

WEST MIDLANDS FIRE SERVICE

Annual Internal Audit Report 2012/13

Audit Committee – 10 June 2013

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1 Introduction

- 1.1 Our internal audit work for the period from 1 April 2012 to 31 March 2013 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 Grant Thornton)
- 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 2013;
- 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



During the year Sandwell Audit Services complied with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. From 1 April 2012 this code has been replaced by a new set of Public Sector Internal Audit Standards, which Internal Audit now follows.

External Audit Conclusion

In their interim report, Grant Thornton (WMFS External Auditors) concluded that that “the Internal Audit service continues to provide an independent and satisfactory service to the Authority. Thus, we can take assurance from internal audit work in contributing positively to the internal control environment and overall governance arrangements at the Authority”.

Customer Satisfaction

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

Question	2012/13
Usefulness of audit	4.00
Value of recommendations	4.00
Usefulness of initial discussions	4.00
Fulfilment of scope & objectives	4.00
Clarity of report	4.25
Accuracy of findings	4.25
Presentation of Report	4.25
Time span of audit	4.00
Timeliness of audit report	4.00
Consultation on findings/recommendations	4.00
Helpfulness of auditors	4.50
Overall Satisfaction with Audit Services	4.11

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 formal staff appraisal process, 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 (up to 31 December 2012)
- 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 2012/13 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:

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	0
Significant	12
Merits attention	13
Total	25

The following appendices/tables below list of all the reports issued by internal audit during 2012/13, 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.

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	
Performance Management	Medium	0	1	1	2	2	Substantial
Risk Management Update	High	0	0	0	0	0	NA
Workforce Planning	Medium	0	0	1	1	1	Substantial
LGPS Cert.	Medium	0	0	0	0	0	NA
Business Continuity Plan	Medium	0	3	3	6	6	Satisfactory
Governance	High	0	4	0	4	4	Satisfactory
IT 2012.13	High	0	2	0	2	2	Satisfactory
Follow up	NA	-	-	-	-	-	**
Procurement	Medium	0	1	3	4	-	*
Payroll /Pensions	KFS	0	1	3	4	4	Substantial
Accounts Receivable	KFS	0	0	0	0	0	Substantial
Accounts Payable	KFS	0	0	0	0	0	Substantial
Fixed Asset Accounting	KFS	0	0	2	2	2	Substantial
Budgetary Control	KFS	0	0	0	0	0	Substantial
Total		0	12	13	25	21	

Key

KFS	Key Financial System (mandatory review in line with External Audit requirements). Generally this is also a high risk review.
*	Action Plan still under discussion in order to finalise the response.
**	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.

Key issues arising during the year

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

Performance Management

A review was undertaken of Corporate Performance Indicators, which are tied into the plan and the strategic objectives that are agreed at the target setting meeting each January. Performance against the targets set is monitored throughout the year and is reported on a quarterly basis. We noted issues with data quality in incident work books and lack of corporate indicators for Value for Money. Recommendations have been agreed to address these issues.

Risk Management Update

A follow-up review was undertaken to assess progress on the implementation of recommendations made in the 2011/12 audit. Our review suggests that good progress has been made in the implementation of previously agreed actions.

Workforce Planning

Workforce planning within West Midlands Fire Service is a key aspect of people management and development. It seeks to define workforce requirements now and in the future and is about trying to predict the future demand for different types of staff and seeking to match this with supply. Since 2010 the Authority has undertaken a programme of comparison between the present workforce and the desired future workforce to highlight shortages, surpluses and competency gaps, whether due to external pressure or internal factors.

These gaps have become the focus of workforce planning via the “Building Upon Success” programme which sought to identify and implement strategies that will ensure the availability of relevant skills and capacity needed to meet organisational goals, whilst ensuring maximum efficiency in resource utilisation. Our review raised one issue in respect of the need for the formulation of a policy on Stress in the Workforce.

