



NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Finance and Resources Committee

INTERNAL AUDIT ANNUAL REPORT 2020/21

Report of the Chief Fire Officer

Date: 02 July 2021

Purpose of Report:

To bring to the attention of Members the annual report prepared by the Authority's Internal Auditors, which includes the Internal Audit Plan for 2021/22.

Recommendations:

That Members note the contents of this report.

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1. BACKGROUND

- 1.1 Nottinghamshire County Council has provided an Internal Audit service to the Fire and Rescue Authority since its formation in 1998. The Finance and Resources Committee receives the Internal Auditor's annual report in accordance with its role as an audit committee.
- 1.2 The annual report for 2020/21 is attached in full as Appendix 1 to this report.
- 1.3 Under the provisions of the Code of Practice on Local Authority Accounting, the Authority is required to annually review its arrangements for the provision of Internal Audit and comment on that review. This report sets out the basis of that review and the annual report includes proposed developments for 2021/22.

2. REPORT

NOTTINGHAMSHIRE COUNTY COUNCIL INTERNAL AUDITOR'S REPORT

- 2.1 The Internal Audit Annual Report for 2020/21 is attached at Appendix 1.
- 2.2 The Auditors have provided a view on the internal control environment and conclude that:

"Based on the coverage and outcomes, overall, we consider the collective evidence provides reasonable assurance concerning the arrangements in place for corporate governance, risk management and the control environment." (see section 14)

- 2.3 Four 2020/21 audits have been finalised during the year. The reports gave overall assurance levels of substantial (Risk levels are low) or reasonable (risk levels are acceptable) and are appended to this report:

Report	Assurance Level	Appendix
Treasury Management	Substantial	2
Cardiff Checks	Substantial	3
Purchase Cards	Reasonable	4
Purchasing and Creditor Payments	Reasonable	5

- 2.4 The properties and premises audit has been delayed until 2021/22 due to Covid-19 restrictions regarding access to stations and offices.
- 2.5 The Internal Auditors undertook an additional assessment of the Authority's compliance with Government guidance on managing Covid-19 risk which can be found in sections 31 to 40 of the report.

- 2.6 In 2019, Ernst and Young requested that the Annual Report also covered the adequacy and effectiveness of the corporate governance and risk management frameworks. The report concludes that the service has:
- **Strong corporate governance arrangements** in place and complied with. Strong assurance from internal and external reviews.
 - **Strong risk management framework** in place and complied with. Covid-19 risks accounted for promptly.
- 2.7 Appendix B of the Annual Report shows the internal audit plan for 2021/22 which has been agreed by the Head of Finance following consultation with the Strategic Leadership Team. There is sufficient flexibility to amend the plan if circumstances require alternative work to be carried out by the Auditors in the year.

REVIEW OF INTERNAL AUDIT

- 2.8 The requirement for an Authority to maintain an Internal Audit function is derived from local government legislation, including Section 112 of the Local Government Finance Act 1988 and the Accounts and Audit Regulations 2015 in that a relevant body must:

“maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”

- 2.9 The responsibility for ensuring an effective internal audit function rests with the Authority Treasurer as part of their Section 112 obligations.
- 2.10 The Authority views Internal Audit as an integral part of the corporate governance framework, particularly in so far as it relates to the system of Internal Control. Whilst it is acknowledged that Internal Control is a managerial responsibility, it is considered that Internal Audit can provide managers with independent assurance that the system is working effectively and draw any deficiencies in the system to the attention of managers and elected members.
- 2.11 These assurances, however, can only be relied upon providing the internal audit service is adequate to meet the needs of the organisation and is provided professionally.
- 2.12 The Internal Audit Service of the Authority is provided under a Service Level Agreement with Nottinghamshire County Council and requires the Auditors to operate within the Public Sector Internal Audit Standards set down by the Chartered Institute of Public Finance and Accountancy (CIPFA). Operating to these standards will ensure that the Authority meets its obligations under statute.

- 2.13 CIPFA published a guide on the role of the Head of Internal Audit in 2019. Three development areas for internal audit have been identified for 2021/22 following an assessment against the CIPFA Guide. These are:
- a) Draft an Internal Audit Charter for consideration and adoption by the SLT and the Finance & Resources Committee;
 - b) Formally agree a revised approach to audit planning;
 - c) Strengthen engagement through periodic meetings between the Head of Internal Audit and the Chair of the Finance & Resources Committee and the SLT.
- 2.14 There are regular reviews of audit plans and progress by senior managers and the audit team to monitor the work being carried out.
- 2.15 The External Auditors, in their general review of controls and as part of their specific annual audit, are required to comment on the adequacy or otherwise of Internal Audit. To date they have always been satisfied that the work of Internal Audit is sufficient for them to rely on their audit work and that the service is effective.

3. FINANCIAL IMPLICATIONS

Indirect financial implications relating to policy, procedure updates and staff training are contained within the report.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising from this report.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken because this is a report relating to the Authority's performance rather than new or amended policy.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

Internal Audit is a mandatory function within fire authorities. The Local Government and Finance Act 1988 and Accounts and Audit Regulations 2015 identify a fire authority as a "relevant body", responsible for maintaining an adequate and effective internal audit function.

8. RISK MANAGEMENT IMPLICATIONS

Internal Audit forms part of the wider system of internal control which deals entirely with the Authority's exposure to financial, and to some extent non-financial risk. Presenting the annual report to the Authority enables Members to see the work of internal audit and the contribution that they make to the overall system of internal control.

9. COLLABORATION IMPLICATIONS

The Internal Audit service is provided by Nottinghamshire County Council. There may be opportunities for further collaborative procurement of Internal Audit services in the future.

10. RECOMMENDATIONS

That Members note the contents of this report.

11. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

John Buckley
CHIEF FIRE OFFICER



Head of Internal Audit's Annual Report 2020/21
Report to the Chief Fire Officer, Nottinghamshire Fire & Rescue Service and
Nottinghamshire and City of Nottingham Combined Fire Authority

Purpose of report and index

1. To provide the Head of Internal Audit's Annual Report for 2020/21, including our opinion on the adequacy of the Nottinghamshire and City of Nottingham Combined Fire Authority's (CFA's) arrangements for governance, risk management and control. The report comprises:

Para/s

2 – 4	Requirement for internal audit
5 – 7	Fulfilment of requirement
8 -13	Audit approach and coverage
14	Audit opinion
15 & 16	Audit assurance reviews
17 – 19	Joint action tracking of previous audit recommendations
20 – 24	Counter-fraud questionnaire for external audit
25 – 30	Health and safety reviews
31 – 40	Compliance with Government guidance on managing Covid-19 risk
41 – 43	Assurance mapping
44 – 48	Performance of internal audit
49	Audit plan for 2021/22
50	Proposed development of service in 2021/22

Requirement for internal audit

2. The practice of internal audit within fire authorities is mandatory. The **Local Government Finance Act 1988** and **Accounts and Audit Regulations 2015** identify a fire authority as a '**relevant body**', responsible for maintaining an **adequate and effective internal audit function**.
3. The internal audit function is to review, assess, and report on the **governance, risk management and control environment** established by management to:
 - determine and monitor the achievement of objectives
 - identify, assess, and appropriately manage the risks to achieving objectives
 - facilitate policy and decision making

- ensure the economical, effective, and efficient use of resources
 - ensure compliance with policies, procedures, laws, and regulations
 - safeguard assets and interests.
4. It is also expected to comply with the **Public Sector Internal Audit Standards (PSIAS)** and guidance from the **Chartered Institute of Public Finance and Accountancy (CIPFA)**.

Fulfilment of requirement

5. With reference to para 2 (**statutory responsibility**), the CFA has an annually renewable agreement with Nottinghamshire County Council (NCC) for the provision of internal audit services. No Internal Audit Charter is currently in place; however, we would recommend its adoption – see under proposed development of service in 2021/22 (para 50).
6. With reference to para 3 (**audit coverage**), we plan with the Fire Service to cover those key areas over a multi-year cycle, and review the coverage of its internal assurance and other assurance providers, and thereby provide an independent assessment of its governance, risk management and control environment.
7. With reference to para 4 above (**standards of best practice**), our mutual roles and responsibilities align with those prescribed in the PSIAS as follows:

PSIAS Role	Delivered by:
Chief Audit Executive (CAE)	Group Manager – Assurance
Senior Management	Senior Leadership Team (SLT)
Board	Finance and Resources Committee

The other aspects of our compliance with PSIAS and CIPFA guidance are set out under **Performance of Internal Audit** (paras 44 – 48).

Audit approach and coverage

8. In 2020/21, we carried out the following types of provision: -

Provision	Description
Assurance reviews (paras 15 & 16)	Completing the assurance reviews in the agreed plan as far as possible, issuing reports and making recommendations.
Action tracking (paras 17 -19)	Jointly following up and testing the implementation of agreed actions from reports issued in 2019-20, plus key outstanding actions from 2018-19.
Anti-fraud questionnaire (paras 20 – 24)	Completing a counter-fraud questionnaire for the external auditors, Ernst and Young LLP, including identifying and evaluating the outcomes of the National Fraud Initiative (NFI).
Internal assurance and assurance mapping (paras 25 – 43)	Focussing on internal assurance about operational health and safety, and compliance with Government guidance on managing the Covid-19 risk. Compiling assurance maps, which take account of the various sources of assurance for corporate governance and risk management.

