

## Annual Internal Audit Report 2010/11

Audit Committee – 6 June 2011

**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 2010 to 31 March 2011 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 2011;
- 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 Audits of Long Term Planning, and Health and Safety were originally included in the Strategy for Internal Audit for 2010/11. The following changes to the strategy were approved by the Audit and Performance Management Committee in March 2011:

#### Long Term Planning

This review was included in the plan at the request of the Audit Commission. Following discussions with the Commission regarding the scoping of such a review, they were of the opinion, that if no immediate risks were identified, the audit was no longer required. Therefore, the review was not be undertaken and the subject has returned to the Audit Universe, where it will form a part of future Audit Needs Assessments (i.e. it will be risk

scored each year, and should the risk increase, it will be put back into the plan).

### Health & Safety

The purpose of this audit was to review the management of Health and Safety systems, with an emphasis on organisational responsibilities, health and safety policy, planning and training for health and safety and control measures, such as risk assessments and safe working which have been embedded to mitigate risk. In addition it was to focus on progress in the implementation of recommendations by other agencies, and an overview of the assurance that the Audit and Performance Committee can obtain from these. Following initial discussions with the Authority, it was understood that this approach reflected the specific areas scrutinised as part of the Operational Assessment. Therefore, the scope was refined in order to check that control measures were relevant and adequately addressed the corporate risk, that assurances that these controls had been identified and were operating, and that there were no gaps in either the controls or assurance framework. The review would also check that Members and senior management were engaged in, and provided with up to date and accurate health and safety information and performance data in order to enable a sufficient level of monitoring and that Standing Orders, where used as part of the assurance framework, were being followed.

However, following a number of further discussions with Fire Service management, they expressed a preference that this audit should not be undertaken due to the following:

- There are many other sources of assurance relating to Health and Safety, including peer reviews, self assessments, ROSPA awards, policies and procedures etc.
- Performance data and indicators produced are currently being reviewed by the SAG (Strategic Advisory Group).
- A national report produced in October 2010 by the HSE (Health and Safety Executive) contained recommendations that the Authority considered to be applicable to all other authorities. The recommendations concentrated on training and maintenance of core skills for fire fighters and all officers and this is currently the main health and safety focus for WMFS.
- Health and Safety is currently determined within the audit plan as a medium risk and therefore subject to review on a once every three year cycle. As the Authority's Health and Safety arrangements were subject to a detailed, accredited, external peer review/ self assurance process via the Operational Assessment (this assessment was a key element of the CAA framework and applicable to all Fire and Rescue Services) process in February/March 2009 it was felt that an additional assessment of the Health and Safety arrangements within the 10/11 calendar year was not required on the basis of timeliness.

2.5 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.

#### Customer Satisfaction

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

Question	2009/10 Average Score	2010/11 Average Score
Usefulness of audit	4.2	3.9
Value of recommendations	4.2	3.9
Usefulness of initial discussions	4.6	4
Fulfilment of scope & objectives	4.3	4
Clarity of report	4.2	4.3
Accuracy of findings	4.4	4.1
Presentation of Report	4.4	4.3
Time span of audit	4.3	3.8
Timeliness of audit report	4.6	3.8
Consultation on findings/recommendations	4.7	4.5
Helpfulness of auditors	4.9	4.7
<b>Overall Satisfaction with Audit Services</b>	<b>4.4</b>	<b>4.1</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**

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
- Sandwell Arts 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, including on the development of an assurance framework.



#### 4 Summary of Work Completed to inform the 2010/11 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>	<b>NIL</b>
<b>Significant</b>	<b>19</b>
<b>Merits attention</b>	<b>37</b>
<b>Total</b>	<b>56</b>

The following appendices/tables below list of all the reports issued by internal audit during 2010/11, 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). Generally this is also a high risk review.

## Summary of Internal Audit Work Completed for the 2010/11 Internal Audit Opinion

Auditable Area	ANA Rating	Recommendations					Level of Assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Goods Receipting System	High	-	7	8	15	15	Satisfactory
Accounts Receivable	KFS	-	-	2	2	2	Substantial
Absence Management	Medium	-	1	-	1	1	Substantial
Partnerships	Medium	-	1	2	3	3	Substantial
Fire Stations – Management of Cash	Medium	-	4	7	11	11	Satisfactory
General & Pensions Payroll	KFS	-	1	2	3	3	Substantial
Treasury Management	KFS	-	-	3	3	3	Substantial
Accounts Payable	KFS	-	2	-	2	2	Satisfactory
Procurement	Medium	-	3	9	12	**	Satisfactory
Governance	High	-	-	-	-	-	Substantial
Risk Management	High	-	-	3	3	3	Substantial
Budgetary Control	KFS	-	-	1	1	1	Substantial
Fixed Assets	KFS	*					
			<b>19</b>	<b>37</b>	<b>56</b>	<b>44 (to date)</b>	

\* At the time of the preparation of this report, our review of Fixed Assets was nearing completion. No key issues had been identified during the review that would impact upon our overall audit opinion.

\*\* 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 year.

### **Goods Receipting System**

A review was carried out on the procedures followed for the receipting of ordered goods, prior to the payment of invoices. Weaknesses were identified in the goods receiving process and the Authority agreed to take action. Internal Audit examined the proposed solution, and a report was prepared with recommendations to assist in the development of the new system. Recommendations included:

- Maintenance of a suitable audit trail and reporting facilities;
- Restriction of future date entries;
- Filing and retention of Delivery Notes;
- Implementation of an approved procedure for payment of outstanding invoices where it has not been possible to obtain satisfactory confirmation of delivery within a reasonable timescale;
- Provision within the system for applying corrections to data entered incorrectly; and
- Endeavouring to make sure that suppliers clearly print order numbers on delivery notes.

### **Accounts Receivable**

An audit of Accounts Receivable was undertaken. Debtor's invoices are raised by the WMFS Revenues Team, Sandwell MBC (SMBC) Finance receive and allocate payments, and reconciliations are undertaken by the WMFS Finance Section. Outstanding debt is pursued and monitored by SMBC Debt Recovery Team in accordance with an agreed Service Level Agreement (SLA).

As Accounts Receivable is a key financial system, the control matrices (nature and type of tests, sample sizes etc.) used in our review include the requirements of the External Auditors, in order that they can place reliance on our work and thereby reduce their own year-end testing accordingly.

Key issues arising from the audit included:

- A recommendation that notes of actions taken on debtor's accounts are updated on the relevant computer screen, in all cases.
- Clearance of two longstanding receipt entries included in the reconciliation of Accounts Receivable to the General Ledger.

### **Absence Management**

Responsibility for Absence Management rests with line management and procedures covering Absence Monitoring are included in Standing Order 5/1. Overall monitoring of Absence Management for the whole of WMFS is performed by the Human Resources section.

The review resulted in a key recommendation, that proposed plans of action should be implemented and monitored to try to reduce the number of days that staff are absent from work. Plans include:

- Attendance management briefing sessions,
- Monthly management reports,
- System produced automated flags to management so that they are immediately made aware of when their staff reach levels of absence that require action to be taken.

### **Partnerships**

At the time of the audit, WMFS had approximately 20 partnerships in place with other organisations. The partnerships are a mix of corporate and local level agreements and are overseen by the Community and Fire Safety Section. The following recommendations were made:

- All partnership agreements should have, at least, formal terms of reference.
- WMFS should share its anti-fraud policy and processes with partnering organisations.
- The Partnership toolkit should be updated to include the risk impact assessment, in accordance with Standing Orders.

### **Fire Stations – Management of cash**

Each fire station has a cash imprest which is used to purchase items of a minor and urgent nature. Imprests are of varying amounts, with £500 being the highest. Funds are managed by a Station Assistant at each location, who is responsible for keeping track of money available and submitting reimbursement claims to the Finance Section. Following reimbursement to the station's bank account, cash is then withdrawn by the Station Assistant to replenish the imprest.

A sample of five stations were visited, Key recommendations arising from these visits were:

- The relevant Standing Order should be amended to state that financial documents should be retained for six years, in line with other Standing Orders.
- Most of the petty cash payments were for payment of standby duties. To comply with HMRC requirements, and to reduce the risk of running short of funds to manage the day to day functions of the station, WMFS should introduce the payment of standby duties via the payroll function.
- Finance training should be compulsory for all new Station Assistants before they commence their role in management of cash imprests at stations.

