Sandwell Metropolitan Borough Council

Audit Services & Risk Management

Internal Audit Annual Report

2007/08

Audit Committee – 9 June 2008

WEST MIDLANDS FIRE SERVICE

Sandwell Audit Services are pleased to be making a positive contribution to saving our rare and endangered species from extinction by sponsoring Olympus the Snow Leopard (pictured above) who is based at Dudley Zoo as part of the European Species Survival Programme. Snow leopards are found in the high mountains of Central Asia, specifically the Himalayas. They are powerful, agile animals, unfortunately they are also an endangered species as they live in a harsh and dangerous environment and are illegally hunted. The total population of the snow leopard is now in hundreds rather than thousands.

Sandwell
Metropolitan Borough Council
Audit Services

1   Introduction

1.1   Our internal audit work for the period from 1 April 2007 to 31 March 2008 was carried out in accordance with the approved Internal Audit Plan. The Plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the Fire Service's governance, risk management and control processes.

In this way our annual report provides one element of the evidence that underpins the Governance Statement the Fire Service is required to make within its annual financial statements. This is only one aspect of the assurances available to the Fire Service as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the Fire Service may rely could include:

- The work of the External Auditors
- The results of the CPA process
- The result of any quality accreditation
- The outcome of visits by HMRC
- Other pieces of consultancy or third party work designed to alert the Fire Service to areas of improvement
- Other external review agencies

During the year the Fire Service set up an Audit Committee, with a set of Terms of Reference based upon the CIPFA model. Internal Audit now report to this committee, and the committee itself reports to the Authority.

1.2   The definition of internal audit, as described in CIPFA's Code of Practice, is set out below:

"Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources".

Overall Assurance

1.3   As the providers of internal audit, we are required to provide the Fire Service with an opinion on the adequacy and effectiveness of the governance, risk management and control processes. In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide is reasonable assurance that there are no major weaknesses in the Fire Service's governance, risk management and control processes. In assessing the level of assurance to be given, we have taken into account:

- All audits undertaken for the year ended 31 March 2008;
- Any follow-up action taken in respect of audits from previous periods;
- Any significant or fundamental recommendations not accepted by management and the consequent risks;
- Any limitations which may have been placed on the scope of internal audit; and
  - The extent to which any resource constraints may impinge on the ability to meet the full audit needs of the Fire Service.

2   Internal Audit Opinion

2.1   We have conducted our audits in accordance with the CIPFA Code of Practice for Internal Audit in Local Government. Within the context of the parameters set out in paragraph 1.3 above, our opinion is as follows:

2.2   Based on the work undertaken during the year and the implementation by management of the recommendations made, Internal Audit can provide ***reasonable assurance** that the Fire Service has adequate and effective governance, risk management and internal control processes.

*We are pleased to report that this is an unqualified opinion and the highest level of assurance available to Audit Services. As stated in paragraph 1.3 "In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide is reasonable assurance that there are no major weaknesses in the Fire Service's governance, risk management and control processes".

Factors Influencing the Opinion and Issues Relevant to the Statement on Internal Control

2.3   In reaching this opinion, the following factors were taken into particular consideration:

1. The need for management to plan appropriate and timely action to implement both our and the External Auditor's recommendations.

2. Key areas of significance, identified as a result of our audit work performed in year are detailed in the Appendix to this report.

2.4   The overall opinion can be used by the Fire Service in the preparation of the Governance Statement.

3   Performance of the Audit Service

Compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom

In their latest report on Audit Services the External Auditor's for Sandwell Metropolitan Borough Council concluded that we met all of the standards included in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom – 2006.

Completion of the Audit Plan
The majority of the Audit Plan for 2007/08 was completed in order to feed into this Annual Report.

