DORSET & WILTSHIRE FIRE AND RESCUE AUTHORITY

Item 18/7

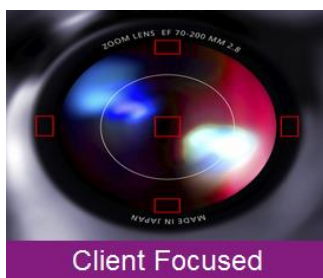|	
MEETING	Finance, Governance and Audit Committee
DATE OF MEETING	8 March 2018
SUBJECT OF THE REPORT	Internal Audit Quarterly Report (January - March)
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For Approval
EXECUTIVE SUMMARY	During this quarter, two internal audits have been carried out with no fundamental risks arising. The audit areas and assurance level awarded are noted below: • Strategic Workforce Planning – substantial assurance • Key Financial Controls – adequate assurance The Management responses proposed to address the issues raised within the report are detailed in Appendix A1 (from page 10 of Appendix A).
RISK ASSESSMENT	The issues raised by these audits do not represent a significant risk to the Authority. Management responses have been agreed and are detailed in the audit report summaries.
COMMUNITY IMPACT ASSESSMENT	None for the purposes of this report
BUDGET IMPLICATIONS	None for the purposes of this report
RECOMMENDATIONS	Members are asked to: 1. Consider and approve the management responses
BACKGROUND PAPERS	None for the purposes of this report
APPENDICES	Appendix A - Gateway Assure, Internal Audit Report, Block 4 2017/18
REPORT ORIGINATOR AND CONTACT	Name: Robin Pritchard (Gateway Assure), Engagement Director Email: robin.pritchard@gatewayassure.com Tel: 07792 296830

Item 18/07 Appendix A

Dorset & Wiltshire Fire and Rescue Authority

Internal Audit Report for the Dorset & Wiltshire Fire and Rescue Service

Internal Audit Report (Draft)

Block 4 2017/18

Client Focused

Providing Guidance

Driving Forward

Clear Assurance

CONTENTS

CONTACT DETAILS – MANAGEMENT TEAM

Team Member	Role	Mobile	Email
Robin Pritchard	Engagement Director	07792 296830	robin.pritchard@gatewayassure.com

INTRODUCTION
OPERATIONAL AUDIT PLAN

1.1   This report summarises the outcome of work completed to date against the operational audit plan approved by the Authority, Finance, Governance and Audit Committee and the Chief Fire Officer and incorporates cumulative data in support of internal audit performance and how our work during the year feeds in to our annual opinion.

1.2   The sequence and timing of individual reviews has been discussed and agreed with management to ensure the completion of all audits within the agreed Internal Audit Strategy 2017/18; the current planned schedule is shown in Appendix C.

1.3   In brief the areas subject to audit on this occasion and the result of those audits are as follows:

Audit Area	Opinion	Recommendations				
		F	S	MA	Total	Agreed
Strategic Workforce Planning	Substantial	0	0	2	2	2
Key Financial Controls	Adequate	0	0	5	5	5

KEY

Fundamental (F)	-	The organisation is subject to levels of fundamental risk where immediate action should be taken to implement an agreed action plan.
Significant (S)	-	Attention to be given to resolving the position as the organisation may be subject to significant risks.
Merits Attention (MA)	-	Desirable improvements to be made to improve the control, risk management or governance framework or strengthen its effectiveness.

1.4   We would like to take this opportunity to thank all members of staff for their co-operation and assistance during the course of our visit.

1.5   The results of each audit are reported through the Executive Summary and agreed Action Plan contained within **Appendix A**. A Summary of Opinions and Recommendations is shown as **Appendix B** and progress against the Operational Plan is detailed at **Appendix C**.

STANDARDS

1.6   We have performed our work in accordance with the principles of the Institute of Internal Auditors (IIA) International Professional Practice Framework (IPPF) 2013 and the Public Sector Internal Audit Standards (PSIAS) 2013 in so far as they are applicable to you our client. Our working papers are available for inspection.

