

GOVERNANCE COMMITTEE

MEETING: 29TH JUNE 2009

SUBJECT: INTERNAL AUDIT SERVICES ANNUAL REPORT FOR 2008/2009

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 (IAS) during 2008/2009 and an opinion on the overall system of internal control in place within the Fire and Rescue Authority.

2. IAS Performance 2008/2009

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 31st March 2008 as part of the Internal Audit Operational Plan (the Plan) for 2008/2009.

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

- Attendance Management
- Application Controls – Fire Safety Inspections
- Business Continuity Planning
- Capital Programme
- Corporate Governance Arrangements (including Anti Fraud and Corruption arrangements)
- Operational Management Information
- Emergency Planning Unit – Partnership Arrangements

2.1.3 All of these audits were completed within the year. The actual days taken to complete the above audits was 96 against a planned budget of 107.

2.1.4 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).

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 2006/2007 and 2007/2008, 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 1.

2.1.6 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 that would alter the opinion that overall the Authority has a sound internal control environment.

2.1.7 Internal Audit recommendations have traditionally been categorised as high, medium or low risk, according to the exposure to risk in the context of the Council or audited body. However, in October 2008, it was felt appropriate to introduce a further category called *Significant* in order to reflect issues that could have a wider impact than on the service or area being audited but which would not put at high risk the achievement of the Authority's objectives.

2.1.8 Utilising this revised categorisation framework a total of 69 recommendations have been made during the year, four of which have been placed in the *Significant* category. These are outlined below:

- Three of the significant findings were related to the currency of mobile data held on front-line fire appliances and the fire safety audit system together with the limited staff support arrangements that exist in respect of the mobile data system. With regard to these three findings the Chief Fire Officer (CFO) has instigated action to install wireless connections to allow more rapid updating of the vehicle computer terminals together with enhanced staff support arrangements and has also undertaken a review of the outstanding fire safety audits in order to re-categorise and re-schedule audits which had passed their recommended completion dates.
- The remaining finding was associated with the issue of ICT data back-up, with the concern being that whilst the data back-ups are held in a secure safe in a separate, secure building from the main ICT systems, this is still within the curtilage of the main site which could present a problem in the event of a major disaster occurring on-site. The CFO is exploring ways of improving the security of the back-up facility to mitigate this risk.

2.1.9 The overall distribution of the recommendations were as follows.

Priority	Number of Recommendations Made
High	0
Significant	4
Medium	40
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.

2.1.10 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.

2.1.11 The target number of days for issuing draft reports is 15 from the date of completion of fieldwork. Performance against this target for reports issued within the last 12 months is an average of 7.4 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. This new method of calculating the implementation rate was introduced in 2008/2009. For the recommendations followed up the implementation rate was 89%, an increase from the overall rate for 2007/2008, which was 82%.

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.

2.3 *General Support*

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

2.4 *Quality Assurance*

2.4.1 IAS operates a quality system which is certified to ISO 9001:2000. In March 2009 an external quality audit was carried out to establish whether or not the service continues to meet the requirements of the Standard. The audit report concluded that IAS had maintained its management system in line with the requirements of the standard.

2.5 *Clients Views*

2.5.1 In 2008/2009 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.

2.5.2 Within the year five post audit questionnaires were issued to managers within the Authority, of which three were returned. The scores in all areas were marked as 1 or 2 and therefore the 'overall rating for the work of Internal Audit' was 1.3, meeting the IAS target of achieving an average score of less than 1.5.

2.5.3 Within the year IAS also took part in a user satisfaction survey run by the CIPFA benchmarking club. All senior managers at the Fire and Rescue Authority and organisations to whom IAS provide an internal audit service 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.

2.5.4 The benchmarking club received 15 responses from 40 invited to participate (37.5% response). The responses were analysed and the following was reported back to the Council:

- Average score against each question;
- Average score against each question for all 29 Councils that participated in the survey.

2.5.5 The key results of the survey are as follows:

- In relation to the 35 questions the average performance ratings were as follows:
 - In 2 cases Excellent
 - In 31 cases Good
 - In 2 cases Adequate
- The average overall rating of IAS was excellent.
- Internal Audit Services scored above average against all but one of the 35 questions, compared to all of the other Councils that participated in the survey.
- The score for the overall rating of IAS was the highest of all Councils that participated in the survey.

2.6 *Opinion of External Auditor*

2.6.1 The Audit Commission have carried out an independent review of the effectiveness of IAS 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 IAS to Members 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 service.
- 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 2008/2009, 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.

4. Recommendation

- 4.1 The Committee is asked to note this report.

Audit of Key Systems - 2008/2009

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

System	Audit Findings			Overall Opinion		
	Yr 1 2006-07	Yr 2 2007-08	Yr 3 2008-09	2004-07	2005-08	2006-09
Main Accounting System	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Capital Asset Accounting	-	Good	Satisfactory	Satisfactory	Good	Satisfactory
Treasury Management	-	Good	-	Good	Good	Good
Leasing Administration	Satisfactory	-	-	Satisfactory	Satisfactory	Satisfactory
Accounts Payable	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory
Payroll	Satisfactory	Satisfactory	Good	Satisfactory	Satisfactory	Satisfactory
Accounts Receivable	Good	Good	-	Good	Good	Good

TWFRA Systems

System	Audit Findings			Overall Opinion		
	Yr 1 2006-07	Yr 2 2007-08	Yr 3 2008-09	2004-07	2005-08	2006-09
Procurement	Satisfactory	Satisfactory	-	Satisfactory	Satisfactory	Satisfactory
Accounts Payable	-	Good	-	Satisfactory	Good	Good
Payroll	-	Satisfactory	-	Satisfactory	Satisfactory	Satisfactory
Income	-	-	-	Satisfactory	-	- *
Budgetary Control	-	Good	Good	Satisfactory	Good	Good

* An audit of the Income system is included within the Audit Plan for 2009/2010.

Audit of Key Systems - 2008/2009

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

System	Audit Findings			Overall Opinion		
	Yr 1 2006-07	Yr 2 2007-08	Yr 3 2008-09	2004-07	2005-08	2006-09
Legality	Satisfactory	-	-	Satisfactory	Satisfactory	Satisfactory

TWFRA Systems

System	Audit Findings			Overall Opinion		
	Yr 1 2006-07	Yr 2 2007-08	Yr 3 2008-09	2004-07	2005-08	2006-09
Corporate Governance	-	-	Good	-	-	Good
Risk Management	-	Good	-	Good	Good	Good
Integrated Risk Management Plan	-	Good	-	-	Good	Good
Performance Management	Satisfactory	-	-	Satisfactory	Satisfactory	Satisfactory
Information Governance	Satisfactory	Good	-	Satisfactory	Good	Good
Asset Management	-	Good	-	-	Good	Good
Anti Fraud & Corruption Arrangements	-	-	Good	-	-	Good
Attendance Management Arrangements	-	-	Good	-	-	Good
Recruitment and Selection/Induction Arrangements	Good	-	-	Good	Good	Good
Training & Development Arrangements	Good	-	-	Good	Good	Good
Business Continuity/Contingency Planning	-	-	Satisfactory	-	-	Satisfactory