Customer Satisfaction
Customer satisfaction questionnaires are issued for all audits. From the responses returned, the average scores were as follows:

Question	Average Score
Usefulness of audit	4.1
Value of recommendations	3.9
Usefulness of initial discussions	4.4
Fulfilment of scope & objectives	4.1
Clarity of report	4.3
Accuracy of findings	4.3
Presentation of Report	4.4
Time span of audit	4.0
Timeliness of audit report	3.9
Consultation on findings/recommendations	4.7
Helpfulness of auditors	4.9
Overall Satisfaction with Audit Services	**4.3**

Scores range between 1 = Poor and 5 = very good. We have a target of achieving on average a score of **4 = good.**

Internal Quality Assurance Programme

Sandwell Audit Services are accredited with the BS EN ISO 9001:2000 quality standard and meets the requirements of and complies with appropriate professional and technical standards for internal audit work. Staff are recruited, trained and provided with opportunities for continuing professional development. Staff are also supported in order to undertake relevant professional qualifications. All staff are subject to a Professional Performance Development (PPD) programme, which leads to an identification of training needs. In this way, we ensure that staff are suitably skilled to deliver the internal audit service. This includes the delivery of specialist skills which are provided by staff within the service with the relevant knowledge, skills and experience.

Fraud Awareness

We have set up and hosted a regional forum in order to co-ordinate anti-fraud and corruption activities within local government and the wider public sector across the West Midlands.

Other Areas

During the year we had an article on Environmental Auditing published in the Institute of Internal Auditors (IIA) journal and were invited to speak on various internal audit issues at the following events:

- CIPFA Annual Internal Audit Conference
- CIPFA Audit Training Seminar (CATS)
- IIA/Fraud Advisory Panel – Fraud Event
- IIA Irish Society – Audit Planning and the Audit Committee
- National Housing Federation Conference – Raising Fraud Awareness

We also provide the internal audit service for:

- Sandwell Metropolitan Borough Council
- Sandwell Homes
- Sandwell Leisure Trust

Separate Annual Internal Audit Reports have been prepared and issued to each of these clients.

Finally, throughout the year we provide ongoing advice and assistance to all areas of the Fire Service on internal control and related issues.

4   Summary of Work Completed

A detailed written report and action plan is prepared and issued for every internal audit review. The responsible officer will be asked to respond to the report by completing and returning the action plan. This response must show what actions have been taken or are planned in relation to each recommendation. If the recommendation is not accepted, this must also be stated. Audit Services are responsible for assessing whether the managers response is adequate.

Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

	Level	System Adequacy	Control Application
(positive opinions)	Substantial Assurance	Robust framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.
	Satisfactory Assurance	Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger.	Controls are applied but with some lapses.
(negative opinion)	Limited Assurance	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.

This is based upon the number and type of recommendations we make in each report. Each recommendation is categorised in line with the following:

Fundamental	Action is imperative to ensure that the objectives for the area under review are met.
Significant	Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.
Merits attention	Action advised to enhance control or improve operational efficiency.

During the year we made the following number of recommendations:

Fundamental	1
Significant	15
Merits attention	23
Total	**39**

The following appendices/tables below list of all the reports issued by internal audit during 2007/08, alongside their original Audit Needs Assessment risk score, the number and type of recommendations made, whether those recommendations have been accepted and an overall level of assurance for each review.

Key	
KFS	Key Financial System (mandatory review in line with External Audit requirements)
N/A	Review outside of normal risk based auditing approach/customer request etc.

Summary of Internal Audit Work Completed

Auditable Area	ANA Rating	Recommendations					Level of Assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Payroll	KFS	0	3	4	7	6	Satisfactory
Follow Up	-	1	0	0	1	1	N/A
Governance	High	0	0	1	1	1	Substantial
Procurement	Medium	0	3	1	4	4	Satisfactory
Maintenance/Repairs of Vehicles	Medium	0	0	1	1	1	Substantial
Creditors	KFS	0	1	3	4	4	Substantial
Debtors	KFS	0	3	3	6	6	Satisfactory
Risk Management, including Assurance Framework	High	0	3	5	8	8	Satisfactory
National Fraud Initiative	-	0	0	0	0	0	N/A
Budgetary Control	KFS	-	-	2	2	2	Substantial
Counter Fraud	-	-	2	3	5	4	Satisfactory
Total		**1**	**15**	**23**	**39**	**37**	

Key Issues arising during the Year

The following is a brief overview of the key issues identified during the year.

Risk Management
We were pleased to find that the Corporate Planning Team had carried out a great deal of work on both planning and starting to implement the embedment of risk management. This included carrying out a comprehensive revision of the Corporate Risk Register, and associated processes.

