

Meeting: Combined Fire Authority

Date: 9<sup>th</sup> December 2015

Subject: Internal Audit Reports

Report by: The Treasurer

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For: Discussion

## 1. Purpose

- 1.1 Under the Combined Fire Authority's (CFA's) Financial Procedure Rules the Treasurer is responsible for arranging a continuous internal audit of the CFA's accounts. This report brings to the attention of the CFA the recommendations and actions of a number of Internal Audit reports based upon the 2014-15 Internal Audit Plan.

## 2. Recommendations

CFA is asked to note the outcomes and recommendations of the Internal Audit Reports.

## 3. Executive Summary

- 3.1. Based on the testing undertaken for **Payroll 2014-15**, it was determined that **substantial assurance** can be given with two recommendations made for management action.
- 3.2. Based on the testing undertaken for **Pensions**, **substantial assurance** was given in part with no recommendations made. However, **partial assurance** was given in relation to ensuring that contributions are deducted at the correct pension banding. A number of High Importance recommendations have been made.
- 3.3. Based on the answers provided during the audit and the testing undertaken on the **Key ICT Controls Joint Audit 2014-15**, **substantial assurance** can be given that the internal controls in place to reduce exposure to those agreed risks currently material to the system's objectives, are adequate and being managed effectively.
- 3.4. Based purely on the answers provided by the Service on the self-assessment, **substantial assurance** can be given that **ethics and values** are adequately promoted within the organisation.
- 3.5. A commissioned investigation of the mis-use of a **procurement card** resulted in

a number of recommendations.

#### **4. Report Detail**

- 4.1. All Internal Audit reports are prepared on an exception basis. Where items have not been reported on, based on the sample examined, the CFA can draw confidence that controls are operating satisfactorily.

##### **Payroll 2014-15**

- 4.2. As part of the 2014-15 Internal Audit Plan, a review of the procedures in place for administering starters, leavers and variations to pay including deductions was undertaken.

- 4.3. Internal Audit considered the overall control objective was to ensure that:

- All new members of staff are bona-fide, are paid at the correct rate, from the correct date and correct pension scheme banding applied.
- In respect of new pensioners, that the value of lump sum payment made agrees to the value as per the notification from the Fire Pension Scheme Administrators
- All leavers are paid up to the correct date and deductions and additions requested are processed accurately
- All variations to pay requested on service returns are valid with correct authorisation and for the correct amount
- Where there is a permanent change to contract, pension contributions banding has been adjusted accordingly

Deductions from pay in relation to variations requested on service returns are accurate and supporting documentation retained

- 4.4. Based on the answers provided during the audit and the testing undertaken, **substantial assurance** can be given that the internal controls tested are operating adequately as intended to reduce exposure to those associated risks currently material to the system's objectives. The audit found three anomalies in pay records leading to two recommendations being made which were agreed. Neither of the recommendations have a "high importance" rating.

##### **Pensions**

- 4.5. A review of pensions payments and deductions were undertaken as part of the 2014-15 Internal Audit Plan.

- 4.6. The Internal Audit control objective was to provide assurance that:

- pensions increase applied to qualifying pensions elements as a result of the annual inflationary increase applied from 7<sup>th</sup> April 2014
- Cessation of pension payments both pensioners and dependents
- The deduction of pension contribution at the correct banding for current firefighters

- 4.7. Based on the testing undertaken during the audit, **substantial assurance** can be given on the accuracy of applying pensions increase and the controls operated to ensure pension payments are stopped appropriately. However, only **partial assurance** can be given in relation to ensuring that contributions are deducted at the correct pension banding. Three “high importance” recommendations have been made signifying that a particularly serious control weakness has been identified.
- 4.8. The “high importance” recommendations arose from testing that found a number of operational posts were not being deducted the appropriate pension percentage in line with the banding arrangements for the firefighter schemes. This was due to the payroll service provider implementing the banding rate for the firefighter schemes at one set point in the year (April). The pension banding and reduction rates applied were based upon current salary which for some included temporary promotions. Firefighter schemes require the banding to be amended immediately after the banding point has been reached. The bandings were applied by payroll throughout the financial year and were not reduced when the temporary promotions ceased. Some permanent promotions in year that took an employee up a banding were also not applied. All employees were reviewed in April 2015 and an agreed pension banding contribution rate agreed. Corrections from April 2014 and April 2013 have been applied. The audit was reviewed again in 2015-16 and found that all recommendations were implemented.

