

Internal Audit Annual Report

2008/09

Audit Committee – 8 June 2009

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 Tangra 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.

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1 Introduction

- 1.1 Our internal audit work for the period from 1 April 2008 to 31 March 2009 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
- The results of the CPA process
- The result of any quality accreditation
- The outcome of visits by HM Revenue and Customs
- 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 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 2009;
- 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 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.

Completion of the Audit Plan

The Audit Plan for 2008/09 was completed in full 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	2007/08 Average Score	2008/09 Average Score
Usefulness of audit	4.1	4.2
Value of recommendations	3.9	3.9
Usefulness of initial discussions	4.4	4.6
Fulfilment of scope & objectives	4.1	4.5
Clarity of report	4.3	4.4
Accuracy of findings	4.3	4.3
Presentation of Report	4.4	4.6
Time span of audit	4.0	4.1
Timeliness of audit report	3.9	3.9
Consultation on findings/recommendations	4.7	4.8
Helpfulness of auditors	4.9	4.9
Overall Satisfaction with Audit Services	4.3	4.4

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 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

During the year we were invited to speak on various internal audit issues at the following events:

- CIPFA Annual Internal Audit Conference
- Institute of Internal Auditors (IIA) - Raising Fraud Awareness
- IIA – Corporate Social Responsibility
- National Anti-Fraud Network

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	0
Significant	18
Merits attention	20
Total	38

The following appendices/tables below list of all the reports issued by internal audit during 2008/09, 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	
HQ Relocation Follow-up audit	High	-	-	-	-	N/A	Substantial
Management of Fuel at Fire Stations	Medium	-	3	1	4	4	Satisfactory
Bank Account Reconciliations	Medium	-	-	2	2	2	Substantial
Pension Payroll	KFS	-	2	1	3	3	Substantial
Home Fire Safety Checks	Low	-	-	-	-	N/A	Substantial
IT Audit	High	-	6	5	11	11	Limited
Accounts Payable	KFS	-	-	4	4	4	Substantial
Risk Management/ Risk Assurance Framework	High	-	1	3	4	4	Substantial
Follow-up Audit:							
• Procurement	N/A	-	2	-	2	2	N/A
• Payroll	N/A	-	-	1	1	1	N/A
Accounts Receivable	KFS	-	4	-	4	4	Satisfactory
Budgetary Control	KFS	-	-	1	1	1	Substantial
National Fraud Initiative	N/A	-	-	-	-	-	N/A
Governance	High	-	-	2	2	2	Substantial
Liaison with External Audit	N/A	-	-	-	-	-	N/A
Total		0	18	20	38	38	

Key Issues arising during the Year

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

Accounts Payable

The Accounts Payable system is used for processing payments for goods and services. The key issues arising from our review included:

- A regular report on inactive suppliers was not being produced (which would enable them to be identified and removed from the creditors system)
- Reconciliation paperwork was not being reviewed and signed by management to evidence that the reconciliations had been completed in a timely manner

Accounts Receivable

Debtors are raised by West Midlands Fire Service (WMFS) Revenues Team. There is a Service Level Agreement (SLA) in place between WMFS and Sandwell Debt Recovery Team, based at Intersection House within Revenues & Benefits, who are responsible for the recovery of unpaid debts. At the start of the audit the debt outstanding up to the end of December 2008 was £459,363. It is understood that a great deal of work has since been carried out to reduce this level of debt, by writing off old debt; successfully collecting more debt; and re-scheduling due dates. Our review found that:

- The Service Level Agreement (SLA) for the debtors services needed to be clarified so that both the West Midland Fire Service and the service provider (Sandwell MBC (SMBC) – Debt Recovery Team) are both aware of their duties and what is required from them.
- It was recognised that the outstanding debts to the Authority are being reduced. However, to maintain this, a full outstanding debtors report should be produced on a monthly basis to ensure that debts are being appropriately managed and to prevent debts outstanding for long periods of time.
- It should be agreed between the Authority and SMBC Debt Recovery Team as to who is responsible for reviewing credit balances. This should also be clearly recorded in the SLA. The credit balance should then be reviewed along side the outstanding debts, and dealt with appropriately.
- Access rights to the Accounts Receivable system should be checked annually to ensure that the correct users have access, and have the correct access rights allocated to them.

