

# WEST MIDLANDS FIRE SERVICE

Annual Internal Audit Report 2011/12

Audit Committee – 11 June 2012



Sandwell Audit Services are pleased to be making a positive contribution to saving our rare and endangered species from extinction by sponsoring Nanga the Snow Leopard 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.

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## 1 Introduction

- 1.1 Our internal audit work for the period from 1 April 2011 to 31 March 2012 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 Authority'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 Authority is required to make within its annual financial statements. This is only one aspect of the assurances available to the Authority as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the Authority may rely could include:

- The work of the External Auditors (currently the Audit Commission)
- The result of any quality accreditation
- The outcome of visits by HMRC
- Other pieces of consultancy or third party work designed to alert the Authority to areas of improvement
- Other external review agencies

- 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 Authority 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 Authority'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 2012;
- 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 Authority.

## 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 Authority 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 Authority'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 Authority 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 Internal Audit complied with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

#### Customer Satisfaction

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

Question	2011/12
Usefulness of audit	4
Value of recommendations	4
Usefulness of initial discussions	4
Fulfilment of scope & objectives	4
Clarity of report	4
Accuracy of findings	4
Presentation of Report	4
Time span of audit	4
Timeliness of audit report	4
Consultation on findings/recommendations	4
Helpfulness of auditors	4.9
<b>Overall Satisfaction with Audit Services</b>	<b>4.1</b>

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

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 chair and host 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**

We also provide the internal audit service for:

- Sandwell Metropolitan Borough Council
- Sandwell Homes
- Sandwell Leisure Trust
- Sandwell Arts 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 Authority on internal control and related issues, including on the development of an assurance framework.

#### 4 Summary of Work Completed to inform the 2011/12 Internal Audit Opinion

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:

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

During the year we made the following number of recommendations:

<b>Fundamental</b>	<b>1</b>
<b>Significant</b>	<b>15</b>
<b>Merits attention</b>	<b>28</b>
<b>Total</b>	<b>44</b>

The following appendices/tables below list of all the reports issued by internal audit during 2011/12, alongside their original Assessment of Assurance Need (AAN) risk score, the number and type of recommendations made, whether those recommendations have been accepted and an overall level of assurance for each review.

<b>Key</b>	
<b>KFS</b>	Key Financial System (mandatory review in line with External Audit requirements). Generally this is also a high risk review.
<b>**</b>	At the time of the preparation of this report, our reviews of these areas were underway and nearing completion. No key issues had been identified during the reviews that would impact upon our overall audit opinion.



### Summary of Internal Audit Work Completed for the 2011/12 Internal Audit Opinion

Auditable Area	ANA Rating	Recommendations					Level of Assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Environment	Med	-	3	10	13	13	Satisfactory
Fixed Assets Accounting 2010/11	KFS	-	-	2	2	2	Substantial
Home Fire Safety Visits	Med	-	-	-	-	-	Substantial
Governance	High	-	2	2	4	4	Satisfactory
Fire Stations – Management of Fuel	Med	1	2	1	4	4	Limited
Bank Account Reconciliations	Med	-	-	1	1	1	Substantial
Risk Management	High	-	3	4	7	7	Satisfactory
Payroll /Pensions	KFS	-	3	5	8	8	Satisfactory
Accounts Payable	KFS	-	1	1	2	2	Substantial
Accounts Receivable	KFS	-	-	-	-	-	Substantial
Budgetary Control	KFS	-	-	1	1	1	Substantial
Fixed Assets 2011/12	KFS	-	1	1	2	2	Substantial
IT	High					**	
Asset Register/Inventory System	Med					**	
<b>Total</b>		<b>1</b>	<b>15</b>	<b>28</b>	<b>44</b>	<b>44</b>	

## Key issues arising during the year

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

### **Environment**

A review was undertaken to assess the progress being made in improving the culture surrounding environmental policies at stations and to assess the degree of corporate commitment towards environmental strategy. We recommended that the Corporate Board consider if station commanders should be made responsible for monitoring compliance of their station in line with the aims of the environmental strategy and whether future environmental training needed to be made mandatory for station commanders and/or environmental champions.

In order to further demonstrate corporate commitment of the Service to reducing its impact on the environment, we also recommended consideration be given to requiring all reports to the Fire Authority to include a paragraph detailing the results from the consideration of any environmental implications.

### **Fixed Assets Accounting**

We performed a review of the accounting systems for Fixed Assets in accordance with the Key Financial Systems programme as agreed with the External Auditors. We noted a delay in the finalisation of the Vehicle Replacement due to an on-going review of vehicle requirements.