QUERIES

1.7   Should any recipient of this report have any queries over its interpretation or content they should contact the client engagement director either directly or through the client contact as appropriate and we shall be happy to discuss the assignments and provide any detail or explanations necessary.

SCOPE & BACKGROUND

1.8   We have reviewed each area in accordance with the scope and objectives agreed with management prior to our visit. Appendix A provides detail of the scope of our work; our conclusions regarding the level of assurance that can be provided and where appropriate the agreed Action Plan to be implemented by management to remedy potential control weaknesses.

1.9   Our approach was to document and evaluate the adequacy of controls operating within each system. For each system the key controls operated by management were assessed against the controls we would expect to find in place if best practice in relation to the effective management of risk, the delivery of good governance and the attainment of management objectives is to be achieved. Where applicable, selected and targeted testing has been used to support the findings and conclusions reached.

1.10   We report by exception and only highlight those matters that we believe merit acknowledgement in terms of good practice or undermine a system's control environment and which require attention by management.

AUDIT OBJECTIVE & OPINION

1.11   The objective of our audit was to evaluate the auditable areas with a view to delivering reasonable assurance as to the adequacy of the design of the internal control system and its application in practice.   The control system is put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively.

1.12   Our opinion is based upon the control framework (as currently laid down and operated) and its ability to adequately manage and control those risks material to the achievement of the organisation's objectives for this area. We provide our opinion taking account of the issues identified in the Executive Summary and Action Plan.

Overall Opinion

1.13   Each Executive Summary provides an overall assessment of our findings for each system reviewed and provides an opinion on the extent to which management may rely on the adequacy and application of the internal control system to manage and mitigate against risks material to the achievement of the organisation's objectives for each area.

Conclusion on the Adequacy of Control Framework

1.14   Based on the evidence obtained, we conclude for each area upon the design of the system of control, and whether if complied with, it is sufficiently robust to provide assurance that the activities and procedures in place will achieve the objectives for the system.

Conclusion on the Application of Controls

1.15   Based on the evidence obtained from our testing, we conclude for each area upon the application of established controls.

VALUE FOR MONEY

1.16   Where value for money issues are identified as a result of our work the corresponding recommendation will be annotated with **VFM** in the bottom right hand corner. This is used to identify recommendations which have potential value for money implications for the organisation or which indicated instances of over control.

PREVIOUS AUDIT RECOMMENDATIONS (FOLLOW UP)

1.17   Where a previously accepted audit recommendation remains outstanding at the time of our review and the original implementation date has passed the corresponding recommendation within Appendix A will be annotated with **PAR** in the bottom right hand corner.

EXECUTIVE SUMMARY

FINDINGS & CONCLUSIONS

2.1   The results of our visit to Dorset & Wiltshire Fire and Rescue Service (DWFRS, also referred to as the Authority and Service) are summarised in this section of the report and are considered in relation to each area reviewed.

2.2   The extent of comment in relation to each audit area is restricted deliberately so as to highlight the key issues that we believe need to be drawn to the attention of the Finance, Governance and Audit Committee and management and are supported by a more detailed analysis of each review that is contained in Appendix A of this report.

Strategic Workforce Planning

2.3   DWFRS has in place a Strategic Workforce Plan. This plan was devised by the Director of People Services as a tool to identify where the service currently is in relation to the key elements of workforce planning and to set out where the Service would like to be. This is the first time this document has been completed and will be used to assist in the preparation of the Service Delivery Plan and as part of the Strategic Assessment process going forward. We have recommended that it may be beneficial for this document to be produced on an annual basis and used as a discussion tool, to aid the strategic workforce planning aspects of the strategic assessment.

2.4   The Service has set up a new structure of committees within the last 6-months which consider workforce requirements. The Postings Group's primary function is to post operational staff into appropriate locations, reporting outcomes and escalating issues to the Strategic Workforce Planning Group. This Group in turn reports into the three specific Delivery Groups, a summary of findings. All Committees and Groups have the opportunity to discuss and have input into strategic workforce management.

