

## INTERNAL AUDIT PROGRESS REPORT

### REPORT OF THE CHIEF FIRE OFFICER

**For Information**

#### 1. PURPOSE OF REPORT

- 1.1 To apprise Members of the progress of the approved Internal Audit Programmes.

#### 2. RECOMMENDATIONS

- 2.1 That Members note the progress made against the 2022/23 and 2023/24 Internal Audit Plans.
- 2.2 That Members consider whether it is necessary to report to the Fire Authority on any concerns raised.

#### 3. BACKGROUND

- 3.1 Under the Accounts and Audit Regulations (2015), the Fire Authority is responsible for ensuring an adequate and effective internal audit function is in place.
- 3.2 At the Audit and Governance meetings on 25<sup>th</sup> February 2022 and 24<sup>th</sup> February 2023, Members adopted the Internal Audit Plans for 2022/23 and 2023/24, respectively. The audits are carried out by Hartlepool Borough Council as part of the Service Level Agreement with regular reports provided to Members throughout the year.

#### 4. 2022/23 AUDIT SUMMARY

- 4.1 Members have previously received details of the outcome of all reports within the 2022/23 programme. Within the reports, 14 improvement actions were identified for implementation. All the improvement actions have now been completed and the 2022/23 internal audit programme is now fully complete.

## 5. 2023/24 AUDIT PROGRESS SUMMARY

5.1 Progress against the identified internal audit inspections to date is detailed in the following sections.

- 12 Audits identified within the approved Audit Programme for 2023/24.
- From the approved programme 10 audits have been completed, all of which have been assessed as Satisfactory Assurance. No audit report has been completed for the National Fraud Initiative, but no concerns have been raised and no improvement actions identified therefore the area is considered satisfactory. Six improvement actions have been identified of which four are now complete.
- Two Audits not part of agreed programme but support core financial work and relate to HBC activities have been completed and signed off with no improvement actions required.
- No Audit categorised as inadequate or category 1 (the most serious) recommendation.

5.2 The following table provides a summary of progress and outcomes against each of the audits in the 2023/24 programme.

Audit	Status	Outcome	Improvement Actions
23/24 01: Cash/Bank Reconciliations	Complete	Satisfactory Assurance	1 Action
23/24 02: Creditors:	Complete	Satisfactory Assurance	1 Action
23/24 03: Debtors:	Complete	Satisfactory Assurance	1 Action
23/24 04: Insurances:	Complete	Satisfactory Assurance	None
23/24 05: National Fraud Initiative:	Complete	No Actions Raised	None
23/24 06: Officers Expenses:	Complete	Satisfactory Assurance	None
23/24 07: Payroll:	Complete	Satisfactory Assurance	None
23/24 08: Pensions	In Progress	Awaiting Report	None
23/24 09: Procurement:	Complete	Satisfactory Assurance	None
23/24 10: Retained Firefighter Claims:	Complete	Satisfactory Assurance	None
23/24 11: Value Added Tax:	Complete	Satisfactory Assurance	3 Actions
23/24 12: Budgetary Control	Complete	Satisfactory Assurance	None

Audit	Status	Outcome	Improvement Actions
Main Accounting System*	Complete	Satisfactory Assurance	None
Treasury Management*	Complete	Satisfactory Assurance	None

\*Not part of the approved HBC Audit plan that was reported to A&G Feb 2023: Part of core assessment work on the internal controls management system

5.3 The following section provides a summary of the key findings from the audits and progress against the identified improvement actions.

23/24 01: Cash/Bank Reconciliations			
Audit Status: Completed Satisfactory Assurance		1 x Action Identified of which; 1 x Complete	
<b>Opinion</b> The overall opinion is that the risks identified are well controlled. <ul style="list-style-type: none"><li>Banking procedures and responsibilities are set out in the CFA Constitution – Financial Procedure Rules.</li><li>Banking processes in respect of BACS, card payments and other direct to bank transactions are undertaken by HBC Corporate Finance.</li><li>Documented procedures are in place and followed.</li><li>Cash / cheques received at CFA are banked and posted to Integra by CFA Finance and are held securely in a safe prior to banking.</li><li>Testing of a sample of 5 days bankings (Direct Credits) confirmed that lodgements agree with bank statement transactions.</li><li>Of the 5 reconciliations selected there was no evidence of checks by an independent person and signed off by a Senior Officer on 2 occasions.</li><li>There have been no returned cheques in the current financial year.</li><li>Recalled Direct Debits are automatically processed by Integra.</li></ul>			
<b>Action Plan</b>			
Issue	Due Date	Status	Progress
Of the 5 bank reconciliations selected for review, there was no evidence of checks by an independent person and sign off by a Senior Officer on 2 occasions.	Immediate	Complete	This has been implemented

**23/24 02: Creditors**

**Audit Status: Completed**  
**Satisfactory Assurance**

**1 x Action Identified of which;**  
**1 x Complete**

**Opinion**

The overall opinion is that the risks identified are well controlled.

