

County Durham and Darlington
Fire and Rescue Authority



Safest People, Safest Places

Audit and Finance Committee

28 September 2022

Annual Internal Audit Opinion and Report 2021/22

Report of the Head of Internal Audit

Purpose of the Report

1. The purpose of this report is to present the Annual Internal Audit Report for 2021/22 which is attached as Appendix 1.

Background

2. The Public Sector Internal Audit Standards (PSIAS) 2017 state that the provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consulting services are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control but still contribute to the overall opinion however each review does not deliver individual assurance opinions.
3. Based on the work undertaken, we are able to provide a Moderate overall assurance opinion on the adequacy and effectiveness of the governance, risk management and internal control arrangements operating across the Authority in 2021/2022. The level and nature of internal audit work undertaken has not required the Chief Internal Auditor and Corporate Fraud Manager to provide a formal Limitation on the Opinion to be delivered and as such there are no qualifications to this opinion.
4. All Internal Audit work carried out in 2021/22 was in accordance with proper internal audit practices as described within the Public Sector Internal Audit Standards (PSIAS).
5. This report fulfils the requirements of PSIAS and the CIPFA Local Government Application note for the Chief Internal Auditor and Corporate Fraud Manager to

deliver an annual audit opinion and a report on the effectiveness of the Internal Control environment.

6. The Annual Internal Audit Report should therefore be considered in the context of fulfilling the above requirement.
7. The opinion on the control environment and any significant issues arising will be reflected in the Authority's Annual Government Statement (AGS) which will be published alongside the Authority's Annual Statement of Accounts for 2021/22. It is specifically timed to be considered as part of the annual review of governance and internal control and is reported alongside the Review of Effectiveness of Internal Audit.
8. Internal Audit therefore has a professional duty to provide an unbiased and objective view of the Internal Control environment. Internal Audit is independent of the processes that it evaluates and as such reports to the Senior Leadership Team and Audit and Finance Committee.
9. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance.
10. Based on the work undertaken, Internal Audit is able to provide a **Moderate** overall assurance opinion on the adequacy and effectiveness of the governance, risk management and internal control arrangements operating across the Authority in 2021/2022.
11. This moderate opinion provides assurance that whilst there is basically a sound system of control, there are some weaknesses, which expose objectives to risk.
12. Given the unprecedented impact of the coronavirus pandemic which was evident throughout the majority of the financial year 2021/2022 and which required the Authority to adapt and deliver its services in new and innovative ways which when taken within a context of change the Authority continues to face, the reduction in resources and the increasing diverse nature of the Internal Audit Plan, the sustainment of this assurance opinion should be regarded as positive.
13. As a result, there are no adverse implications for the Annual Governance Statement arising from any of the work that Internal Audit has undertaken in 2021/22. All of the risks raised within Internal Audit reports have been accepted. Internal Audit's recommendations, or alternative proposed actions made by Management in response to the risk issues, have been agreed to be implemented. Full implementation of the agreed actions will realise the benefits of the control improvements detailed in each individual audit report. Internal Audit will follow up the implementation of its recommendations, or any agreed alternative actions, with the relevant responsible officers, as soon as is practically possible, after the target implementation dates. Progress on the implementation of audit recommendations will be reported through to this Committee in future progress reports on the 2022/23 Internal Audit work.

Recommendation

14. Members are **asked to:**

- **consider** the Annual Internal Audit Report and the overall opinion provided on the adequacy and effectiveness of the Authority's control environment for 2021/22.

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**COUNTY DURHAM AND DARLINGTON
FIRE AND RESCUE AUTHORITY**

Internal Audit

**Annual Report
2021-2022**

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Introduction

1. This report summarises work carried out by Internal Audit during 2021/22 and provides assurance on the effectiveness of the Authority's control environment, risk management and corporate governance arrangements in place during the year.
2. The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972 which requires all relevant bodies to, "make arrangements for the proper administration of their financial affairs and ensure that one of its officers has responsibility for the administration of those affairs".
3. The Accounts and Audit Regulations 2015 require those bodies to, "undertake an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control".
4. The Public Sector Internal Audit Standards (PSIAS) define the proper internal control practice for internal audit alongside the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note.
5. This report fulfils the requirements of PSIAS and the CIPFA Local Government Application Note for the Chief Internal Auditor and Corporate Fraud Manager to deliver an annual audit opinion and a report that can be used by the Committee to inform its Annual Governance Statement.
6. The report sets out:
 - The annual internal audit opinion on the overall adequacy and effectiveness of the governance, risk and control framework (the control environment).
 - A summary of the audit work carried out from which the opinion is derived.
 - Details of the quality assurance arrangements in place during 2021/2022

