

# Internal Audit Annual Report

2009/10

Audit Committee – 7<sup>th</sup> June 2010

**WEST MIDLANDS FIRE SERVICE**



Sandwell Audit Services are pleased to be making a contribution to saving our rare and endangered species from extinction by sponsoring Sarah the Sumatran Tiger (pictured above) who is based at Dudley Zoo. As a result of habitat destruction and hunting, Sumatran Tigers are the third most endangered tiger in the world, with fewer than 500 Sumatrans in the wild. However, due to conservation breeding programmes the Sumatran Tigers future is considered secure.

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## 1 Introduction

- 1.1 Our internal audit work for the period from 1 April 2009 to 31 March 2010 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 CAA process
- 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 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 2010;
- 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 2009/10 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	2008/09 Average Score	2009/10 Average Score
Usefulness of audit	4.2	4.2
Value of recommendations	3.9	4.2
Usefulness of initial discussions	4.6	4.6
Fulfilment of scope & objectives	4.5	4.3
Clarity of report	4.4	4.2
Accuracy of findings	4.3	4.4
Presentation of Report	4.6	4.4
Time span of audit	4.1	4.3
Timeliness of audit report	3.9	4.6
Consultation on findings/recommendations	4.8	4.7
Helpfulness of auditors	4.9	4.9
<b>Overall Satisfaction with Audit Services</b>	<b>4.4</b>	<b>4.4</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

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

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:

<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>2</b>
<b>Significant</b>	<b>17</b>
<b>Merits attention</b>	<b>34</b>
<b>Total</b>	<b>53</b>

The following appendices/tables below list of all the reports issued by internal audit during 2009/10, alongside their original Audit Needs Assessment (ANA) 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)
<b>ANA Rating: N/A</b>	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	
Environmental Audit	Medium	-	-	6	6	6	Satisfactory
Payroll - General	KFS	-	1	3	4	4	Substantial
Payroll - Pensions	KFS	-	1	3	4	4	Substantial
Accounts Payable (High Level Controls)	KFS	-	-	2	2	2	Substantial
Follow-up of 2008/9 recommendations: Internet Usage	N/A	-	-	1	1	1	N/A
Follow-up: <ul style="list-style-type: none"> <li>2008/9 audit recommendations: Management of Fuel, and</li> <li>Findings of Performance Assessment and Improvement Team</li> </ul>	N/A	-	-	2	2	2	Substantial
Petty Cash Investigation	N/A	2	7	1	10	10	N/A
Risk Management/Assurance Mapping	High	-	4	2	6	6	Satisfactory
Accounts Payable (Transactions Testing)	KFS	-	-	-	-	-	Substantial
Accounts Receivable	KFS	-	-	1	1	1	Substantial
Budgetary Control	KFS	-	-	1	1	1	Substantial
Workforce Planning	Medium	-	1	1	2	2	Substantial
Procurement	Medium	-	3	5	8	8	Satisfactory
National Fraud Initiative	N/A	-	-	-	-	-	N/A
Liaison with External Audit	N/A	-	-	-	-	-	N/A
Fixed Asset Accounting	KFS	-	-	4	4	4	Substantial
At draft stage:							
Governance	High	-	-	2	2	N/A	Substantial
Asset Planning	Medium	-	-	-	-	N/A	Substantial
<b>Total</b>		<b>2</b>	<b>17</b>	<b>34</b>	<b>53</b>	<b>53</b>	

## Key Issues arising during the Year

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

### Environmental Audit

Environmental issues have recently come under the spotlight due to factors including climate change, the Carbon Reduction Commitment and Corporate Social Responsibility. It was evident that a lot of work has been done in this area, such as introducing environmental initiatives, including the Headquarters successfully achieving an 'Excellent' rating under the BREEAM (Building Research Established Environmental Assessment Method) assessment process, which looks at the environmental performance of a building, and the use of Targeted Response Vehicles. Also, various elements of an Environmental Management System (EMS) have been introduced, including:

- Environmental legislation affecting the Fire Service has been identified.
- Baseline carbon footprints have been calculated for the Fire Stations.
- The Corporate Board has set targets for commanders to improve on the carbon footprint figures.

