two risk management workshops which provided an opportunity for the Service to review and revise its arrangements;
- Outcome based Internal Audit plan and reporting;
- Follow up, demonstrating progress against previous recommendations to improve systems and controls including supporting the development of an internal follow up process; and
- Continued provision of MIAA briefings on counter fraud issues.

The Opinion does not imply that Internal Audit have reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led Assurance Framework. As such, it is one component that the Authority takes into account in making its Annual Governance Statement.

Tim Crowley

Director of Audit, MIAA
March 2017

Appendix A provides a summary of the Audit Reviews undertaken during the year.

Appendix B provides further information to consider when compiling the Annual Governance Statement (AGS).

Appendix C provides assurance regarding the quality of MIAA's service.

Appendix A: Audit Review Outcomes and Delivery

Performance against Plan

The Internal Audit Plan has been delivered in accordance with the schedule agreed with the Fire Authority in April 2016. Delivery against the plan has been reported through regular update reports to CMT, GAS Committee and the Fire Authority. This Annual Report and Opinion draws its conclusions from completed Internal Audit reviews. This includes all areas of the Internal Audit Plan with the exception of the workforce review which is developing and populating a maturity matrix and which will not offer a formal opinion.

Risk Based Reviews

The audit assignment element of the Opinion is limited to the scope and objective of each of the individual reviews. Detailed information on the limitations to the reviews has been provided within the individual audit reports and through the GAS Committee and Authority Progress reports throughout the year. The schedule below provides a summary of the reviews outcomes contributing to this element of the Opinion.

SIGNIFICANT ASSURANCE

Our work found some low impact control weaknesses which, if addressed would improve overall control. However, these weaknesses do not affect key controls and are unlikely to impair the achievement of the objectives of the system. Therefore we can conclude that the key controls have been adequately designed and are operating effectively to deliver the objectives of the system, function or process

- **COMBINED FINANCIAL SYSTEMS**

Outcome: Confirmation of a robust control environment for accounts payable, treasury management and capital programme processes. Recommendations made around third party assurance, supplier bank account changes, bank posting timeliness and capital programme variance narrative.

- **COUNTER FRAUD**

Outcome: Assurance provided around arrangements to comply with requirements and best practice for countering fraud, bribery and corruption. Recommendations made around declarations (including secondary employment), organisational awareness, monitoring and risk assessment processes.



There are some weaknesses in the design and/or operation of controls which could impair the achievement of the objectives of the system, function or process. However, either their impact would be minimal or they would be unlikely to occur

- **STRATEGIC PLANNING**

Outcome: Confirmation of a well-established procedural and policy framework in place but with recommendations made around the need for current arrangements to be refined and enhanced around: streamlining the strategy and policy landscape, ensuring appropriate and complementary linkages and timelines and ensuring appropriate internal and external engagement from stakeholders and partners.

- **BUSINESS CONTINUITY**

Outcome: Review confirmed well established procedural framework but with arrangements needing to be updated and enhanced in respect of embedded processes for capturing all issues, ensuring the framework is current and comprehensive including lessons learned and increased organisational visibility and awareness.

- **RISK MANAGEMENT (Risk Defined)**

Outcome: Confirmation of a well-established risk management infrastructure but with the need for policy refresh and streamlining, emphasis on opportunity management, review of organisational engagement and accountability and refresh of strategic risks with reference to organisational objectives.



CONTRIBUTION TO CONTROL ENVIRONMENT

Areas where MIAA have supported the organisation in strengthening arrangements in respect of governance, risk management and internal control.

- **SERVICE IMPROVEMENT**
Outcome: Focus on the Transactional Administration Review and the Service's own Post Implementation Review.
- **CMT/CMT Risk Management Workshops**
Outcome: MIAA facilitated 2 workshops on reviewing the risk management framework and refreshing strategic risks.
- **Workforce Review**
Outcome: Development of a maturity matrix alongside the Director of HR which is being populated through access to key information and CMT input to enable the development of a baseline position reflecting evidence, direction of travel and key actions.
- **MIAA Counter Fraud Briefings**
Outcome: Provision of a range of briefing notes to assist the Service in keeping up to date on key counter fraud issues.

Follow up

An important aspect of the internal audit process is 'follow-up' to ensure that opportunities for enhancement are realised. It is important that the organisation 'owns' the delivery of agreed recommendations so that actions are managed in a timely manner and are aligned to organisational developments where necessary. The Corporate Planning and Performance Team are developing a rolling internal review process to track and confirm progress to help ensure the appropriate embedding of follow-up routines to strengthen the internal control environment. This process will be a regular agenda item for Tactical Management Team (TMT) oversight.

During 2016/17, follow-up of prior year recommendations highlighted progress in implementation although there are still advisory actions to be addressed around cyber security. These issues will be considered as part of the IT activity agreed for the 2017/18 plan. There is the need to fully embed oversight and ownership of internal audit recommendations across managers. Internal Audit will continue to provide an independent assessment of the Authority's follow up activity.



An analysis of recommendations made in 2016/17 is provided in Table 1 below and shows there to be no high or critical recommendations. (Please note this excludes any areas for improvement identified as part of non-assurance reviews).

Assignment	Recommendation Summary	Level
Strategic Planning	Review/development of planning landscape towards clear definitions, guidance and streamlining	Medium
	IRMP – statement of assurance to reflect effectiveness and not just process of consultation	Medium
	Partner issues to be considered in strategic plans	Medium
	Organisational monitoring process to be reviewed	Medium
	Plans to be aligned	Low
Business Continuity	Embedded system to capture BC events	Medium
	Planning and recording of tests to be reviewed	Medium
	BC documentation to be reviewed to ensure consistency and currency	Medium
	Awareness of BC procedures	Medium
	Adequacy of Systems for generating management information	Low
Combined Financial Systems	Verification of supplier account changes	Medium
	Treasury Management Provider Assurance	Low
	Timely posting of Bank transactions	Low
	Explanatory narrative within capital statements	Low
Counter Fraud Arrangements	Appointment of Member Lead for counter fraud issues	Low
	Clear Mission statement on the service's stance on fraud*	Low
	Annual reporting*	Low
	Development of Counter Fraud awareness programme (incl induction)	Low
	Oversight processes for declaration registers	Low
	Processes for declaring secondary employment	Low
	Development of service fraud risk assessment*	Low

- Officers, on receipt of recommendations, considered no action required in light of existing processes/controls.



Appendix B: Contribution to Annual Governance Statement

Authority and Accountable Officer Roles and Responsibilities

The whole Authority is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement is an annual statement by the Accountable Officer, on behalf of the Authority, including:

- How the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control and governance that supports the achievement of policies, aims and objectives.
- The purpose of the system of internal control as evidenced by a description of the risk management and review processes;
- The conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

Director of Internal Audit Opinion

The purpose of the Director of Audit Opinion is to contribute to the assurances available to underpin the Authority's own assessment of the effectiveness of the organisation's system of internal control. This opinion will therefore assist the Accountable Officer and the Authority in the completion of its Annual Governance Statement.

Key Areas for Consideration in the Completion of the Annual Governance Statement

In addition to the Director of Audit Opinion, there are a number of underpinning strategic challenges which the Authority may wish to consider in the construction of the Annual Governance Statement:

- Responding to local and national political direction and service reconfiguration;
- Implications of outcomes from operational efficiency and service redesign programmes, including planning and implementing service and infrastructure developments;



- Further embedding 'outcome' focus in service delivery and oversight;
- Ensuring the governance infrastructure and 'environment' continues to underpin and reflect improvement recommendations, lessons learned and sustained innovation;
- Ensuring risk and opportunity management remains robust and relevant including the governance of wider partnership working; and
- Further embedding of the independent GAS Committee along with communication and engagement with the membership, key stakeholders and other partners.



Appendix C: MIAA Quality Service Indicators

MIAA Compliance with Internal Audit Standards

MIAA comply fully with professional best practice, internal audit standards and legal requirements. This includes guidelines issued by the Auditing Practice Board, professional bodies and the Institute of Internal Auditors.

The Public Sector Internal Audit Standards (wef 2013) and our operational Internal Audit Manual are central to our continued external quality accreditation (BS EN ISO 9001:2000).

It is important that client organisations ensure an effective Internal Audit Service and Table 2 below is provided to demonstrate MIAA's complies with Professional Standards. MIAA prides itself in exceeding the basic standards, in particular the quality of our staff, qualifications and provision of an exceptional skill mix recognising the need for this to match the complexity of the organisations with which we work.