9. Most of our assurance work results in the issue of an opinion on the internal controls and procedures in place, categorised as follows:
 - **Substantial Assurance** – no weaknesses or only minor weaknesses
 - **Reasonable Assurance** – most arrangements are effective, but some weaknesses have been identified
 - **Limited Assurance** – an unacceptable level of risk that requires the prompt implementation of recommendations to correct the weaknesses identified.
10. When planning for 2020/21, back in January 2020, the Fire Service informed us about its intention to follow up its own operational practice in the areas of **water rescue** and **working at height (WAH)**. This was instigated on the back of two training accidents, one fatal, that had occurred in different FRSs. The Head of Risk Assurance and Operational Training had proposed picking this up with the Health and Safety Executive (HSE), possibly getting the HSE to do independent audits. The outcomes are summarised under **health and safety reviews** (paras 25 -30).
11. As a consequence of the Fire Service wanting to fund these two separate health and safety reviews from within its existing budget, we agreed on an 82-day plan for 2020/21 (including 10 days carry forward), instead of the usual 92 days. This request still enabled us to plan five reviews, plus carry out action tracking and assurance mapping.
12. Later, at the client's request, and during the second national lockdown, we agreed to defer the planned Facilities Management audit to 2021/22. In light of this, and for this annual report and opinion, we requested information and

evidence from management about the wider **compliance with Government guidance on managing the risk of Covid-19**. The outcomes are summarised under the same heading (para 31 – 40).

13. Throughout 2020/21, Internal Audit continued to operate independently within the organisation. **No impairments** to its independence arose during the year. The pandemic nonetheless presented a challenge of adjustment for all internal audit teams, potentially putting the delivery of planned internal audit work at risk. In recognition of this, CIPFA issued guidance for Heads of Internal Audit to assess the impact locally, and to determine whether a 'limitation of scope' should be applied to the year-end opinion. Our self-assessment of audit coverage against this guidance confirmed that **no limitation of scope** is required, as we have sufficient sources of evidence available to determine our opinion.

Audit opinion

14. Based on the coverage (above) and outcomes (below), overall, we consider the collective evidence provides **reasonable assurance** concerning the arrangements in place for corporate governance, risk management and the control environment. The rationale for this opinion is as follows:
 - No 'Limited Assurance' opinions were issued by Internal Audit in the year. The extent of coverage in 2020/21 was restricted somewhat by the impact of the pandemic.
 - Action tracking identifies some scope for improved implementation rates.
 - The more restricted internal audit coverage in 2020/21 is compensated for by the positive assurance from management in relation to corporate governance and risk management.
 - Planned coverage in 2021/22 will deliver independent assurance for a number of core processes for governance, risk management and control.

Audit assurance reviews

15. In the areas reviewed, we identified, assessed, and tested the controls to determine their effectiveness in ensuring that business objectives were met, and risks mitigated. The various opinions on the internal controls and procedures in place in each area were categorised, and can be grouped, as follows: -

Assurance level (RAG)	Report	Action type	
		Priority 1	Priority 2
Limited	(None)		
Reasonable	Purchase cards	1	3
	Purchasing and creditor payments	1	1
Substantial	Treasury management	0	1
	Cardiff Checks (draft)	0	2

16. The reports summarise the comparative effectiveness of the controls (they are not repeated here). To address the control weaknesses or test failures that we found, the additional actions were: -

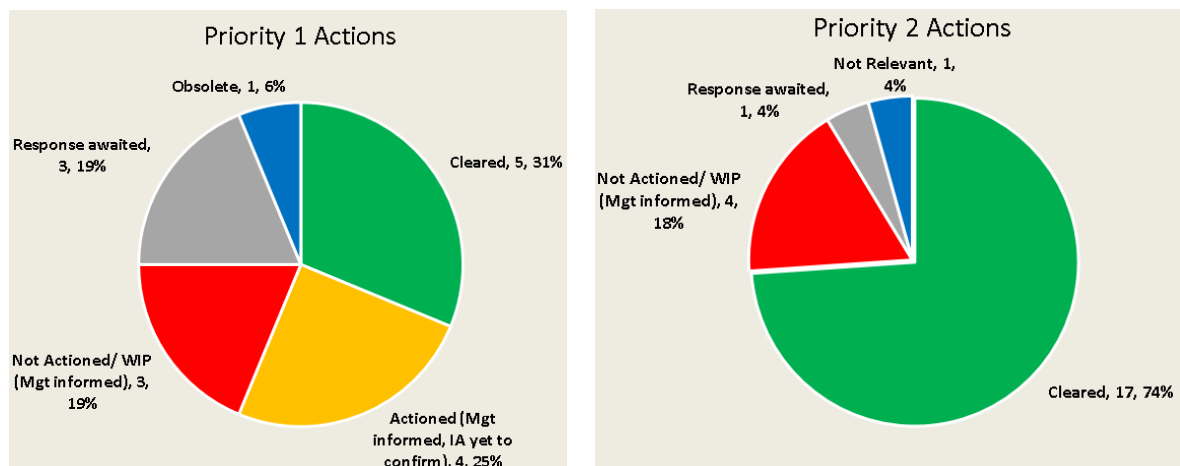
Report (refs & dates)	Actions made/agreed
Purchase cards Ref. 2020-01 Draft 2/11/20, Final 16/11/20	New monthly process to check if any cards need cancelling. Monthly spend limits to always be specified at time of application. All new card holders to sign agreement to terms & conditions, etc. Always to have transaction logs, receipts, and VAT reconciliation.
Purchasing and creditor payments Ref. 2020-02 Draft 11/2/21, Final 2/6/21	Adhere to tendering requirements; contracts not allowed to expire. Checks of invoices not in line with purchase order commitments.
Treasury management Ref. 2020-03 Draft 2/3/21, Final 14/5/21	Treasury management procedure notes to be updated.
Cardiff Checks Ref. 2020-04	Purchase orders to be raised before goods receipt or service delivery wherever possible. Confirmation orders to be restricted and raised as soon as possible.

Joint action tracking of previous audit recommendations

17. Jointly with the Fire Service, we operate a standard process for tracking and testing the implementation of agreed actions from the previous financial year/s, which is:

Action type	Phase 1: NFRS role	Phase 2: Internal Audit role
Priority 1	NFRS Finance requests and evaluates six-monthly updates from action owners, together with evidence of implementation. NFRS Finance informs Internal Audit.	Further evaluates updates and evidence; more testing where required.
Priority 2		Further evaluates updates and evidence.
Advice	No action tracking required.	

18. Due to the impact of the pandemic, NFRS Finance was only able to undertake one round of action tracking, which itself was delayed and had to be completed after the 2020/21 year-end. The focus was on agreed actions from all reports issued in 2019/20, although key outstanding actions from 2018/19 were also followed up.
19. In our **Action Tracking report and appendix (ref 2020-06)**, we identified the following rates of response, implementation, and progress, the response rates and outcomes somewhat depressed by the impact of the pandemic:



Counter-fraud questionnaire for external audit

20. The **International Standard on Auditing (UK) 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements** requires external audit to make enquiries of internal audit about the risk of fraud occurring that might materially affect the financial statements. The latest questionnaire therefore related to the previous 2019/20 financial year, during which we reported no knowledge of actual, suspected, or alleged fraud (nor in 2018/19, nor since).
21. We noted the Authority is protected by its **Counter Fraud, Money Laundering, Corruption and Bribery Policy** dated April 2018 (it has recently acknowledged the Policy needs review). The Policy states: 'In respect of employees, the Authority's disciplinary rules are such that fraud and corruption are considered to be issues of potential gross misconduct and if proven, would normally result in dismissal'. Also 'We have zero-tolerance towards bribery'. It includes a scored

fraud risk assessment that consists of treasury management; sale of assets; payroll; procurement; key decision makers; and expenses claims – with mitigating controls also being identified.

22. The Authority also has a section of **Preventing Fraud and Corruption** in its **Financial Regulations**.
23. The Fire Service participates actively in the **National Fraud Initiative (NFI)** – the national data matching exercise. In 2020/21, it investigated 148 data matches, cleared 146 of them, and found no fraudulent or potentially fraudulent matches. (There were just two, minor, errors: a VAT overpayment of £52 on one creditor's sales invoice, which would be recoverable; and a duplicated creditor record although, with transactions on only one record, having no financial impact.)
24. Internal Audit is conscious of potential fraud risks when conducting its annual need assessment for the audit plan – fraud risk is one of eight scored factors. Individual audit programmes are also risk-based – if inherent fraud risk is judged to be high or medium, then that risk will be in scope. Internal Audit is moving away from wholly sample-based testing to a more data analytical approach, which is more likely to detect any weak controls or fraudulent transactions. Our audits in 2020/21 included treasury management and purchasing and creditor payments, both having inherent fraud risks; however, no specific fraud vulnerabilities were identified.