### **General and Pensions Payroll**

A review was completed of the General and Pensions payroll functions. As per the Accounts Receivable review referred to above, Payroll is also a key financial system and the control matrices (nature and type of tests, sample sizes etc.) used in our review include the requirements of the External Auditors, in order that they can place reliance on our work and thereby reduce their own year-end testing accordingly.

Recommendations were made and agreed with management, including that as there was no process in place, a review system should be introduced for personnel who have retired on ill health benefits, to ensure that overpayments are not made.

### **Treasury Management**

The Authority's Treasury Management service is provided by Sandwell MBC. Internal controls over the arrangements with the local authority were reviewed. And recommendations made including the amending of the Terms of Reference of the Audit and Performance Management Committee to include scrutiny and review of Treasury Management arrangements.

### **Accounts Payable**

Again this is a key financial system and the control matrices (nature and type of tests, sample sizes etc.) used in our review include the requirements of the External Auditors, in order that they can place reliance on our work and thereby reduce their own year-end testing accordingly.

The key issues arising from our review were:

- Specific verification checks should be carried out where requests to change supplier bank accounts are received, as a number of public sector organisations have been affected by attempted fraud, which centred around fraudsters submitting requests to change bank details for payments.
- To enable effective monitoring of order commitments, consideration should be given to adding the i-Procurement module onto the current Sandwell Business System (SBS) systems in use.

### **Procurement**

Our review looked at the receipting and evaluation of tenders received by the Authority to ensure that it complied with its own standing orders and the award criteria within the issued tenders. Key issues arising from the review were:

- Standing Orders require officers to undertake risk assessments on individual contracts that either exceed the EU Procurement Threshold or where the failure of the Contract will have a significant impact on the core operations of the Authority. Unfortunately for the supply and fitting of tyres contract this requirement had not been followed.
- In one instance a consultant, acting on the Fire Authority's behalf, failed to get a contract signed between the Fire Authority and the contractor, in contravention of the Authority's Standing Orders.
- There were no formal procedures requiring all returned Pre Qualification Questionnaires to be recorded. Without this the Authority was unable to inform unsuccessful companies easily if they fail to meet the relevant evaluation criteria.

### **Risk Management**

We found that good progress is being made in the embedment of risk management, and in the year ahead the Authority is to focus upon the development of an Assurance Map. Such a document would be useful for the committee in helping ensure members that key risks to the Authority's objectives are being appropriately mitigated.

## Other areas of assistance provided

### **Grant Declaration**

We provided certification of a claim for Capital Grant Funding of £1.086m. Work was carried out to ensure that funding conditions had been complied with.

### **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.

In 2010/11 we co-ordinated the submission of the statutory required data sets to the Audit Commission and all relevant deadlines set by the Audit Commission were successfully met. The data sets were returned by the Audit Commission and in co-operation with WMFS Officers we will be reviewing the returned data and carrying out any investigation as required. Once the exercise has been completed, if required, a report can be submitted to the Audit Committee outlining what the outcomes have been.

### **Fraud Investigations**

A number of investigations into suspected and potential fraudulent activities and whistleblowing allegations were undertaken during the year, and where appropriate reports produced and recommendations made for senior management. None of the findings from these investigations impact upon our ability to give the audit opinion contained in this report.

### **Audit and Performance Management Committee Annual Report**

Assistance was provided in the preparation of the Annual Report of the Chair, on the work of the Audit and Performance Management Committee.

### **Audit and Performance Management Committee Self-Assessment Exercise**

The committee undertook its annual self assessment exercise on 29 November 2010. 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.

### **Audit and Performance Management Committee Skills Audit and Training**

A Skills Audit of members of the committee was undertaken and training on a number of topics including the role of audit and the audit committee, assurance mapping, internal control and fraud awareness provided.

### **Managing the Risk of Fraud**

Work continued to be carried out in benchmarking the Authority against the requirements of CIPFA's "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption" (known as Red Book 2).