2.5   With the Delivery Group structure being new, the People Delivery Group had only met twice at the time of our review. It is beneficial for the groups to continue their evolution in terms of roles and responsibilities and the output they deliver to the SLT.

2.6   As mentioned above, the Strategic Workforce Plan has been completed as a one-off exercise at present and will be incorporated into the Service Delivery Plan. The Service Delivery plan is regarded as the one key source of integrated information and performance management as DWFRS are aware that having too many plans in place may remove focus from the main Service Delivery Plan.

2.7   The Strategic Workforce Plan sets out the current position of the service, identifying current staffing levels and future requirements, how the Service is performing against the plan's objectives and how it is complying with expectations of external bodies, such as the HMICFRS. The plan gives a snap shot of where the Service is at any one time. With this document being used as a working tool, it allows the relevant meeting groups to prioritise the objectives and goals within the plan and form the basis for informed discussions.

2.8   The intention is that anyone who wants to request a change to the organisational structure should present a business case to the relevant Delivery Group setting out the rationale and cost benefit of such a change, this includes how the change can be financed.

2.9   Progress against actions are monitored through the organisational performance management tool, Sycle. This ensures that the objectives are being met and assurances given regarding progress of work.

2.10   The Plan is currently being supported by a number of additional spreadsheets which provide data to support decision making. These spreadsheets are also used to support any narrative expressed in the Plan and provide a good data base to support any discussion arising from the groups and committees.

As part of the Strategic Workforce Plan, a series of KPIs have been set up by the Head of HR. These KPIs have been formulated into a report through downloading the data from the HR Management Information System (HRMIS) which is then fed into Sycle. The KPI's allow the strategic plan to be monitored and appraised. With the process being new, we recommend that the HR team review and monitor the KPIs to confirm they remain adequate, appropriate and relevant to the Service.

2.11   In summary, the Strategic Workforce Plan is a new initiative being carried out this year as a one-off project to identify the current position of the service and its compliance with outside bodies. The information included in the plan provides a robust database to focus discussions at the Strategic Workforce Planning Group and the Delivery Groups, and with the monitoring of the situation using the KPIs, this Plan would benefit from an annual refresh before feeding the Annual Service Plan.

> Taking account of the issues identified above and the recommendations contained within Appendix A, in our opinion the control framework for the area under review, as currently laid down and operated, provides **substantial assurance** that risks material to the achievement of the organisation's objectives for this area are adequately managed and controlled.

Key Financial Controls

2.12   The Finance Team are currently undergoing significant change, as the financial controls continue to be embedded across the new Service, following Combination. Recently, the team has had a number of members of staff leave or take a period of absence, creating a temporary shortfall in resources. This shortfall is being addressed through the recruitment of suitably qualified staff, although this does take time, placing additional workloads on the remaining staff.

2.13   The Service has in place a set of Financial Regulations, which have been approved by the Authority. The regulations have been reviewed recently as part of a wider review of governance arrangements and are due to go before the Authority again at the February 2018 meeting.

2.14   Our review of key financial controls included reviewing the budget process of the Service and how it was controlled. We identified that although budget manager responsibilities were not included within individual job descriptions, they are covered in Service Procedure FM2 – Budget Responsibility. This sets outs the various responsibilities of Budget Managers, Heads of Department and other staff in relation to financial management and requires each budget manager to sign a budget form to acknowledge that they have taken responsibility for their particular budget.

2.15   The Budget Responsibility procedure clearly sets out that Heads of Department are responsible for the budgets under their control, but they may delegate responsibility to a number of Budget Managers to support them. There are currently in excess of 40 budget managers within the Service. On inspection, it was highlighted that a number of these budgets were covering the same broad areas; such as ICT, for which there were 6 budget managers all covering different aspects of the ICT function. This may be entirely appropriate for the ICT function, but we have suggested that consideration is given to reviewing the budgetary control system. We believe that there may be an opportunity to free up time taken in budgetary monitoring discussions with Finance, allowing those discussion to be more focused on key budgets and financial issues.