Health and safety reviews

25. As explained at para 10, in 2020/21 the Fire Service aspired to organise HSE reviews in the operational areas of water rescue and WAH. As this assurance work was requested to substitute for some Internal Audit activity, as part of preparing this Annual Report and Assurance Map we asked the Head of Risk Assurance and Operational Training about the outcome of these intentions, and they helpfully provided the following detailed information.
26. **Water rescue:** Following a training incident and fatality suffered by the Mid and West Wales FRS in September 2019, the Marine Accident Investigation Branch (MAIB) had prepared an accident report. NFRS's Operational Assurance Department then prepared its own report for the Operational Learning Board in February 2021. To identify the recommendations, it made use of The Fire Service's own subject matter experts, including its internal specialist boat trainers and the Area Manager - Protection, Prevention and Partnerships, who is the national lead for water rescue and represents the FRS Sector to the Home Office and HSE.
27. The Fire Service report's recommendations were agreed internally. Actions have been assigned to responsible persons and are reported by exception to each Operational Learning Board bi-monthly meeting. A Microsoft Planner Board is being used for task tracking. We are satisfied, therefore, that the Fire Service has deployed effective internal assurance provision that has referenced the MAIB report and has links in with Home Office and HSE.

28. **WAH:** There had been another training incident and two injuries involving Northamptonshire FRS, this time around 2016. At this time, the NFRS reviewed its WAH arrangements and an action plan was put in place. This was followed by an internal re-audit in around 2019 to provide assurance that the necessary actions had been completed. All of this work was co-ordinated by the Service Health, Safety and Welfare Committee chaired by the Deputy CFO.
29. The reason that WAH was scoped for a further audit review in 2020/21 was because of the level of risk associated with the activity. As far as operational activities are concerned, WAH requires high levels of competence and strict working controls and therefore is worthy of periodic checking. It was therefore not a recent safety event that had prompted the audit, but rather a routine check that Fire Service's arrangements remain suitable and sufficient. Due to the technical nature of the activity the level of competence required to conduct an audit is also high which is why this had been scoped for specialist external review rather than being done internally.
30. However, the review planned for 2020/21 was delayed due to Covid-19 and therefore no internal assurance activities were able to take place to report on. However, the Head of Risk Assurance and Operational Training was planning a meeting with the Health and Safety Team and Operational Training Team to scope a specialist audit to review WAH functions in 2021/22.

Compliance with Government guidance on managing Covid-19 risk

31. As explained at para 12, as part of preparing this Annual Report and Assurance Map we asked the Risk and Assurance Manager about Compliance with Government guidance on managing the risk of Covid-19, and they helpfully provided the following detailed information, with evidence which we also reviewed.
32. The Fire Service carried out **station-specific risk assessments**, which were in line with current social distancing requirements etc, and a **HQ risk assessment**. The HQ risk assessment is within the 'Covid-19 library', a one-stop shop to access all relevant material. Other departments and workstreams have risk assessments too, to support tripartite working (as it was) and to facilitate continued acquisition courses etc at the Service Development Centre (SDC), where attendance for examinations has been required.
33. In October 2020, there was a **mandatory Covid-19 practice** for crews, and a document details protocols for working on station. There are Operational Information Notes (OINs) for operational activities, which provide details and protocols for safe working on the incident ground.
34. To reinforce safe practices within premises a suite of posters was designed and displayed, which include maximum room numbers (based on 2m), kitchen, toilet, corridor etiquette, hand sanitising etc.

35. As part of the HQ assessment a walk-round of the site was completed to note where posters, hand sanitisers etc were needed and where best to be located. All remained in line with current Government guidance.
36. A **Business Continuity Management Group (BCMG)** was set up to tackle Covid-19. It uses Microsoft office Planner Board as a repository for documents and to create plans and assign actions.
37. To support operational preparedness, risk and assurance staff only visited stations where it was vital to do so, especially during the full lockdowns to reduce unnecessary contact with crews. To assure that stations had implemented the controls, a form was prepared, which asked set questions and provided guidance.
38. Action cards for managers are in place to know what to do if illness is suspected. This is managed by the on-call group manager to ensure consistency and that queries would be answered any time of the day or night.
39. A **return to work assessment form** was made available for HQ as staff began to return to the workplace in line with Government guidance, and completed forms were assessed.
40. In August/September 2020, the Health and Safety Team ran a couple of Covid-19 clinics for staff to make an appointment to ask any questions, at a time when the original return to work was planned: unfortunately, lockdown restrictions were reimposed soon after.

Annual assurance mapping

41. In 2019, Ernst and Young requested that our Annual Reports in future covered the adequacy and effectiveness of the Fire Service's framework of corporate governance and risk management (as well as internal control). Internal Audit agreed, and from the time of the previous Annual Report has used assurance mapping to additionally assess corporate governance and risk management.
42. Assurance maps summarise, group, and rate evidence according to the so-called '**three lines model**':
 - 1st line – management policies, strategies, plans and controls
 - 2nd line – compliance oversight, especially committees
 - 3rd line – external assurance, mostly auditors and inspectors
43. **APPENDIX A** presents these assurance maps and assurance framework, with the evidence under 'positive assurance' or 'in development 2021/22' and concludes there have been:
 - **Strong corporate governance arrangements** in place and complied with. Strong assurance from internal and external reviews.
 - **Strong risk management framework** in place and complied with. Covid-19 risks accounted for promptly.

Performance of Internal Audit

44. A summary of Internal Audit performance is shown below:

Indicator	Performance
Job completion	4 of 5 assurance reviews completed (NRFS requested one deferral)
Days spent	The 82 planned days were fully utilised
Timeliness of reporting	3 draft reports before financial year-end; 1 after year-end
Recommendations	100% agreed
Action tracking	1 of 2 planned exercises, due to Covid-19
Auditor experience	73% senior auditor level or above deployed on Fire Service audits
Customer feedback	One client satisfaction score – 34 out of 40 – ‘Audit team always friendly and professional, the audit was carried out in the office during Covid and the Auditor was respectful of the Covid rules for NRFS.’

45. The Head of Internal Audit carries out an **annual self-assessment** of compliance against PSIAS. This incorporates the requirements of the Local Government Application Note (LGAN), which provides additional advice and guidance to providers of internal audit services to local government organisations, including fire authorities.
46. The outcome of the latest self-assessment is included in the Internal Audit Annual Report to NCC’s Governance and Ethics Committee on 23 June 2021 [\[link\]](#). It has been used to form the basis of the annual Quality Assurance and Improvement Programme (QAIP) for the service, which is set out at the end of the above report. Implementation of these improvements will apply equally to the work the Internal Audit Team carries out for the Fire Service.
47. In addition, the Internal Audit function is subject to an **External Quality Assessment (EQA)** once every five years. The most recent EQA was carried out in March 2018.
48. There has been discussion with the Head of Finance about **CIPFA’s 2019 edition of the Role of the Head of Internal Audit**. Comparison of the audit approach for the Fire Service has identified the following proposed actions to ensure continuous improvement:
- Drafting and adoption of an **Internal Audit Charter** for the Fire Service – this would go further than the contractual terms for the delivery of the internal audit service, setting out the status of the service within the wider governance framework of the Fire Service, along with clear statements about the relative roles and responsibilities of the Head of Internal Audit and the Fire Service senior management and Finance & Resources Committee.

- Formalise the approach to an **intelligence-based internal audit plan**, blending coverage of core processes and systems with more forward-focused audits of current developments and emerging trends.
- Linked to the above, **closer engagement** with the SLT and Chairman of the Finance & Resources Committee, to ensure the internal audit service is well aligned to deliver the most relevant and impactful assurance to management and the Board. It is proposed that this may be achieved through the Head of Internal Audit (or a senior member of the Team) attending meetings of the SLT periodically, alongside separate update meetings with the Chair of the Finance & Resources Committee.

Audit plan – 2021/22

49. **APPENDIX B** presents the annual plan for 2021/22. It also shows aspects of the assessment and planning process, namely:
- The audit universe – consists of all previous audits and other potential audits
 - Audits selected from the audit universe
 - Audit need assessment scores and ratings
 - The last financial year when every audit process was audited, where applicable
 - Feedback during consultation with the Fire Service, together with audit comments
 - The number of chargeable days for delivery of each of the planned audit reviews, plus action tracking, assurance mapping, annual reporting, other client management and planning, and a contingency allocation.

