

WEST MIDLANDS FIRE SERVICE

Annual Internal Audit Report – 2013/14

Audit Committee – 9 June 2014

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1 Introduction

- 1.1 Our internal audit work for the period from 1 April 2013 to 31 March 2014 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 the Public Sector Internal Audit Standards, is set out below:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

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 2014;
 - 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 Public Sector Internal Audit Standards. 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 an adequate and effective framework of governance, risk management and control.

*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:

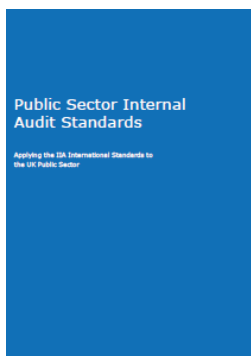
1. The need for management to plan appropriate and timely action to implement both our and the External Auditor’s recommendations.
2. Key areas of significance, identified as a result of our audit work performed in year are detailed in the Appendix to this report.

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

2.5 Internal audit activity is organisationally independent and further details behind the framework within which internal audit operates, can be found in the internal audit charter.

3 Performance of the Audit Service

Compliance with the Public Sector Internal Audit Standards



During the year Sandwell Audit Services complied with the new Public Sector Internal Audit Standards, which came into effect from 1 April 2013.

Customer Satisfaction

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

| Question | 2013/14 |
|---|------------|
| Usefulness of audit | 4.0 |
| Value of recommendations | 4.0 |
| Usefulness of initial discussions | 4.4 |
| Fulfilment of scope & objectives | 4.0 |
| Clarity of report | 4.4 |
| Accuracy of findings | 4.7 |
| Presentation of Report | 4.7 |
| Time span of audit | 4.0 |
| Timeliness of audit report | 4.0 |
| Consultation on findings/recommendations | 4.7 |
| Helpfulness of auditors | 5.0 |
| Overall Satisfaction with Audit Services | 4.4 |

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

Quality Assurance and Improvement Programme

Sandwell Audit Services have a Quality Assurance and Improvement Programme. During the year, the internal audit activity has followed this programme and there have been no significant areas of non-conformance or deviations from the standards as set out in the Public Sector Internal Audit Standards.

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 Leisure Trust
- Sandwell Inspired Partnership Service

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 2013/14 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 | 6 |
| Merits attention | 13 |
| Total | 19 |

The following appendices/tables below list of all the reports issued by internal audit during 2013/14, 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 2013/14 Internal Audit Opinion

| Auditable Area | ANA Rating | Recommendations | | | | | Level of Assurance |
|---|------------|-----------------|-------------|------------------|-----------|-----------------|--------------------|
| | | Fundamental | Significant | Merits attention | Total | Number accepted | |
| Absence Management | Medium | - | 1 | 2 | 3 | 3 | Substantial |
| Data Transparency | Medium | - | 1 | - | 1 | 1 | Substantial |
| Follow Up | - | - | - | - | - | - | - |
| Governance | High | - | 2 | - | 2 | * | Satisfactory |
| Risk Management | High | ** | ** | ** | ** | ** | ** |
| Local Government Pension Scheme Certification | - | - | - | - | - | - | - |
| Bank Accounts | KFS | - | - | 2 | 2 | 2 | Substantial |
| Accounts Receivable | KFS | - | - | 1 | 1 | 1 | Substantial |
| Budgetary Control | KFS | - | - | 1 | 1 | 1 | Substantial |
| Accounts Payable | KFS | - | - | 3 | 3 | 3 | Substantial |
| Payroll/Pensions | KFS | - | 2 | 3 | 5 | 5 | Satisfactory |
| Fixed Asset Accounting | KFS | - | - | 1 | 1 | 1 | Substantial |
| Total | | 0 | 6 | 13 | 19 | 17 | |

Key

| | |
|------------|---|
| KFS | Key Financial System (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 review of this area was underway and nearing completion. No key issues had been identified during the review 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.

Absence Management

A review of the absence management system was undertaken, which focused on the processes for the collection and reporting of absence data, and for determining whether appropriate action had been taken upon reaching the trigger points specified in the absence management policy. The one issue of significance identified was the high level of absence in certain service areas which were classified as relating to mental health. It was agreed that emotional resiliency training would be focused in these service areas to address this issue.