2.16   Towards the end of 2017, two experienced Accounts Technicians left the Finance Team, one through retirement and one moving to another role in the Service. A temporary member of staff also left at a similar time. Part of the responsibilities of the two Accounts Technicians was to hold quarterly meetings with budget managers to discuss any relevant financial management issues. These meetings were last completed during November and early December, prior to the two Accounts Technicians leaving, but since their departure discussions have been on more of an ad hoc basis. Once the Finance team is back to full strength we would expect the formal budget meetings to recommence.

2.17   The budget process is well controlled. Once the budget has been agreed the information is included on the Agresso finance system. All budget holders have access to their budgets in "live" time, any budget variances can be easily spotted. This allows the budget holder to review their budget and confirm and plan how their resources can be managed.

2.18   The budget figures are included in the financial information prepared on a quarterly basis by the Finance team and are presented to the Finance and Audit Committee, any variances which are considered significant enough to highlight, are explained within the commentary attached.

2.19   As part of the review, the Gateway finance system specialist reviewed the set up and processes used by the Service's Agresso financial management system. It was concluded that with the significant amount of automated feeds arising from all the separate areas within the finance function; sales ledger, purchase ledger, asset register, stock control etc, the system was well controlled and accurately produced a trial balance used to prepare the financial information for SLT and Members.

2.20   As part of the review, we were informed of a legacy issue in respect of some pre- Combination debtor and creditor balances. Although the balances were included in the Agresso system, the details were being controlled separately through spreadsheets. Whilst the balances were not significant, and the Finance team were working to resolve any remaining issues, we have nevertheless recommended that any remaining outstanding balances are cleared by the end of the financial year.

2.21   Our system review, also highlighted that whilst the Finance team all have some knowledge of the Agresso system there is only one dedicated system manager, who manages the set up and security arrangements for the whole of the system. Whilst this is understandable for a relatively small finance team, and support is available through a Service contract and helpdesk facility with Agresso, we have recommended that the Service reviews its arrangements and considers providing additional training for other users to cover the risk of prolonged absence of the current system manager.

2.22   Although we have not found any instances of errors within the Agresso system, we would recommend that consideration be given to routinely testing the system with known data on an annual basis to confirm that the resultant information remains accurate and in line with expectant outcomes of the system.

2.23   From an accounts preparation perspective although the finance team is currently understrength, they continue to ensure all the usual accounting processes are completed from closing ledgers on a period basis and bank reconciliations are completed in a timely manner and independently confirmed by senior staff. There are timetables and checklists in place to ensure that all tasks are completed in a timely manner.

2.24   Within finance the Exchequer team are responsible for the processing of sales and purchase invoices. Both the sales and purchase systems are supported by set procedures on the processing of the documentation, which again is well controlled. The processes are supported by the highly automated system, which identifies the need for authorisation at specific points in the process and a final sign off prior to any purchase invoice being passed for payment.

2.25   It was confirmed with the Exchequer Supervisor that the system clearly identifies where issues on individual invoices arise, and that these are addressed as they happen. The system identifies via a daily workflow where authorisation requests are not being actioned and may require moving to another budget manager, for example due to staff members either being absent or having left the Service. On a monthly basis the system produces an aged debtor and aged creditor listing. A sample of sales and purchase invoices were tested through the system and no issues were identified.

2.26   Although there were no significant issues identified in the finance system during the review, due to the current resource issues in the Finance team not all defined roles are being formally followed at the present time, but all team members are playing their part in ensuring that the main functions of the team have been covered. We acknowledge that the team were in the process of recruiting additional resources, and it is anticipated that when the team is again at full strength the roles and processes will return to a more normal state.

> Taking account of the issues identified above and the recommendations contained within Appendix A, in our opinion the control framework for the area under review, as currently laid down and operated, provides **adequate assurance** that risks material to the achievement of the organisation's objectives for this area are adequately managed and controlled.

