

**MEETING: 26<sup>TH</sup> JUNE, 2006**

---

**SUBJECT: INTERNAL AUDIT ANNUAL REPORT 2005/2006**

**REPORT OF THE FINANCE OFFICER**

---

**1. Introduction**

- 1.1 Internal Audit Services (IAS) produce an annual report each year for the Authority, which provides details of the performance of the service during the year and an overall opinion of the soundness of the internal control environment in place to minimise risk to the Authority.
- 1.2 The previous annual report for 2004/2005 concluded that the Authority had a sound internal control environment.
- 1.3 This report provides details of the performance of IAS during 2005/2006. The report also provides an overall opinion of the soundness of the internal control environment in place to minimise risk to the Authority.

**2. Audit Planning**

- 2.1 The work of IAS is based upon its three year Strategic Audit Plan which covers all areas of audit activity and as such is a dynamic document continually changing to reflect new initiatives, risk areas and legislation.
- 2.2 The Strategic Audit Plan is updated in January/February of each year based upon:
- consultation with the Chief Fire Officer, the Chief Emergency Planning Officer and Senior Managers to ensure that account is taken of any concerns they raise,
  - new Authority initiatives, Government initiatives and legislation,
  - discussions with the External Auditor and the Insurance and Risk Management Officer of the Lead Authority for Finance (i.e. Sunderland City Council),
  - strategic risks as identified in discussions with the Finance Officer.
- 2.3 Each area of activity is also 'scored' by carrying out an assessment of the risks associated with it, both objective and subjective, using a scoring template.
- 2.4 There is also a continuous reassessment of risk scores as audits are undertaken, plus regular consultation with the Chief Fire Officer, Chief Emergency Planning Officer, and Senior Managers to ensure that account is taken of any concerns they raise.

- 2.5 The Annual Audit Plan is drawn up from the Strategic Audit Plan reflecting high, new and changed areas of risk whilst ensuring appropriate coverage of all areas of work, in line with available resources.
- 2.6 As part of the planning process formalised liaison arrangements have been drawn up with the External Auditor to avoid duplication of work and maximise use of resources.

### 3. IAS Performance 2005/2006

#### 3.1 *Summary of Work Carried Out*

- 3.1.1 The agreed Audit Plan for the year included eight audits of the Authority's local systems. Of these, the following six were completed within the year.
- Risk Management Arrangements
  - Payroll
  - Creditors
  - Asset Management
  - Building Maintenance
  - BS7799 Compliance
- 3.1.2 In agreement with the Authority the planned audit of PFI contract monitoring was deferred due to the delay in the full PFI scheme being implemented. This has been included in the 2006/2007 annual audit plan. The audit was replaced by a review of the Authority's car leasing scheme.
- 3.1.3 The audit of e-Government arrangements was deferred due to a review in October 2005 by the Audit Commission highlighting that the Tyne and Wear Fire and Rescue Authority (TWFR) were making good progress towards implementing the e-Government agenda and it is adequately monitoring both local and national priority outcomes.
- 3.1.4 With regard to planned productive days, 84.4% of the days planned were delivered. The saving in days is due to a change in the scope of one audit following work carried out by the Audit Commission and not needing to use the investigation contingency.
- 3.1.5 In addition to the above, audit work was undertaken on the Lead Authority's key financial systems which are used by the TWFR (e.g. payroll).
- 3.1.6 In accordance with the agreed scheme for the audit of the Authority's key financial systems, audits have been undertaken within various key areas over the year. The findings of these audits have been analysed together with the findings of audits within these key areas during 2003/2004 and 2004/2005, to form an opinion of the adequacy of the overall control framework in each of the key financial systems. For each system the opinion is either satisfactory or good. The detailed analysis is provided at Appendix 1.

