

EAST SUSSEX FIRE AND RESCUE SERVICE

Meeting	Scrutiny & Audit Panel
Date	5 June 2019
Title of Report	Internal Audit Annual Report and Opinion for the period 1 April 2018 to 31 March 2019
By	Assistant Director Resources / Treasurer
Lead Officer	Russell Banks, Orbis Chief Internal Auditor

Background Papers Scrutiny & Audit Panel 13 June 2018 - Internal Audit Strategy and Annual Audit Plan 2018-19

Appendices 1. Annual Internal Audit Report and Opinion 2018/19

Implications

CORPORATE RISK	✓	LEGAL	
ENVIRONMENTAL		POLICY	
FINANCIAL		POLITICAL	
HEALTH & SAFETY		OTHER (please specify)	
HUMAN RESOURCES		CORE BRIEF	

PURPOSE OF REPORT To provide an Opinion on East Sussex Fire Authority's internal control environment and report on the work of Internal Audit for the period 1 April 2018 to 31 March 2019.

EXECUTIVE SUMMARY On the basis of the audit work completed, the Orbis Chief Internal Auditor, as East Sussex Fire Authority's (ESFA) Head of Internal Audit, is able to provide reasonable assurance that the Fire Authority has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2018 to 31 March 2019. Individual reports on the systems evaluated by internal audit included agreed actions to enhance controls and management have drawn up action plans to implement these.

SLT's attention is drawn to the following:

- The following reports received partial assurance opinions (and will be reported in full to SLT and S&A Panel in June).
 - ⇒ RDS Pay
 - ⇒ Business Fire Safety
 - ⇒ Supply Chain Management
- No reports received a minimal assurance opinion
- A review of Safeguarding is at draft report stage
- An investigation into a Confidential Reporting / Whistleblowing Disclosure commenced in 2018/19 but is included in the 2019/20 internal audit plan
- A planned review of P-cards was delayed to 2019/20 to fit with the revised timetable for wider roll out and a planned review of the ITF Project was not carried out as neither the South East Workshop nor Fuel Tanks project had progressed past feasibility stage
- Information on the Internal Audit Service's performance compliance with the Public Sector Internal Audit Standards (PSIAS).

RECOMMENDATION

The Panel is recommended to:

- (i) note the Head of Internal Audit's opinion on the Fire Authority's internal control environment for 2018/19;
 - (ii) note that the full reports on RDS Pay, Business Fire Safety and Supply Chain Management will be reported in full to SLT and S&A Panel
 - (iii) consider whether the Fire Authority's system for internal audit has proved effective during 2018/19
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EAST SUSSEX FIRE AUTHORITY

**INTERNAL AUDIT ANNUAL REPORT AND
OPINION 2018-2019**



East Sussex
Fire & Rescue Service

1. Introduction

1.1 Orbis Internal Audit has provided the internal audit service to the Fire Authority since 1 April 1997 and we are pleased to submit this annual report of our work for the year ended 31 March 2019. The purpose of this report is to give an opinion on the adequacy and effectiveness of East Sussex Fire Authority's framework of internal control.

2. Internal Audit within East Sussex Fire Authority

2.1 On behalf of the Fire Authority, it is a management responsibility to determine the extent of internal control in the Fire Authority's systems, and it should not depend on internal audit as a substitute for effective controls.

2.2 The role of internal audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively.

2.3 Most of the work carried out by internal audit is in the form of risk based audits which analyse and report upon the existence, operation and effectiveness of internal controls within specified systems, both financial and otherwise. All audit reports produced have included a management action plan where actions are agreed to enhance the level of control, together with an opinion on the systems reviewed.