APPENDIX A1 – 05/18 STRATEGIC WORKFORCE PLANNING

Management Objective:	Production, monitoring and management of strategic workforce plans and alignment of departmental plans to ensure the co-ordinated achievement of objectives.
Responsible Officer:	Jenny Long – Director of HR

Risk areas for consideration:

1. The Authority fails to appropriately identify and agree strategic workforce direction and objectives leading to poor co-ordination and utilisation of resources.
2. Failure to communicate the content of the strategic workforce plan or align it with departmental plans may cause activities of departments to become remote to the core objectives and therefore reduce the ability of management to effectively manage risk exposure
3. The Authority has not established or determined the appropriate or concise key performance indicators by which it can measure the actual performance of the organisation to assist in future planning activities

Limitations to scope:
The review will be performed against generally accepted good practice issued for the public and third sectors in so far as applicable and appropriate to the organisation; this will be informed by information collated and interpreted from various sources. This high level review will be focused upon the governance framework and controls therein; compliance testing will only be performed in so far as considered necessary for us to form an opinion over the operation of particular key controls

Overall opinion:	Substantial	Adequacy of control framework:	Good
		Application of control:	Good

Main Recommendations	Priority	Management Response	Implementation Plan
1. Strategic Workforce Plan We recommend that the Strategic Workforce Plan document is reviewed and prepared on an annual basis to ensure all areas are considered prior to being in put into the Strategic Assessment Process and the Service Delivery Plan.	**MA**	Agreed	**Responsibility:** Director of HR **Target date:** 31 March 2018 and on-going
2. Key Performance Indicators We recommend that the KPIs are regularly reviewed to ensure they reflect current processes. We further recommend that all the stakeholders of the Service are considered when deciding which KPIs to produce as the process develops.	**MA**	Agreed	**Responsibility:** Director of HR **Target date:** 31 March 2018 and on-going

APPENDIX A1 – 07/18 KEY FINANCIAL CONTROLS

Management Objective:	Annual review of key financial controls to ensure the accuracy of management information upon which decisions are based. Cyclical review of specific financial systems- areas to include: - Budgetary Control (suggested focus area for 2017/18) - General Ledger – use and control of Agresso - Creditors - Bank - Income & Debtors
Responsible Officer:	Phil Chow – Director of Finance

Risk areas for consideration:

1. Insufficient control over expenditure given relatively fixed / reducing nature of funded income leads to the Council not achieving target surplus, financial loss and failure to maintain its financial health if suitable control does not exist
2. The functionality of the Agresso system fails to operate as intended and as a result complications are experienced in terms of adhering to agreed financial timescales
3. Key financial controls have lapsed giving rise to potential issues relating to accuracy or timeliness of financial reporting, potential opportunities for fraud or year-end problems relating to the financial accounts

Limitations to scope:
The review will be performed against generally accepted good practice issued for the public and third sectors in so far as applicable and appropriate to the organisation; this will be informed by information collated and interpreted from various sources. This high level review will be focused upon the governance framework and controls therein; compliance testing will only be performed in so far as considered necessary for us to form an opinion over the operation of particular key controls

Overall opinion:	Adequate	Adequacy of control framework:	Good
		Application of control:	Appropriate

Main Recommendations	Priority	Management Response	Implementation Plan
1. Financial Regulations Review We recommend that the Authority undertake the regular review of the Financial Regulations in order to ensure they remain appropriate for the Authority purposes.	**MA**	Agreed	**Responsibility:** Ian Cotter, Head of Financial Services **Target date:** Continuous