Management of Fuel

A review was carried out of management of fuel at a sample of West Midlands fire stations. Audit checks concentrated on diesel fuel (Derv) issues and record keeping. The main issue arising from the audit was that stations needed to be reminded of the correct protocol to follow, as stated in Standing Order 9/1, particularly in respect of:

- Completion of the Journey Log book (T2) and the Fuel Tally book (T4).
- Separation of duties when completing and signing the T2 and the T4. At four of the five locations checked there were instances where the same officer signed both of the records when a fuel issue was made.

- Monthly checking of fuel stocks. In 60% of the sample checks there was no signature against the pre and post delivery checks recorded.
- Re-ordering of fuel in accordance with the Standing Order Appendix.

Due to a significant discrepancy at one station regarding fuel delivery records and fuel checks conducted, an investigation was carried out. Staff had recorded a delivery as taking place, and had entered pre and post delivery fuel dip figures. However, audit checks revealed that the delivery had not taken place, and false entries had been made in the records. It was ascertained that a delivery of fuel had been attempted, but there were no appropriate officers on site to take delivery. It appears that staff wrongly assumed that the delivery had been made, however there was no evidence of a delivery docket. It was recommended that:

- Staff should be reminded that under no circumstances should they make false entries in the records, and only staff present at the delivery should carry out the pre and post fuel dips and complete the necessary records. Senior staff should verify that the delivery has been made and evidence that they have made the check.
- All dockets received as part of fuel deliveries should be kept on file.

Following the audit, Authority management through PAIT (Performance Assessment Improvement Team) carried out a review. Generally their findings concurred with those of ours, that whilst overall controls within the system, as currently laid down and operated, provided assurance, the application of controls was not adequate. In addition, the PAIT report contained its own recommendations, including re-order and quantity levels, and the issue of extended fuel times. A meeting was held by management and was attended by ourselves, to discuss the report. An action sheet was produced, and it was agreed that the PAIT recommendations will be picked up during the follow-up of audit recommendations in 2009/10.

Risk Management

Regular meetings were held throughout the year with the officer with responsibility for risk management, to discuss progress being made on the embedment of risk registers, including training, and the further development of risk registers. An audit of the risk management arrangements was also carried out. We found that the risk management process was being driven forward within the Authority, with an established process of review and training for the corporate risk register and strategy. An assurance framework had also been introduced, showing sources and levels of assurance. Work was now continuing to further embed the process by focussing on establishing departmental risk registers and development of supporting strategy/procedure documents. A limited number of issues were raised, including:

- That a review of the terms of reference of the Insurance Risk Management Group be undertaken so that it becomes a focal point for risk management activity,
- That risk management be further embedded by the development of departmental risk registers in accordance with the Department/Command Action Plan 2009, 'Embedding Risk Management'.

Governance

An annual audit was carried out to assess the governance arrangements in place within the Authority. In their Annual Audit and Inspection letter of March 2009, the Audit Commission noted that "West Midlands Fire and Rescue Authority (WMFRA) is improving well. It has made good progress in delivering its priorities". Two recommendations were made on the following issues:

- Standing Order 2/12 Official Conduct should be reviewed and re-issued as soon as possible.
- Consideration should be given to introducing the West Midlands Local Government Association Member Development Charter (at the Primary Level initially), for WMFS members, to meet the objectives of the charter, including raising the profile and encouraging member commitment to elected member development.

Home Fire Safety Checks

A review was carried out of the performance monitoring arrangements for Home Fire Safety Checks. No recommendations were made, and it was noted that there was clear and understandable performance information.

Internet Usage

At the request of the Treasurer we undertook a review of the practices and procedures in place over the use of the internet within the Fire Authority. With nearly 4,000 users, ensuring that the internet is used productively, in accordance with Authority policies is a fundamental necessity. Since the previous audit of this service, significant investment has been made in installing automated tools (Websense) that control the content of websites that users can access. These produce an audit trail (log) of all internet activity, showing which sites were accessed, which has been blocked and what subjects users have searched for.

The audit concentrated on analysing a sample period of log entries in order to determine how well these controls were operating and generally, to identify whether there were any issues that management should be aware of / take further action on. A number of issues were raised, including:

- The Authority should agree the scope, period and responsibility for a regular analysis of the internet logs. We recommended that this be at least monthly.
- All system generated alerts should be promptly examined and appropriate action taken and documented.
- All generic accounts should be migrated to specifically named accounts.
- A review of the general single sign-on policy should be undertaken, outlining both benefits and potential weaknesses.
- A review should be conducted to ensure threshold levels are set to appropriate values and, where generated, alerts are fully & accurately evidenced by the log entries.
- The Authority should decide upon whether sites such as Facebook will be permitted (i.e. not blocked), what conditions of use should be adhered to (i.e. Not during working time) and to ensure that all staff are aware of this policy.