3. Delivery of the Internal Audit Plan

3.1 In accordance with the 2018/19 annual audit plan, a programme of audits, based on an assessment of risk, was carried out across the Fire Authority. During the year and in agreement with the Assistant Director, Resources and Treasurer, the following adjustments were made to the plan:

- We did not carry-out the planned audits of Procurement Cards or the Integrated Transport Project (ITP). The planned review of P-Cards was delayed to 2019/20 to fit with the revised timetable for wider roll-out. The ITP was not carried out as neither the South East Workshop nor Fuel Tanks project had progressed past feasibility stage.
- Instead, work was undertaken in three additional areas at the request of the Assistant Director, Resources and Treasurer (see Appendix A for further details):
 - Retained Duty System pay
 - Insurance
 - Investigation of a matter reported under the Authority's Confidential Reporting (Whistleblowing) Procedure¹

3.2 The terms of reference, approach and audit objectives for each audit assignment have been discussed and agreed with the Assistant Director of Resources and Treasurer, to whom internal audit reports are issued for consideration in the first instance, prior to wider consultation and consideration.

¹ This is an ongoing investigation

4. Audit Opinion

4.1 No assurance can ever be absolute; however, based on the internal audit work completed, I can provide reasonable assurance² that East Sussex Fire Authority has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2018 to 31 March 2019.

Russell Banks, Orbis Chief Internal Auditor

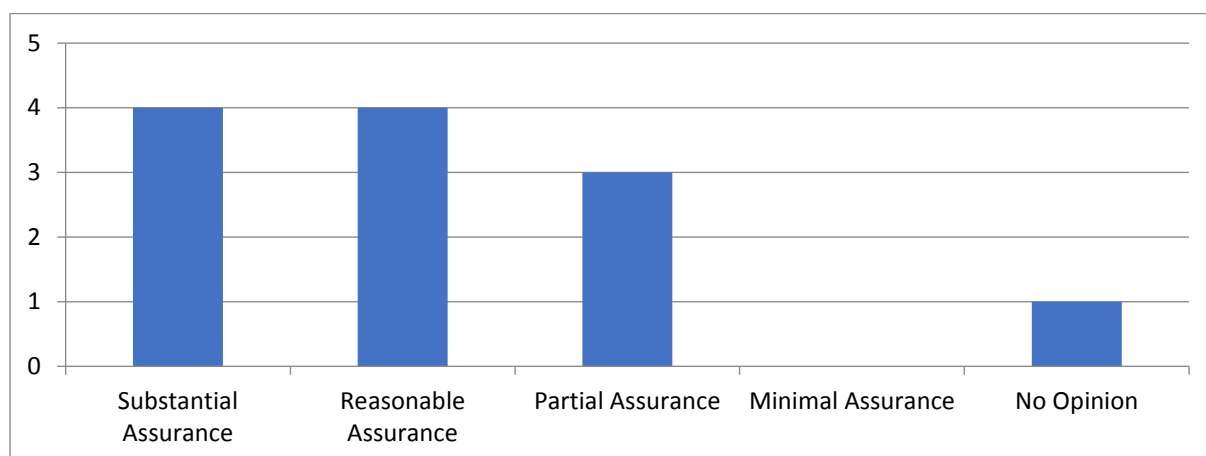
4.2 Where improvements to control or compliance are required, we are satisfied that appropriate action has been agreed by the relevant managers to ensure these improvements are made within reasonable timescales. The overall level of assurance given also takes into account:

- All audit work completed during 2018/19, planned and unplanned;
- Follow-up of actions from previous audits;
- Management's response to audit findings;
- Ongoing advice and liaison with management;
- Effects of significant changes in the Fire Authority's systems;
- The extent of resources available to deliver the audit plan;
- Quality of the internal audit service's performance.

4.3 No limitations were placed on the scope of internal audit during 2018/19.

5. Summary of Work and Key Findings

5.1 The following chart provides a summary of the outcomes from all audits completed during 2018/19 with standard audit opinions (including key financial system work). An explanation of our assurance levels can be found in Appendix C below.



5.2 A summary of the main findings from these reviews and all other work completed in 2018/19 is included at Appendix A.

6. Performance

² This opinion is based on the activities set out in paragraph 4.2. It is therefore important to emphasise that it is not possible or practicable to audit all activities of the Fire Authority within a single year.