### **Governance**

Our review this year focused on the Authority's engagement with the public, and skills development by officers and members. Our review indicated that there was a need to:

- Perform a more regular review of the effectiveness of corporate communications
- Encourage greater participation in the Strategy for Supporting and Developing Members
- Further develop links between member training and skills gaps and improve formal feedback on member training.
- Complete the development of a constitution for the Authority

### **Fire Stations - Management of Fuel**

A programme of site visits was undertaken at five stations (Aldridge, Bickenhill, Handsworth, Hay Mills and West Bromwich). We found that operationally, there was a lack of compliance with the requirements of certain standing orders, in particular:

- Only one of the five locations was recording that water tests were being undertaken each time a dip measure was taken in accordance with Standing Order 2.6.
- Canned fuel stock checks were not being recorded in the T4 fuel tally book at the change of each watch as required by Standing Order 2.13.2.
- There were mixed practices across all of the stations visited with regard to recording end of month calculations in both the T4 fuel tally book and the T2 vehicle journey log as necessitated by Standing Order 2.13.1.

- At each of the five stations visited, end of month calculations were being recorded in the T4 fuel tally book but the calculations were not being closed off as required by Standing Order 2.13.6
- There were instances where the same officer was signing both the T4 fuel tally book and T2 vehicle journey log records when fuel was issued. This reduced the division of duties required by Standing Order 2.7.2.
- There were instances where fuel quantities entered in both records did not match, i.e. the fuel issued and recorded in the T4 fuel tally book was different to the record made in the T2 vehicle journey log contrary to Standing Order 2.7.2
- The roll numbers recorded in both books were often illegible so it could not be determined who had issued and received the fuel. Some entries contained no signature and where an entry contained a signature it was difficult to identify the individual concerned as required by Standing Order 2.7.2.
- Generally fuel orders were not being recorded in the Station continuity books in accordance with Standing Order 2.3.2.
- Delivery Notes were not retained at all the Stations but were sent to Fire Service Headquarters by the Station Admin Officer contrary to Standing Order 9/01- 2.5.2.
- The frequency of fuel dips varied at the five stations visited but most were undertaking dips before and after a fuel delivery. However, at one station a delivery was made without any fire service personnel being present (Standing Order 2.5.1).
- Discrepancies exceeding +/- 150 litres was noted at two Stations. There was no record in the fuel tally book confirming that a report had been made to the Station Commander as required by Standing Order 2.13.5.
- There were no records maintained in the fuel tally books confirming that monthly fuels checks were taken and signed by the Watch Commander as mandated by Standing Orders 2.13.4 and 2.13.8.

In addition self-assessment questions, undertaken as part of the Station Self-Assessment Workbook regime, which require a commentary on completion of T2 and T4 log books in accordance with standing order 9/01 were not giving an accurate reflection of the level of internal control being exercised in this area.

### **Bank Account Reconciliations**

A review was undertaken on the regular reconciliations undertaken to ensure control over bank accounts held centrally and at fire stations. No issues of significance were found.

### **Risk Management**

Our review focussed upon how risk management and the wider assurance framework was being embedded across the Authority. The following issues were raised in order to continue to develop this:

- The implementation of an enterprise wide risk management framework, with risk registers being developed below corporate level.
- The inclusion of target dates within risk registers and action plans.
- Adopting a systematic and consistent approach to project and partnership risk management.

**Payroll/Pensions (KFS)**

Our review considered the overall controls in place to ensure the efficient maintenance of the Pensions and Payroll functions. We found that:

- Our recommendation from 2010/11 that a system of annual reviews of ill-health pensioners entitlements should be installed in order to prevent overpayments yet to be implemented.
- Password security was not being regularly reviewed and user access to IT systems was not being regularly monitored

**Accounts Payable (KFS)**

Our review considered the overall controls in place to ensure the accurate and efficient control of the Accounts payable functions. We noted the need for more robust measures for ordering goods to aid control of the Authority's finances. In addition the implementation of our recommendation from our 2010/11 review, in respect of the purchase of an improved accounting module, was under consideration as part of the "Building Upon Success" (BUS) programme.

**Budgetary Control**

Our review considered controls installed to ensure accurate and timely monitoring of budgets and the controls over virements and journal entries. We concluded that improved monitoring data should be developed to ensure integrity of journal entries.

## Other areas of assistance provided

**Grant Declaration**

We provided certification of a claim for Capital Grant Funding of £1,599m through ensuring that funding conditions had been complied with.

**Counter Fraud**

We continued to lead on the Audit Commission's National Fraud Initiative and their other associated fraud related activity (such as the Annual Fraud Survey), on behalf of the Authority and to provide the main point of contact for any investigations into potential fraudulent activity. We also hosted a raising fraud awareness seminar for Authority managers and helped ensure that the governance of the Authority accords with all considered best practice in the counter fraud environment.

**Audit and Performance Management Committee Annual Report**

Assistance was provided in the preparation of the Annual Report of the Chair, on the work of the Audit and Performance Management Committee.

**Audit and Performance Management Committee Self-Assessment Exercise**

The committee undertook its annual self assessment exercise on 28 November 2011. The Audit Manager facilitated a workshop to consider the committee's effectiveness. The workshop, attended by most members of the committee, focussed upon the completion of a CIPFA self assessment checklist. A Skills Audit of members of the committee was also undertaken.