Data Transparency

The review consisted of a comparison of current practices operated by the authority with those required by the Code of Recommended Practice for Local Authorities on Data Transparency (the Code) issued by the Department for Communities and Local Government. The guidance specified information that the authority should have made available, the timeliness of the availability of this information and the format it should have been presented in. The review identified that there were some requirements of the Code that the authority was not fully compliant with, including:

- Transparency data and links to relevant policies and performance information were not clearly grouped and publicised on the web site.
- Data on spending over £500 was produced each month, but only published on a quarterly basis.
- Data was published on the website without details of a license that allowed open reuse.
- An inventory of public data held by the West Midlands Fire Service had not been compiled and registered on www.data.gov.
- Not all data had been presented on the web site in the prescribed format.

Currently, the Code is a guidance document, but consultation is underway to make its requirements mandatory. Should it become a legal requirement to adhere to the Code, any future non compliance by the authority could result in sanctions being applied.

Follow Up

A review of actions taken in response to recommendations from 2012/13 audits was in progress as at the year-end. Details of our findings will be included in the next progress report.

Governance

The 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. This review did not highlight any issues of significance, but did identify that two significant actions from the previous audit had not been implemented. As such, these matters were reiterated in the latest report as they were judged to still be applicable.

Risk Management

An audit of the risk management processes was undertaken. Our review focussed on providing assurance that the mitigating controls for risk 5 – “The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively as a result of extensive disruption to normal working methods”, were being effectively operated and monitored. At the time of reporting, this review was being finalised, but there did not appear to any issues of significance.

Local Government Pension Scheme Certification

An audit was undertaken to assist with the provision of assurance on the accuracy of the 2012/13 return to the Local Government Pension Scheme. All tests proved satisfactory.

Bank Accounts

The authority, in addition to its main bank account, also had seven petty cash imprest bank accounts. The purpose of the review was to identify the bank account reconciliation system, assess its adequacy and to ensure it was being complied with. No issues of significance were found.

Accounts Receivable

A review of the accounts payable system was undertaken to ensure the Fire Service had in a place an effective system for the collection of accurate debtor charges, to ensure the integrity and reliability of charging and payment information accounts and data, and to effectively monitor and analyse debtors' accounts. No issues of significance were identified.

Budgetary Control

A review of the budgetary control system was undertaken to ensure the Fire Service had established a budget and was managing it appropriately. No issues of significance were identified.

Accounts Payable

A review of the accounts payable system was undertaken to ensure that adequate controls were in place, including the integrity and reliability of information, accounts and data. No issues of significance were identified.

Payroll/Pensions

A review of the payroll/pensions system was undertaken to provide assurance over the production of the monthly payroll with due regard to data security, data quality and ensuring compliance with relevant policies and procedures. The review raised two significant issues, the first of which related to the need to further improve the monthly reconciliation process and the second, related to payroll system access, as some members of payroll staff had access which enabled them to carry out the whole payroll process, from setting up an employee through to payment, which potentially increased the risk of fraud. Further controls to mitigate both issues have been agreed.

Fixed Asset Accounting

An audit of Fixed Asset Accounting was undertaken in respect of planned capital expenditure for 2012/13 as approved by the Fire Authority of £3.39m. The review was undertaken to provide assurance that an appropriate process was in place to maintain fixed asset records and to record them correctly in the accounts. No issues of significance were identified.

Other areas of assistance provided

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 a new format 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.

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 offered fraud awareness training to members of the fire service. Issues covered included:

- definition of fraud
- fraud including theft, bribery and corruption, false accounting
- case studies
- areas of work WMFS cover most at risk to fraud
- warning signs that could indicate fraud
- controls and management as a deterrent

We also investigated issues notified to us, including:

1. Theft of hydraulic cutting equipment at a fire station. The incident was referred to West Midlands Police. The Police discovered that the equipment was later used in a raid on an ATM. Three men were arrested and charged in conjunction with the case.
2. An allegation of potential loss/theft at a fire station. Evidence of fabricated invoices was obtained and was used at a gross misconduct hearing, resulting in the issue of a final written warning. Procedures have now been implemented that will reduce the risk of losses from this type of fraud in the future.

3. An alleged theft of time by a member of staff. This resulted in a warning being placed on the employee's personnel file.
4. An issue over potentially false overtime claims. Directed advice was given based on the specific case and contract of employment.