

MEETING: 28TH JUNE 2010

SUBJECT: INTERNAL AUDIT ANNUAL REPORT FOR 2009/2010

REPORT OF THE FINANCE OFFICER

1. Introduction

1.1 The purpose of this report is to provide details of the performance of Internal Audit Services during 2009/2010 and an opinion on the overall system of internal control in place within the Fire and Rescue Authority.

2. Internal Audit Services - Performance 2009/2010

2.1 Summary of Work Carried Out

2.1.1 The Key Performance Indicators for Internal Audit Services were agreed by the Governance Committee on 30th March 2009 as part of the Internal Audit Operational Plan (the Plan) for 2009/2010. Actual Performance against the indicators is shown at Appendix 1. Performance specifically in relation to the Fire and Rescue Authority is shown where possible.

2.1.2 The agreed Internal Audit Operational Plan for the year included nine audits of the Authority's local systems. These were as follows:

- Training and Development
- Income
- Performance and Financial Management
- Risk Management Arrangements
- Payroll
- Creditors
- Recruitment and Induction
- ICT Sustainability – Green IT
- Emergency Planning Unit – Management of IT Risks

2.1.3 All of these audits were completed within the year. The actual time taken to complete the above audits was 123 days against a planned budget of 113 days.

2.1.4 In addition to the above, audit work was undertaken on Sunderland City Council's key financial systems which are used by the Fire and Rescue Authority (e.g. payroll).

- 2.1.5 In relation to the Authority's key systems, audits have been undertaken within the various key areas over the year. The findings of these audits have been analysed together with the findings of audits within these areas during 2007/2008 and 2008/2009, to form an opinion of the adequacy of the overall internal control framework in each of these systems. For each system the opinion is either satisfactory or good. The detailed analysis is provided at Appendix 2.
- 2.1.6 Where areas for improvement were identified, recommendations were made to further minimise the level of risk. Although a number of recommendations to improve internal control were made, the work undertaken did not identify any matters that would alter the opinion that overall the Authority has a sound internal control environment.
- 2.1.7 Internal Audit recommendations are categorised as high, significant, medium or low risk, according to the exposure to risk in the context of the Authority. The overall distribution of the recommendations were as follows.

Risk	Number of Recommendations Made
High	0
Significant	0
Medium	52
Low	25

Observations are also made in cases where an audit finds that, although the arrangements in place are adequate, there may be scope for minor improvements. Such comments are made purely for management consideration and are not formal recommendations.

- 2.1.8 Action plans have been drawn up for the implementation of the above recommendations and, whilst some action plans are awaiting final agreement, of those action plans already agreed, management has accepted all recommendations.
- 2.1.9 The target number of days for issuing draft reports is 10 from the date of completion of fieldwork. Performance against this target for reports issued within the last 12 months is an average of 8.3 days.

2.2 *Implementation of Agreed Audit Recommendations*

- 2.2.1 Follow-up audits are conducted to ensure that agreed audit recommendations are implemented within the time frames agreed with management.

2.2.2 The target is for 100% of high and significant risk recommendations and 90% of medium risk recommendations to be implemented in accordance with the agreed timescale. The implementation rate is calculated based upon a pre-determined number of follow ups completed. For the recommendations followed up the implementation rate for significant risk recommendations was 100% and for medium risk recommendations 83%. For medium risk recommendations this is a decrease from 89% in 2008/2009.

The implementation rates can be broken down as follows.

Area	<i>Implementation Rate March 2009</i>	<i>Implementation Rate March 2010</i>
Fire and Rescue Service	89%	86%
Emergency Planning Unit	No follow ups included	73%
Total Implementation Rate	89%	83%

2.2.3 Revised timescales have been agreed with managers in relation to the recommendations not implemented at the time of the follow up audits.

2.2.4 The implementation of agreed recommendations is being monitored through regular liaison meetings with the Authority. In addition, managers are given one months notice of the follow up being undertaken and are provided with an additional copy of the agreed action plan. It is also intended to develop a progress report for the Chief Fire Officer and Chief Emergency Planning Officer to provide them with appropriate information on a regular basis. Follow up work will continue to be undertaken to monitor the implementation of recommendations.