6.1 It is the Fire Authority's responsibility to maintain an effective internal audit service and the information set out below should provide a sufficient basis for making this determination.

6.2 Public Sector Internal Audit Standards (PSIAS) require the internal audit service to be reviewed annually against the Standards, supplemented with a full and independent external assessment at least every five years. The following paragraphs provide a summary of our performance during 2018/19, including the results of our most recent PSIAS independent external assessment, along with the year end results against our agreed targets.

PSIAS

6.3 The Standards cover the following aspects of internal audit, all of which were independently assessed during 2018 by the South West Audit Partnership (SWAP) and subject to a refreshed self assessment in 2019:

- Purpose, authority and responsibility;
- Independence and objectivity;
- Proficiency and due professional care;
- Quality assurance and improvement programme;
- Managing the internal audit activity;
- Nature of work;
- Engagement planning;
- Performing the engagement;
- Communicating results;
- Monitoring progress;
- Communicating the acceptance of risks.

6.4 The results of the SWAP review and our latest self assessment found a high level of conformance with the Standards with only a small number of minor areas for improvement. Work has taken place to address these issues, none of which were considered significant, and these are subject to ongoing monitoring as part of our quality assurance and improvement plan.

Key Service Targets

6.5 Results against our previously agreed service targets are set out in Appendix B, with a high overall performance. Significantly, we have completed 91% of the audit plan, exceeding our target of 90%. Only one planned audit (Safeguarding Arrangements), in addition to an ongoing investigation, was still being undertaken at the end of the financial year and this has now been issued as a draft report, awaiting formal response from management.

SUMMARY OF INTERNAL AUDIT FINDINGS
For the period of 1 April 2018 to 31 March 2019

Reporting to Fire Authority Management and the Scrutiny and Audit Panel

Where required, representatives from Internal Audit have attended Scrutiny and Audit Panel meetings and offered advice and assistance to management throughout the year. This includes regular liaison meetings with the Assistant Director of Resources and Treasurer and attendance at the Senior Leadership Team, along with the production of the annual report and opinion and annual strategy and audit plan for presentation to the Scrutiny and Audit Panel. Internal Audit has also met separately with the Chairman of the Scrutiny and Audit Panel to discuss the Internal Audit Strategy and Plan.

Audit of Key Financial Systems

The Fire Authority uses the main financial systems of East Sussex County Council. Each year, internal audit review the key controls within these systems as part of our programme of key financial system audits.

The following key financial system reviews have been completed during 2018/19:

- | | |
|-----------------------|---|
| • Accounts Payable | Audit Opinion: Substantial Assurance |
| • Accounts Receivable | Audit Opinion: Substantial Assurance |
| • General Ledger | Audit Opinion: Substantial Assurance |
| • HR/Payroll | Audit Opinion: Reasonable Assurance |
| • Pensions | Audit Opinion: Substantial Assurance |

It is pleasing to report that, in all cases, these reviews have resulted in either substantial or reasonable assurance.

Business Fire Safety

Business fire safety legislation is incorporated within the Health and Safety at Work Act 1974 and the Regulatory Reform (Fire Safety) Order 2005 which applies to all non-domestic premises in England and Wales. In addition, Section 6 of the Fire and Safety Act 2004 places responsibility on fire services to promote fire safety within their areas.

ESFRS employ a risk based approach to business safety inspection, including feedback received from engagement activities, letter drops and tailored audits based upon local trends and changes. This results in inspection of approximately 2% of all known properties annually.

The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- There are governance arrangements in place to ensure that ESFRS adequately discharges its statutory business fire safety responsibilities;
- Adequate provision has been made to promote fire safety;
- There are clear fire safety policies in place setting out roles and responsibilities and which are aligned with statutory obligations;
- There is a robust risk based approach to undertaking the annual inspection programme;

- A comprehensive training programme exists to ensure that staff gain and maintain the required skills and competencies in order to carry out annual fire safety inspections and, where appropriate, to carry out effective prosecution; and
- ESFRS undertakes enforcement action for all identified breaches of fire safety legislation.