Service Provided and Audit Methodology

7. Internal Audit is an independent, objective assurance and consultancy activity designed to add value and improve an organisation's operations.
8. The primary objective of Internal Audit is to provide an independent and objective opinion on the Authority's control environment which is comprised of the systems of governance, risk management and internal control.
9. The Internal Audit Charter, agreed by the Senior Leadership Team and Audit and Finance Committee, establishes and defines the terms of reference and strategy for how the service is to be delivered.

10. The agreed audit strategy to provide independent assurance, is summarised as follows:
- To carry out planned assurance reviews of the effectiveness of the management of operational risks in all key service activities/systems.
 - To carry out assurance reviews of the management of strategic risks where the effective management of risk is heavily dependent on identified controls.
 - To carry out annual reviews of key risks where a high level of assurance is required to demonstrate the continuous effectiveness of internal controls, for example those associated with key financial and non-financial systems.
 - To use a Control Risk Assessment (CRA) methodology to focus audit resources on providing assurance on key controls where there is little or no other independent assurance on their adequacy or effectiveness.

Types of Audit Work Carried Out in 2021/22

Assurance Reviews

11. Assurance reviews are those incorporated into annual audit plans where the CRA methodology is to be applied. They also include service requests to provide assurance on more specific risks within a particular service activity.
12. On completion of each assurance review an opinion on the adequacy and / or the effectiveness of the control framework in place is provided to inform the annual audit opinion.
13. The audit methodology for arriving at audit opinions on individual assurance reviews is attached at **Appendix C**.

Advice and Consultancy Work

14. In addition to planned assurance reviews, provision is also made in annual audit plans to support service managers by undertaking advice and consultancy type work. The outcomes from this work can also provide assurance on the control framework even though an assurance opinion is not provided on the completion of this work.

Counter Fraud Work

15. Provision is made in annual audit plans to support service managers at an operational level to mitigate the strategic risk of fraud and corruption. Control weaknesses identified when fraud is suspected or proven also impacts on the overall opinion on the adequacy and effectiveness of the internal control system.

Audit Quality Assurance framework

16. The Internal Audit Charter sets out the performance and quality framework for the service. This reflects the requirements of the PSIAS.
17. Key elements of the quality assurance framework operating during 2021/22 include:
 - Independent quality reviews undertaken by Audit Managers as a matter of routine and periodically by the Chief Internal Auditor and Corporate Fraud Manager to ensure consistent application of agreed processes and procedures and to ensure expected quality standards are maintained.
 - Key contacts, determined by the Authority, agree the Terms of Reference for each audit review and are able to challenge the findings and content of draft reports prior to them being finalised.
18. A summary of performance against agreed indicators is given in **Appendix A**.
19. As at the 31 March 2022, the % of planned work completed indicated that the service achieved 94.7% of the audit plan against a 90% target.
20. The PSIAS require that an annual review of the effectiveness of Internal Audit is carried out, with an external assessment every five years. Following a self-assessment by the Interim Chief Internal Auditor and Corporate Fraud Manager, in June 2021, which established that the service continues to conform with the PSIAS, an external quality assessment of the Internal Audit Service's conformance to the Public Sector Internal Audit Standards (PSIAS) and CIPFA Local Government Application Note during 2021/22 was carried in February 2022 by the Chartered Institute of Public and Finance and Accountancy (CIPFA).
21. For 2021/22, with regards to compliance with the key elements of the PSIAS the following matters were considered:
 - The structure and resourcing level, including qualifications and experience of the audit team;
 - The extent of conformance with the PSIAS in producing quality work;
 - Ensuring audit work was successfully delivered in the most appropriate areas on a prioritised (risk) basis;
 - The overall performance of the Internal Audit team.
22. The opinion delivered by CIPFA's external assessment carried out in February 2022 is that **'Durham County Council's Internal Audit Service's self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note'** and the outcome of the review was reported to County Council's Audit Committee at its meeting on 01 July 2022.

Summary of audit work carried out

Assurance Work

23. Our work programme for the year was determined by the approved Internal Audit Plan. A summary of all assurance opinions provided in year together with the most recent opinion for those activities not included in the plan to provide a better informed opinion on the entire control environment, is attached at **Appendix D**.