2.3 *General Support*

2.3.1 Support and guidance was also provided during the year in relation to identification of risks, improvements to financial procedures and general day-to-day advice.

2.4 *Quality Assurance*

Internal Audit operates a quality system which is certified to ISO 9001:2008. In July 2009 an external assessment was carried out to establish whether or not the service continues to meet the requirements of the standard. Full re-certification of the management system is required every three years. The service successfully retained accreditation; this being the third consecutive time accreditation has been achieved. The audit report concluded that “*The system is working very effectively and continues to improve*”. Annual external quality audits also take place, the most recent being in January 2010. The report on this external quality audit concluded that Internal Audit had maintained its management system in line with the requirements of the ISO standard.

2.5 Clients Views

2.5.1 Post Audit Questionnaires are issued after every audit to elicit the client's opinion on a range of areas related to the way the audit was conducted using a scoring range of 1 (Good) to 4 (Poor) for each area.

2.5.2 Within the year 12 post audit questionnaires were issued to managers within the Authority, of which six were returned. The scores in all areas were marked as 1 or 2 and the 'overall rating for the work of Internal Audit' was 1.0, meeting the target of achieving an average score of less than 1.5.

2.5.3 Internal Audit also took part in a user satisfaction survey run by the CIPFA benchmarking club. All clients who had received an audit report in the previous year were invited to complete a questionnaire which asked 35 questions covering Audit Services, Audit Staff, Conduct of Audits, Audit Reporting, and Customer Service. The questionnaire also asked for the respondent's overall rating of Internal Audit Services. The key results were as follows:

- In relation to the 35 questions, 4 received a performance rating of excellent with the rest receiving a rating of good.
- The overall average rating was Good.
- The scores received for the 35 questions were above the group average in all cases.
- The overall performance score received was higher than all of the other authorities which took part in the survey (19 in all).

2.6 Opinion of External Auditor

2.6.1 The Audit Commission have carried out an independent review of the effectiveness of Internal Audit Services by reference to the CIPFA Code of Practice for Internal Audit. The Audit Commission's conclusion is that *"We found that there continues to be robust arrangements in place to comply with the Code's standards. Our detailed review of files did not highlight any significant non-compliance with IAS's Quality System or the Code"*.

3. Conclusions

- 3.1 This report provides details of the performance of Internal Audit and provides assurance that the service is being delivered in accordance with statutory responsibilities and is continually seeking to improve performance.
- 3.2 Using the cumulative knowledge and experience of the systems and controls in place, including the results of previous audit work and the work undertaken within 2009/2010, it is considered that overall throughout the Authority there continues to be a sound internal control environment. Where areas for improvement have been identified recommendations were made to minimise the level of risk, and action plans for their implementation drawn up and agreed by management.

4. Recommendation

- 4.1 The Committee is asked to note this report.

Performance Against Key Indicators – 2009/2010

Internal Audit Services' Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2009/2010

Cost & Efficiency			
Objectives	KPI's	Targets	Actual Performance
1) To ensure the service provides Value for Money	1) Charge per Audit Day	1) Lower cost than average within CIPFA Benchmarking Club – Comparator Group (Unitary Authorities)	1) Achieved – Sunderland charge per audit day £283 and average for comparator group £304
	2) Audit cost per £m Gross Turnover of the Council	2) Lower cost than average within CIPFA Benchmarking Club – Comparator Group (Unitary Authorities)	2) Cost equates to the average within the CIPFA Benchmarking club - £1,071.
	3) Percentage of planned audits completed (including agreed variations)	3) 100%	3) Achieved – 100%
	4) Average number of days between end of fieldwork to issue of draft report	4) 10 working days or less	4) Achieved – 8.3 working days
	5) Percentage of draft reports issued within 15 days of the end of fieldwork	5) 85%	5) Achieved – 88.9%
	6) Percentage of audits where the number of days between the start of the audit and the end of fieldwork is within a target of twice the budgeted number of days	6) 75%	6) Achieved – 88.9%