- Checks are made to ensure new supplier details are valid and correct and supported by relevant documentation.
- Official purchase orders are raised and authorised for all goods and services except for limited valid exceptions.
- Reviews of outstanding orders are undertaken monthly.
- Payment of invoices are only processed when confirmation is obtained that goods and services have been fully received.
- All invoices are assigned a due date for payment to ensure payments are made within terms.
- Periodic reviews of unprocessed invoices are undertaken to determine reasons for delays.
- Appropriate checks are made to ensure that payments are valid and appropriately authorised.
- Payment run validation procedures established to ensure that expected output agrees with payment made.
- Reports of invoices over £10,000 not certified are checked for reasonableness.
- Daily validation reports produced to assist in quality assurance of payments with anomalies investigated.
- No payments are made by cheque.
- Monthly invoice statistics are produced detailing the number and percentage of valid invoices paid within terms and the value of interest paid for late payments. This information is reported to ELT and Elected Members.
- Procedures are fully compliant with current Data Protection and GDPR guidance with all staff trained on Data Protection / Information security.

**Action Plan**

Issue	Due Date	Status	Progress
CFA no longer offer cheque as a payment method. HBC Payments department store all unused cheque stationery.	October 2023	Complete	Stationery has been disposed of through shredding.  Finance holds one manual cheque book for business continuity, further stocks can be requested via HBC as required.

**23/24 03: Debtors****Audit Status: Completed**  
**Satisfactory Assurance****1 x Action Identified of which;**  
**1 x Complete****Opinion**

The overall opinion is that the risks identified are well controlled.

- Financial Procedure Rules detail the roles and responsibilities for the Treasurer, Chief Fire Officer, and Assistant Chief Fire Officers.
- Invoice request form acts as guidance for staff outside of the finance team.
- Details of new customer accounts are requested electronically and loaded into Integra after approval by the HBC Recovery Team.
- There are effective controls in place for the processing of debtor invoices.
- No gaps in invoice and / or credit notes were identified.
- Scale of Charges is in place for 2023/24 (approved by CFA) and available on the CFA website and correctly applied.
- Effective arrangements in place for managing and reporting outstanding debt.
- Information Governance arrangements in place and appear to comply with Data Protection requirements.

**Action Plan**

Issue	Due Date	Status	Progress
A lack of division of duties, checks and authorisation in cancelling debt via credit notes leading to increased risk of debt being incorrectly cancelled or reduced.	Dec 2023	Complete	Systems Support provide a report as part of the monthly suite, to identify any such events. This is monitored by the Head of Finance and Procurement.

**23/24 04: Insurances****Audit Status: Completed**  
**Satisfactory Assurance****No Actions****Opinion**

The overall opinion is that the risks identified are well controlled.

- A Privacy Policy Statement is available on the CFA Website which covers all aspects of data collection and processing.
- Specialist insurance brokers commissioned to provide professional advice and support.
- Appropriate and proportionate procedures are in place to regularly review the areas of insurance cover.
- An annual review is undertaken by our insurance broker on the level and risk of insurance coverage.
- Contract monitoring meetings with insurers are scheduled regularly.
- Procedures are being developed to assist with processing claims.
- Appropriate investigations are completed for each claim, with information collated and shared where necessary.
- Monthly and Quarterly Health & Safety reports are produced including a trend analysis to identify groups of similar incidents.

**Action Plan: None****23/24 06: Officers Expenses****Audit Status: Completed**  
**Satisfactory Assurance****No Actions****Opinion**

The overall opinion is that the risks identified are well controlled.

- Detailed procedure notes are available on the Authority's Intranet.
- Mileage and Expenses claims tested appear to have been in accordance with the agreed scheme.
- All claims tested were accurate, authorised and where applicable documentation was in place to support the claim.
- For those where mileage claimed could be checked, the miles claimed do appear reasonable.
- Appropriate checks were completed by Finance and the correct claim amount paid in accordance with payment processes.
- Payments were clearly recorded on the claimant's payslip and no duplicate payments identified.