Business Continuity

Business Continuity Management (BCM) is a statutory requirement for all Category 1 responders to undertake, under the Civil Contingencies Act 2004. WMFS is a category 1 responder. It is the strategy of the Fire Service to have Business Continuity Plans (BCPs) in place to deal with any eventuality of service interruption that would hinder its discharge of duty. Standing Order 01/31 details this strategy. The Industrial Action BCP was selected for testing as it was activated during 2011 and the risk of industrial disputes has recently increased. Issues were raised in respect of ensuring compliance with Standing Order 1/31 relating to ISO22301, review intervals for Business Continuity Plans and the lack of formal post testing review records of plans.

Governance

Our review was based on the principles of the CIPFA/Solace document “Delivering Good Governance in Local Government: Framework” and focused on the demonstration of the values of good governance through upholding high standards of conduct and behaviour and the taking of informed and transparent decisions which are subject to effective scrutiny and management of risk.

Issues arose in respect of:

- Lack of an approved constitution in place (brought forward from last year’s audit.)
- There is still a poor take up of member training and a need to identify skills gaps to target training appropriately.
- A significant proportion (47%) of Standing Orders had not been subject to regular review in contravention of Standing Order 01/02.
- Work on the comparison of WMFS governance procedures and those recommended by CIPFA/SOLACE was suspended in 2010, pending government guidance. The current position with government guidance has not been revisited since that time.

Draft recommendations to address these issues were under discussion with management as at the time of writing.

IT 2012/13

Our audit this year focussed on control of software. Our review suggested that a review of software licence data has not been undertaken other than in respect of Microsoft packages. A draft recommendation to address this issue was under discussion with management as at the time of writing.

Follow-up

A review of actions taken in response to recommendations from 2011/12 audits was in progress as at the year-end. Details of our findings will be included in the next progress report.

Procurement

An audit of the procurement processes was undertaken. Our review focussed on the procurement of contracts and compliance with the appropriate Standing Orders.

An issue arose in respect of monitoring of individual contract expenditure by the procurement team. A draft recommendation to address this issue was under discussion with management as at the time of writing.

Key Financial Systems:

The control matrices (nature and type of tests, sample sizes etc.) used in the following reviews include the requirements of the External Auditors, in order that they can place reliance on our work and thereby reduce their own year-end testing accordingly.

Payroll/Pensions (KFS)

An audit of the Payroll and Pensions function was undertaken. Our review considered the overall controls in place to ensure the efficient maintenance of the Pensions and Payroll functions.

We noted that a formal review had not been undertaken by management on access to IT systems operated by the payroll section (AXISe, Tapestry, LIVEWEB and Oracle). Management have now taken action to address this issue.

Accounts Receivable (KFS)

An audit of Accounts Receivable was undertaken. Our review focused on debtor's invoices raised by the WMFS Revenues Team and the reconciliations undertaken by the WMFS Finance Section.

No issues or concerns were highlighted by our review.

Accounts Payable (KFS)

An audit of Accounts Payable was undertaken. Our review considered the overall controls in place to ensure the accurate and efficient control of the Accounts payable functions

No issues or concerns were highlighted.

Fixed Asset Accounting

An audit of Fixed Asset Accounting was undertaken in respect of planned capital expenditure for 2011/12 as approved by the Fire Authority of £3.625M.

A recommendation was made in respect of the use of asset numbers - it has been agreed that this will be addressed as part of the compilation of the latest asset register.

Budgetary Control

An audit of Budgetary Control was undertaken. Our review focused on preparation of budgets and monitoring of cash flow and spending. In addition we reviewed reporting to Corporate Board.

No issues or concerns were highlighted by our review.

Other areas of assistance provided

LGPS Certification

An audit was undertaken to assist with the provision of assurance on the accuracy of the 2011/12 return to the Local Government Pension Scheme. All tests proved satisfactory. (Note it was agreed with the Director of Resources that this audit should be substituted for the Fixed Asset Planning Audit).

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 Committee Annual Report

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

Audit Committee Self-Assessment Exercise

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