

## Appendix A

# Buckinghamshire & Milton Keynes Fire Authority



**Internal Audit Service  
Annual Report of the Chief Internal Auditor 2018/19**

**July 2019**

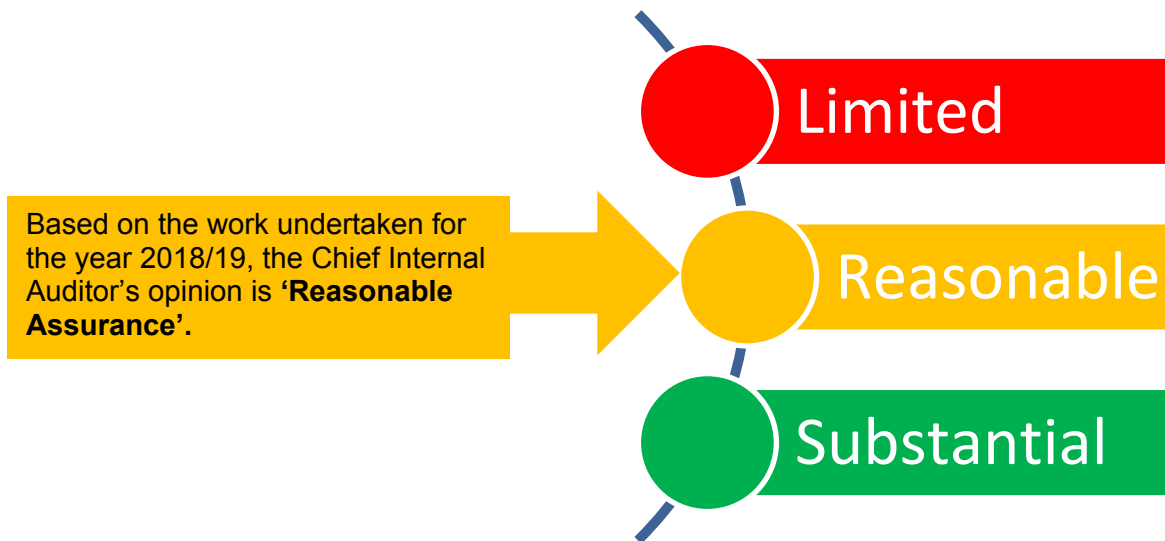
## 1. Introduction

- 1.1 This report outlines the Internal Audit work undertaken by the Internal Audit Service for the year ending 31 March 2019, and seeks to provide an opinion on the adequacy of the control environment detailing the incidences of any significant control failings or weaknesses.
- 1.2 The Account and Audit Regulations require the Fire Authority to maintain an adequate and effective Internal Audit Service in accordance with proper internal audit practices. The CIPFA Public Sector Internal Audit Standards (PSIAs), which sets out proper practice for Internal Audit, requires the Chief Internal Auditor to provide an annual report to those charged with governance, which should include an opinion on the overall adequacies of the internal control environment.

## 2. Responsibilities

- 2.1 The PSIA's define internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
- 2.2 Internal Audit is not responsible for the control system. It is a management responsibility to develop and maintain the internal control framework and to ensure compliance. It is the responsibility of Internal Audit to form an independent opinion on the adequacy of the system of internal control. This opinion should be used as a key strand of the assurance framework which management use to develop their Annual Governance Statement.
- 2.3 The role of the internal audit service is to provide management with an objective assessment of whether systems and controls are working properly. It is a key part of the Authority's internal control system because it measures and evaluates the adequacy and effectiveness of other controls so that:
- The Fire Authority can establish the extent to which they can rely on the whole system; and
  - Individual managers can establish how reliable the systems and controls for which they are responsible are.

### 3. Chief Internal Auditor Opinion



*\* See Appendix 3 for definitions of the assurance opinions.*

3.1 In my opinion the system of internal control provides reasonable assurance regarding the effective, efficient and economic exercise of the Authority's functions. Findings raised from the internal audit reviews undertaken in 2018/19 have not identified any material weaknesses to the internal control framework. Overall, the Fire Authority has continued to demonstrate a continued robust and effective internal control and risk management environment.