2. Budget Meetings We recommend that formal budget meetings between budget managers and Finance recommence as soon as is practically possible.	**MA**	Formal budget meetings will recommence as soon as possible, and for the 1st Quarter of the 2018/19 financial year reporting cycle at the latest.	**Responsibility:** Ian Cotter, Head of Financial Services **Target date:** 31 July 2018
3. Budget Structure We recommend that consideration be given to reviewing the budgetary control system, potentially reducing the number of Budget Managers, allowing formal budget discussions to be focused on key financial issues.	**MA**	We will review the budgetary control system with Head of Department during the 2018/19 financial year.	**Responsibility:** Ian Cotter, Head of Financial Services **Target date:** 31 December 2018
4. Historical Ledger Balances We recommend that the remaining pre-Combination debtor and creditor balances are cleared prior to the end the Financial year.	**MA**	This work is already in hand and will be completed prior to year-end.	**Responsibility:** Ian Cotter, Head of Financial Services **Target date:** 31 March 2018
5. Annual Compliance Testing We recommend that annual routine tests are carried out on the Agresso system to ensure they continue to deliver accurate and timely results given a set of planned inputs.	**MA**	We recognise the need to maintain a view regarding the functionality of the system and would anticipate that this is something that is covered through the work of internal and external audit also. The system is stable and we have a test database that can, and is used, when system changes are made.	**Responsibility:** Ian Cotter, Head of Financial Services **Target date:** On-going and as required

APPENDIX B – SUMMARY OF OPINIONS & RECOMMENDATIONS

Reports being considered at this Finance and Audit Committee meeting are shown in italics. The definitions with regard to the levels of assurance given and the classification of recommendations can be found in the Notes section at the end of this report.

Audit	Progress	Opinion	Recommendations Made				
			F	S	MA	Total	Agreed
1. Communications	Final Report	Substantial	0	0	4	4	4
2. IT Management Systems	Final Report	Substantial	0	1	2	3	3
3. IT Health Check	Final Report	Substantial	0	1	1	2	2
4. Business Case Management	Final Report	Substantial	0	0	2	2	2
5. Strategic Workforce Planning	Draft Report	Substantial	0	0	2	2	2
6. Strategic Planning	Final Report	Substantial	0	0	2	2	2
7. Key Financial Controls	Draft Report	Adequate	0	0	5	5	5
Total			0	2	18	20	20

At the moment there is nothing that impacts negatively upon our annual opinion.

APPENDIX C – OPERATIONAL PLAN 2017/18

Block 1 Audits - Finance and Audit Committee – 7 July 2017	Plan Days	Actual Days	Progress
1. Communications	10	10	
Follow Up	3	2	
Management	3	3	
Total	**16**	**15**	

Block 2 Audits - 29 September 2017	Plan Days	Actual Days	Progress
2. ICT Management Systems	10	10	
3. IT Health Check	8	8	
Management	2	2	
Total	**20**	**20**	

Block 3 Audits - 15 December 2017	Plan Days	Actual Days	Progress
4. Business Case Management	8	7	
5. Strategic Workforce Planning	8	9	
Management	2	2	
Total	**18**	**18**	

Block 4 Audits – 28 March 2018	Plan Days	Actual Days	Progress
6. Strategic Planning	6	5	
7. Key Financial Controls	15	16	
Follow Up	2	2	
Management	3	3	
Total	**26**	**26**	

TOTAL AUDIT DAYS 2017/18	80	79	

APPENDIX D – PERFORMANCE INDICATORS YTD

Report Turnaround

Performance Indicator	Target	Actual	Comments
Draft report turnaround (average working days)	10 Days	10 Days	
Final report turnaround (average working days)	5 Days	TBC	

Resources

Performance Indicator	Annual	Actual	Comments
Number of Audit Days	80	79	
Audit Fee	Budget	Within Budget	
Director Input	10%	20%	
Manager Input	15%		
IT Auditor Input	10%		
Senior Auditor Input	35%	60%	
Auditor Input	30%	20%	

Recommendations

Made, Accepted & Implemented

Analysis of Priority
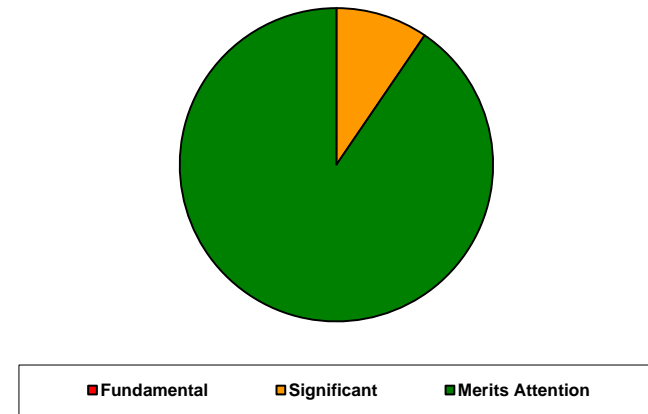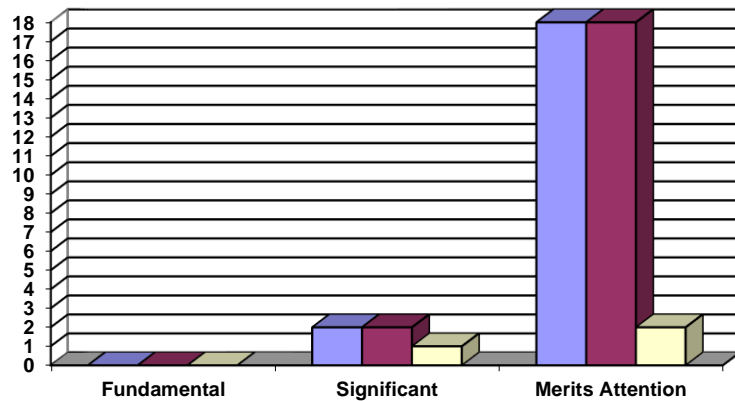
APPENDIX E – NOTES

KEY FOR RECOMMENDATIONS (IN RELATION TO THE SYSTEM REVIEWED)

Fundamental (F)	-	The organisation is subject to levels of fundamental risk where immediate action should be taken to implement an agreed action plan.
Significant (S)	-	Attention to be given to resolving the position as the organisation may be subject to significant risks.
Merits Attention (MA)	-	Desirable improvements to be made to improve the control, risk management or governance framework or strengthen its effectiveness.

ADEQUACY & APPLICATION OF CONTROL

OVERALL OPINION (ASSURANCE)	FRAMEWORK OF CONTROL	APPLICATION OF CONTROL	EXPLANATION	TYPICAL INDICATORS
Substantial (Positive opinion)	Good	Good	The control framework is robust, well documented and consistently applied therefore managing the business critical risks to which the system is subject.	There are no fundamental or significant recommendations attributable to either the Framework or Application of Control.
Appropriate (Positive opinion)	Good	Appropriate	As above however the audit identified areas of non-compliance which detract from the overall assurance which can be provided and expose areas of risk.	There are no fundamental recommendations surrounding the Framework of Control; coupled with no fundamental and no more than two significant recommendations attributable to the Application of those controls.
	Appropriate	Good	The control framework was generally considered sound but with areas of improvement identified to further manage the significant risk exposure; controls were consistently applied.	There are no fundamental recommendations attributable to the Framework of Control.
	Appropriate	Appropriate	As above however the audit identified areas of non-compliance which expose the organisation to increased levels of risk.	There are no fundamental recommendations attributable to the Framework and Application of Control.
Limited (Negative opinion)	Good / Appropriate	Weak	As above however the extent of non-compliance identified prevents the Framework of Control from achieving its objectives and suitably managing the risks to which the organisation is exposed.	There are more than two significant recommendations attributable to the Application of Controls.
	Weak	Good / Appropriate	The control framework despite being suitably applied is insufficient to manage the risks identified.	There are more than two significant recommendations attributable to the Framework of Controls.
	Weak	Weak	Both the Framework of Control and its Application are poorly implemented and therefore fail to mitigate the business critical risks to which the organisation is exposed.	There are fundamental recommendation(s) attributable to either or both the Framework and Application of Controls which if not resolved are likely to have an impact on the organisations sustainability.
The above is for guidance only; professional judgement is exercised in all instances.				