To further embed risk management, recommendations were made covering:
- Approval of the Risk Management Standing Order which has been introduced.
- Recording and reporting of changes to the Corporate Risk Register.
- Introduction of a formal assurance process, which draws together the strands of assurance for each risk.

Debtors
An annual review was carried out on the Accounts Receivable system. The key issues arising were:

- Finance management to identify large and longstanding debts, and ascertain what action has and is being taken by SMBC debt recovery section to recover the debts.
- Finance management to use reporting mechanisms to confirm that appropriate segregation exists when invoices and adjustments are raised.
- SMBC debt recovery should be advised not to carry out amendments to debtor accounts, as per the terms of the SLA.

Procurement
A strategic view of the procurement system was undertaken in order to establish the ways in which goods and services can be procured, and how these practices comply with Standing Orders. The main issues raised were that:

- A risk assessment to be carried out for all procurement activities.
- The procurement policy to be reviewed in order to include the objectives of the National Procurement Strategy.
- Where contracts exceed £20,000, the list of suppliers to be appropriately approved ensuring compliance with Standing Order 01/08 and the Procurement Policy.

Payroll
A bi-annual audit is carried out on the payroll function at the Fire Service. Payroll, Personnel and the SBS/finance functions were examined as part of the audit. Recommendations from the previous audit were also followed up. The key issues arising were:

- There was no effective way of verifying that an appropriate member of staff had checked and authorised changes notified by Personnel to Payroll.
- There was a lack of an adequate level of segregation of duties by Personnel when completing information for starters and leavers.
- There was a need for a risk register to highlight potential risks to the section and the controls put in place to mitigate them.

Follow-up Audit
A follow-up audit of work undertaken in 2006/7 was carried out on the significant issues identified in our audits of Pensions/Payroll and Absence Management. It is understood that the HMRS system was introduced in December 2007 although its functionality needed to be expanded. Due to this, the following recommendation was repeated "Key constraints in the Oracle e-Business suite should be addressed as part of the implementation plan for the intended HRMS. The constraints that need attention include determining a strategy for linking data from SMART/DMAR with HRMS, which will not compromise data integrity".

Key:

SBS	Sandwell Business System - the finance system used by the Fire Service.
HRMS	Human Resources Management System (to replace SMART and DMAR)
SMART	Sickness Management and Rostering System
DMAR	Duty Management and Rostering System

Fraud Investigations
We are also responsible for undertaking investigations into potential fraudulent activity on behalf of the Fire Service. During the year we were involved in the following:

Cheque Fraud
In the previous year, two fraudulent cheques, quoting the WMFS bank account number, were intercepted by the bank. The cheques, for £9,550 and £8,500, were forged documents and were not debited to the Fire Service bank account.

During this financial year a fraudulent cheque for £8,500 was presented. This was not initially identified by the bank and therefore was debited to the Fire Service bank account. However, the bank reconciliation procedures as applied by the Fire Service, did subsequently identify this, and this was later reimbursed to the Fire Service.

Two further cheques were identified and intercepted by the bank as fraudulent, for £3,195 and £2,500. Both had been severely altered with the payee, amount and date being hand-written. Also, the account number was not the correct Fire Service bank account number.

All of the cheques involved were passed to the police who are continuing with their investigations.

<u>Payroll Claims</u>
Assistance was requested by the Fire Service with an investigation regarding payroll claims made at a fire station. It was concluded that the system could be manipulated, as there were limited controls over the time being claimed. Several instances of duplicated pay claims were found, with the lack of controls also increasing the likelihood of honest duplication. A series of recommendations were made in order to address the problems found, including the weekly submission of claims, and clarification on how claims should be made.

Advice and Assistance
We have continued to provide support to the Fire Service throughout the year on internal control and related issues. This included advice on:

- Proposed procedure changes relating to security of monies and valuables (Standing Order 7/15), and security arrangements (Standing Order 7/8).
- Proposed procedure changes relating to procurement procedures, involving e-procurement (Standing Order 1/8).
- Proposed procedure changes relating to travel and subsistence (Standing Order 3/5).
- Cheque printing/cancellation problems.
- Data protection issues and requirements.
- Human resources system data access requirements.
- Internet and e-mail use/policies.
- A proposal to carry out a prize draw.