### 4. Basis of Audit Opinion

4.1 The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (PSIAs). The Audit Strategy complies with the PSIAs and is summarised within the Service Level Agreement. This requires Internal Audit to objectively examine, evaluate and report on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

4.2 The Internal Audit Plan was developed in consultation with the Director of Finance and Assets to focus specifically on financial management, corporate processes and key risk areas. There were no constraints placed on the scope of audit work in the year and there were sufficient resources to provide an adequate and effective audit coverage. The Internal Audit Plan was approved by the Overview and Audit Committee.

4.3 The strategy for delivery of the Internal Audit Service is reviewed annually and subject to the approval of the Overview and Audit Committee. Internal Audit is required to objectively examine, evaluate and report on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

4.4 A summary of the work undertaken during the year forming the basis of the audit opinion on the internal control environment is shown in **Appendix 1**. Agreed management actions arising from audit recommendations are monitored and status of implementation reported regularly to the Overview and Audit Committee, **Appendix 2** shows the current status of recommendations raised for the last two years.

4.5 In addition, in arriving at our opinion, we have taken into account:

- The results of all audits undertaken as part of the 2018/19 Internal Audit Plan.
- The results of follow-up action taken in respect of audits from previous years.
- Whether or not any 'high' recommendations have not been accepted by management and the consequent risks.
- The effects of any material changes in the Authority's objectives or activities.
- Whether or not any limitations have been placed on the scope of internal audit.
- Findings of work performed by other assurance providers (e.g. the External Auditors who we have liaised with throughout the year in order to share information and reduce any duplication of audit activity).
- The scope of the internal control environment - which comprises the whole framework of systems and controls established to manage BMKFRS to ensure that its objectives are met.

4.6 It should be noted that the Chief Internal Auditor opinion does not imply that Internal Audit has reviewed all risks relating to the Fire Authority. The most that the Internal Audit Service can provide to the Accountable Officers and Overview and Audit Committee is a reasonable assurance that there are no major weaknesses in control processes. The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

## 5. Anti-Fraud

5.1 There have been no suspected frauds or financial irregularity brought to the attention of the Chief Internal Auditor during 2018/19. Throughout the year we continued to work closely with the Director of Finance and Assets on fraud awareness and our work on the core financial systems included a review of the key anti-fraud controls.

## 6. The Internal Audit Team

6.1 The Internal Audit Service is provided by the Business Assurance Team at Buckinghamshire County Council. All staff are qualified or part-qualified with either ACCA, IIA, QICA or AAT qualifications. and all audit work is subject to a rigorous quality assurance process.

6.2 The quality of work is assured through the close supervision of staff and the subsequent review of reports, audit files and working papers by an Audit Manager. Exit meetings are held with the relevant officers to ensure factual accuracy of findings and subsequent reporting, and to agree appropriate action where additional risk mitigation is required.

## 7. Our Performance

7.1 With effect from 1 April 2013, the Public Sector Internal Audit Standards were introduced as mandatory guidance that constitutes the principles of the fundamental requirements for the professional practice of internal auditing within the public sector.

7.2 We continue to monitor our performance standards as outlined in the service level agreement. This includes ensuring requests for assistance with suspected cases of fraud (% of responses made within 24 working hours) as appropriate and also monitor relationship management issues in the areas of:

- Timeliness
- Willingness to cooperate/helpfulness
- Responsiveness
- Methodical approach to dealing with requests
- Quality of work/service provided

7.3 The 2018/19 Internal Audit Strategy set out seven performance indicators that the Internal Audit Service was measured against. Below is a summary of our performance against the set indicators:

Performance Measure	Target	Method	18/19 Results
Elapsed time between start of the audit (opening meeting) and Exit Meeting.	Target date agreed for each assignment by the Audit manager, stated on Terms of Reference, but should be no more than 3 X the total audit assignment days (excepting annual leave etc.)	Internal Audit Performance Monitoring System	100%
Elapsed Time for completion of audit work (exit meeting) to issue of draft report.	15 Days	Internal Audit Performance Monitoring System	100%
Elapsed Time between issue of Draft report and issue of Final Report	15 Days	Internal Audit Performance Monitoring System	*100%
% of Internal Audit Planned Activity delivered by 30 April 2019	100% of Plan by End of April 2019	Internal Audit Performance Monitoring System	100%
% of High and Medium priority recommendations followed up after implementation date	All High and Medium recommendations followed up within three months of the date of expected implementation	Internal Audit Performance Monitoring System	100%
Customer satisfaction questionnaire (Audit Assignments)	Overall customer satisfaction 95%	Questionnaire	**Nil – questionnaires not utilised for this year

\* Please note that measure looks as the timeliness of reporting by the team, and delays caused by the auditees are not factored in.

\*\* Whilst questionnaires were not utilised for 18/19, feedback was provided on completion of each audit and is also discussed as part of the regular meetings with the Director of Finance & Assets.

**Maggie Gibb**

Chief Internal Auditor

July 2019

## Appendix 1: Summary of 2018/19 Audits Performed Informing the Annual Opinion

Audit Assignment (No. Days)	Audit Opinion	No. of Audit Actions by Priority	Summary of Audit Findings
Core Financial Controls (40 Days)	Substantial	High = 0 Medium = 2 Low = 2	<p><b><u>1. Credit Notes (Medium)</u></b></p> <p><b>Finding:</b> A sample of seven credit notes received between April and December 2018 was selected from the Purchase Ledger Transactions Report. Audit found the following:</p> <ul style="list-style-type: none"> <li>- Two of the credit notes had taken 51 days to clear. One was for the reimbursement of lease car mileage at the end of the contract period. The other was for rental credit for three months email and cloud protection</li> <li>- One credit note related to an invoice for £4,856 which had been paid twice in error. The original invoice to which it relates was raised in February 2018 and the error was spotted at the beginning of May 2018, the original invoice was input with the account number rather than the invoice number on Integra leading to the invoice being paid twice.</li> </ul> <p><b>Risk:</b> If credit notes are not cleared in a timely manner there is a risk that vendor account balances are incorrect leading to a delay in recouping monies owed to the Fire Authority and possible further overpayments.</p> <p><b><u>2. Changes to Vendor Records (Medium)</u></b></p> <p><b>Finding:</b> Audit selected a sample of six changes to vendor records: Four of the changes were for bank account details it was found that for two of the changes there was no evidence that the details had been verified with the vendor.</p> <p><b>Risk:</b> If changes to vendor bank account details are not verified with the vendor there is an increased risk of a fraudulent attempt to change details succeeding leading to the loss of monies to the Fire Authority.</p> <p><b><u>3. Purchase Orders (Low)</u></b></p> <p><b>Finding:</b> A list of purchase invoices and purchase credit notes from a Purchase Ledger Transaction Report was obtained. A sample of 25 invoices and seven (10%) credit notes were tested.</p> <p>Audit noted one instance where a retrospective Purchase Order for £29,794 had been raised inappropriately. This was for quarterly internet access, and as this would have been known before the order was placed a purchase order should have been raised beforehand.</p> <p><b>Risk:</b> If purchase orders are raised retrospectively there is a risk that inappropriate purchases may be made and financial commitments are made outside of the Integra system which may lead to budget monitoring being inaccurate.</p> <p><b><u>4. Contract Standing Orders (Low)</u></b></p> <p><b>Finding:</b> Contract Standing Orders were reviewed by Audit. It was found that these are dated October 2017 and were approved at O&amp;A Committee on 27 July 2017. The OJEU limits stated are for the year commencing 1 Jan 2016; these limits have since been changed, however this has not been updated within the Fire Authority's Contract Standing Orders.</p> <p><b>Risk:</b> If the limits OJEU are not up to date there is a risk that an incorrect process is used for the tendering of contracts.</p>

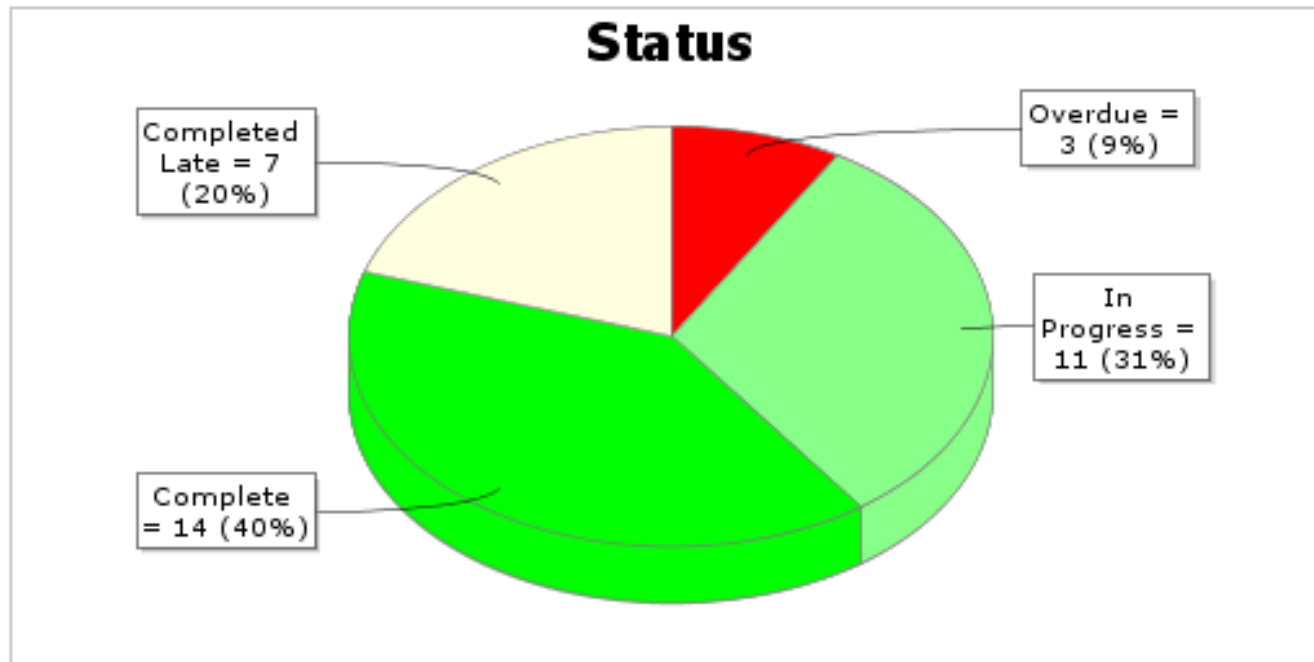
Audit Assignment	Audit Opinion	No. of Audit Actions by Priority	Summary of Audit Findings
Information Security	Reasonable	High = 0 Medium = 2 Low = 0	<p><b>1. <u>CCTV cameras at all Fire Stations (Medium)</u></b></p> <p><b>Finding:</b> Audit identified that there is no CCTV Cameras at all Fire Stations within the Authority. Management confirmed that a risk assessment was conducted and a business decision was taken to not install CCTV Cameras at all fire stations as it would be too expensive.</p> <p><b>Risk:</b> Lack of CCTV Cameras at Fire Stations may lead to theft and compromise of IT equipment not being detected or deterred and may result in exposure of sensitive information.</p> <p><b>2. <u>Assets Disposal Agreement (Medium)</u></b></p> <p><b>Finding:</b> An IT assets disposal arrangement is in place with the third party (Dynamic), where the Authority contacts Dynamic as and when they need to dispose of IT assets. However, we noted that there is no formalised agreement with Dynamic, outlining the procedures for disposing of IT assets.</p> <p><b>Risk:</b> If a formal agreement which outline the disposal procedure is not in place, there is a risk that personal and/or sensitive information may be made available to unauthorised individuals due to the service provider no following appropriate disposal procedure.</p>
Stores	Limited	High = 4 Medium = 2 Low = 1	<p><b>1. <u>Reconciliation between Asset Management System and the General Ledger (High)</u></b></p> <p><b>Finding:</b> The Asset Management System (Red Kite) and General Ledger (Capita Integra) are currently not interfaced, though a high level reconciliation is undertaken at year-end. At the time of the audit we were not able to provide assurance that the values of assets recorded on Red Kite are the same as those maintained on the General Ledger.</p> <p><b>Risk:</b> Where the Asset Management and General Ledger systems are not reconciled on a regular basis, there is a risk that the records maintained on the General Ledger do not accurately reflect the records maintained on Red Kite. This can result in incorrect financial decisions being made by the Fire Authority.</p> <p><b>2. <u>Red Kite Contract (High)</u></b></p> <p><b>Finding:</b> The Fire Authority was unable to provide a copy of the Red Kite contract. The Red Kite contract should include an agreed time frame for the system to be reinstated in the event of system failure. The Fire Authority was also unable to evidence that it is Red Kite system operator's responsibility to ensure that the system is backed up.</p> <p><b>Risk:</b> Where the Red Kite System providers are not held accountable to the terms of the contract, there is a risk that data maintained on the system is not backed up according to the terms of the contract.</p> <p><b>3. <u>Assets are tested on a regular basis (Medium)</u></b></p> <p><b>Finding:</b> A sample of ten items was selected randomly from the Red Kite system. These were tested to see if the items had been checked in accordance with the frequency required. In two cases the location of the items was not found and the item had not been checked as a result.</p> <p><b>Risk:</b> Where assets are not checked on a regular basis, there is a risk that faulty or inadequate items are being held and used by staff members.</p>



Audit Assignment	Audit Opinion	No. of Audit Actions by Priority	Summary of Audit Findings
Stores	Limited	High = 4 Medium = 2 Low = 1	<p><b>4. <u>Assets are identified, marked and recorded (Medium)</u></b></p> <p><b>Finding:</b> As part of the audit, a report of all assets held in stores was obtained. From this report, a sample of 20 assets were selected and traced to their recorded location. It was confirmed that in 14 out of the 20 cases the asset could not be identified in storage. In a further instance, although the asset was identified, it had not been tagged appropriately.</p> <p><b>Risk:</b> Where assets cannot be located, there is a risk that the asset is unaccounted for. This can result in the assets being mismanaged, which can lead to financial loss for the Fire Authority.</p> <p><b>5. <u>Stock records are complete (Medium)</u></b></p> <p><b>Finding:</b> A sample of 20 items were chosen from around the storage area to determine if the stock could be identified on the Asset Management System. From a sample of 20 items tested, in all cases the items selected from the stores were identified on Red Kite. However, in seven cases, the items were stated on Red Kite as being located elsewhere.</p> <p><b>Risk:</b> Where the records maintained on Red Kite are not up-to-date, there is a risk that the assets are not managed in the most efficient manner.</p> <p><b>6. <u>Procured items added to the Asset Management System (Medium)</u></b></p> <p><b>Finding:</b> A sample of 20 procurement items were chosen from a report of procured items in the current financial year. The sample of procurement items were tested to confirm they had been promptly and accurately updated on Red Kite. Audit identified that in one applicable case the stock item had not been added to Red Kite. Discussions with the Asset Management Team identified that resource constraints has not allowed for a reconciliation to be undertaken of all procured items against new items which had been added onto Red Kite.</p> <p><b>Risk:</b> Where newly procured items are not added to Red Kite, there is a risk that the Asset Management Records maintained on Red Kite are not complete.</p> <p><b>7. <u>Stores Policies and Procedures (Low)</u></b></p> <p><b>Finding:</b> A Red Kite Asset Management User Guide is in place. This is a guide for staff members on how to use the Asset Management Software. Review of the User Guide identified that there is no issue or review date to the guide. Therefore we were unable to confirm if the Red Kite Asset Management User Guide is being reviewed on a regular basis.</p> <p><b>Risk:</b> Where policies and procedures are not reviewed on a regular basis, there is a risk that staff are working with practices that are out-of-date.</p>