The main issues arising from our audit work were:

- The legislation register should be personalised and then kept updated;
- Environmental actions should be prioritised and a timetable set;
- Plans should continue to be put into place to introduce monitoring against targets;
- Consideration should be given to how usage of unmetered water can be reduced, and how the reduction can be evidenced.

### Payroll - General

An audit of the payroll function was undertaken including work carried out by other departments linked with payroll e.g. finance, HR and the Sandwell Business System (SBS) based at Sandwell MBC. All payroll data is processed through SBS. It was found that there were effective links with other departments involved in the payroll process, and there was good use of existing systems and achievement of deadlines. The main issues raised by the audit were:

- Revenue payment vouchers were not always being signed by the officer completing the form or authorised by the Pensions and Payroll Manager.
- Notification forms were not always signed by both a member of HR and manually by Payroll.
- As there have been changes to Payroll personnel due to retirements etc., including the Pensions and Payroll Manager, there should be a check of who has access to payroll data and at what level.
- Checks should be carried out when material differences in BACS amounts occurs between months, to ensure that any differences are legitimate.

### Payroll - Pensions

Our review covered the key financial processes of the pensions payroll system. Improvements were recommended to the checks carried out to prevent possible over-payment to the beneficiaries of deceased retired employees:

- A certificate has to be completed by retired employees to confirm entitlement to continued payment. A check should be made of the signature on the certificate to records held, and the form then signed by the member of the pensions section carrying out the check.
- Where there is Power of Attorney (POA) for the retired employee, the certificate should be signed both by the person with POA and an attesting person. A new section should be added to the form so that the POA can record the address where the retired person is currently residing.
- Also, to complete the audit trail, all notification forms sent by Human Resources should be signed by a Payroll officer to verify that the form has been seen and processed.

#### Accounts Payable (High Level Controls)

An audit was carried out to examine the key financial processes of the Accounts Payable section. A recommendation was made regarding regular production and examination of an exception report, e.g. to highlight where suppliers have had their payment limit raised. Also, it was recommended that the central database be developed to hold all suppliers with contract and tender agreements, to encourage use of negotiated agreements.

#### Internet Usage – follow up of recommendations

We followed up recommendations made in an earlier report on internet usage. It was acknowledged in the follow up report that, given the original lack of controls in some key areas, in a short space of time the organisation had undertaken considerable improvement in implementing the agreed action plan of recommendations.

#### Management of fuel – follow up of 2008/9 recommendations

We followed up recommendations made in an earlier report on the management of fuel at fire stations. The review also incorporated the findings in this area from work carried out by the former Performance and Improvement Team (PAIT). As not all of the recommendations had been fully implemented, two further recommendations were made regarding:

- An update of the relevant Standing Order to ensure that the correct re-order levels and amounts are stated, and
- Station staff being aware of Standing Order requirements regarding fuel dips.

#### Petty Cash Investigation

An investigation was carried out into a possible discrepancy of petty cash at two fire stations. From the work carried out it was concluded that serious system weaknesses relating to operation of the petty cash imprests and bank accounts, along with inadequate record retention had created the opportunity for irregularities to occur. Ten recommendations, including two fundamental, were made to strengthen controls over petty cash and financial records, including:

- The retention of imprest records for a minimum of three years, as a number of recent records were missing,
- Cash withdrawn from the stations bank accounts should be paid fully and promptly into the petty cash imprest at the station, as this was found not to be the case on numerous occasions,

- All petty cash documentation should be stored and filed properly,
- The imprest should be reimbursed in accordance with the relevant Standing Order to ensure that there are sufficient funds available,
- Checking of reimbursement claims and vouchers by an appropriate officer before submission, including verification of supporting evidence,
- Correct certification of petty cash vouchers,
- Suitability of payment of types of expense from petty cash.