Advice and Consultancy Work

24. All planned reviews are designed to add value as they provide independent assurance, through evaluation and challenge, on the adequacy and effectiveness of arrangements in place to manage risks. This evaluation and challenge supports the effective and efficient use of resources and VFM.
25. Through our advice and consultancy work we are able to add value pro-actively and reactively.
26. Reactive work involves responding to ad-hoc requests for advice and reviews added to the plan to address new or emerging risks. It also includes responding to potential fraud or irregularities and we ensure that all such incidents are properly investigated and that appropriate action is taken by managers, whether or not fraud or malpractice is proven.
27. A summary of key advice and consultancy work completed during the year is attached at **Appendix B**.

Key Areas for Opinion

28. The key areas of the control environment where assurance is required to inform our overall opinion are:
- Financial Management
 - Risk Management
 - Corporate Governance
29. Assurance has been provided on some aspects of key financial systems during the year. Reviews undertaken include Headquarters (income and expenditure), Payroll, Treasury Management, Budgetary Control and VAT.
30. Assurance on the effectiveness of the Authority's risk management arrangements has been provided through the identification of operational risks and effectiveness of mitigating controls within each review undertaken. In addition, a review of Service Strategic Risk Management arrangements that considered the Service Leadership Team's consideration of the content, scoring and refreshing of activities included in the strategic risk register was undertaken.
31. Internal Audit has worked with key officers from the Authority to complete the Annual Governance Statement. An action plan is to be completed to enable significant areas identified for improvement in the 2021/22 Annual Governance Statement to be monitored and which will be reported to the Audit and Finance Committee during the year to come.

Audit Opinion Statement

32. The Authority has responsibility for maintaining a sound system of internal control that supports the achievement of its objectives.
33. Internal Audit is required to provide an opinion on the Authority's risk management, control and governance process.
34. In giving this opinion it should be noted that assurance can never be absolute and therefore only reasonable assurance can be provided that there are no major weaknesses in these processes.
35. In assessing the level of assurance to be given, we based our opinion on:
 - All audits undertaken during the year
 - Follow up action on audit recommendations
 - Any significant recommendations not accepted by management and the consequent risk
 - The effects of any significant changes in the Authority's systems
 - Matters arising from previous reports to the Audit and Finance Committee
 - Limitations which may have been placed on the scope of the internal audit
 - The reliability of other sources of assurance when determining the scope of audit reviews.
36. Based on the work undertaken, Internal Audit is able to provide a Moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Authority in 2021/22.
37. The moderate opinion provides assurance that there is a sound system of control in place however there are some weaknesses and evidence of ineffective controls.
38. Where Internal Audit has identified areas for improvement, recommendations are made to minimise the level of risk, and action plans for their implementation were drawn up and agreed by management. Whilst the % of actions implemented within target dates is high, in many cases there is a time gap between a control weakness being reported and the date determined by management for when the action can practically and realistically be implemented. Consequently, the added assurance provided on implementation cannot always be recognised and evidenced in arriving at our overall annual assurance opinion. Work is ongoing with management with regards to timely and realistic implementation dates for actions being agreed.

Appendix A

PERFORMANCE INDICATORS

Efficiency			
Objective: To provide maximum assurance to inform the annual audit opinion			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	Q4 Actual
Planned audits completed	% of planned assurance work from original approved plan complete to draft report stage as at 31 March 2020.	90% (Quarterly)	94.7% (18 out of 19 reviews completed)
Timeliness of Draft Reports	% of draft reports issued within 30 Calendar days of end of fieldwork/closure interview Average time taken is also reported for information	90% (Quarterly)	100% (16 reports issued) 6 days
Timeliness of Final Reports	% of final reports issued within 14 calendar days of receipt of management response Average time taken is also reported for information	95% (Quarterly)	100% (16 reports issued) 1.6 days
Terms of Reference	% of TOR's agreed with key contact in advance of fieldwork commencing	95% (Quarterly)	100% (18 TOR's issued)
Quality			
Objective: To ensure that the service is effective and adding value			
KPI	Measure of Assessment	Target & (Frequency of Measurement)	Q4 Actual
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Quarterly)	100% (63 accepted out of 63 made)
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (3 out of 5) where 1 is poor and 5 is very good Average score is also reported for information	100% (Quarterly)	100% (11 out of 15 returned) Overall average score 4.5
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly)	86.7% (13 returned from 15 surveys issued in 2021/22)

KEY ADVICE AND CONSULTANCY WORK UNDERTAKEN IN 2021/22

Whilst no formal advice and consultancy reviews have been undertaken for the Authority during 2021/22, Internal Audit has maintained its links with the Authority's key officers to discuss ongoing matters on an ad hoc / informal basis.