Proposed developments for 2021/22

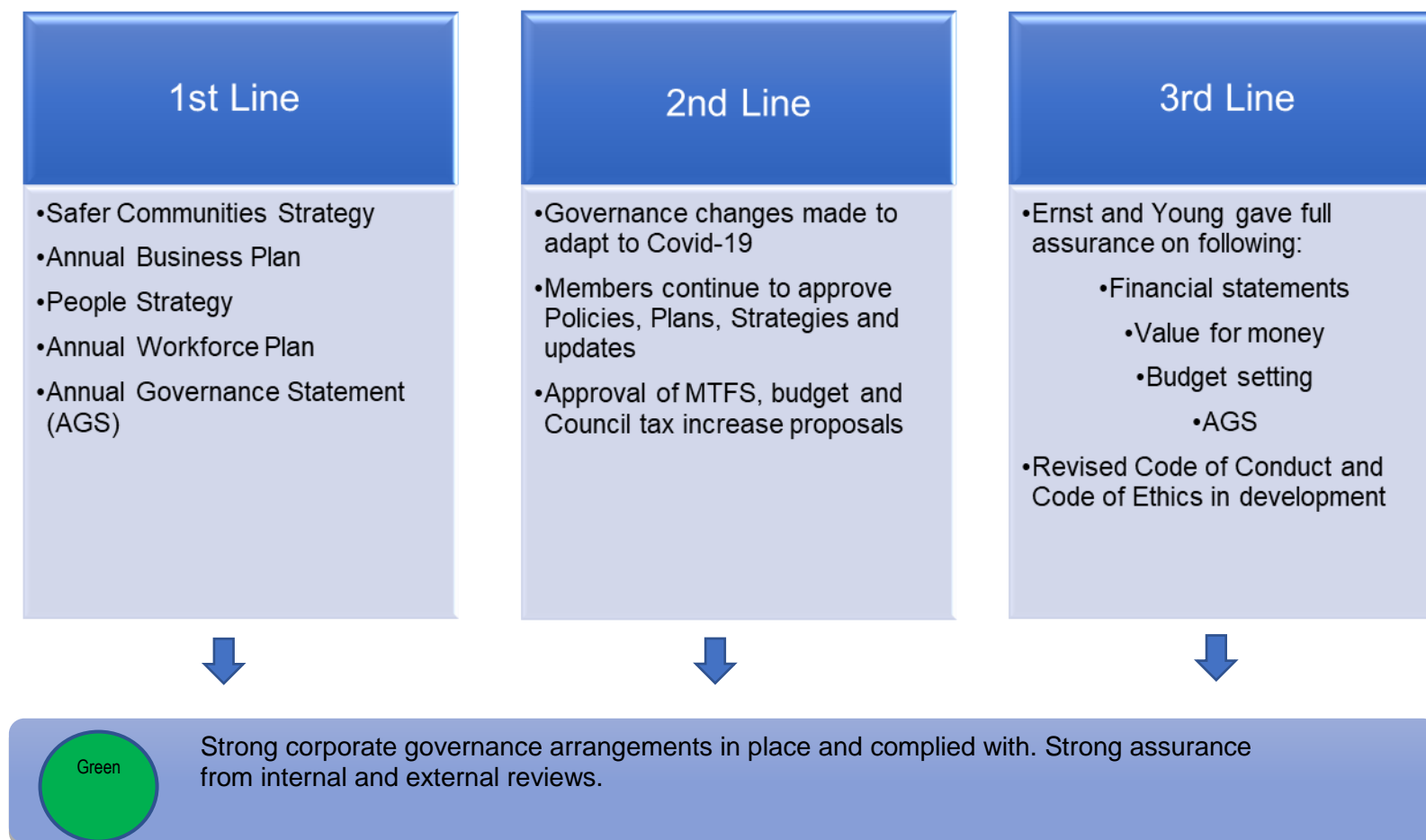
50. **Arising from the assessment against the CIPFA Guide on the role of the head of internal audit, the following actions are proposed:**
- Draft an Internal Audit Charter for consideration and adoption by the SLT and the Finance & Resources Committee**
 - Formally agree a revised approach to audit planning**
 - Strengthen engagement through periodic meetings between the Head of Internal Audit and the Chair of the Finance & Resources Committee and the SLT.**





Philip Dent, Audit Supervisor
Dee Johal, Graduate Trainee (assurance map)

Rob Disney, Group Manager, Assurance (as Head of Internal Audit)

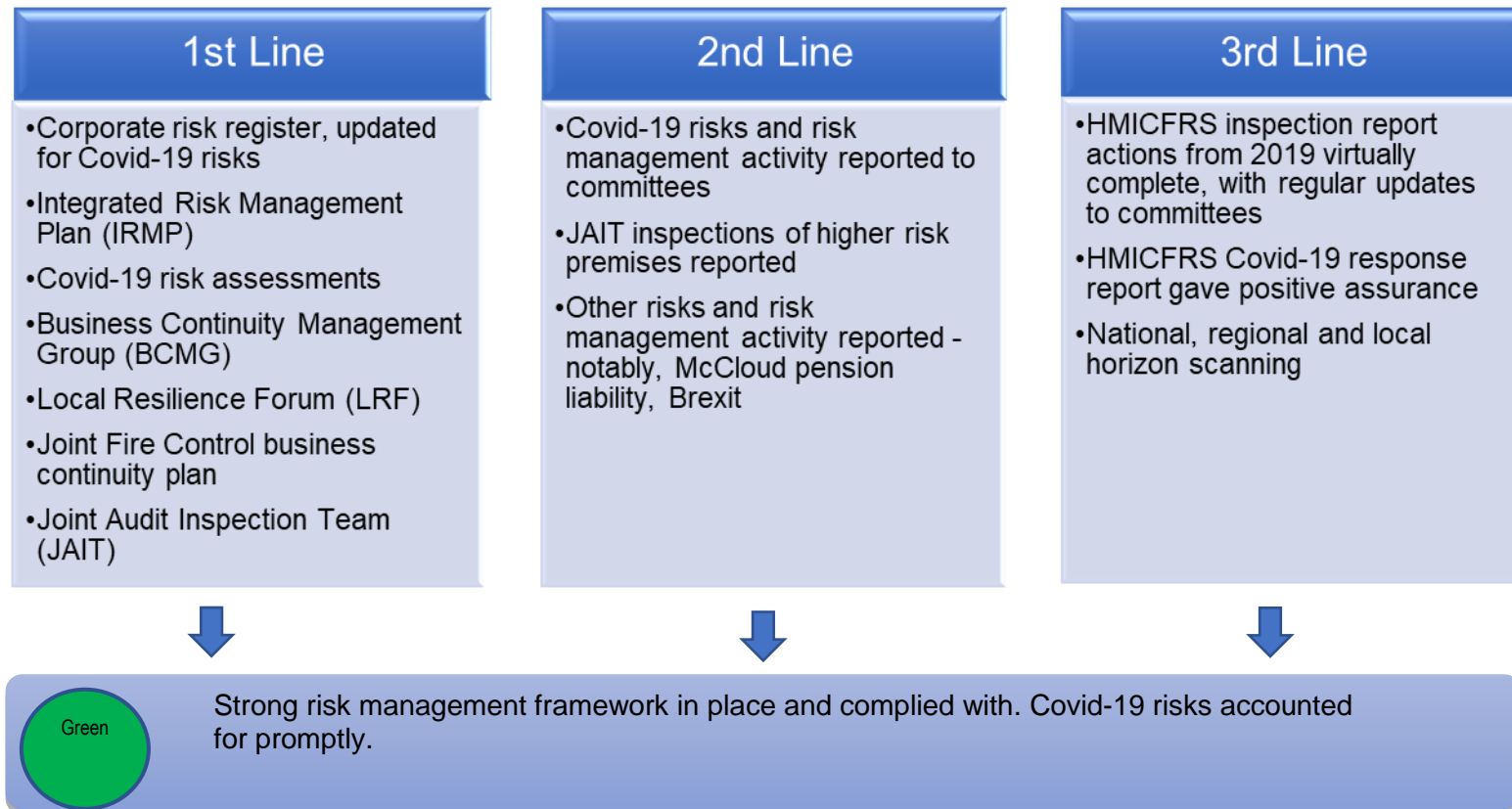
Assurance Maps and Framework






1. Corporate governance



1. Corporate governance		
1 st Line	2 nd Line	3 rd Line
 Positive Assurance <ul style="list-style-type: none"> ➤ FRA and Committees continued where possible with provisions made to hold meetings virtually and accessible to public ➤ Safer Community Strategy (2019-22) in place ➤ Annual Business Plan in place ➤ People Strategy (2020-22) developed, including new performance and development review (PDR) policy ➤ Developing Annual Workforce Plan <ul style="list-style-type: none"> ➤ NFRS part of working groups for Equality, Diversity and Inclusion Strategy and National Code of Ethics 	 Positive Assurance <ul style="list-style-type: none"> ➤ <i>Policy and Strategy Committee, May 20</i> – Authority governance changes approved due to Covid-19; under section 78 of Coronavirus Act 2020. ➤ Chair of CFA creates Group Leaders' Forum for urgent business and budgetary decisions, and to keep members informed during pandemic ➤ <i>CFA, Feb 21</i> – Annual plan/Year 3 strategic actions approved ➤ <i>HR Committee, Jan 21</i> – Addressing diversity, leadership skills and workforce culture through People Strategy developed in line with HMICFRS recommendations ➤ <i>HR Committee, Jan 21</i> – Addressing workforce sustainability through Annual Workforce Plan to mitigate loss of knowledge due to retirement turnover ➤ <i>CFA, Nov-20</i> – approval of Medium-Term Financial Strategy (MTFS) 2021/22 to 2024/25, Annual Governance Statement, and Annual Report of Information Governance ➤ <i>Finance and Resources (F&R) Committee, Jan 21</i> - Value for money performance monitored <ul style="list-style-type: none"> ➤ <i>FA, Feb 21</i> – Budget and Council Tax increase for 2021/22 approved 	 Positive Assurance <p>Ernst and Young Annual Audit letter for year ended 31/3/20: -</p> <ul style="list-style-type: none"> ➤ Financial statements and Firefighter's Pension Fund – Unqualified, financial statements give true and fair view of financial position at 31/3/20 and of its expenditure and income ➤ Other information published with financial statements consistent with Annual Accounts ➤ Proper arrangements to secure value for money in use of resources. when reviewed against CIPFA/ SOLACE guidance ➤ Process for setting budget is sound. ➤ Annual Governance Statement (AGS) consistent with their understanding of FRA  In development, 2021/22 <ul style="list-style-type: none"> ➤ Revised Code of Conduct, incorporating Code of Ethics went to SLT for comment and to be presented to Committee in autumn 2021