Although areas of good practice were identified, including in relation to the promotion of fire safety, a number of weaknesses were identified through our work which, if not acted upon, would increase the risk of fire and resultant injury. These included:

- The identification of 6 high risk premises that had not been inspected in accordance with agreed inspection frequencies;
- The identification of a number of premises that did not have a risk score (used to determine the inspection frequency of business premises);
- Inconsistency in inspection frequencies for premises with the same risk score;
- No formal process in place to evidence that the competency of fire safety inspectors is maintained;
- Some areas of non-compliance with the Regulator's Code; and
- No three-yearly review of enforcement activities and duties to give fire safety advice, in accordance with the Business Safety Strategy.

As a result, we provided an audit opinion of **partial assurance** in this area. Actions to address the findings of the review have been agreed with management as part of a formal action plan. In addition, a follow-up audit review to assess the extent to which the agreed actions have been implemented is scheduled for 2019/20.

Supply Chain Management

The Institute of Supply Chain Management defines supply chain management as “the oversight of materials, information and finances as they move in a process from supplier to manufacturer to wholesaler to retailer to consumer. Supply chain management involves co-ordinating and integrating these flows both within and among companies.”

Where arrangements for supply chain management are not robust, this can severely impact service delivery through the loss of a key supplier, either because its lack of financial stability results in it becoming insolvent, or because one or more of its suppliers fail, leading to lost revenue and/or the need to write-off bad debts. An interruption to the flow of raw materials, labour or a natural or man-made disaster may also affect the provision of key services to the Authority and its own service delivery.

ESFRS has not outsourced any part of the delivery of its frontline services. However, it is reliant on external suppliers for many of its support functions, including the provision of ICT infrastructure and software, and for the supply of its equipment, much of which is highly specialised.

The audit sought to provide assurance that the Authority has appropriate arrangements in place to ensure there is sufficient awareness of the markets in which it operates. It reviewed key areas of risk across supply chains, where the Authority is reliant on other organisations for the provision of its services. The review also assessed the process for undertaking due diligence of contractors used by the Authority, including their resilience (following recent high profile contractor collapses), both pre and post contract award. In particular, the audit looked to provide assurance that:

- Due diligence checks identify, in a timely manner, contractors that:

- are in danger of becoming insolvent;
- do not maintain adequate public liability insurance;
- do not have effective business continuity or risk management arrangements in place;
- do not carry out adequate due diligence checks on their own suppliers;
- use unacceptable trading or employment practices.
- Market and industry intelligence is sufficient to allow the early enough identification of supplier or market sectors at risk of failing and to enable appropriate steps to be taken; and
- Effective business continuity planning mitigates the effects of any supply chain failures.

In completing this work, we were only able to provide an opinion of **partial assurance** in relation to the controls operating in this area. Whilst some areas of good practice were identified, we found a need for the Authority to:

- Clearly define roles and responsibilities in relation to supply chain and contract management. Whilst there is liaison with major suppliers that includes discussion of their supply chain, this generally relies on the experience of officers and there is no structured approach for supply chain management, or contract management in general;
- Ensure there are adequate risk management arrangements in place for individual contracts with providers;
- Carry-out routine checks to confirm that contractors maintain business continuity plans throughout the life of the contract and that these are subject to periodic testing;
- Ensure the Authority's own business contingency plans are robust, visible and effectively disseminated to reduce the impact of the loss of a supplier; and
- Complete financial health checks of suppliers during the life of the contract.

The findings of the review were discussed with management and actions to address them have been agreed. We acknowledge that a number of the actions will be taken forward as part of existing plans to enhance procurement through the recently approved Procurement Strategy. A follow-up review in this area will be completed in 2019/20.

