



Sandwell Audit Services

Annual Internal Audit Report

For



For the Year Ended 31 March 2005

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1 Introduction

- 1.1 Our internal audit work for the period from 1 April 2004 to 31 March 2005 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 Statement of Internal Control 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 Best Value/CPA process
- The result of any quality accreditation
- The outcome of visits by the Inland Revenue
- The outcome of visits by Customs and Excise
- The outcomes of any quality self-assessment processes
- Other pieces of consultancy or third party work designed to alert the Fire Service 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 to the Fire Service, we are required to provide the Treasurer with an opinion on the adequacy and effectiveness of the Fire Service's 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 to the Treasurer 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 during the year ended 31 March 2005;
- Any follow-up action taken in respect of audits from previous periods;
- Any significant 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 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 West Midlands Fire Service has adequate and effective governance, risk management and internal 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 our recommendations.
2. Key areas of significance, identified as a result of our audit work performed (detailed in Appendix 1).
3. The Fire Service continues to enhance its risk management arrangements, which will need to continue to be embedded throughout the whole organisation.

2.4 The overall opinion can be used by the Treasurer in the preparation of the Statement on Internal Control.

3 Performance of Sandwell Audit Services

3.1 Customer Satisfaction

Customer satisfaction questionnaires accompany all audits with a length of 75 hours or more. From the responses returned, across the whole of Sandwell Audit Services client base, the average scores were as follows:

	Average score
Usefulness of audit	4.10
Value of recommendations	4.10
Usefulness of initial discussions	4.21
Fulfilment of scope and objectives	4.16
Clarity of report	4.30
Accuracy of findings	4.20
Presentation	4.30
Time span of audit	3.80
Timeliness of audit report	4.10
Consultation on findings/recommendations	4.50
Helpfulness of audit staff	4.58
Total	4.21

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

3.2 Internal Quality Assurance Programme

Sandwell Audit Services are accredited with the BS EN ISO 9001:2000 quality standard.

Our Procedures Manual stipulates the quality control mechanisms that will operate on each audit assignment. The Procedures Manual has been constructed so as to ensure that Sandwell Audit Services meet 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.

We have 22 members of staff, 10 of which are fully qualified accountants. These qualifications cover a number of professional organisations including CIPFA, ACCA, FCA and IIA.

Summary of Work Undertaken

Appendix A

Auditable Area	Risk Rating	Number of Recommendations made
Planned Audits from 2004/05 Plan		
<u>Reports Produced</u>		
Purchase & Disposal of Vehicles	Med	0
Creative Services	Low	5
Cleaning Services	Low	6
Planned Audits from 2005/06 Plan		
<u>Reports Produced</u>		
Rates	Low	6
Review of Audit Recommendations	N/A	17
Asset Register	N/A	6
West Bromwich Station Audit	Low	6
Fire Service Bank Account	N/A	4
Debtors	Med	8
Perry Barr Station Audit	Low	9
Creditors	Med	13
Pensions Payroll	Med	7
Smethwick Station Audit	Low	10
Risk Management (replaced Ext. Funding)	N/A	6
Fire Safety Centre	Low	5
Estates / Building Services	Low	6
<u>Reports Not Produced (general advice and assistance)</u>		
Regional Fire Service	Med	-
Best Value	Low	-
Fire Control	Med	-
Financial Management	Med	-
Integrated Computer System	Med	-
Income Monitoring	N/A	-
Total		114

Key Issues Arising

Rates

The aim of our review was to verify that payments were being made in respect of property rates. We found that:

- A full reconciliation of invoiced charges to updated rate valuation information was not being carried out in all instances to ensure that charges were correct.
- There were no processes in place to monitor the timeliness or value of refunds.

Asset Register

Our review focussed on the maintenance of the Asset Register for land & buildings, vehicles, equipment and IT assets. We found that:

- Registers were not being updated on a regular basis (usually only at year end).
- Disposals of IT equipment were not being recorded.
- Procedures to physically verify assets needed to be improved.

Fire Service Bank Account

The objective of our review was to confirm that the arrangements to transfer responsibility for reconciliation processes from SMBC to the Fire Service were adequate. We found that:

- Responsibilities for sorting out queries and responsibilities were not clarified which may result in key tasks not being completed.
- An agency employee had been used as a temporary measure to carry out this new role, raising 'continuity issues'.

Debtors

The objective of our review was to ensure that invoices were raised correctly and promptly and that the level of debt was managed appropriately. We found that:

- The process for raising invoices did not have appropriate segregation controls.
- Detailed reports showing 'adjustments made' and changes to debtor positions were not being monitored.
- A lack of clarity concerning who had responsibility for mis-posted cash and reconciling control accounts.

Creditors

The objective of our review was to ensure that payments were made correctly and promptly. We found that:

- The checks to confirm the accuracy of invoices and of bank accounts used in the payment process were not adequate.
- Reconciliations between Accounts Payable accounts and the General Ledger had not been carried out on a regular basis.
- Reports to confirm that all invoices are paid were not being reviewed on a regular basis.

Pensions Payroll

The objective of our review was to confirm that controls over the payment of pensions were adequate. We found that:

- Pay adjustment backlogs resulting from the pay dispute had not been fully cleared.
- Improvements were required in the segregation of duties controls to prevent unauthorised adjustments to the pensions payroll.

Risk Management

The objective of our review was to confirm that a suitable Corporate Risk Management process had been introduced and was operating effectively. We found that:

- Risks, which had been identified, but were recognised as not being significant enough to be controlled via the corporate risk register needed to be included in other monitoring processes.
- The process for monitoring risks held on the corporate risk register needed to be developed further.
- A formal process needed to be developed to link lower level developing risks from departmental action plans to the corporate risk register.

Estates / Building Services

The objective of our review was to confirm that adequate controls were in place over the process used to prioritise and authorise capital projects and to monitor their progress. We found that:

- There was not an up to date Corporate Property Strategy.
- There was a need to improve the audit trail for decisions taken regarding the basis for selecting projects for the Capital Programme.

Other Work Undertaken

- Attendance at the Risk Management Group.
- Advice on Standing Orders (Partnerships & External Funding).
- Advice on the collection of private telephone income.
- Advice on accepting payments via website.

Investigation into a payment made in error (Inland Revenue).

- A payment for an incorrect value, authorised by WMFS staff was made to the Inland Revenue in November 2004. A payment recall was requested and the value was transferred back into the WMFS bank account. The Fire Service lost approximately £4,000 in interest costs as a result of this.
- Management have subsequently introduced payment limits for all suppliers and have reminded staff of their responsibilities when authorising payments.

Investigation into a fraudulent payment/transfer request.

- A fraudulent attempt was made by persons unknown, to obtain £2,700 from the WMFS bank account and to transfer the funds to a Japanese bank account in the name of 'Arab Trading Co' in November 2004.
- No internal documentation/request had been raised within the WMFS (or SMBC) to support the request and the Treasurer's signature was forged.
- The transfer documentation was queried by the bank (Co-operative Bank) and the payment was not made. The matter has been referred to the Police.

Preliminary investigation and advice regarding mileage claims.

- Internal Audit carried out a preliminary review of mileage claims submitted by a member of staff. The mileage claims involved, which concerned a nine-month period, had yet to be authorised or paid.
- The review highlighted several instances of potential over and under claims resulting in a net potential over claim of £282.
- This information was passed to Management for further action.