2. Risk management



2. Risk management		
1 st Line	2 nd Line	3 rd Line
<p> Positive Assurance</p> <ul style="list-style-type: none"> ➤ Corporate risk register is up to date and updated for Covid-19 response and recovery ➤ IRMP for 2019-22 in place ➤ Enacted Learning log from Covid-19 and interim debrief undertaken ➤ Station and HQ risk assessments and creation of BCMG ➤ Risk-based approach adopted during Covid-19 for safe and well visits (SWVS) and community engagement ➤ Business continuity table-top exercises ➤ Active part in Nottingham and Nottinghamshire's LRF, sharing information and learning ➤ Joint Fire Control business continuity plan with local fire authorities to mitigate risks ➤ Joint Audit and Inspection Team (JAIT) in place ➤ Roll out of Level 3 Fire Safety qualification to Supervisory Managers ➤ Marine Accident Investigation Branch's Milford Haven report evaluated, and action plan agreed with Operational Learning Board ➤ Appointment of new pension fund administrators, Dec 20 <p>In development, 2021/22</p> <ul style="list-style-type: none"> ➤ Undertaking Fire Cover Review (comprehensive risk analysis of the county) to inform updates to new Strategic Plan 2022-25. 	<p> Positive Assurance</p> <ul style="list-style-type: none"> ➤ <i>F&R Committee, Mar 21</i> – Risk management activity reported, and regular reports to SLT ➤ <i>Community Safety (CS) Committee, Jan 21</i> – Triaging process implemented, based on CHARLIE matrix. High and very high-risk members of community still visited by Persons at Risk Team, wearing specialist protective equipment, to complete SWVs ➤ <i>CS Committee, Jan 21</i> - Suspended operational exercise programme due to Covid-19 restrictions. Instead table-top exercises undertaken to ensure crew familiarity with local challenges e.g. local fire, flood, lockdown risks ➤ <i>CS Committee, Jan 21</i> - Covid-19 partnership work with East Midlands Ambulance Service (EMAS), NHS Hospital Discharge Team, NCC and Clinical Commissioning Groups (CCGs) for vaccinations roll out ➤ <i>CS Committee, Mar 21</i> – JAIT inspected over 100 higher risk premises under joint legislation and engaged with premises' owners, from advice to enforcement ➤ <i>CS Committee, Mar 21</i> – Level 3 Fire Safety qualification will enable response crews to undertake business safety checks, freeing up capacity for Fire Safety Inspectors <p> In development, 2021/22</p> <ul style="list-style-type: none"> ➤ Impact monitoring of McCloud age discrimination liability situation by Scheme Manager and Local Pension Board with regular updates to committees. 	<p> Positive Assurance</p> <ul style="list-style-type: none"> ➤ HMICFRS inspection report (Sept 19) - 24/25 actions for improvement now completed. Solution identified for remaining action on reliability of mobile data terminals (MDTs) on appliances ➤ HMICFRS Covid-19 response report gave positive assurance. Advised areas of focus for wider sector, being explored with HMICFRS Service Liaison Lead for incorporation into future plans <p> In development, 2021/22</p> <ul style="list-style-type: none"> ➤ Grenfell Tower Inquiry report, Feb 21, being reviewed to assess possible risk mitigative actions for NFRS ➤ Interim evaluation report from NTU, Dec 20, regarding SWVs to inform revised 'Safer Communities Strategy' ➤ Working towards Business Continuity Institute accreditation ➤ Scoping for specialist external audit for reviewing 'working at height' ➤ CIPFA preparing further accounting guidance to support accounting for McCloud liability

**NCC Internal Audit - Audit Need Assessment and Annual
Audit Plan 2021-22 for NFRS**

Appendix B

Audits selected from audit universe (yellow background)	Score	Need rating	Year last audited	Client consultation feedback & audit comments	Plan days	When
Partnerships & collaboration	67	High	2018/19	No audit required by client		
Pensions	64	High	2018/19	Head of Finance agreed - New pension administrator	15	T2
Corporate governance	63	High	2018/19	No audit required by client		
Business continuity planning*(* = new)	61	High	NONE	Have appointed external advisors to help with this		
Risk Management	61	High	2016/17	No audit required by client		
ICT control environment	60	High	2019/20	Defer to 2022-23 - New collaborative arrangements will be disruptive; developments with ISO cyber security & Cloud		
Cardiff checks & analytical review	59	Medium	2020/21	Recent audit		
Ethical policies & procedures*	59	Medium	NONE	Head of Finance agreed - New area of audit	10	T2
Property & premises - facilities management	58	Medium	2020/21	Audit deferred from 2020/21 to 2021/22	15	T1
Treasury management	56	Medium	2020/21	Audit in progress		
Performance Management	56	Medium	NONE	Head of Finance agreed - New dashboards; reporting in statement of accounts; verify	10	T1

				information sources		
Asset management - Asset disposal procedures	48	Medium	2017/18	Asset disposal procedures, including counter-fraud measures	10	T2
Contract management	55	Medium	2018/19	Within last three years; Head of Finance requested audit in 2022/23		
People management - Policies & procedures*	55	Medium	NONE	Have reported on gender equal pay; have staff surveys; have workforce plan		
Project Management	55	Medium	2017/18	No audit required by client		
Retained Fire Station Payment Processes	55	Medium	2016/17	No audit required by client		
Purchasing & creditor payments	54	Medium	2020/21	Audit in progress		
Energy management*	52	Medium	NONE	In middle of changing energy supplier; have solar panels		
Income, recharges & debtors	52	Medium	2017/18	Much less income as no training centre, no Princes Trust, less hire, only a few recharges		
Payroll & iTrent	52	Medium	2017/18	Proposed late substitute for travel claims audit - agreed with Head of Finance	10	T1
Capital programme controls	49	Medium	2019/20	Recent audit		
Financial management	48	Medium	2018/19	Head of Finance requested Compliance with CIPFA Financial Management Code	10	T1
Training records & Redkite system	48	Medium	2018/19	Within last three years		
GDPR compliance & information security	48	Medium	2019/20	Recent audit		

Members/ officers Expenses & allowances	48	Medium	2018/19	Within last three years		
Counter-fraud - Policies & procedures	46	Medium	2015/16	No audit required by client		
Site security	46	Medium	2019/20	Recent audit		
Transport policies & contracts	46	Medium	2015/16	No audit required by client		
VAT controls*	45	Medium	NONE	PS Tax Consultancy did an audit 2 years ago		
Policy Management	42	Medium	NONE	Defer to 2022/23 - –MI identified some policies due review; reviews have fallen off due to Covid-19		
Fuel - Repots	36	Low	2019/20	Low risk only - recent audit		
Purchase card use & management	36	Low	2020/21	Low risk only - audit report issued recently		
Safeguarding Policies & Procedures*	34	Low	NONE	Low risk only - have DBS checks & training; visit homes but not alone		
Station Audits & Monitoring*	30	Low	NONE	Low risk only - Robust process in place		
Action tracking - Previous recommendations			Annual	Examining management updates, testing and reporting	10	T3
Assurance mapping and annual audit report			Annual	Annual assurance mapping and reporting	10	T1-T3
Client management and planning			Annual		7	T1-T3
Total days (92 contract days + 15 days b/fwd)					107	



Internal Audit Report

Report ref: 2020-03

OFFICIAL SENSITIVE

To: Head of Finance NFRS

Subject: NFRS - Treasury Management

Date: March 2021

1 Introduction

- 1.1 An audit of Treasury Management activity for the period April 2019 to date has been undertaken in accordance with the audit plan.
- 1.2 Treasury management encompasses the management of the Fire Authority's 'investments and cashflows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2 Audit opinion

- 2.1 In the areas examined, we assessed the controls to determine to what extent the risks are being mitigated.
- 2.2 In our opinion the level of assurance we can provide is: -



SUBSTANTIAL ASSURANCE Risk levels are low

3 Risk areas examined

- 3.1 During this audit we looked for controls to address the following key risks: -

3.2

<i>Ri Risk title</i>	<i>Description</i>
Planning and decision making	NFRS may take investment decisions without reference to strategy or acceptable risk criteria resulting in a lack of cash to meet its financial obligations.
Investment and borrowing risk	NFRS may make investments and borrowings outside of its legal and regulatory powers and/or invest in financially unstable organisations.
Security and recording of investment transactions	Investment transactions may be unauthorised, transacted over an insecure medium and inaccurately recorded.
Procurement of financial services	The procurement of financial services may not comply with Financial Regulations or Public Sector statutory requirements.

3.3 The scale of the area reviewed is: -

<i>Metric</i>	<i>2018/19 actual</i>	<i>2019/20 actual</i>
<i>External debt (£m)</i>	29.6	28.5
<i>Investments & cash equivalents (£m)</i>	12.5	10.7
<i>Net debt position</i>	17.1	17.8

4 Audit findings

4.1 Following our work, and with reference to the Statement of Accounts 2019/2020 we consider the controls to be effective in the following risk areas: -

- Risk exposure:- A low risk approach to investments is adopted in accordance with approved Treasury Management Policy and Strategy. Investments are spread across a number of counter-parties and do not exceed approved limits.
- Forecasting:-Treasury management investment and borrowing activity is underpinned by satisfactory forecasting models and the engagement of independent professional advice.
- Business continuity:-Treasury management operations have continued without interruption during the pandemic and satisfactory control has been maintained.
- Reporting to the Fire Authority - Reports on Treasury management performance and compliance with the Prudential Code are comprehensive, detailed and regular.