**Action Plan: None**

**23/24 07: Payroll****Audit Status: Completed****Satisfactory Assurance****No Actions****Opinion**

The overall opinion is that the risks identified are well controlled.

- Payroll procedure notes are in the process of being updated to an electronic format.
- Authorising officer roles are checked on payroll claim forms prior to processing.
- For all the test samples, evidence was in place to support any new starter processing, or any amendments for existing employee details.
- Payment Periods sampled fully reconciled.
- No duplicate bank accounts or employees without bank account details were identified.
- No specific audit work was completed at this audit relating to processing of overtime although an overall assessment of controls does not identify issues.
- Reconciliation to Integra matched to £0.50.
- All information is now received electronically and is cleansed of data beyond the retention timeline.
- Information Governance arrangements in place appear to comply with Data protection requirements.

**Action Plan: None****23/24 09: Procurement****Audit Status: Completed****Satisfactory Assurance****No Actions****Opinion**

The overall opinion is that the risks identified are well controlled.

- All currently active procurement cards had a signed user agreement available indicating they had received information on use.
- All transactions for 23/24 were within the transaction limits of the card holder.
- Final Audit Report Spend is approved by CFA Finance each month prior to payment of the card totals.
- Procurement cards are applied for by CFA Finance on behalf of the card holder.
- Two cards had been applied for and set up within the last 18 months and complied with the relevant process.
- One leaver in 23/24 had a procurement card and evidence was seen that the card had been cancelled and is no longer on use.
- For the sample of transactions selected it was confirmed that: - the goods / services have been received and that VAT is correctly accounted for.
- A review of the CFA website during the audit would indicate that Transparency Code requirements are being met regarding procurement.

**Action Plan: None**

**23/24 10: Retained Fire Fighters Claims****Audit Status: Completed****Satisfactory Assurance****No Actions****Opinion**

The overall opinion is that the risks identified are well controlled.

- Effective arrangements are in place to ensure payment of retained fees are as set by the National Joint Council.
- Effective arrangements are in place to ensure that payments for retained duty work are appropriately checked for accuracy and authorised appropriately.

**Action Plan: None****23/24 11: Value Added Tax****Audit Status: Completed****Satisfactory Assurance****3 x Action Identified of which;****1 x Complete****Opinion**

The overall opinion is that the risks identified are well controlled.

- Roles and responsibilities for administering VAT are clearly defined.
- A Service Level Agreement is in place with HBC Corporate Finance to administer the VAT function.
- Effective arrangements are in place to keep up to date with changes in legislation through subscription to PS Tax (Public Sector Tax Consultancy).
- Audit review did find that the Authority does not appear to be complying with HMRC VAT Notice 700-64 (Motoring expenses) with respect to leased cars. Testing found that payments to the lease company are made with input tax being recovered at standard rate and not 50% recoverable rate. Furthermore, a small number of employees are permitted to use the vehicles for private use, which means that input tax is not recoverable.
- Debtor invoices are raised in a timely manner to ensure tax point / time of supply rules defined by HMRC are complied with and enable accurate accounting treatment of VAT.
- Testing of a sample of 10 found that: The correct income code has been used and VAT categories are in accordance with HMRC Guidance.
- There have been a limited number of debts written off by the Authority with no VAT implications.
- No compliance checks have been received from HMRC for the Authority in the current financial year to date.
- Monthly VAT returns are retained on the Making Tax Digital module on Integra.
- Enterprise is used to store creditor invoices.
- The Authority has a retention policy which identifies both creditor and sales invoices must be retained for 6 years. Access to records is restricted to authorised officers.



- Testing of a sample of 3 monthly VAT returns found that Input Tax and Output Tax are calculated correctly.
- Box 7 of the return detailing value of purchases (excluding VAT) is understated for May 2023 and August 2023 as it does not include purchase card transactions. The auditor was advised that the box is a memo only box and guidance from BDO states that the figures do not require rectification.
- There is segregation of duties in the preparation, checking and authorisation of returns prior to submission. VAT returns are submitted within prescribed timescales and amounts due from HMRC received. A year end reconciliation is undertaken of the VAT account. Checks are undertaken that net vat reclaimed is received in full.
- The Partial Exemption limit is not calculated on behalf of Cleveland Fire Authority. A review should therefore be undertaken by HBC Corporate Finance to calculate VAT attributable to exempt activities and verify that CFA continues to be able to recover such amounts due to amounts being less than £7,500 per annum (£625 per month) or 5% of the total VAT incurred on all purchases in a year.