Retained Duty Pay System

In March 2018, pay claims for Retained Duty Staff (RDS) could not be processed and paid due to the implementation of a new mobilising system (4i) and problems with the interface between this and the existing MIS system. As a result, a manual workaround using a spreadsheet template was implemented by the Payroll Team to ensure that staff continued to be paid. The manual workaround remained in place until the interface was repaired at the end of May 2018.

Due to the risks associated with the workaround, we were requested to complete an unplanned, independent review of the manual procedures in place, in order to provide assurance that the correct payments were made.

In completing this work, we were only able to provide an opinion of **partial assurance**. This was for the following reasons:

- Due to the volume of claim forms (3,229) and time constraints, we understand that no checks were made of the spreadsheet data before it was uploaded for payment by the Payroll Team. As a result, there was a risk of input errors and subsequent incorrect payments not being identified;

- To mitigate this risk, stations were asked to check their claims back to the payments received and to confirm whether the payments were accurate. However, only a small number of stations did this;
- Testing of a sample of 90 claim forms (approximately 3% of the total number of claims) identified a small number of input errors, resulting in both under and over payment. This represented an error rate of 5.5%. Whilst the values involved were very small, if our findings were representative of all claims processed, a further 172 claims would have been input incorrectly;
- Retained firefighters can only claim up to four leave or sickness events on a drill night during a calendar year and there is a control within MIS that prevents more than four payments from being made. However, due to the absence of any claim data in MIS for April and May 2018, this control was not in operation for this period or the remainder of 2018, meaning that firefighters may have received payment for more than four leave or sickness events during the year.

As a result of our findings in this area, management have agreed to complete a review of the payments made during the period so that the necessary corrections can be made, and to check that firefighters were not paid for more than four leave or sickness events. Given the partial assurance opinion, a follow-up review will be completed in 2019/20.

Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services - Preparedness for Inspection

In July 2017, Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) extended its remit to include inspections of England's fire and rescue services to assess and report on the efficiency and effectiveness of the 45 fire and rescue services in England. East Sussex Fire & Rescue Service will be inspected in the third tranche which is expected to take place sometime between May and July 2019.

The inspection programme includes an assessment of:

- the operational service provided to the public (including prevention, protection, resilience, and response);
- the efficiency of the service (how well it provides value for money, allocates resources to match risk, and collaborates with the police and ambulance services); and
- the organisational effectiveness of the service (how well it promotes its values and culture, trains its staff and ensures they have the necessary skills, ensures fairness and diversity for the workforce and develops leadership and service capability).

The purpose of the audit was to provide assurance that adequate preparations for the inspection are in place. Our review focused on governance arrangements, planning, resourcing, and learning from those fire authorities inspected during tranche one.

In completing this work, we were able to provide an opinion of **reasonable assurance** that adequate preparations were in place for the inspection. We found that:

- Preparations for inspection are supported by governance arrangements in the form of an HMICFRS Planning Group which is attended by members of the senior leadership team;
- Dedicated resources have been identified and allocated to the project to ensure that preparations for inspection are completed in a timely manner. In addition, other departmental staff have been engaged in the process as needed;

- Requirements for the inspection have been identified and documented in a timeline and this document is reviewed at Planning Group meetings; and
- Preparations were being made to identify all learning points from tranche 1 inspections.

A small number of areas for improvement were, however, identified during the review, including the need to ensure all documentation to be inspected is up-to-date, and that agreed actions arising from Planning Group meetings are reviewed and updated regularly. Management has agreed appropriate action to address these issues.

General Data Protection Regulation (GDPR) Compliance

In April 2016, the European Union (EU) introduced the GDPR to strengthen data protection rights for individuals within the EU. GDPR came into effect in May 2018. Failure to comply with GDPR could result in reputational damage and substantial fines by the Information Commissioner's Office.

This review assessed compliance with GDPR. In doing so, adherence to the provisions of the existing Data Protection Act (DPA) were also assessed. The review followed a previous audit of the preparedness for GDPR, in which an opinion of minimal assurance was provided.