- 3.1.7 Where IAS identified areas for improvement, 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 which would alter the opinion that overall the Authority has a sound internal control environment.
- 3.1.8 Audit recommendations are categorised as high, medium or low priority, according to the exposure to risk in the context of the Authority. During the year the following numbers of recommendations were made in relation to systems operated within the TWFCDA:

<b>Priority</b>	<b>Number of Recommendations Made</b>
High	0
Medium	63
Low	12

- 3.1.9 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.

### 3.2 *Implementation of Agreed Audit Recommendations*

- 3.2.1 Follow-up audits are conducted to ensure that agreed audit recommendations are implemented within the time frames agreed with management.
- 3.2.2 The target for IAS is to ensure that at least 90% of high and medium priority recommendations are implemented in accordance with the agreed timescale. During the year, 26 agreed recommendations were followed up and the implementation rate was in the order of 38%. Revised timescales have been agreed with managers in relation to the recommendations not implemented at the time of the follow up audits.
- 3.2.3 The implementation of agreed recommendations is being monitored through regular liaison meetings with the Authority.

### 3.3 *General Support*

- 3.3.1 IAS also provided support and guidance during the year in relation to systems developments, identification of risks, improvements to financial procedures and general day-to-day advice.

## 3.4 Quality Assurance

3.4.1 Internal Audit Services operates a quality system which is certified to ISO 9001:2000. During the year the system has been subject to both internal and external quality audits, the findings of which have been positive in all cases. An external quality audit carried out in January 2006 concluded that "Overall the system operates to a high standard of compliance".

## 3.5 *Clients Views*

3.5.1 In 2005/2006 IAS issued Post Audit Questionnaires 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.

3.5.2 Within the year five post audit questionnaires were issued to managers within the Authority, of which four were returned. The average scores in all areas were between 1 and 2 (i.e. between good and satisfactory).

## 3.6 *Opinion of External Auditor*

3.6.1 The Audit Commission's opinion continues to be positive. The District Auditor's Annual Audit Letter for 2004/05 to the Authority included the comment "We concluded in our detailed review that Internal Audit (IA) continues to comply with CIPFA standards, with some scope for improvement identified in particular areas such as increasing the frequency of reporting to members. IA provides an effective service, and gives assurance that sound systems of internal control are in place. We are satisfied with the quality and coverage of IA work."

## 4. **Conclusions**

4.1 This report provides accountability of IAS to Members of the Fire and Rescue Authority's Governance Committee and seeks to reassure them that the service is being delivered in accordance with statutory responsibilities and is continually seeking to improve the standards of its output.

4.2 Using our cumulative knowledge and experience of the systems and controls in place, including the results of previous audit work and the work undertaken within 2005/2006, it is considered that overall throughout the Authority there continues to be a sound internal control environment. Where IAS identified areas for improvement recommendations were made to minimise the level of risk, and action plans for their implementation drawn up and agreed by management.

**5. Recommendation**

5.1 The Committee is asked to note this report.

**Background Papers**

Annual Audit Letter – December 2005

**Audit of Key Financial Systems – 2005/2006**

System	Audit Findings			Overall Opinion		
	Yr 1 2003-04	Yr 2 2004-05	Yr 3 2005-06	2001-04	2002-05	2003-06
<b><i>Sunderland City Council</i></b>						
Main Accounting System	FMS Advice	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Capital Asset Accounting		Satisfactory			Satisfactory	Satisfactory
Treasury Management		Good			Good	Good
Leasing Administration	Satisfactory			Satisfactory	Satisfactory	Satisfactory
Accounts Payable	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Payroll	Satisfactory	Good	Satisfactory	Satisfactory	Good	Satisfactory
Accounts Receivable	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Good	Satisfactory
<b><i>TWFRA Systems</i></b>						
Procurement						
Accounts Payable	Satisfactory	Good	Satisfactory	Satisfactory	Good	Satisfactory
Payroll		Good	Satisfactory	Good	Good	Satisfactory
Income		Satisfactory		Satisfactory	Satisfactory	Satisfactory
Budgetary Control	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory