



Annual Internal Audit Report  
for



For the Year Ended 31 March 2006

## Contents

Section		Page
1	Introduction	2
2	Opinion	3
3	Performance of the Audit Service	4
4	Work Undertaken	6

## 1 Introduction

- 1.1 Our internal audit work for the period from 1 April 2005 to 31 March 2006 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.

This is only one aspect of the assurances available to the Service as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the Service may rely could include:

- The work of the External Auditors
- The results of the CPA/Best Value process
- The result of any quality accreditation
- The outcome of visits by the Inland Revenue
- The outcome of visits by Customs and Excise
- Other pieces of consultancy or third party work designed to alert the Fire Service 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 to the Fire Service, we are required to provide the Chief Fire Officer with an opinion on the adequacy and effectiveness of the Service's 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 to the Chief Fire Officer 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 during the year ended 31 March 2006;
- Any follow-up action taken in respect of audits from previous periods;
- Any significant 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 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.

## 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 our recommendations.
2. Key areas of significance, identified as a result of our audit work performed in year are detailed in section 4 of this report.

### 3 Performance of Sandwell Audit Services

#### 3.1 Customer Satisfaction

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

Question	Average Score
Usefulness of audit	4.1
Value of recommendations	4
Usefulness of initial discussions	4.6
Fulfilment of scope & objectives	4.4
Clarity of report	4.4
Accuracy of findings	4.3
Presentation of Report	4.6
Time span of audit	4.3
Timeliness of audit report	4.7
Consultation on findings/recommendations	4.9
Helpfulness of auditors	4.9
<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**.

#### Completion of the Audit Plan

All of the proposed audits in the audit plan for the year were undertaken. Therefore, the audit plan has been delivered.

#### Compliance with the CIPFA Code of Practice for Internal Audit in Local Government

In their latest report on Sandwell Audit Services the Audit Commission concluded that we met all of the relevant CIPFA standards.

## **National Award**

During the year we were awarded the runners up prize in this years Cliff Nicholson Award. This is a national and highly prestigious award given by CIPFA for outstanding work, innovation and excellence in public sector audit and attracts a wide variety of entries from a wide range of sectors including local government, health, housing, education and the private sector. Our application was for the raising fraud awareness sessions we organised and ran throughout the year. The judges 'highly commended' this work.

### **3.2 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.

### **3.3 Other Areas**

We also provide the internal audit service for:

- Sandwell Metropolitan Borough Council
- Sandwell Homes
- Sandwell Leisure Trust
- RegenCo

Separate Annual Internal Audit Reports have been prepared and issued to each of these clients.

#### 4.1 Summary of Work Undertaken

Auditable Area	ANA Rating	Recommendations made					Level of Assurance
		Fundamental	Significant	Merits Attention	Total	Number accepted	
CPA Response Process	High	-	2	2	4	4	Adequate
Risk Management	High	-	4	4	8	8	Adequate
<b><u>Director - Human Resources</u></b>							
Training: Lettings	Medium	-	2	1	3	3	Adequate
Personnel: HR	High	-	3	2	5	5	Adequate
<b><u>Director –Technical Services</u></b>							
IT - Software Licensing	High	-	1	1	2	*	Substantial
IT – Internet and Email	High	-	2	4	6	*	Adequate
<b><u>Director Administration</u></b>							
Governance	High	-	-	3	3	1 *	Substantial
Freedom of Information	Medium		2	2	4	4	Adequate
Follow-up	-	N/A	N/A	N/A	N/A	N/A	N/A
<b>Station Audits:</b>							
• Halesowen	Low	-	3	3	6	6	Adequate
• Tipton	Low	-	5	3	8	7	Adequate
• Canley	Low	-	4	3	7	7	Adequate

Auditable Area	ANA Rating	Recommendations made					Level of Assurance
		Fundamental	Significant	Merits Attention	Total	Number accepted	
<b><u>Finance Officer</u></b>							
Payroll/Pensions Systems	High	-	5	3	8	8	Adequate
Creditors	High	-	3	3	6	6	Adequate
Budgetary Control	Medium	-	-	2	2	2	Substantial
Income Monitoring	-	N/A	N/A	N/A	N/A	N/A	N/A
National Fraud Initiative	-	N/A	N/A	N/A	N/A	N/A	N/A
* = Awaiting response							
<b>Total</b>		-	<b>36</b>	<b>36</b>	<b>72</b>	<b>61</b> (to date)	



## 4.2 Key Issues Arising

### Freedom of Information

The aim of our review was to confirm compliance with the Freedom of Information Act 2000 and that potential risks had been mitigated appropriately. We found that:

- A pricing policy for Information Requests had not been agreed and published.
- Staff awareness of the legislation requirements was limited, particularly at Fire Stations.

### Management of Morale

Our review focussed on the key initiatives to manage the identified risks associated with employee job satisfaction (morale). We found that:

- Review / target dates had not been specified and updated in key control records (such as the Corporate Risk Register) for each of the initiatives.
- There was no tangible measure to indicate the current level of morale and how this has changed.

### Payroll

The objective of our review was to confirm that controls over the payroll process were adequate. We found that:

- The process for notifying 'contract update details' to payroll and set them up on the payroll system did not have appropriate segregation controls.
- The evidencing of verification checks carried out within Payroll (e.g. on starters & leavers records) needed strengthening.
- Further segregation was required in the System Administration process.

### CPA Response Process

The objective of our review was to ensure that the process to manage the response to the CPA (Comprehensive Performance Assessment) Report issued by the Audit Commission in July 2005 was adequate.

We found that:

- Items within the resulting Service Improvement Plan were not prioritised.
- Progress reporting on Departmental Action Plans was sporadic in some instances.

### Creditors

The objective of our review was to ensure that payments were made correctly and promptly. We found that:

- Segregation controls involved in the process to update Supplier Records needed to be improved.
- Payment input verification controls needed to be strengthened.
- Copy invoices (photocopy or fax) were sometimes used as the prime document for payments to suppliers.

## **Corporate Risk Management**

The objective of our review was to confirm that a suitable Corporate Risk Management process had been introduced and was operating effectively. We found that:

- A formal document (Standing Order) detailing Risk Management processes had not been issued.
- Further guidance & training to Managers on the Risk Management process was required.
- An integrated process for escalating new and emerging risks had not been developed.

### **4.3 Other (non-planned) Work Undertaken**

During the year advice and assistance has been provided on:

- Redrafting the service level agreement between the Fire Service and Sandwell MBC.
- Key controls for the potential implementation of an income reconciliation system (PARIS).
- Procedure changes relating to processing third party payments.
- Key controls required in the proposed introduction of a website payment facility.
- Proposed changes to duties and roles within Finance.
- Standing Orders in respect of the tenders and quotations procedures.

## **Raising Fraud Awareness Seminar**

We also hosted a half day raising fraud awareness seminar at the Fire Service's headquarters, which was well attended by Fire Service managers.

### **4.4 Internal Audit Investigation Work**

#### **Erroneous corporate credit card payment**

An investigation was conducted into a doubtful charge of £101 on a corporate credit card. No suspicious links to Fire Service staff were discovered and a refund has been received.

#### **Whistle blowing allegation**

Assistance was given into the investigation of a time recording related whistle blowing complaint against an employee.