Findings

Individual risks are assessed on their impact and likelihood based on the assessment rationale in the tables below:

Impact Rating	Assessment Rationale
Critical	A risk that could have a:
	Critical impact on operational performance (Significant disruption to service delivery)
	Critical monetary or financial statement impact (In excess of 5% of service income or expenditure budget)
	Critical breach in laws and regulations that could result in significant fine and consequences (Intervention by regulatory body or failure to maintain existing status under inspection regime)
	Critical impact on the reputation of the Authority (Significant reputational damage with partners/central government and/or significant number of complaints from service users)
	Critical impact on the wellbeing of employees or the public (Loss of life/serious injury to employees or the public)
Major	A risk that could have a:
	Major impact on operational performance (Disruption to service delivery)
	Major monetary or financial statement impact (1-5% of service income or expenditure budget)
	Major breach in laws, regulations or internal policies and procedures (non compliance will have major impact on operational performance, monetary or financial statement impact or reputation of the service)
	Major impact on the reputation of the service within the Authority and/or complaints from service users
Minor	A risk that could have a:
	Minor impact on operational performance (Very little or no disruption to service delivery)
	Minor monetary or financial statement impact (less than 1% of service income or expenditure budget)
	Minor breach in internal policies and procedures (non compliance will have very little or no impact on operational performance, monetary of financial statement impact or reputation of the service)

Likelihood	Assessment criteria
Probable	Highly likely that the event will occur (>50% chance of occurring)
Possible	Reasonable likelihood that the event will occur (10% - 50% chance of occurring)
Unlikely	The event is not expected to occur (<10% chance of occurring)

Overall Risk Rating

This grid is used to determine the overall risk rating.

LIKELIHOOD			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	M
	Minor	Major	Critical
		IMPACT	

Priority of our recommendations

We define the priority of our recommendations arising from each overall finding as follows;

High	Action required, that is considered imperative , to improve the control environment so that objectives are not exposed to unacceptable risks through lack of or weaknesses in critical or key controls.
Medium	Action required to improve the control environment so that objectives are not exposed to risks through weaknesses in controls.
Best Practice	The issue merits attention and its implementation will enhance the control environment.

Overall Assurance Opinion

Based upon the ratings of findings and recommendations arising during the audit as summarised in the risk matrix above we define the overall conclusion of the audit through the following assurance opinions:

Substantial Assurance	There is a sound system of control. Any weaknesses identified expose some of the system objectives to minor risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some weaknesses, which expose objectives to risk.
Limited Assurance	There are weaknesses in key areas in the system of control, which expose objectives to unacceptable levels of risk.

SUMMARY OF ASSURANCE WORK CARRIED OUT

Audit Area	Latest Opinion
Risk Management	2021/22
Ethics - Transparency / Gifts and Hospitality and Register of Interests/FOI/Members Allowances and Expenses	2020/21
Partnerships	2018/19
Business Continuity Planning	2021/22
General Data Protection Regulation (GDPR) - Community Risk Management	2019/20
Absence Management	2021/22
Recruitment and Selection - GDPR and HMG Baseline Personnel Security Standard	2019/20
Key Financial Systems – Creditors, Debtors, Income	2021/22
Payroll	2021/22
Treasury Management	2021/22
VAT	2019/20
Procurement and Contracts	2020/21
Asset Management / Building Maintenance	2019/20
Vehicle / Plant Management	2019/20
Vital Fire Solutions	2020/21
Mobile Working	2019/20
Security Incident Management	2018/19
Removeable Media	2019/20
Cloud Security	2018/19
Patch Management	2017/18
Firewall	2017/18
SQL Server	2017/18
ICT Systems Management - Identity and Access Management	2020/21
Performance – Data Quality	2021/22
Change Control	2016/17
Back Up Achieve Procedure	2016/17
User Education and Awareness	2021/22
ICT Procurement	2020/21
ICT Budget Management – Capital Planning	2021/22
Review of Fire Authority Efficiency and Effectiveness	2016/17
COUNTER FRAUD	
National Fraud Initiative	N/A
Fraud and Corruption Survey	N/A
Overall Opinion	2021/22

Assurance Opinion Key	Substantial	Moderate	Limited
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