

REPORTING OFFICER:	Peter Taylor – Interim Head of Audit
DATE:	03 May 2011
SUBJECT:	Internal Audit Work for Merseyside Fire and Rescue Service

1 Purpose

- 1.1 The purpose of this report is to provide a summary of the work performed on behalf of MFRS and to inform the Authority on the audit opinions, and key issues raised by Internal Audit during 2010/11.
- 1.2 The work has been carried out in accordance with the 2010/11 risk based audit plan and the agreed audit days have been delivered. The plan is designed to give reasonable assurance that controls are in place and working effectively. All of our planned work has been performed and finalised for 2010/11, with the exception of the treasury management review which is yet to be finalised.
- 1.3 In accordance with the 2006 CIPFA Code of Practice for Internal Audit in Local Government this report provides:
- An opinion on the effectiveness of the overall control environment based on Internal Audit work carried out in 2010/11;
 - A summary of the main issues arising from Internal Audit work during 2010/11;
 - A summary of the performance of Internal Audit against its performance measures.
- 1.4 The Annual Internal Audit Report is also an important source of evidence for the Annual Governance Statement. This report is timed to support the preparation of this Statement for the 2010/11 year.
- 1.5 This report does not go into great detail as individual audit reports are provided during the year and presented to Committee as and when completed.

Acknowledgements

- 1.6 We would like to thank those officers throughout MFRS who provided their assistance and cooperation in the course of our work throughout the year.

2 Opinion on the overall control environment

- 2.1 Internal Audit works to a risk based audit plan. The plan is designed to give reasonable assurance that controls are in place and working effectively. On the basis of audit reviews carried out in 2010/11, Internal Audit concluded that the Authority's ***internal control environment is adequate and effective, bearing in mind that any control system can provide only reasonable assurance and not absolute assurance.***
- 2.2 Based on the audit work carried out in 2010/11 we are not aware of any significant control weaknesses within MFRS which impact on the Annual Governance Statement.
- 2.3 Internal Audit uses an overall opinion grading for audits and certain responsive work which is based on the ratings of the audit recommendations being made and is explained in more detail in section 4. The table below summarises the opinions given on internal audit work in 2010/11 compared to 2009/10.

Assurance Level	No. of audits 2010/11	% of total	<i>No. of audits</i> <i>2009/10</i>	<i>% of</i> <i>total</i>
Substantial	11	85	7	64
Adequate	0	0	3	27
Limited	2	15	1	9
Little/None	0	0	0	0
Total	13*	100	11**	100

* of the 15 items on the plan, 1 is incomplete (treasury management) and 1 did not result in an opinion (consultation work on PFI arrangements).

** of the 12 items on the plan, 1 did not result in an opinion (consultation work on PFI arrangements).

3 Summary of main issues arising from Internal Audits in 2010/11

Fundamental Systems

- 3.1 The areas covered comprised: payroll, creditors, budgetary control, general ledger and treasury management (which is not yet finalised). The majority of the fundamental systems audits involved the use of Computer Assisted Audit Techniques (CAATs) to perform a series of tests to validate specific data. By using CAATs we were able to consider the whole of the data population testing for certain criteria and enhance the assurance we are able to provide over the effective operation of the system.
- 3.2 For example the creditors audit included testing in respect of duplicate payments and duplicated addresses; the payroll audit - potential duplicate bank accounts and the general ledger - duplicate journals.
- 3.3 Based on the audit work completed our opinion on the level of assurance that can be given on the fundamental systems is that the control environment is good and systems are operating effectively as there were no significant findings arising and all resulted in a substantial audit opinion.
- 3.4 The only weakness identified was in the budgetary control audit and related to the completion of virement forms. Testing showed that forms are not always being completed in compliance with the virement procedures.
- 3.5 We have only recently completed the fieldwork for the treasury management review so it would be inappropriate to include an overall opinion at this stage.

Supporting Financial Systems

- 3.6 The areas covered in supporting financial systems comprised income and debtors, insurance, stores and inventory, internal financial reporting standards. With the exception of the stores and inventory audit, where we could only provide limited assurance, the control environment and systems are operating effectively to ensure that the majority of relevant risks are well managed.

Income and Debtors / Insurance / Internal Financial Reporting Standards

- 3.7 These three audits have already been reported to the Audit & VFM Scrutiny Panel earlier this financial year. They identified systems that were being operated effectively to ensure that the majority of relevant risks were managed. A couple of minor areas for improvement were noted.

Stores and Inventory

- 3.8 A review was undertaken on the controls in place throughout the Authority in respect of the stores operation. The main focus of the review was the new workshop arrangements in order to assess the effectiveness of the changes in delivering efficiency. Based upon the audit testing we could provide only limited assurance that the key risks are being managed. Improvements could be made to several areas within the control environment in order that the relevant risks are managed more effectively.
- 3.9 The audit identified that the layout of the new stores is not ideal from a security perspective. Combining of a number of stores at one new location has increased efficiency by reducing staff numbers but more work is required to maximise efficient working of the joined up service.

Non Financial Systems

- 3.10 The work comprised a review of the authority's partnership and grant arrangements, business continuity, fraud risk management and PFI.**

Partnerships & Grants

- 3.11 The main objective of the audit was to ensure that the controls in place for the partnership and grant arrangements within the Authority were working effectively, and complied with agreed policies and procedures. A previous audit identified a few procedural areas that could be improved. The Authority has made the required improvements, which included updating the partnership toolkit, and introducing a formal system for the approval and reporting of partnerships to senior managers. Testing also found that the correct procedure was being followed in the registering and receipting of grants, and an external grant funding toolkit has been made available to officers involved in the grant process. The review concluded that the control environment for both the partnership and the grant process is robust.

Business Continuity

- 3.12 The main focus of the audit was to ensure that business continuity is fully embedded within the Authority, and that robust systems were in place to hold and monitor information relating to business continuity management. The findings of the review found that the Authority's business continuity arrangements are effective and very well managed, and business continuity is fully integrated into the Authority's management arrangements.

Fraud Risk Management

- 3.13 The objectives of the audit were to conclude on whether there were effective policies and procedures in place relating to Fraud Risk Management, and to confirm the level of staff awareness and understanding of the policies. Audit testing found that the fraud risk management arrangements within the Authority are sound and communication was good, with staff being kept up to date of relevant changes.

PFI

- 3.14 Work was on an ad-hoc basis and principally focused on reviewing the processes and procedures drafted by the PFI project team for the management of the development stage of the project. A number of documents including the process map, and joint agreement were reviewed. More detailed work will be performed on the project in the forthcoming year.

Responsive Work

- 3.15 The time in the audit plan set aside for responsive work included a review of the petty cash system at Allerton Fire Station. It was agreed that a further two fire stations, Kensington and Birkenhead would also be reviewed to provide a rounded view of the petty cash arrangements throughout the stations. The review found that (whilst there was no financial loss or impropriety) the controls set out within the Service Instruction were not being applied fully at all three stations, in particular at Allerton fire station. A number of audit recommendations were made in order to improve the system.

Follow Up

- 3.16 It is our policy to follow up all recommendations that are given either a three star (essential/strategic) or a two star (substantial) priority rating. All 2 and 3 star recommendations made in 2010/11 were followed up within 6 months of the agreed implementation date. All were found to have been implemented.

4 Summary of audit opinions

- 4.1 Internal Audit uses an overall opinion grading for audits and some responsive work. Where no issues surrounding the control environment are found, substantial assurance will be given on the controls tested. However where weaknesses with controls have been identified, depending on the potential impact of those weaknesses, a lower graded assurance level will be given.
- 4.2 The grades, which are summarised in the table below, are based on the ratings of the audit recommendations being made.

Audit Opinion	Explanation
Substantial	There is a sound system of control and governance in place to achieve the system objectives, controls are being consistently applied and the relevant risks to the service are well managed
Adequate	The control environment / systems are operating effectively to ensure that the majority of relevant risks are managed. Slight improvements need to be made in order to provide substantial assurance that all of the objectives of the system are met.
Limited	Weaknesses and / or non-compliance with procedures are placing system objectives at risk.
Little/None	There are control weaknesses and / or non-compliance with basic controls that are so significant the relevant risks are not being managed at all. The system is open to significant error or abuse.

- 4.3 The audit opinions given against work carried out in 2010/11 are shown against each of the completed pieces of work in the table overleaf:

Audit Subject	Audit Opinion
Fundamental Systems	
Payroll	Substantial
Creditors (CAATs)	Substantial
Budgetary Control	Substantial
General Ledger	Substantial
Treasury Management	WIP
MTFP	Substantial
Supporting Financial Systems	
Income & Debtors	Substantial
Stores & Inventory	Limited
Insurance	Substantial
IFRS	Substantial
Non Financial Systems	
Partnerships & Grants	Substantial
PFI	N/A
Business Continuity	Substantial
Fraud Risk Management	Substantial
Responsive	
Petty Cash	Limited

5 Internal Audit service delivery

- 5.1 The key performance indicators for Internal Audit are set out in the table below, together with the outturn at the year end compared to target and those achieved in 2010/11. The customer satisfaction score has slipped slightly for the 2010/11 financial year, it will therefore be a priority in 2011/12 for us to ensure the scope of our work is discussed and agreed with the senior officer concerned for each audit in advance of starting the work.

Performance Measure	Target 2010/11	Actual 2010/11	Actual 2009/10
Completion of audit exercises consistent with the audit plan	90%	93%	92%
Percentage of audit reports issued within time target	80%	79%	75%
Average score out of 5 for overall value added by Internal Audit work based on returned customer survey questionnaires.	4.5	4.3	4.55

Audit Plan

5.2 The table below summarises budgeted and actual audit days and number of audits. 12 of the planned audits were completed by the year end, with the treasury management audit due to be reported on in May 2011. The audit of the Regional Control Centre was dropped from the non-financial systems element of the plan and an additional piece of work was completed from the contingency-responsive budget.

	10/11 Audit Plan		Actual Results for 10/11	
	Total No.days	No of audits	Total No. Days	No of audits completed
Fundamentals	40	6	50	5
Supporting Financial Systems	27	4	31	4
Non Financial Systems	46	4	35	3
Contingency	10	-	12	1
Follow Up	5	-	1	-
Computer Audit (optional at discretion of MFRS)	10	-	None identified	-
Audit management	12	-	14	-
Total	150	14	143	13