TYNE AND WEAR FIRE AND RESCUE AUTHORITY   Item No 4

GOVERNANCE COMMITTEE   30 June 2014

Subject: Internal Audit Annual Report – 2013/2014

Report of the head of internal audit

1.   Purpose of Report

1.1   To consider the performance of Internal Audit for 2013/2014, areas of work undertaken and the internal audit opinion regarding the adequacy of the overall system of internal control within the Authority.

2.   Description of Decision

2.1   The Governance Committee is asked to consider and note the Internal Audit Annual Report.

3.   Key Performance Indicators

3.1   The Internal Audit service measures its performance in terms of Efficiency, Quality and Client Satisfaction. Performance during the year is shown in Appendix 1. Where possible, performance specifically relating to the Authority is included. All but two of the KPI's were achieved, those being:

- The target of 70% of audits to be completed by the target date (from scoping meeting to issue of draft report) was not achieved and actual performance was 57.1% completion to the initial target date set. This was due to negotiated changes to the review timetable, to enable TWFRS management and staff to prepare for, and deal with the industrial action which took place during 2013-14. Work for other clients was reorganised as far as possible but conflicting demands at the year end meant that in some cases the audit fieldwork was completed over a slightly longer period than desired. It should be noted that the findings of audits are discussed with management during the audit. All audits scheduled for 2013-14 were completed within the financial year.

- The implementation of medium risk recommendations performance for the year was 81% against a target of 90%. To give context to this it should be noted that there were only seven agreed actions not implemented by the target date.

4   Summary of Internal Audit Work

4.1   All of the audits included within the plan for the year were completed. The findings of these audits have been taken together with the findings of audits from the previous two years to form an opinion on each of the identified key risk areas, and an opinion on the adequacy of the overall system of internal control for the Authority. The detailed analysis of these opinions is provided at Appendix 2. The opinions provided from Internal Audit work set out the level of assurance that can be provided for each piece of work and for the risk area overall. The levels of assurance are set out below:

Level of Assurance	Example wording of opinion
Full	The findings of the audit give full assurance. The controls evaluated are well designed, appropriate in scope and applied consistently and effectively. No issues were identified which would prevent objectives being achieved.
Substantial	The findings of the audit give substantial assurance. The controls evaluated are well designed, appropriate in scope and applied consistently and effectively. Any issues identified are minor in nature and should not prevent objectives being achieved.
Moderate	The findings of the audit give moderate assurance. The majority of the controls evaluated are well designed and appropriate in scope, although they are not always applied consistently and effectively. Issues have been identified that increase the risk of objectives not being achieved and therefore require management attention.
Limited	The findings of the audit give limited assurance. The control framework is not appropriate in design or scope and/or the controls which are in place are not applied consistently and effectively. The issues identified require prompt management attention and, if unresolved, pose a significant risk of objectives not being achieved
None	The findings of the audit give no assurance. The control framework is poor or non-existent. Gaps in coverage or inconsistent or ineffective implementation have been identified that require immediate management attention. The issues, if unresolved, pose a significant risk of objectives not being achieved.

4.2   As a result of the audits carried out, a number of recommendations have been made to improve internal control. The numbers of recommendations made are shown below:

Categorisation of Risk	Definition	Number Made
High	A fundamental control weakness which presents material risk to the audited body and requires immediate attention by senior management.	0
Significant	There is a control issue which could have a significant impact on the achievement of the aims and objectives of the organisation, or which presents a significant risk to the organisation's reputation. Prompt management action is required to remedy the situation.	0
Medium	There is a control weakness within the system, which presents material risk to the area or service being audited, and management attention is required to remedy the situation within a reasonable period.	15
Low	There is a minor control weakness or non-compliance within the system and proportional remedial action is required within an appropriate timescale.	7

4.3 The work undertaken did not identify any matters material to the overall internal control environment of the Authority.

5. Effectiveness of the System of Internal Audit

5.1 Mazars LLP have carried out an independent review of the effectiveness of Internal Audit by reference to the Public Sector Internal Audit Standards. The review concluded that the service continues to comply with the relevant standards.

6. Conclusions

6.1 This report provides assurance that all of the planned audit work was completed within the year, with no significant or high risk issues being identified.

6.2 Using the cumulative knowledge and experience of the systems and controls in place, including the results of previous audit work and the work undertaken within 2013/2014, it is considered that overall throughout the Authority there continues to be an adequate internal control environment.

Background Papers

Internal Audit Operational Plan 2013/2014 - Governance Committee
18th March 2013.

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2013/14			
Efficiency and Effectiveness			
Objectives	**KPI's**	**Targets**	**Progress**
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified.	1) All key risk areas covered over a 3 year period	1) Achieved
	2) Percentage of draft reports issued within 15 days of the end of fieldwork.	2) 90%	2) Achieved (100%)
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report).	3) 70%	3) Not achieved (57.1%)
Quality			
Objectives	**KPI's**	**Targets**	**Progress**
1) To maintain an effective system of Quality Assurance.	1) Opinion of External Auditor	1) Satisfactory opinion	1) Achieved
2) To ensure recommendations made by the service are agreed and implemented.	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented.	2) 100% for high and significant. 90% for medium risk	2) High and significant – n/a Medium not achieved (81%)
Client Satisfaction			
Objectives	**KPI's**	**Targets**	**Progress**
1) To ensure that clients are satisfied with the service and consider it to be good quality.	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)	1) Achieved (Average score for last 12 months is 1.0)
	2) Results of other Questionnaires	2) Results classed as 'Good'	2) None undertaken
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	3) Two compliments received and no complaints

Internal Audit Coverage

Key Risk Area	Planned Audits	Level of Assurance from audits undertaken 2013/14	Level of Assurance from Previous 3 years work
Corporate Governance			Substantial
Service / Business Planning, IRMP	IRMP Community Fire Safety (Home Safety Inspections)	Substantial Substantial	Substantial
Financial Management	Local Financial Systems Financial Transactions Testing	Substantial	Substantial
Risk Management	Risk Management Arrangements	Substantial	Substantial
Procurement and Contract Management	Procurement	Substantial	Substantial
Human Resource Management	Payroll and HR Management	Substantial	Substantial
Asset Management			Substantial
ICT	ICT Strategy	Substantial	Moderate
Fraud and Corruption	Financial Transactions Testing	Substantial	Substantial
Information Governance	Community Fire Safety (Home Safety Inspections)	Moderate (from audit of Community Fire Safety and follow up work on Data Handling Guidelines)	Moderate
Business Continuity and Contingency Planning			Moderate
Performance Management			Substantial
Payroll	Payroll and HR Management	Substantial	Substantial
Partnership Working			Moderate
Project Management			Substantial