### Risk Management

Throughout the year, meetings have been held with the officer with responsibility for risk management, to discuss progress being made on the embedment of risk management. The overall conclusion from the review was that the risk management process, including assurance mapping, is continuing to be driven forward within the Authority, with an established process of review for the Corporate Risk Register and strategy.

Four significant and two merits attention recommendations were made, including, finalising and implementing the proposed organisational action/improvement plan. Also, three recommendations were made regarding member involvement in the risk management process:

- Provision of risk management training for all members,
- Identification of a member to 'champion' risk management,
- Presentation of the Corporate Risk Register to the Audit Committee on a more regular basis, so that it becomes further embedded in the work of the Committee.

### Workforce Planning

Workforce planning is vital in helping to tackle problems such as staff shortages and staffing costs. Ensuring that the Authority has a productive and skilled workforce is evaluated by the Audit Commission as part of the Comprehensive Area Assessment. It was found that there is no workforce planning document/policy in place as it is in draft form. A recommendation was made that the document is swiftly finalised and circulated within WMFS to ensure full engagement in the process.

### Procurement

A routine audit was carried out of the WMFS procurement system. The Authority procures a number of various goods and services from different locations within the organisation. Three significant recommendations were made regarding the following:

- Benchmarking should be carried out against other bodies of a similar size and nature in order to demonstrate that the procurement system is performing adequately.
- Legal advice should be sought to determine whether the EU Procurements directives for sourcing of the vehicle component parts should be followed, due to the annual spend involved appearing to be above the threshold.
- Authority expenditure is not monitored to ensure that the centrally procured contracts are being utilised, as required under the Authority's Standing Orders. Additionally, if the expenditure is monitored, it would

allow the Authority's purchasing section to arrange contracts that would potentially offer better value for money than if a service is procured in isolation.

### National Fraud Initiative

The National Fraud Initiative 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. Internal Audit acts as the lead on the National Fraud Initiative on the Authority's behalf.

The latest exercise 2008/09 has been completed for the Authority and no issues were found in any of the returned matches that required an investigation to be undertaken.

Internal Audit is in the process of preparing data for the next exercise (2010/11) and will be co-operating closely with Authority officers to ensure that the deadlines stipulated by the Audit Commission are met.

### Fixed Asset Accounting

An audit was carried out to examine the key financial processes of accounting for fixed assets in the Authority. Recommendations were made regarding calculation of some of the depreciation charges and retention of associated records; and presentation of information in the general ledger, and within the fixed asset registers.

### Governance

An annual audit was carried out to assess the governance arrangements in place within the Authority. In their report "Use of Resources 2008/9", the Audit Commission scored the theme 'Governing the business' as 3 out of 4 – performing well. 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.

### **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.

#### Response to an External Audit letter regarding Audit Committee responsibility for preventing and detecting fraud

The external auditor requested assistance from the Chair of the Audit Committee in completing their work on the 2008/09 accounts as they needed to gain an understanding of how the Audit Committee exercised oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them. Assistance was given in responding to the external auditor on these issues.

#### External Audit Evaluation Questionnaire

The Audit Committee's self-assessment exercise identified the opportunity to introduce performance indicators for external audit. Assistance was provided in identifying a number of evaluation criteria, which the Audit Committee adopted. The resulting questionnaire was completed by external audit. Two questions required a response by

the committee, the responsibility for which was delegated to the Chair and Vice Chair. Assistance was given to enable completion.

#### Audit Committee Self-Assessment Exercise

The Audit Committee undertook its second self assessment exercise on 30 November 2009. The Audit Manager and Principal Auditor 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. The checklist was completed, and the actions identified from the previous exercise were reviewed. A further Action Sheet was drawn up from the assessment.

#### Procurement Standing Orders

We provided our comments on a revised draft of the Procurement Standing Order, which were incorporated into the final draft.

#### CIPFA's Red Book 2 – Managing the Risk of Fraud

This is a comprehensive document listing actions that CIPFA's Better Governance Forum believe an organisation needs to have in place to effectively counter fraud and corruption. Work was carried out to benchmark the Authority against the required criteria, to assist the Audit Committee with adoption of the process.