4.2 There was one control weaknesses and no failures to comply with the standard controls, resulting in a remaining risk. The attached Action Plan sets out this weakness and our recommendation to address it.

- 4.3 A summary of the recommendations made, together with brief details of the related findings, is set out below: -

<i>Priority level</i>	<i>Number of Recommendations</i>	<i>Recommended action timescales</i>
Priority 1	0	Immediate
Priority 2	1	Within two months

Priority 2 areas:

- Treasury Management procedure notes are in need of updating.

4. addition to the findings presented in the Action Plan, advisory actions were discussed with management relating to the currency of the Bank Mandate maintained by the bank.

**Audit conducted by: Ian Munro
Senior Auditor**

**Audit supervised by: Philip Dent
Audit Supervisor**

Simon Lacey, Audit Manager

Audit Finding	Recommendation	Management Response
Priority 2 areas (Highly desirable for effective internal control, should implement recommendations to improve existing control arrangements)		
1. easury management procedure notes 31. Draft procedure notes dating back to 2014 require updating to reflect current practices. We understand that this has been recognised by the Assistant Head of Finance and will be addressed in 2020/2021. Risk: Knowledge is not captured to ensure business continuity in the event of a loss of personnel.	That core system procedure notes are reviewed annually for currency.	Response Accepted Date for implementation 31 July 2021 Officer responsible for implementation Assistant Head of Finance



Internal Audit Report

Report ref: 2020-04

To: Chief Fire Officer

OFFICIAL SENSITIVE

Subject: NFRS - Cardiff Checks

Date: June 2021

1 Introduction

- 1.1 As part of the audit programme, Internal Audit carry out a Cardiff Checks review every two years. This is a comprehensive audit of all aspects of procurement and payments relating to the previous financial year (ie 2019/20) and includes a small number of transactions.

An initial analytical review of non-payroll transactions was undertaken to provide an overview of areas of significant expenditure. An in-depth analysis was carried out for four transactions (total value of £92,702.08) in the sample to establish whether they had been correctly procured, were for valid transactions and that financial procedures had been fully complied with. Authorisation pathways in the Agresso financial system were reviewed for compliance with ordering and invoice payment rules and all associated transaction records available were reviewed. An audit of Purchasing and Creditor Payments (ref 2020-02) was also carried out earlier in the year and examined the processes and general controls around purchasing and payment. Data analysis is detailed in Appendix A and transaction samples are detailed in Appendix B.

- 1.2 The purpose of our review is to provide assurance that transactions comply with NFRS processes and procedures.

2 Audit opinion

- 2.1 In the areas examined, we assessed the controls to determine to what extent the risks are being mitigated.
- 2.2 In our opinion the level of assurance we can provide is: -

**SUBSTANTIAL ASSURANCE****Risk levels are low**

3. Risk areas examined

3.1 During this audit we looked for controls to address the following key risks: -

<i>Risk title</i>	<i>Description</i>
Requisition and Procurement Processes	Requisition and procurement processes do not comply with Financial Regulations and requirements.
Value For Money	Prices paid do not accord with contracted amount or do not offer value for money.
Goods/Services Received	Goods/services not received or adequately accounted for.
Invoices Processing	Invoices may not be processed properly and authorised before payment is made.
Budgeting	Inadequate budget to purchase goods or services or inaccurate use of budget codes.

3.2 The scale of the area reviewed is: -

Metrics	2019/20 Non Pay Expenditure
Procurement Card Payments	£93,979
Total Invoice Payments	£9,001,316

4. Audit findings

4.1 **Data Analysis** – From our data analysis in Appendix A, we were able to identify the highest areas of spend by amount. Table 1 of our analysis identified 10,097 non-pay transactions totalling £9.001m in the year. 32% of this spend was on five key budget areas shown on the chart. Table 2 identifies the highest amounts of spend by provider and these five providers represent 44% of the overall spend. Further analysis in Table 3 shows all transactions (excluding building works) that are over £30k. A number of large recurrent payments to the same provider, for example for computer software maintenance were identified. We confirmed with the Contracts Register that where appropriate, contracts existed for these supplies, indicating contract rules had been complied with. Analysis was also undertaken, to identify transactions without a purchase order (or a zero in the purchase order column, indicating no purchase order number had been picked up in Agresso). We excluded any items which appear on the exempt list or are part of a larger contract and using pivot tables, compiled a list of 23 transactions across 8 suppliers that were not supported by a purchase order. These only amounted to £2,667.59, but the reason for not completing a purchase order is unclear.

4.2 Following our sampling and data analysis, and with reference to the other sources of independent assurance that were available, we consider the controls to be effective in the following risk areas: -

- **Requisition and Procurement Processes** - Testing confirmed that for our sample, financial regulations and procedures were complied with and

purchases had been made in accordance with business needs. Purchase orders were raised for all transactions examined with requirements outlined clearly and valued within the maximum specified for the requisitioner. Committee approval had been obtained where required.

- **Value for money** - We confirmed that business cases were completed and Committees informed where required by financial regulations. Tendering exercises had taken place, with the lowest price accepted, with the exception of one transaction, which was awarded to the second lowest bid due to a tender scoring exercise.
- **Goods/Services Received** – Goods receipt notes (GRNs) were generally completed were applicable, however, see action plan for one exception.
- **Invoice Processing** - Payments made were generally in accordance with the specified contract values, no duplicate payments were identified. Images of invoices were obtained with sufficient detail. Invoice processes on Agresso confirm the invoices have been processed in accordance with payment limits.
- **Budgeting** - We confirmed that the items have been charged to the correct budget codes and all budgets used were not overspent.

4.3 There were two failures to comply with the standard controls, resulting in remaining risks. The attached Action Plan sets out these weaknesses, and our recommendations to address them.

4.4 A summary of the recommendations made, together with brief details of the related findings, is set out below:-

<i>Priority level</i>	<i>Number of Recommendations</i>	<i>Recommended action timescales</i>
Priority 1	0	Immediate
Priority 2	2	Within two months

Priority 2 areas:

- Goods/Services Received - A transaction was identified where the GRN was dated before a confirmation order had been raised in Agresso.
- Purchase orders are not always used when entering into a contract to purchase goods and services.

4.4 No advisory actions were discussed during the audit.

Audit conducted by: Emily Jackson
Apprentice Internal Auditor

Audit supervised by: Angela Wendels
Senior Auditor

Rob Disney, Group Manager Assurance

Audit Finding	Recommendation	Management Response
Priority 2 areas (Highly desirable for effective internal control, should implement recommendations to improve existing control arrangements)		
1. Goods/Services Received A transaction was identified where the GRN was dated before a confirmation order had been raised in Agresso. Payment to A&S Enterprises for £42,181.73 - GRN Number 7052500 confirms the order was received on 5/8/19, however, the order date is 28/8/19 and post-dates the GRN, Invoice dated 29/7/19. The Invoice refers to PO FS11041629. Risk: Financial commitments may not be approved by the budget holder. Suppliers and providers may not comply with the terms and conditions of the order.	The requisitioner should ensure purchase orders are raised in Agresso and issued before the receipt of the goods ordered or services provided.	Response Reminder to be included in Informative bulletin and situation monitored by Finance team over next 2 months. Date for implementation July/August 2021 Officer responsible for implementation Assistant Head of Finance
2. Use of Purchase Orders In accordance with Financial Procedures, purchase orders should generally be used to procure goods and services except where an exemption exists. Whilst purchase orders are generally used, our analysis showed there was a small number of instances where this was not the case. Risk: It may be possible to enter into commitments which are not recorded in Agresso until the invoice is received.	Management should review where purchase orders were not used for the 8 suppliers identified to determine whether the reasons were valid and if this is not the case, the relevant staff should be reminded of the requirements.	Response Finance team reminded to return any invoices to originator to ensure that PO is raised. Date for implementation July 2021 Officer responsible for implementation Assistant Head of Finance

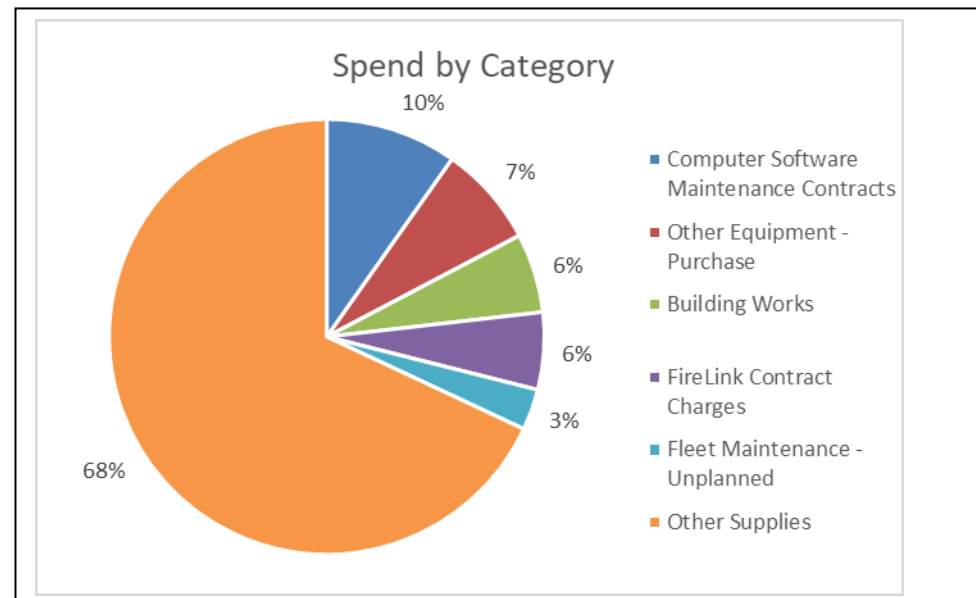
NFRS Cardiff Checks Audit Draft Report – Appendix A