Overall, it was found that the majority of activities for compliance had been completed. As a result, an opinion of **reasonable assurance** was provided. In addition, good progress had been made in implementing actions arising from the previous review in this area.

Some areas for improvement were, however, identified, as follows:

- Contract addendums have been created and reviewed by appropriate legal counsel for where existing contracts with third parties were not GDPR compliant. However, not all contracts have been updated with this where appropriate;
- The need to ensure the Records Management Policy is updated and renamed as the 'Data Retention and Records Management Policy' to cover all crucial GDPR elements; and
- Ensuring the Information Security Strategy is implemented within agreed timescales.

The above areas and appropriate action to address them have been agreed with management.

Insurance Investigation

On 29 June 2018, a High Court bailiff visited the headquarters of the Fire Authority seeking to recover a debt to the value of £64,495.73. This was in connection with an insurance claim relating to the 2006 Marlie Farm incident which was being managed by the Authority's insurers.

Whilst this issue was subsequently resolved, with the insurers accepting responsibility, we were asked to investigate the circumstances leading up to the bailiff visit and the internal management of the issue within the Authority, in order to understand key lessons learned.

In completing this work, we felt that the situation could have been better managed within the Authority given the potential risk of assets being seized and the associated impact on service delivery and reputational damage. Our findings, which included opportunities to improve communication with the insurers and earlier escalation of the matter, were reported to management for consideration and action. As this was not a formal audit review, we did not provide an audit opinion on this occasion.

Safeguarding Arrangements

All firefighters and support staff are required to have a Disclosure and Barring Service (DBS) check given the highly responsible nature of their role. Some staff, however, may undertake activities that require them to undergo enhanced DBS checks.

This review assessed compliance with DBS requirements within the Authority, including that:

- Adequate controls are in place to ensure all posts that require DBS checks, including enhanced checks, are identified and subject to full and proper checking;
- Controls exist to ensure DBS renewals are identified and appropriately acted upon;
- Officers responsible for processing DBS applications have received adequate training; and
- Staff are aware of the Authority's DBS Policy and that such checks may be undertaken at varying times throughout their employment with the Authority.

Overall, we found that the DBS arrangements within the Authority were working effectively and, as a result, we were able to provide an opinion of **reasonable assurance**. Our sample testing in this area confirmed that a DBS check had been undertaken in all cases.

Some opportunities for improvement were, however, identified which, when addressed, would serve to strengthen the overall control environment. These included:

- Maintaining a list of the checks required for each position within the Authority to ensure that these are correctly undertaken for all employees, including at the point of recruitment;
- The establishment of a robust process to ensure the renewal of enhanced DBS checks are identified and acted upon promptly;
- Ensuring personal data collected as part of checking procedures is only retained for as long as is necessary to fulfil the purposes it is collected for, including for satisfying any legal, accounting or reporting requirements.

This report is currently in draft format awaiting a formal response to the findings of the review from Fire Authority management. It will then be finalised.

Work in Progress

In addition to the above areas, work is continuing on the investigation referred to in 3.1 above. The outcome of this will be reported in due course.

SUMMARY OF PERFORMANCE INDICATORS FOR 2018/19

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Scrutiny and Audit Panel	June	G	2018/19 Annual Audit Plan approved by Scrutiny and Audit Panel on 13 June 2018
	Annual Audit Report and Opinion	June	G	2017/18 Annual Report and Opinion approved by Scrutiny and Audit Panel on 13 June 2018
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit plan – completion to draft report stage	90%	G	91%
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	Highest available level of conformance confirmed through independent external assessment
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcomes and degree of influence	Agreement to audit findings	95%	G	100%
Our staff	Professional Qualified/Accredited	80%	G	87% ³

³ Includes staff currently undertaking professional development

Internal Audit Assurance Levels:

Substantial Assurance: Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.

Reasonable Assurance: Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.

Partial Assurance: There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.

Minimal Assurance: Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.