Audit Assignment	Audit Opinion	No. of Audit Actions by Priority	Summary of Audit Findings
Project Management Blue Light Hub	Reasonable	High = 1 Medium = 2 Low = 0	<p><b>1. Project Risk Management (High)</b></p> <p><b>Finding:</b> From a review of the project risk register audit found the following:</p> <ul style="list-style-type: none"> <li>• Risks were not being updated regularly, such that the risk scores did not change over a period of time;</li> <li>• Financial and time impact assessments were not recorded for all risks;</li> <li>• Mitigating actions were not identified for some risks;</li> <li>• Risks identified were not being adequately managed with financial and time implications not being considered. For example; the weather was identified as a risk, however there was no evidence of further consideration for the potential time delays on the project, safety, financial implications, and damage to materials etc.</li> </ul> <p><b>Risk:</b> Where risks are not effectively managed there is a risk that the Authority may have inappropriate actions to manage events that may occur, resulting in delays in the project, leading to financial and reputational damage.</p> <p><b>2. Budget Monitoring Meetings (Medium)</b></p> <p><b>Finding:</b> From a review of three Budget Monitoring Financial Statements for the periods September, October and November 2018; it was noted that there are no meeting minutes or action logs maintained to evidence the agreed actions from the budget meetings. Furthermore, the format of the Budget Monitoring Financial Statements does not allow for the costs to be easily compared to prior periods. The statements do not track changes and highlight where the costs have either increased/decreased, therefore the only way to identify these movements is by checking the balances individually against prior periods. Internal Audit traced a sample of costs across the three months and found minor cost changes, however these did not have supporting comments to explain the adjustment made, though they could be explained by the Property Manager.</p> <p><b>Risk:</b> Where budget meetings are not formally recorded there is a risk that agreed actions are not reflected in the budget which may lead to budget over/underspends not being identified in a timely manner.</p> <p><b>3. The HUB Performance (Medium)</b></p> <p><b>Finding:</b> During the Audit it was confirmed that the HUB have had difficulties with technical support; which has had an impact of the timeliness of design work, changes or updates and which in turn has led to delays in providing information that is required by Kingierlee – the construction firm. The Quantity Surveyor maintains a schedule of delays caused by the HUB and the associated costs. It was confirmed that any financial implications that arise as a result of the HUB's poor performance could potentially be recoverable.</p> <p><b>Risk:</b> Where the impact of poor performance is not completely and accurately reflected in the budget and/or risk register, this may lead to project overspend as the budget will not be forecasting all expected costs.</p>

## Appendix 2 Current Status of Audit Actions as at 20 June 2019



*\* This is a summary status of all audit recommendations raised from 2017/18 to date.*

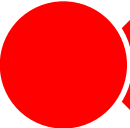


## Detailed Description of Overdue Audit Actions as at 20 June 2019

Title	Priority	Due Date	Description	Latest Note
<p>Fleet Management (1a) Tranman Review</p>	<p>Medium Priority</p>	<p>31-Aug-2017</p>	<p><b>Finding</b>            In discussion with the Fleet Manager it was confirmed that the latest Tranman training was delivered circa. December 2015 through a one day training event. This training event covered a large amount of materials in a short period of time and meant that a number of key topics were not covered in their entirety or in sufficient detail to fully absorbed the information to the required standard.            Since the training was delivered there have also been a number of staff changes, resulting in three members of staff, from a five person team who use the Tranman system, never being taught the full system and how to use the software from the software provider. This has led to potential under-utilisation of the software and some inconsistencies in the use of the system potentially compromising data integrity and alignment of processes.            In addition it was noted that there are current reporting issues through the Crystal Reporting function, which added to the potential inconsistencies in the use of the system means reporting functions cannot be fully relied upon to provide up to date and valid information to base decisions upon. Audit acknowledges that the reporting issue is currently being investigated by Tranman.</p> <p><b>Risk</b>            Where training is not provided on a periodic basis, staff may adopted inappropriate, ineffective, and / or out dated working practices.</p> <p><b>Action</b>            Tranman to carry out a review of the current system and its utilisation and offer options for further utilisation of the current system, available 'upgrades' and system improvements. This information can then be analysed to ascertain the most appropriate action.</p>	<p>Update from J. Finden, Fleet Manager on 12/06/2019:</p> <p>The current situation is that we are in the process of looking into upgrading the fleet management system and have made contact with our current provider (Tranman) for information and costings for the upgrade. Our expectations or aim of the upgrade would be to include installation of the latest version of the Tranman fleet management software, provision of 'ruggedized' tablets for vehicle technicians in order to run the 'touch-screen' functionality of the new system and the conversion of all current paper forms to electronic. The tablets would also be permanently connected to the system which would provide constant 'live' data and negate the need to download on a regular basis. As part of the BASI project, we would also be expecting the upgrade to offer a level of integration or communication to other systems that would improve efficiency by reducing the amount of double-entry of data. Obviously, the level of achievement is likely to be dependent on the amount of budget we have available.</p> <p>Our next step is to visit an existing user (in the next couple of weeks) in order to get a better understanding of what the system can offer as well as seeing it in a true working environment. We will then be better placed to see how we will progress this or whether we will need to look at alternative products in the market. Staff training will be an integral part of the implementation of an upgrade or replacement of the current system.</p>

Title	Priority	Due Date	Description	Latest Note
<p>Fleet Management (1b) Training and Utilisation of Tranman</p>	<p>Medium Priority</p>	<p>30-Apr-2018</p>	<p><b>Finding</b>  In discussion with the Fleet Manager it was confirmed that the latest Tranman training was delivered circa. December 2015 through a one day training event. This training event covered a large amount of materials in a short period of time and meant that a number of key topics were not covered in their entirety or in sufficient detail to fully absorb the information to the required standard.  Since the training was delivered there have also been a number of staff changes, resulting in three members of staff, from a five person team who use the Tranman system, never being taught the full system and how to use the software from the software provider. This has led to potential under-utilisation of the software and some inconsistencies in the use of the system potentially compromising data integrity and alignment of processes.  In addition it was noted that there are current reporting issues through the Crystal Reporting function, which added to the potential inconsistencies in the use of the system means reporting functions cannot be fully relied upon to provide up to date and valid information to base decisions upon. Audit acknowledges that the reporting issue is currently being investigated by Tranman.</p> <p><b>Risk</b>  Where training is not provided on a periodic basis, staff may adopted inappropriate, ineffective, and / or out dated working practices.</p> <p><b>Action</b>  Identify training requirements, system improvements and possible upgrades for implementation in 2018/19 (depending on funding requirements).</p>	<p>Update from J. Finden, Fleet Manager on 12/06/2019:   Linked and being progresses as part of the action above.</p>
<p>Core Financial Controls (2017/18) (4) Payroll</p>	<p>Medium Priority</p>	<p>31-Mar-2019</p>	<p><b>Finding</b>  It was found six of the 25 had claimed for watch overtime. Of these six, although the FB22 had been checked twice by HR, comparison of the examination of the FB22 to the iTrent payslip found that; for one of the six, the number of hours on the payslip did not match those on the FB22. A total of 4.5 hours were listed on the payslip whilst the FB22 recorded 5.5 hours.</p> <p><b>Risk</b>  If the details on iTrent are incorrect there is a risk that the error will not be identified leading to a delay in correcting variations.</p> <p><b>Action</b>  The FB22s are being phased out through automation from April 2018, commencing with support services staff. For operational staff the phase out date links with the go live date for the new Resource Management System.</p>	<p>Update from A. Hussain, Principal Accountant on 10 June 2019:   Support staff implemented. Operational staff – we have started to parallel run the new system with FB22’s from the 1st April and anticipate the switchover to take place once we have confirmation the new process is running smoothly.</p>

### Appendix 3 Definition of Assurance Opinions

For each audit an opinion was determined firstly on the framework of controls that exist for that operational area and secondly on compliance with the controls. From this an overall audit opinion is given for each audit. An opinion on the quality of risk management in place is also provided. Work has been planned and performed so as to obtain all the information and explanations which were considered necessary to provide sufficient evidence in forming an audit opinion. The range of audit opinions is:-

	<b>Limited</b>	The system of internal control is weak and risks are not being effectively managed. The system is open to the risk of significant error or abuse. Significant action is required to improve controls.
	<b>Reasonable</b>	There is generally a good system of internal control in place and the majority of risks are being effectively managed. However some action is required to improve controls.
	<b>Substantial</b>	There is a strong system of internal control in place and risks are being effectively managed. Some minor action may be required to improve controls.