Table 2: MIAA's Compliance with the Internal Audit Standards

Internal Audit Standards	MIAA Compliance
1000 - Purpose, Authority & Responsibility	MIAA undertakes audit work to evaluate and improve the effectiveness of risk management, control and governance processes. An annual Director of Audit Opinion is provided to support the Annual Governance Statement.
1100 - Independence & Objectivity	MIAA is managed independently from, and with no executive responsibilities for, the audited body. MIAA have direct access to the Authority Chair and are represented at meetings. All MIAA staff complete an annual declaration of interest, including actions taken to mitigate these.
1200 - Proficiency & Due Professional Care	Professional care is monitored and achieved through compliance with MIAA's quality and review systems. The Director of Audit is a CCAB Qualified accountant and staff are either fully or part qualified (including CCAB, IIA, CISA, QICA, and LCFS).
1300 - Quality Assurance & Improvement	MIAA have accreditations for systems, processes and training. We have successfully achieved external accreditation for ISO9001:2000 quality standards, Investors in People, Finance Staff Development (Level 3) and training accreditations with CCABs.
2000 - Managing the Internal Audit Activity	MIAA have a defined approach for risk assessment, planning, performance and reporting. Three year risk based audit plans are developed for our client organisations, with regular progress reported to the GAS Committee.



Internal Audit Standards	MIAA Compliance
2100 - Nature of Work	MIAA's internal audit activity evaluates and contributes to the improvement of governance, risk management and internal control. There is regular liaison with the External Auditor to facilitate effective coordination of work.
2200 - Engagement Planning	We establish risk based audit plans in conjunction with the organisation and with the approval of the GAS Committee.
2300 - Performing the Engagement	Terms of Reference are established and agreed for each review, including objectives, scope, timing and resource allocations. MIAA staff identify, analyse, evaluate and document sufficient information to achieve the assignment objectives.
2400 - Communicating Results	MIAA communicate the results of each assignment. Working with the organisation, we ensure that communications are accurate, objective, clear, concise, constructive, complete and timely.
2500 - Monitoring Progress	MIAA establish follow up processes with client organisations to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk. This is operated alongside the organisations own management follow up and provides independent assurance to the GAS Committee.
2600 - Communicating the Existence of Risks	MIAA recognise the professional role of Internal Audit to challenge the level of risk accepted by management, support resolution and ensure transparency in reporting to GAS Committee.

MIAA Quality Service

MIAA continue to ensure that quality remains central to our core objective of providing our clients with the best service. To achieve this we have in place a number of internal and external quality processes.



All of this is supported through our day to day contact with client organisations and the invaluable feedback that this provides to continually improve. Table 3 sets out the agreed KPIs which have been assessed alongside CMT. This shows a positive outcome with actions identified informed by this first year of activity.



Table 3 - Internal Audit KPIs

Measure	Required Outcomes	Delivered Outcomes
Outcomes Achieved	Planned outcomes articulated at planning stage, in progress summaries and actual outcomes included in Annual Report.	Planned outcomes discussed and assignment specifications agreed through CMT. Outcomes included in progress update reports and Annual Report.
Audit Committee Attendance	All GAS meetings attended plus periodic Fire Authority attendance.	All GAS meetings attended by Internal Audit and attendance at 3 HFA meetings (April, December and March).
Performance Against Plan	All reviews will be concluded in time to deliver annual report and opinion.	All fieldwork and conclusions completed in time for delivery of annual report and opinion.
Performance Against Standards	Standards provided in Internal Audit Charter. Assurance provided through MIAA self-assessment.	Self-assessment provided at Appendix C.
Skill Mix	All assignments delivered by qualified/experienced staff.	Audit assignments delivered by qualified staff and counter fraud work delivered by counter fraud specialist.
Planning	Risk Based plan provided to s151 Officer 2 months prior to start of year.	2017/18 plan submitted to CMT 9 th Jan 2017 and to GAS 30 st Jan 2017 and 6 th March 2017. Approved by HFA 17 th March 2017. (2016/17 plan followed similar process)
Periodic s151 Officer liaison	Regular progress meetings with s151 Officer and Corporate Planning and Performance Manager and periodic attendance at CMT and TMT.	Liaison meetings planned and held in advance of GAS Committee meetings throughout the year.
Audit experience	Positive engagement with officers and members of HFA and GAS. Agreement to recommendations.	Feedback requested on an ongoing basis. Co-ordinated feedback received through SPOC.
Follow up Reporting	Summary schedule produced and included in progress updates.	Organisation agreed to further embed their systems to oversee recommendations on an ongoing basis.
Timeliness of Reporting	Improved reporting timescales in most areas with support of Single Point of Contact (SPOC) although gathering information and gaining agreement to outcomes has proved lengthy for some assignments.	Turnaround times need to further improve and Tactical Management Team and SPOC to provide a platform for this.

