

REPORTING OFFICER: DATE: SUBJECT:	Karen Lowe 23 April 2010 Internal Audit Work for Merseyside Fire and Rescue Service
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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 key issues raised by Internal Audit during 2009/10.
- 1.2 The work has been carried out in accordance with the 2009/10 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 2009/10, with the exception of the asset management review which is yet to be finalised. Work on this has therefore been carried forward into 2010/11 and will be reported to members via the financial review report.
- 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 2009/10;
 - A summary of the main issues arising from Internal Audit work during 2009/10;
 - 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 2009/10 year.
- 1.5 This report does not go into great detail as quarterly progress reports have been provided during the year. The emphasis is to concentrate on significant issues relating to key controls impacting on the overall control environment.

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 2009/10, Internal Audit concluded that the Authority's ***internal control environment is adequate and generally effective, bearing in mind that any control system can provide only reasonable assurance and not absolute assurance.*** This opinion excludes Asset Management (the audit of which is still to be completed and reported on).
- 2.2 From our work carried out in 2009/10 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 2009/10 compared to 2008/9.

Assurance Level	No. of audits 2009/10	% of total	No. of audits 2008/9	% of total
Substantial	7	70	2	17
Adequate	2	20	6	50
Limited	1	10	3	25
Little/None	0	0	1	8
Total	10*	100	12	100

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

3. **Summary of main issues arising from Internal Audits in 2009/10**

3.1 **Fundamental Systems**

The areas covered comprised: payroll, creditors, budgetary control, general ledger, and treasury management. 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 sound and systems are operating effectively.

Creditors

The main objective of the work was to review relevant risks to the system and assess the controls in place to mitigate them. Part of the review utilised computer assisted auditing techniques (CAATs) which enabled us to undertake whole population data testing in relation to certain key controls including those mitigating risks in respect of duplicate payments and duplicated addresses.. Our overall opinion was that we can provide adequate assurance that the system is operating effectively and the relevant risks to the service are well managed.

Payroll

The audit produced a substantial audit opinion. The controls in place are robust and operating effectively.

General Ledger

The main area of focus of this audit centred on the preparation, authorisation and inputting of journal entries. Overall, we found that the system was operating effectively. However, it was noted that on occasions there were no segregation of duties in relation to the preparation and authorisation of journals. Internal Audit issued recommendations to address this issue.

Budgetary Control

The audit produced a substantial audit opinion. It was considered that the controls in place are sound and operating effectively.

Treasury Management

An audit was undertaken of the treasury management (TM) process in respect of loans and investments. The key controls mitigating the current risks to MFRS regarding TM were found to be well designed and operating effectively and Internal Audit could provide substantial assurance on the work undertaken. Further assurance was gained via reference to our separate audit of TM from Liverpool Council's perspective (who provide TM services to the MFRS).

3.2 Supporting Financial Systems

The areas covered in supporting financial systems comprised income and debtors, procurement, and asset management. The control environment and systems are operating effectively to ensure that the majority of relevant risks are well managed. The findings of the asset management audit will be reported on in the first quarter of 2010/11.

Income and Debtors

The main objective of the audit was to ascertain whether key controls and timescales were being adhered to for the collection of, accounting for and receipting of income. A number of areas for improvement were noted, including the debt pursuance procedures, and authorisation of write offs. Actions have been agreed to address these issues.

Procurement

The audit focused on the procurement arrangements within the Authority, including compliance with key policies and procedures, as well as measures to ensure that value for money is being achieved. Internal Audit can offer substantial assurance that there is a sound system of control in place to achieve the key objectives.

Asset Management

In order to assist the Audit Commission with their work in this area our audit involved sample checking a number of items from the asset register. This audit is still on going and will be completed and reported on during the first quarter of 2010/11.

3.3 Non Financial Systems

The work comprised a review of the authority's governance arrangements, partnerships, PFI and VFM.

Governance

The audit was principally focused on forming an opinion on the effectiveness of the Authority's governance arrangements, and to establish the presence and availability of key evidence sources. Testing found that there is a sound system of control in place, with controls in the area of governance being consistently applied and effectively managed.

Partnerships

The Authority has put in place good partnership arrangements which enable it to develop a consistent approach to dealing with its partners. Our review identified several areas that could be improved and therefore an audit opinion of limited assurance was given and actions to address these issues have been agreed with management.

PFI

The scope of the exercise was to understand present arrangements around PFI at MFRS and to suggest key elements that represent good practice that could be incorporated into a framework of control/contract monitoring arrangements for PFI. A report was produced which set out ideas and approaches that can assist management with the decision making process around PFI.

VFM

The main objective of the review was to provide an overall summary of the arrangements in place in respect of VFM, and to provide assurance that the Authority is demonstrating continuous improvement in this area in line with the comprehensive area assessment framework. The audit work found that the Authority manages its finances well, its VFM Strategy identifies key principles for achieving VFM and the Integrated Risk Management Plan (IRMP) integrates with the financial and service planning process in order to achieve efficiencies.

3.4 Responsive Work

The time in the audit plan set aside for responsive work was used to provide advice on petty cash procedures including the HQ restaurant, and travel expenses from petty cash for the Princes Trust volunteers.

3.5 Follow Up

It is our policy to follow up all recommendations that are given either a three star (essential/strategic) or a two star (high) priority rating. All 2 and 3 star recommendations made in 2008/09 were followed up within 6 months of the agreed implementation date. With the exception of one audit detailed below, all were found to have been implemented.

In May 2009 we reported on an audit exercise relating to trade union activity. As a result of our work four recommendations were made (1 three star, and 3 two star). Despite several attempts to obtain assurance that the agreed actions have been taken, this issue remains outstanding.

4. Summary of audit opinions

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.

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. Managers should consider whether they should refer to this assessment in their annual assurance statement on internal controls together with any actions agreed and / or taken to improve the system.
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. In light of this assessment, Heads of Service should review their risk register and refer to this assessment in their annual assurance statement on internal controls together with any actions agreed and / or taken to improve the system.

The audit opinions given against work carried out in 2009/10 are shown against each of the completed pieces of work in the table below:

Audit Subject	Audit Opinion
Fundamental Systems	
Payroll	Substantial
Creditors	Substantial
Budgetary Control	Substantial
General Ledger	Adequate
Treasury Management	Substantial
Supporting Financial Systems	
Income & Debtors	Adequate
Procurement	Substantial
Asset Management	To be finalised
Non Financial Systems	
Partnerships	Limited
Governance	Substantial
VFM	Substantial
PFI	n/a

5. Internal Audit service delivery

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 2008/9.

Performance Measure	Target 2009/10	Actual 2009/10	Actual 2008/09
Completion of audit exercises consistent with the audit plan	90%	92%	91%
Percentage of audit reports issued within time target	80%	75%	78%
Average score out of 5 for overall value added by Internal Audit work based on returned customer survey questionnaires.	4.5	4.55	4.4

Audit Plan

Table below summarises budgeted and actual audit days and number of audits. 11 of the planned 12 audits were completed by the year end, with the asset audit due to be reported on in quarter 1 of 2010/11.

	9/10 Audit Plan		Actual Results for 09/10	
	Total No.days	No of audits	Total No. Days	No of audits completed
Fundamentals	40	5	44	5
Supporting Financial Systems	20	3	32 (inc days carried forward re assets)	2
Non Financial Systems	55	4	43	4
Contingency	10	-	4	-
Follow Up	5	-	3.5	-
Computer Audit (optional at discretion of MFRS)	10	-	None requested	-
Audit management	10	-	9.5	-
Total	150	12	136	11