Performance Against Key Indicators – 2009/2010

Internal Audit Services' Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2009/2010			
Quality			
Objectives	KPI's	Targets	Actual Performance
1) To maintain an effective system of Quality Assurance	1) ISO9001:2000 Certification	1) Retain certification	1) Achieved - Certification retained June 2009
2) To ensure recommendations made by the service are agreed and implemented	2) Percentage of high, significant and medium risk recommendations made which are agreed	2) 100%	2) Achieved - 100%
	3) Percentage of agreed high, significant and medium risk recommendations which are implemented	3) 100% for high and significant. 90% for medium risk	3) Achieved - 100% for significant risks Not Achieved – 83% for medium risks
	4) Opinion of External Auditor	4) Satisfactory opinion	4) Achieved - Satisfactory Opinion
Client Satisfaction			
Objectives	KPI's	Targets	Actual Performance
1) To ensure that clients are satisfied with the service and consider it to be good quality.	1) Results of Post Audit Questionnaires	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)	1) Achieved - Overall average score of 1.0 from 6 returns
	2) Results of other Questionnaires	2) Results classed as 'Good'	2) Achieved - IPF survey of clients showed overall rating of 'Good'
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported	3) 3 compliments received 0 complaints

Performance Against Key Indicators – 2009/2010

Internal Audit Services' Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2009/2010			
Continuous Improvement			
Objectives	KPI's	Targets	Actual Performance
1) To ensure that the service develops in line with modern thinking and practice on Internal Auditing	<p>Improvement in actual performance in relation to previous years in the following areas:</p> <ol style="list-style-type: none"> 1) Average number of days between end of fieldwork to issue of draft report 2) Percentage of draft reports issued within 15 days of the end of fieldwork 3) Percentage of agreed high, significant and medium risk recommendations which are implemented 	Improvement in actual performance from 2008/2009.	<ol style="list-style-type: none"> 1) Not Achieved Performance 2008/2009 – 7.4 Performance 2009/2010 – 8.3 2) Achieved Performance 2008/2009 – 85.7% Performance 2009/2010 – 88.9% 3) Not Achieved Performance 2008/2009 medium risk – 89% Performance 2009/2010 – 83%

Key Systems – 2009/2010

Key Financial Systems***City Council Systems***

System	Audit Findings			Overall Opinion 2009/2010
	Yr 1 2007-08	Yr 2 2008-09	Yr 3 2009-10	
Main Accounting System	Satisfactory	Satisfactory	Good	Satisfactory
Capital Asset Accounting	Good	Satisfactory	-	Satisfactory
Treasury Management	Good	-	-	Good
Leasing Administration	-	-	Good	Good
Accounts Payable	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Payroll	Satisfactory	Good	Satisfactory	Satisfactory
Accounts Receivable	Good	-	Good	Good

TWFRA Systems

System	Audit Findings			Overall Opinion 2009/2010
	Yr 1 2007-08	Yr 2 2008-09	Yr 3 2009-10	
Procurement	Satisfactory	-	-	Satisfactory
Accounts Payable	Good	-	Satisfactory	Satisfactory
Payroll	Satisfactory	-	Satisfactory	Satisfactory
Income	-	-	Satisfactory	Satisfactory
Budgetary Control	Good	Good	Good	Good

Key Systems – 2009/2010

Key Non-Financial Systems***City Council Systems***

System	Audit Findings			Overall Opinion 2009/2010
	Yr 1 2007-08	Yr 2 2008-09	Yr 3 2009-10	
Legality	-	-	Satisfactory	Satisfactory

TWFRA Systems

System	Audit Findings			Overall Opinion
	Yr 1 2007-08	Yr 2 2008-09	Yr 3 2009-10	
Corporate Governance	-	Good		Good
Risk Management	Good	-	Good	Good
Integrated Risk Management Plan	Good	-		Good
Performance Management	-	-	Good	Good
Information Governance	Good	-		Good
Asset Management	Good	-		Good
Anti Fraud & Corruption Arrangements	-	Good		Good
Attendance Management Arrangements	-	Good		Good
Recruitment and Selection/Induction Arrangements	-	-	Satisfactory	Satisfactory
Training & Development Arrangements	-	-	Good	Good
Business Continuity/Contingency Planning	-	Satisfactory		Satisfactory