

## **Annual Internal Audit Report – 2014/15**

**Audit Committee – 15 June 2015**



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## 1 Introduction

- 1.1 Our internal audit work for the period from 1 April 2014 to 31 March 2015 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 2015;
- 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:

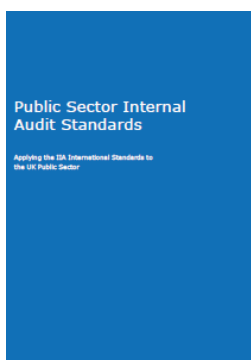
- The need for management to plan appropriate and timely action to implement both our and the External Auditor's recommendations.
- Key areas of significance, identified as a result of our audit work performed in year are detailed in the Appendix to this report.

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 we complied with the revised Public Sector Internal Audit Standards which specify rules of conduct for objectivity, due professional care and confidentiality.

#### Customer Satisfaction

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

Question	2014/15
Usefulness of audit	4.0
Value of recommendations	4.0
Usefulness of initial discussions	4.0
Fulfilment of scope & objectives	4.7
Clarity of report	5.0
Accuracy of findings	5.0
Presentation of Report	5.0
Time span of audit	4.0
Timeliness of audit report	4.0
Consultation on findings/recommendations	4.7
Helpfulness of auditors	5.0
<b>Overall Satisfaction with Audit Services</b>	<b>4.5</b>

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

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 2014/15 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:

<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>	0
<b>Significant</b>	9
<b>Merits attention</b>	10
<b>Total</b>	<b>19</b>

The following appendices/tables below list of all the reports issued by internal audit during 2014/15, 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 2014/15 Internal Audit Opinion

Auditable Area	ANA Rating	Recommendations					Level of Assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Pension Certification	High	-	-	-	-	-	Substantial
Fire Stations - Management of Fuel	Medium	-	6	1	7	7	Satisfactory
Budgetary Control	KFS	-	-	-	-	-	Substantial
Accounts Receivable	KFS	-	-	-	-	-	Substantial
Accounts Payable	KFS	-	-	1	1	1	Substantial
Payroll/Pensions	KFS	-	-	2	2	2	Substantial
Fixed Asset Accounting	KFS	-	-	2	2	2	Substantial
Governance	High	-	-	-	-	-	Substantial
Environmental Protection Targets	Medium	-	2	3	5	5	Satisfactory
Risk Management	High	-	1	1	2	*	Substantial
Follow Up	-	-	-	-	-	-	-
<b>Total</b>		<b>0</b>	<b>9</b>	<b>10</b>	<b>19</b>	<b>17</b>	

## Key

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

## Key issues arising during the year

The following is a brief overview of the key issues identified during the current year. A follow up review of actions taken in response to the recommendations from the 2013/14 audits was completed, and we are pleased to report that all those recommendations had been implemented.

### Local Government Pension Scheme Certification

An audit was undertaken to assist with the provision of assurance on the accuracy of the 2014/15 return to the Local Government Pension Scheme. All tests proved satisfactory.

### Fire Stations – Management of Fuel

The procedures for the management of fuel are contained within Standing Order 9/1. A review of adherence to these procedures was undertaken. We noted a number of significant issues including:

- The fuel gauge at a station was insufficiently calibrated to give an accurate reading, preventing the effective monitoring of stock.
- There were non-compliances with procedures which meant that:
  - The identification of discrepancies between physical and book stock levels was not always possible.
  - Fuel was being ordered when the stock was below the specified re-order level.
  - Water tests were not being consistently undertaken and therefore, there was a risk of contaminated fuel not being identified.
  - Fuel issues were not always being recorded correctly and therefore, undermining the transparency of the issue process.

### Budgetary Control

A review of the budgetary control system was undertaken to ensure the Fire Service had established its budget and was managing it appropriately. Our review covered controls over monitoring, reporting, changes to budgets and the process to link budgets to medium and long term plans.

### Accounts Receivable

A review of the accounts receivable system was undertaken to ensure that an effective system was in place for raising invoices and managing debtors. This included the integrity and reliability of charging information recorded in the accounts, the collection of payments and the process to monitor and report the debtor position.

### Accounts Payable

A review of the accounts payable system was undertaken to ensure that adequate key controls were in place. Our review focused on the controls designed to prevent, overpayments, fraud and incorrect accounting.

## **Payroll/Pensions**

A review of the payroll/pensions system was undertaken to provide assurance over the production of the monthly payroll with regard to data security and quality and compliance with relevant policies and procedures. Whilst some minor administrative issues were raised, no issues of significance were identified.

## **Fixed Asset Accounting/Asset Planning**

An audit of Fixed Asset Accounting was undertaken in respect of planned capital expenditure. For 2013/14 and 2014/15 the capital expenditure approved by the Fire Authority was £6.25m and £4.18m respectively. The review was undertaken to provide assurance that an appropriate process was in place to maintain details of fixed assets and to record them correctly in the accounts.

## **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. The review focused on core principles five and six:

- Developing the capacity and capability of members and officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability.

## **Environmental Protection Targets**

The review assessed the progress made towards implementing an Environmental Management System and strategies put in place to further advance the Authority's environmental initiatives. Our review identified the following issues of significance:

- There were inaccuracies in the methodology of reporting actual against target usage of gas and electricity. This was because the target usage had been calculated as an average for the year and had not been adjusted to take account of seasonal variations. As such, the usage figures reported for the first two quarters were significantly better than the target, giving a false assurance on performance. When adjustments were made to take account of seasonal variations, it was identified that some stations reported as having achieved target usage reductions, no longer did.
- Performance against targets was reported quarterly and was based on the cumulative usage. It was found that the spreadsheet used to calculate the usage figures contained errors. As such, the cumulative performance figures reported for quarters one and two, were in fact the figures for quarter two only. When the spreadsheet was adjusted to calculate the cumulative performance, it was found that they had been overstated in the report, again giving a false assurance on actual performance.

## **Risk Management**

A review of the risk management process was undertaken to ensure that processes were in place to mitigate and monitor risks and to identify new risks. The review identified one issue of significance:

- In accordance with standing order 22.2, any national or local partnerships are required to be recorded on a central database and risk assessments and service level agreements completed. It was confirmed that this was happening where funding was involved, but not where resource only was required.

## **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.