Data Analysis

The table and chart below show the top five categories of spend in relation to the £9.001m of spend (10,097 transactions). These five categories amount to 32% of the total spend :-

Table 1

Category	Sum of Amount
Computer Software Maintenance Contracts	£ 879,805.47
Other Equipment - Purchase	£ 677,052.11
Building Works	£ 530,297.44
Fire Link Contract Charges	£ 516,352.27
Fleet Maintenance - Unplanned	£ 273,966.42
Other Supplies	£ 6,123,842.39
Grand Total	£ 9,001,316.10



NFRS Cardiff Checks Draft Report – Appendix B

The following table shows the four transactions that were selected as a sample to carry out Cardiff Checks upon:-

	Trans No	Trans Date	Account	Supplier	Account	Cat	Category	Explanation	Amount
1	9085131	29/07/2019	C101	A & S Enterprises Ltd	Building Works	4102	Strategic New Build Projects	3rd invoice for works carried out at Hucknall EMAS	£ 42,181.73
2	9086490	08/10/2019	4105	Ricoh UK Ltd	Photocopier	2090	Information Technology	NFRS Printer Usage 01 Jul - 30 Sept 2019	£ 9,491.15
3	9086726	22/10/2019	4004	Delta Fire	Fire Hose and Couplings	2084	Engineering	100+60 x Nova Ultraflex	£ 20,529.20
4	9086102	02/10/2019	3103	Keltruck Limited	Fleet Maintenance - Unplanned	2084	Engineering	FJ56 FKA Build and fit body	£ 20,500.00



Internal Audit Report

Report ref: 2020-01

To: The Chief Fire Officer

OFFICIAL SENSITIVE

Subject: NFRS - Purchase Cards

Date: November 2020

1 Introduction

- 1.1 The purpose of the audit was to review internal controls and test compliance with applicable policy and procedures related to purchasing cards.
- 1.2 This report sets out the findings and recommendations arising from a review of the Fire & Rescue Service's purchase card system.

2 Audit opinion

- 2.1 In the areas examined, we assessed the controls to determine to what extent the risks are being mitigated.
- 2.2 In our opinion the level of assurance we can provide is: -



REASONABLE ASSURANCE

Risk levels are acceptable



3 Risk areas examined

- 3.1 During this audit we looked for controls to address the following key risks: -

<i>Risk title</i>	<i>Description</i>
Application and Management of Cards	The issue and management of purchase cards may not be carried out in accordance with agreed procedures.
Card Misuse and Fraud	Purchase authorisation and card use may not be compliant with the scheme or fraudulent usage may occur.
Transaction Log Verification	Transaction logs may not be properly and accurately verified.
Circumvention of Ordering Controls	The use of purchase cards may not be appropriate to the scheme.

3.2 The scale of the area reviewed is: -

<i>Metric (provided by FRS)</i>	<i>2018-19</i>	<i>2019-20</i>
<i>Annual Expenditure</i>	<i>£98k</i>	<i>£104k</i>
<i>No of Card Holders</i>	<i>51</i>	<i>41</i>

4 Audit findings

4.1 Following our work, we consider the controls to be effective in the following risk areas: -

- Application and Management of Cards - A comprehensive record of purchase card holders is maintained, and cards have been set up in accordance with specified spend limits.
- Application and Management of Cards - All purchase card applications are authorised and requested by Finance. Card limit changes are only authorised by designated senior officers in Finance and purchase card holders cannot change their own limits.
- Card Misuse and Fraud - There are processes in place to investigate and record on the non-compliance log any instances of card misuse. This log includes a four-step process related to continual non-compliance, should it occur.
- Circumvention of Ordering Controls - Goods or services purchased complied with spend limits. Furthermore, though there were few high value transactions made on purchase cards, all appear valid and the majority were during the early stages of the Covid-19 pandemic, to buy essential supplies. Sample testing confirmed that cards examined had been used appropriately.

4.2 There were some control weaknesses and one failure to comply with the standard controls, resulting in remaining risks. The attached Action Plan sets out these weaknesses, and our recommendations to address them.

4.3 A summary of the recommendations made, together with brief details of the related findings, is set out below: -

<i>Priority level</i>	<i>Number of Recommendations</i>	<i>Recommended action timescales</i>
Priority 1	1	Immediate
Priority 2	3	Within two months

Priority 1 areas:

- Purchase Card Cancellation - Purchase cards are not always cancelled promptly when staff leave the Fire Authority.

Priority 2 areas:

- Application Process - Testing identified three cases, from a sample of 14 card holders, whereby spend limits had not been specified on the application form submitted to Finance.
- Confirmation of Receipt and Acceptance of T&Cs - 28% of card holders sampled did not appear to have a signed form confirming the receipt of the card or had not signed the terms and conditions which is required prior to use.
- Transaction Logs and Receipts - Some transaction logs had not been signed off by the card holder and line manager, and in some cases, there was insufficient evidence related to VAT being reclaimed.

4.4 In addition to the findings presented in the Action Plan, advisory actions were discussed with management relating to:

- some monthly logs being incomplete;
- the monitoring and reviewing of temporary card limit increases;
- the retention of sufficient records for cards that had been compromised previously;
- transaction posting.

**Audit conducted by: Patrick Hoban
Apprentice Internal Auditor**

**Audit supervised by: Angela Wendels
Senior Auditor**

Rob Disney, Group Manager Assurance

Audit Finding	Recommendation	Management Response
Priority 1 areas (Essential for effective internal control, must implement recommendations to improve existing control arrangements)		
<p>1. Purchase Card Cancellation</p> <p>An examination of the records maintained to record card holder details, revealed eight cases where the card had been cancelled due to the card holder leaving (or changing role). The records show that four cards were not cancelled promptly (within a couple of months of the person leaving the Fire Authority). Furthermore, as seven of the eight cards were cancelled on the same date (24/2/20) this suggests an incomplete card holder record and that prior to February 2020 this was not regularly or promptly checked.</p> <p>Risk: Potential inappropriate use of cards by former employees or others, meaning a lack of spend control.</p>	<p>The Finance Team should notify the bank immediately when a card holder leaves, or a card needs to be cancelled, to prevent inappropriate use. The card holder list held by Finance should then be updated and periodically checked for accuracy.</p>	<p>Response</p> <p>Monthly procedures are now in place to check for cards that need cancelling and cards no longer needed will be cancelled promptly.</p> <p>Date for implementation</p> <p>With immediate effect.</p> <p>Officer responsible for implementation</p> <p>Accountancy Assistant</p>
Priority 2 areas (Highly desirable for effective internal control, should implement recommendations to improve existing control arrangements)		
<p>2. Application Process</p> <p>From a sample of 14 card holders, we identified three cases whereby spending limits had not been specified on the application form submitted to Finance.</p> <p>Risk: Spend limits may be inappropriate or exceed the card holder's authority.</p>	<p>Spend limits should be specified at the point of the Purchase card application.</p>	<p>Response</p> <p>Agreed.</p> <p>Date for implementation</p> <p>With immediate effect.</p> <p>Officer responsible for implementation</p> <p>Assistant Head of Finance</p>

Audit Finding	Recommendation	Management Response
<p>3. Confirmation of Receipt and Acceptance of T&Cs</p> <p>From our testing we found four out of the 14 card holders did not have a signed form confirming the receipt of the card and the agreed terms and conditions of use. Staff are required to confirm receipt of the card and sign the terms and conditions of use before issue.</p> <p>Risk: Staff using purchase cards are not properly aware of the requirements of card use, which could lead to improper use.</p>	<p>Purchase cards should only be issued to staff once they have been briefed, understand the terms and conditions of use and the relevant form has been completed and returned to Finance.</p>	<p>Response</p> <p>Agreed. Some of missing records may be held on Personnel Files, but difficult to check due Covid-19 lockdown and staff not being in HQ.</p> <p>Date for implementation</p> <p>With immediate effect.</p> <p>Officer responsible for implementation</p> <p>Assistant Head of Finance</p>
<p>4. Transaction Logs and Receipts</p> <p>We examined the transaction logs for three months and found 5/36 card holders did not provide receipts for all transactions. Furthermore, we found 9/36 of cards sampled did not have the monthly logs signed off by the card holder and line manager. 26/36 of the transaction logs examined included transactions subject to VAT, however seven claims either had insufficient evidence or had the incorrect VAT amount when comparing the invoices and the monthly transaction logs.</p> <p>Risk: The FRS may contravene HMRC VAT requirements which could result in VAT being reclaimed inappropriately and could therefore lead to fines.</p>	<p>Where receipts are not provided there should be a documented and valid reason, however, receipts should be retained for all transactions in line with the policy. All monthly logs should be signed off by the card holder and their line manager in all instances.</p> <p>VAT reclaimed for purchase card transactions should match the amount payable on the receipts and evidence in relation to the VAT payment should be obtained from the card holder.</p>	<p>Response</p> <p>Agreed to check in future. However, sometimes Finance team fill in codes to assist claimants who may be claiming directly from an incident.</p> <p>Date for implementation</p> <p>With immediate effect.</p> <p>Officer responsible for implementation</p> <p>Assistant Head of Finance</p>



Internal Audit Report

Report ref: 2020-02

To: The Chief Fire Officer

OFFICIAL SENSITIVE

Subject: NFRS - Purchasing & Creditor Payments

Date: February 2021

Introduction

- 1.1 This report sets out the findings and recommendations arising from a recent review of the purchases and creditor payments transacted through the NFRS Finance function.

Our audit review was based upon an analytical approach, focussing on higher risk, high value or high volume data populations, payments out of tolerance of purchase orders. We also have considered the additional risks due to the Covid crisis which have impacted upon service delivery arrangements.

- 1.2 The objective of the system is to ensure that purchases are made in accordance with financial procedures, only by authorised employees, within budget to approved suppliers on agreed contractual terms.

2 Audit opinion

- 2.1 In the areas examined, we assessed the controls to determine to what extent the risks are being mitigated.
- 2.2 In our opinion the level of assurance we can provide is: -



REASONABLE ASSURANCE Risk levels are acceptable



3 Risk areas examined

- 3.1 During this audit we looked for controls to address the following key risks: -

<i>Risk title</i>	<i>Description</i>
Purchase Orders	Official orders may not be placed or authorised, or inappropriate goods and services may be purchased or accepted.

<i>Risk title</i>	<i>Description</i>
Fraud Prevention	Controls may not prevent fraudulent payments from being made, monies being lost or additional costs incurred.
Value For Money	Goods and services purchased may not satisfy the organisation's requirements, or the supply may not comply with Financial Regulations.
Invoice Payment	Inaccurate or invalid invoices may be paid or amounts on order may be out of tolerance with invoice.
Transaction Processing	Unauthorised changes to transactions, payees or amounts or corruption of the accounting system may result in lost or inaccurate data.

3.2 The scale of the area reviewed is: -

Metric	Sept 2019 – Sept 2020
Non-pay Expenditure (£m)	£9.051
Number of Transactions	9,469

4 Audit findings

4.1 Following our work, and with reference to the other sources of independent assurance that were available, we consider the controls to be effective in the following risk areas: -

- **Purchase Orders** - Unique purchase orders are raised in the system in over 99% of cases, except where an exemption applies. Separation of duties exist within the purchase order system, with additional approval needed from Finance for purchases over £10k.
- **Fraud Prevention** - The Counter Fraud, Money Laundering, Corruption and Bribery Policy - POL 3019 was updated in 2018 and shared with staff. Subsequent material has been posted on the intranet for International Fraud Awareness week - November 2020 and robust validation procedures exist for the addition or amendment of supplier bank details before payments can be made.
- **Invoice Payment** - System checks have been built into Agresso to flag up payments without a purchase order or GRN, or any payments that appear to be duplicates.
- **Transaction Processing** - Independent pre and post payment checks are made when the BACS process is run, with separation of duties in relation to the processing and authorising of payments. All transactions are reconciled to the bank monthly.

4.2 There were some control weaknesses and some failures to comply with the standard controls], resulting in remaining risks. The attached Action Plan sets out these weaknesses, and our recommendations to address them.

- 4.3 A summary of the recommendations made, together with brief details of the related findings, is set out below: -

<i>Priority level</i>	<i>Number of Recommendations</i>	<i>Recommended action timescales</i>
Priority 1	1	Immediate
Priority 2	1	Within two months

Priority 1 areas:

- Tendering requirements may not have been adhered to in some cases or contracts may have expired.

Priority 2 areas:

- Some payments made were out of tolerance with purchase order values.

- 4.4 In addition to the findings presented in the Action Plan, advisory actions were discussed with management relating to:

- A small number of cases where purchase orders were raised when or after the invoice had been received, not prior.

**Audit conducted by: Angela Wendels
Senior Auditor**

**Audit supervised by: Philip Dent
Audit Supervisor**

Rob Disney, Group Manager Assurance

Audit Finding	Recommendation	Management Response
Priority 1 areas (Essential for effective internal control, must implement recommendations to improve existing control arrangements)		
<p>1. Value for Money It has not been possible to confirm that tendering arrangements and the obtaining of quotes is in accordance with Financial procedures for all purchases where the annual spend is over £50k.</p> <p>Our analysis showed that over 75% of all non-pay expenditure related to around 30 companies.</p> <ul style="list-style-type: none"> • Eight suppliers were identified where the aggregate 12 month spend with that supplier exceeded £50k but none of these suppliers were recorded in the contracts register). • Six suppliers were listed on the contracts register but the value of spend exceeded the amount specified on the contracts register, for example, for AJG the contract value was £12k but the spend between September 2019 and September 2020 was £422k. • Four of the contacts were recorded to have ended between 2017 and 2019, but spend was still seen after the recorded end date. <p>Risk: Value for money not obtained. Contravention of procurement requirements.</p>	<p>A review of expenditure for annual payments to one supplier for over £50k should be undertaken to ensure that financial regulations and procedures have been complied with.</p>	<p>Response Contract management policy has been drafted but has not been finalised. There remains outstanding work relating to reviewing the contract register due to increased workloads in procurement during Covid-19.</p> <p>This work should be completed by the end of December 21.</p> <p>An additional audit is requested in this area in 2022/23 to ensure improvements have been made.</p> <p>Date for implementation December 2021</p> <p>Officer responsible for implementation Head of Procurement</p>

Audit Finding	Recommendation	Management Response
Priority 2 areas (Highly desirable for effective internal control, should implement recommendations to improve existing control arrangements)		

Audit Finding	Recommendation	Management Response															
<p>2. Invoices Out of Tolerance of Purchase Orders</p> <p>It is not currently possible to generate a report to identify payments out of tolerance (more than £1 difference) of the purchase order, although we are advised that Agresso does flag these up at the time of payment.</p> <p>We randomly selected 8 transactions for checking against purchase orders and found two differences where the actual amount paid was significantly different to the amount on the purchase order:</p> <table><tr><th>Invoice Amount</th><th>Description</th><th>Invoice Number</th><th>Purchase Order No</th><th>Order Value</th></tr><tr><td>£3,195.00</td><td>Lithium3 Technology Recruitment Limited</td><td>521612</td><td>11042909</td><td>£46,150.00</td></tr><tr><td>£3,035.87</td><td>Irongate Group Ltd</td><td>1/IL662974</td><td>11044802</td><td>£4,186.80</td></tr></table> <p>Invoice number 521612 relates to non-contracted ICT temp recruitment costs for a period of 9 days, whereas the purchase order 11042909 relates to a period of 6 months. The difference between the order value and invoice amount is £42,994. No subsequent invoices have been received in relation to this order, indicating that the specified commitment in the budget may have been overstated. Also, the invoice confirms payment in relation to August 2019, but a purchase order was not raised until 4th September 2019 (post delivery of the services).</p>	Invoice Amount	Description	Invoice Number	Purchase Order No	Order Value	£3,195.00	Lithium3 Technology Recruitment Limited	521612	11042909	£46,150.00	£3,035.87	Irongate Group Ltd	1/IL662974	11044802	£4,186.80	<p>The purchase order commitment should reflect the service delivered or required at the time the services are procured.</p> <p>Where payments are found to be out of tolerance with the purchase order, this should prompt management to check that the correct prices have been recorded and charged in accordance with the contract.</p>	<p>Response</p> <p>The first example in the audit finding was caused by invoices being paid but not matched to the purchase order. Additional training has now been provided to those staff who are responsible for inputting invoices.</p> <p>On investigation of the second example, 2 further invoices were paid against the Irongate Purchase order, but this took the total value of invoices paid to £5,324. Once the amount exceeded the Purchase Order value (£4,186), the ledger system automatically sought additional authorisation from the budget holder. The reason was determined to be a temporary increase in the cost of cleaning equipment during the first COVID lockdown. The invoices were consequently approved. This demonstrates that the system in place where invoice values exceed the purchase order is working as intended.</p> <p>Date for implementation</p> <p>Additional training provided to staff in May 21.</p> <p>Officer responsible for implementation</p> <p>Assistant Head of Finance</p>
Invoice Amount	Description	Invoice Number	Purchase Order No	Order Value													
£3,195.00	Lithium3 Technology Recruitment Limited	521612	11042909	£46,150.00													
£3,035.87	Irongate Group Ltd	1/IL662974	11044802	£4,186.80													

Audit Finding	Recommendation	Management Response
<p>The Irongate group order 101851 relates to multiple stores items., some which were not delivered. A number of price differences and pack sizes were also seen. Irongate are an approved provider and therefore the agreed prices should be included in the on line catalogue.</p> <p>Risk:</p> <p>Over-commitment in the budget. Prices charged may not reflect agreed prices and value for money may not be achieved.</p>		