Payroll

An annual audit was carried out on the Payroll system, focussing on payment of pensions. The key issues arising were:

- Pensions Payroll should follow-up with Human Resources to ensure that reassessments in respect of disability entitlements are carried out within an appropriate period of time, to ensure that no overpayments are made.
- The Senior Pensions officer should sign the relevant documents to evidence that the figures reconcile and that a check has been carried out. The hard copy should be reviewed and signed by management to prove that it has been completed on a timely basis.

Bank Account Reconciliations

An audit was carried out on the reconciliation processes applied to the Authority's bank accounts. It was recommended that a review of the guidance provided to bank account users should be reviewed, so that it included measures to be taken to prevent bank accounts from becoming overdrawn. It was also noted that both officers responsible for completing and reviewing the reconciliation should evidence their work, and timeliness of checking and review, by signing and dating the front sheet.

National Fraud Initiative

Internal Audit act as the lead on the National Fraud Initiative (NFI) on the Authority's behalf. The NFI is a statutory data matching exercise carried out every two years by the Audit Commission for the majority of public bodies in England and Wales, including all Fire and Police Authorities, NHS Trusts and all Local Authorities. The latest exercise commenced in 2008/09 and involved extracting creditor and payroll information from the Authority. This information was then forwarded in October 2008 to the Audit Commission via a dedicated secure website to minimise the risk of losing confidential data. The Audit Commission then matched the data submitted by the Fire Authority to the data submitted from the public bodies previously mentioned.

The Audit Commission, in February 2009, returned to Internal Audit a list of all matches that require further investigatory work.

- The creditor matches highlighted potential duplicate invoices and suppliers, and incorrect payment of VAT.
- The payroll matches highlighted instances where employees have two salaries, receive benefit and receiving a salary or receiving a pension and a payroll.

It should be noted that a returned match is not evidence of fraud and that each match will be reviewed and either cleared or investigated. The work is planned to be completed within the Financial Year 2009/10 and the results of the exercise will be reported to management.

Partnerships

An audit of partnerships was carried out. The main aim for entering into partnerships is to deliver better services to the community of the West Midlands. At the time of the review there were approximately 200 partnerships in place across the Fire Service with an estimated value of £2-£3m. A draft report is currently under discussion with

management and any key issues arising from the review will be reported in a future progress report.

Counter Fraud Work

Audit Services maintain a register of areas within the Fire Authority that are considered to be potentially susceptible to fraudulent activity. Work has been carried out on the risk of duplicate/fraudulent payments made through the Accounts Payable system. A draft report is currently under discussion with management and any key issues arising from the review will be reported in a future progress report.

Comprehensive Performance Assessment (CPA)/Key Lines of Enquiry (KLOE's)

A contribution was made towards the Use of Resources assessment, including a meeting with staff from the Performance Assessment and Improvement Team, and completion where applicable of KLOE 2.4 – managing risks and maintaining a sound system of internal control.

Governance – CIPFA/SOLACE framework

A self-assessment criteria schedule for governance as recommended by two independent organisations, CIPFA (Chartered Institute of Public Finance and Accountancy), and SOLACE (Society of Local Authority Chief Executives and Senior Managers) is in the process of being completed. We have worked with management and Governance Services officers in enabling the Authority to establish this framework.

Audit Committee Self-Assessment Exercise

The Audit Committee undertook its first self assessment exercise on 1 December 2008, facilitated by Internal Audit. The workshop, attended by all the members of the committee, focussed upon the completion of a CIPFA self assessment checklist. The self-assessment checklist was completed, and an Action Sheet was drawn up from the assessment.

External Audit Evaluation Questionnaire

The Audit Committee's self-assessment exercise identified the need to introduce performance indicators for external audit. We have provided the committee with a number of evaluation criteria, which they may wish to adopt.

Audit Committee Member's Skills Set

The Audit Committee's self-assessment exercise also identified the need to establish an Audit Committee Member's Skills Set, and recommended that an assessment be undertaken to identify and to rectify any skills gap. We have provided the committee with a Skills Audit proforma, which they have adopted.