

WEST MIDLANDS FIRE SERVICE

Annual Internal Audit Report – 2015/16

Audit Committee – 6 June 2016



[ILO: UNCLASSIFIED]

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1 Introduction

- 1.1 Our internal audit work for the period from 1 April 2015 to 31 March 2016 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 2016;
- 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:

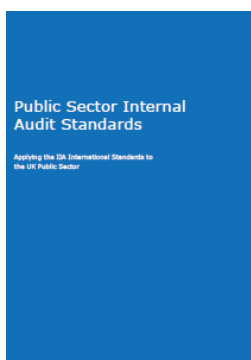
- The need for management to plan appropriate and timely action to implement both our and the External Auditor’s recommendations.
- Key areas of significance, identified as a result of our audit work performed in year are detailed in the Appendix to this report.

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	2015/16
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
Overall Satisfaction with Audit Services	4.5

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.

Advice and assistance

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 2015/16 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	4***
Merits attention	4
Total	8

The following appendices/tables below list of all the reports issued by internal audit during 2015/16, 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.

Key

Recommendations made by External Auditors and followed up by Internal Audit.

Summary of Internal Audit Work Completed for the 2015/16 Internal Audit Opinion

Auditable Area	ANA Rating	Recommendations					Level of Assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Pension Certification	High	-	-	-	-	-	-
Budgetary Control	KFS	-	-	-	-	-	Substantial
Procurement	Medium	-	-	-	-	-	Substantial
Accounts Receivable	KFS	-	-	-	-	-	Substantial
Fixed Asset Accounting/Asset Planning	KFS	-	-	-	-	-	Substantial
Accounts Payable	KFS	-	-	-	-	-	Substantial
Risk Management	High	-	-	-	-	-	Substantial
Governance	High	-	-	1	1	*	Substantial
Performance Management	Medium	**	**	**	**	**	**
Workforce Planning	Medium	**	**	**	**	**	**
Business Continuity	Medium	-	-	2	2	*	Substantial
IT	High	-	4***	-	4	4	-
Payroll	KFS	-	-	1	1	1	Substantial
Total		-	4	4	8	5	

Key	
KFS	Key Financial System (reviewed 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.
***	Recommendations made by External Auditors and followed up by Internal Audit.

Key issues arising during the year

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

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.

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.

Procurement

A review of the procurement process was undertaken to provide assurance over the control of non-contract spend within the Fire Authority. It was established that:

- There was a clear strategy in place which enabled contracts to be procured in accordance with contract and procedure rules and on a timely basis.
- The sections within the Fire Authority were utilising the contracts in place.

Non-contract spend was well controlled.

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.

Fixed Asset Accounting/Asset Planning

An audit of fixed asset accounting was undertaken in respect of planned capital expenditure. 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.

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.

Risk Management

An audit of the risk management processes was undertaken. Our review focused on providing assurance that the mitigating controls for risk 1 – “The Fire Authority would be unable to maintain the positive engagement of its employees, resulting in an inability to deliver its key priorities and objectives”, were being effectively operated and monitored. The review concluded that the risk was being effectively managed.

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 two of the core principles:

- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

Only one issue was identified, noting that members of the Audit Committee will be re-visiting their self-assessment of good practice and effectiveness exercise early in the new year.

Performance Management

A review of performance management was undertaken to provide assurance that the systems in operation were effective in supporting the authority in achieving its priorities. Specifically that appropriate targets were set, performance was accurately calculated, reported, monitored and challenged. At the time of reporting, this review was being finalised, but there did not appear to any issues of significance.

Workforce Planning

A review of the workforce planning processes was undertaken to provide assurance on how well they were embedded within the authority. Included was a review of the plan itself and whether it reflected the priorities of the authority, had been appropriately compiled, approved, reviewed and monitored. At the time of reporting, this review was being finalised, but there did not appear to any issues of significance.

Business Continuity

A review was undertaken to provide assurance that appropriate arrangements were in place to enable services to continue to be delivered in the event of an incident occurring and that an appropriately skilled and resourced emergency planning and continuity function was being maintained and the requirements of the Civil Contingencies Act 2004 were complied with. The review concluded that an effective business continuity process was in operation. The only issues to be addressed related to evidencing the completion of the annual business impact assessment for each business continuity plan and to record when incident training had been undertaken.

IT

The external auditors for the Authority, had as part of their work for 2014/15, identified some issues and made recommendations relating to the IT function, specifically:

- Weak password access controls for the Oracle EBS system.
- No documented change management policy for IT system changes.
- Excessive number of domain administrators.
- The IT security policy had not been formally reviewed or updated since its establishment in September 2010.

A review was undertaken to identify whether these matters had subsequently been addressed. It was established that action had been taken to resolve these issues.

Payroll

A review of the payroll process was undertaken to ensure that the Fire Service had appropriate controls in place to mitigate the risk of fraud and error in the calculation, recording and payment of the payroll via BACS.

Follow Up

A review of actions taken in response to recommendations from the 2014/15 audits was completed. All recommendations had been implemented.

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.

Counter Fraud

We continued to lead on the Cabinet Office'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.