**Action Plan:**

Issue	Due Date	Status	Progress
The Authority does not appear to be complying with HMRC VAT Notice 700-64 (Motoring expenses) with respect to leased cars	Transport Policy July 24	In Progress	A full review is currently underway. Finance staff and Senior Head of Assets are attending training webinars.
	VAT Review with PS Tax Oct 24		The Senior Head of Assets is currently reviewing the Transport Procedure
	Update finance procedures and create guidance notes. Dec 2024		The Procedure will be considered for compliance by PS Tax, the Brigade's Tax and VAT consultants.  Current financial procedures will then be reviewed and aligned to the correct procedure to ensure future compliance, and new guidance documents created.
Box 7 of the return detailing value of purchases (excluding VAT) is understated and does not include purchase card transactions.	Immediate	Complete	The Group Accountant has implemented this. Amended the MTD rule for box to include purchase card transactions.
The Partial Exemption limit is not calculated on behalf of Cleveland Fire Authority.	Sep 24	In Progress	To be implemented by the Group Accountant. The Partial Exemption calculation will be completed.

**23/24 12: Budgetary Control**

**Audit Status: Completed**  
**Satisfactory Assurance**

**No Actions**

**Opinion**

The overall opinion is that the risks identified are well controlled.

- There is a Medium-term Financial Strategy in place for 2023/24 to 2025/26 that is linked to the Corporate Goals and Objectives. This was approved by members on 19th February 2023.
- There has been a self-assessment completed against the standards set out in the CIPFA Financial Management Code.
- The Full Authority approved the statutory budget calculations on 10th February 2023.
- A risk assessment of the material items of income and expenditure has been undertaken to support the Treasurers responsibility to advise on the robustness of budget assumptions.
- The Asset Management Plan (Capital Programme) is approved alongside the MTFS and is established based on priorities.
- The 2023/24 budget was loaded to the finance system before the 31st March 2023 supported by relevant reconciliations.
- Processes ensure budget holders are actively involved in the budget setting process.

**Action Plan: None**

**Additional Audit: Main Accounting Systems**

**Audit Status: Completed**  
**Satisfactory Assurance**

**No Actions**

**Opinion**

The overall opinion is that the risks identified are well controlled.

- Arrangements in place to ensure officers are aware of legislation, regulations, guidance, and standards and these are reflected in the Statement of Accounts.
- A detailed timetable for closure of the accounts is provided to staff.
- The 2022/23 accounts have been published in draft form on the CFA website are awaiting audit.
- Feeder systems are reviewed on an annual basis as part of the Internal Audit Plan.
- Year-end balances are reviewed by External Audit when signing off the final accounts.
- Amendments reviewed were correctly recorded and had the required authorisations in place.
- All journal transactions were input either by an officer from the Finance Section at HBC or CFA. All entries provide sufficient information.
- Whole of Government Accounts returns remain under the threshold therefore unlikely to require review.

**Action Plan: None**

Additional Audit: Treasury Management	
<b>Audit Status: Completed</b> <b>Satisfactory Assurance</b>	<b>No Actions</b>
<p><b>Opinion</b></p> <p>The overall opinion is that the risks identified are well controlled.</p> <ul style="list-style-type: none"><li>▪ Effective management of Treasury Management risks.</li><li>▪ Performance monitoring reports are presented to Members.</li><li>▪ Full records of Council Treasury Management decisions and transactions maintained.</li><li>▪ The Council for the CFA undertakes only those Treasury Management activities detailed on the CIPFA guidance and within approved limits and parameters approved by Members.</li><li>▪ Treasury Management activities are structured and managed in a fully integrated manner.</li><li>▪ Clearly defined responsibilities in place for developing strategy and processing transactions.</li><li>▪ The Authority effectively accounts for its Treasury Management activities.</li><li>▪ A Money Laundering Policy is in place.</li><li>▪ All staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities.</li><li>▪ Treasury Management activities are undertaken with openness, transparency, honesty, integrity, and accountability.</li><li>▪ Appropriate Fidelity Insurance is in place via HBC Insurances.</li><li>▪ Access to data is secured appropriately.</li></ul> <p><b>Action Plan: None</b></p>	

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