#### **Joint Audit - Key ICT Controls 2014-15**

- 4.9. A review of the ICT controls in operation for 2014-15 was undertaken as part of the 2014-15 Internal Audit Plan. This work is carried out in accordance with our External Auditor, PricewaterhouseCoopers (PwC) guidance as part of the joint audit.
- 4.10. The objective of the audit is to provide assurance that the ICT infrastructure is robust and that the range of controls expected by the External Auditor are well designed and consistently applied.
- 4.11. Based on the answers provided during the audit and the testing undertaken, **substantial assurance** can be given that the internal controls tested are operating adequately as intended to reduce exposure to those associated risks currently material to the system’s objectives. Ten recommendations have been made (some as a continuation from the 2013-14 audit). None of the recommendations have a “high importance” rating.

#### **Ethics and Values**

- 4.12. An audit was undertaken as part of the Internal Audit Plan looking at how well the Service promotes ethics and values within the organisation.
- 4.13. The objective of the audit is to provide assurance that, based on the results of the Service’s self-assessment, there is an effective promotion of appropriate ethics and values within the organisation.
- 4.14. Based purely on the answers provided by the Service on the self-assessment,

**substantial assurance** can be given that ethics and values are adequately provided within the organisation.

- 4.15. Based on the Service's own assessment and using a self-assessment tool developed by Internal Audit, indicates that the Service is largely compliant with regard to the promotion of ethics and values within the organisation. Two recommendations were made looking at areas where the Service either reported 'partial compliance' or 'no answer'.
- 4.16. Internal Audit has not provided any substantive testing as part of this report. The results will inform areas of audit coverage / testing in the 2015-16 year plan. Internal Audit have subsequently advised that they would like to review the following areas:
- Absence Management
  - Whistleblowing
  - Complaints Procedure

#### **Procurement Card**

- 4.17. Internal Audit was asked to investigate the unauthorised use of a procurement card, namely two transactions in May 2014 amounting to some £300.
- 4.18. Audit was not able to attribute the mis-use to any particular individual within the Service or to an external party. Therefore, no further action could be taken.
- 4.19. Audit noted that the issue came to light during the routine reconciliation of the monthly procurement card statement and therefore the internal controls in place to identify any suspected misuse functioned effectively. However, a number of recommendations were made to improve the management and usage of such cards, which have been implemented.

### **5. Report Implications / Impact**

#### **5.1. *Legal (including crime and disorder)***

- a) None.

#### **5.2. *Financial (including value for money, benefits and efficiencies)***

- a) These are included in the main body of the report.

#### **5.3. *Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)***

- a) Internal Audit provides reassurance that effective internal control procedures are in place. Internal Audit reports are used to inform the Treasurer and the Chief Fire and Rescue Officer of the detailed findings of the audit and highlight actions that are required to safeguard the CFA's interests.

#### **5.4. *Staff, Service Users and Stakeholders (including the Equality Impact Assessment)***

a) None.

5.5. ***Environmental***

a) None.

5.6. ***Impact upon Our Plan Objectives***

a) The CFA's Strategic Objective 4 is the attainment of efficiency and the provision of a value for money service. The provision of internal audit assists both effective and efficient management and good corporate governance. It also externally validates the CFA's progress in this area.

6. **Background Papers**

a) Internal Audit Plan 2014/15 – Overview and Scrutiny Committee 26<sup>th</sup> March 2014.

7. **Appendices**

None.