



**Annual Internal Audit Report  
2006/07**

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## 1 Introduction

- 1.1 Our internal audit work for the period from 1 April 2006 to 31 March 2007 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 Fire Service's governance, risk management and control processes.

In this way our annual report provides one element of the evidence that underpins the Statement of Internal Control the Fire Service is required to make within its annual financial statements. This is only one aspect of the assurances available to the Fire Service as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the Fire Service 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 & Customs
- Other pieces of consultancy or third party work designed to alert the Fire Service to areas of improvement
- Other external review agencies

During the year the terms of reference for the Executive Committee were extended in order to strengthen monitoring by including the following:

- To consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- To be satisfied that the authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it.
- To review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- To monitor management action in response to the issues raised by external audit.

Also, during the year we began to report on the key internal audit issues arising on a regular basis to the Policy Planning Forum.

- 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 Service 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 Fire Service'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 2007;
- 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 Fire Service.

## 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 Service 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 Fire Service'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 Fire Service in the preparation of the Statement on Internal Control.

### 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 we met all of the standards included in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom – 2006.

#### Completion of the Audit Plan

The Audit Plan for 2006/07 was completed 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	Average Score
Usefulness of audit	4.25
Value of recommendations	4.25
Usefulness of initial discussions	4.25
Fulfilment of scope & objectives	4.38
Clarity of report	4.63
Accuracy of findings	4.38
Presentation of Report	4.63
Time span of audit	4.50
Timeliness of audit report	4.63
Consultation on findings/recommendations	4.50
Helpfulness of auditors	4.63
<b>Overall Satisfaction with Audit Services</b>	<b>4.45</b>

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

## 2.4 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.

## 2.5 Fraud Awareness

We have set up and hosted 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.



During the year we had an article on fraud awareness published in the CIPFA Internal Audit Periodical 'Audit Viewpoint' and were invited to spread the anti-fraud message by speaking at the following events:

- CIPFA Annual Internal Audit Conference
- National Housing Federation Conference on Audit Committees
- Housing Association Internal Audit Forum in London
- North West & North Wales CIPFA Regional Audit Advisory Group

## 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.

### 3 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>1</b>
<b>Significant</b>	<b>24</b>
<b>Merits attention</b>	<b>22</b>
<b>Total</b>	<b>47</b>

The following appendices/tables below list of all the reports issued by internal audit during 2006/07, 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.

<b>Key</b>	
<b>KFS</b>	Key Financial System (mandatory review in line with External Audit requirements)
<b>N/A</b>	Review outside of normal risk based auditing approach/customer request etc.

## Appendix A

Auditable Area	ANA Rating	Recommendations					Level of Assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Bickenhill Station Audit	Medium	-	2	1	3	3	Satisfactory
Willenhall Station Audit	Medium	-	2	3	5	5	Satisfactory
Tettenhall Station Audit	Medium	-	4	3	7	7	Satisfactory
Partnership Working	Medium	-	2	1	3	3	Satisfactory
Pensions Payroll	KFS	-	1	2	3	3	Satisfactory
Follow up	N/A	-	-	-	-	-	Satisfactory
Performance Management/CPA - Pilot	High	-	-	-	-	-	Satisfactory
Debtors/Accounts Receivable	KFS	-	5	1	6	6	Limited
Purchase and Disposal of Vehicles	Medium	-	-	-	-	-	Substantial
Pro-active Fraud – Mileage Claims	N/A	-	1	-	1	1	Satisfactory
HR – Sickness Monitoring	High	1	2	1	4	4	Limited
Risk Management	High	-	3	4	7	7	Satisfactory
Creditors/Accounts Payable	KFS	-	2	5	7	5	Satisfactory
Budgetary Control	High	-	-	-	-	-	Substantial
Governance	High	-	-	1	1	1	Substantial
National Fraud Initiative – Data Gathering	N/A	-	-	-	-	-	-
<b>Total</b>		<b>1</b>	<b>24</b>	<b>22</b>	<b>47</b>	<b>45</b>	

## 4 Key Issues arising during the Year

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

### Partnership Working

Our review raised the issue of the delayed partnership database which is necessary to enable the 'partnerships position' to be readily transparent and to enable appropriate partnership monitoring. The associated recommendations were accepted although it was acknowledged that the implementation date for the new database is determined by the ICT Prioritisation List.

### Debtors/Accounts Receivable

The management of Debtors is split between WMFS and Sandwell MBC with each side carrying out different aspects of the service both using the Debtors Module of the Oracle based SBS system. A review of the process to manage Fire Service Debtors revealed the need on both sides to further improve segregation controls and the management of the Service Level Agreement. The report contained five significant recommendations arising from the need to:

- Improve segregation between invoice raising and making subsequent adjustments to invoices.
- Independently review all debit and credit adjustments.
- Formalise, clarify and monitor the SLA with Sandwell MBC covering the provision of the debtor progressing/collection service.
- Target larger debts with a view to reducing the value of debtors.
- Reconcile the debtors Control Account on a regular basis.

### Absence Management

Our review of Absence Management raised significant issues relating to:

- Lack of compliance with requirements to complete/maintain manual records
- Lack of understanding of procedures
- Lack of adequate Management Information

One 'fundamental' recommendation was made relating to the need to introduce an appropriate Management Information System with automated monitoring processes, which integrates with existing systems. Two 'Significant' recommendations were made relating to the need to carry out a 'root and branch' review of Absence Management Procedures and subsequently to provide appropriate training to managers & staff.

## **Risk Management**

Our review of Risk Management resulted in three significant recommendations being made which related to:

- Introducing the draft Standing Order covering Risk management.
- Ensuring that risk Management training was provided to all officers and staff involved in the Risk Management process.
- Monitoring the development and implementation of the full Continuity Plan.

## **Fraud Investigations**

We are also responsible for undertaking investigations into potential fraudulent activity on behalf of the Fire Service. During the year we were involved in the following:

Two fraudulent cheques, quoting the WMFS bank account number, were intercepted by the bank. The cheques, for £9,550 and £8,500, were forged documents and were not debited to the WMFS bank account. Since the year end a further fraudulent cheque for £8,500 has been presented. This was not initially identified by the bank and therefore was debited to the Fire Service bank account. However, the bank reconciliation procedures as applied by the Fire Service, did subsequently identify this. All three cases are being investigated by the Police.

As a result of a request from management a petty cash investigation was undertaken at a fire station. While we found no evidence of fraud during the course of the investigation, we did make a number of recommendations in order to improve on the controls in place.

## **Advice and Assistance**

We have continued to provide support to the Fire Service throughout the year on internal control and related issues. This includes advice on:

- Draft Financial Regulations and draft Purchasing procedures.
- Proposed procedure changes relating to Purchase Orders and Goods Receiving.
- Proposed procedure changes relating to the maintenance and replacement of fire extinguishers.
- Proposed procedures relating to the introduction of Credit Cards.
- Proposed changes to Standing Order 1/6 (Authorisation of Expenditure & Retention of Documents).