

REPORT TO:	MFRS
DATE:	January 2009
REPORTING OFFICER:	Melanie Dexter
SUBJECT:	Internal Audit Progress Report - April to December 2008

PURPOSE OF THIS REPORT:

To provide Members and CLT with an update on Internal Audit work from April to December 2008, and a summary of the year-to-date audit opinions and current position against the annual audit plan.

1. EXECUTIVE SUMMARY

Of the five pieces of planned audit work that have been completed so far this year, two related to fundamental systems and three related to supporting financial systems.

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. However, improvements could be made to a number of areas within supporting financial systems, as a number of control weaknesses were identified.

2. AUDIT WORK

The main audits and responsive work started and / or completed by end of December 2008 were as follows:

Fundamental Systems

Budgetary Control

The audit objective for the budgetary control exercise was to verify that procedures were in place to ensure that budget reports were regularly reviewed and were in line with best practice and suitable to the needs of the budget holder.

Internal Audit can provide assurance that there is an adequate control environment and that budgets are being effectively monitored. The results of our questionnaire survey to a sample of budget holders did identify a lack of understanding in relation to the format of the budget reports for some budget holders and consequently there is a need for training in some instances.

General Ledger

The main objective of the audit was to review relevant risks to the system, with particular focus on the journal process and system access. Overall, testing provided assurance that the system is operating effectively.

Supporting Financial Systems

Grants

The main objective of the audit was to review that grant claims were completed accurately, comply with grant terms and conditions and were supported by relevant documentation.

Our overall opinion was that only limited assurance could be placed on the control environment as a number of weaknesses were identified. There is no central designated officer to co ordinate, monitor and process grant applications, and no central grant register. In addition, a documented grant procedure is not in place, and there was a lack of training for officers involved in the grant process. These findings are currently being reviewed by the relevant officers within MFRS and Internal Audit are awaiting feedback from the service and a proposed action plan to tackle these concerns.

Stores

The main objective was to review the use and security of the e-Financials system within the consumable, operational and breathing apparatus (BA) stores.

The e-Financials system allows orders to be placed electronically, alleviating the requirement for the previous paper-based method. The system also has the provision to identify stock re-order levels and identify when stock-takes on individual items should take place.

Testing identified that the system was not being utilised to full capacity with some orders still being submitted to, and accepted by the operational stores staff, using the manual paper-based system. The re-order facility was not always used, and regular stock-takes were not being undertaken. In addition, for some products tested, the number shown as in stock on e-Financials did not reconcile with the physical stock. Procedural guidance in some areas was also limited, and although there was a full audit trail for the receipt of goods into the stores, delivery notes are not always signed to agree goods actually received.

Asset Management

The main objective was to review the capital programme in the areas of ICT, vehicles and estates. The adequacy of replacement strategies was also reviewed, together with an assessment of the procedures between the departments and Finance.

We found that although the Authority has a comprehensive capital replacement programme which is continually reviewed, some related documentation was out of date.

3. PROGRESS AGAINST AUDIT PLAN AND AUDIT OPINIONS ON COMPLETED WORK

For each audit completed we give an opinion on the overall level of assurance that can be given on the internal control environment / systems. It will be one of four levels:

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. Heads of Service 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.

These opinions are shown against each of the completed pieces of work in the year-to-date table overleaf.

APPENDIX D
(CFO/020/09)

AUDIT PLAN 08/09

Qtr work due to be started Finished WIP Not yet Started Dropped from plan Audit Opinion

AUDIT PLAN 08/09	<u>Qtr work due to be started</u>	<u>Finished</u>	<u>WIP</u>	<u>Not yet Started</u>	<u>Dropped from plan</u>	<u>Audit Opinion</u>
Fundamentals						
Creditors (CAATs)	3					
Budgetary Control	3					Adequate
General Ledger	3					Substantial
Payroll (inc members/officers allowances and expenses)	4					
Treasury Management	4					
Supporting Financial Systems						
Procurement	4					
Grants	2					Limited
Insurance	3					
Vehicles/Stores/Site Visits	1					Limited
Asset Management	2					Adequate
Non Financial Systems						
Governance	3					
PFI	4					
Fire Fighter Games	1					
Contingency						
Investigations/responsive						
Advice and Assistance						
Follow Up						
Computer Audit						

4. FOLLOW UP OF PREVIOUS AUDIT RECOMMENDATIONS

At the end of most audits and investigations, recommendations are made and agreed with the service managers to improve their control environment and / or efficiency levels. An officer is nominated to action each point and implementation dates are agreed by all parties. Recommendations are graded from 1 to 3 star with 3 star being the most critical and defined as “essential / strategic”, eg an absence or failure of a fundamental control where there is no compensating control. All 2 and 3 star recommendations are followed up by Internal Audit within 6 months of the agreed implementation date.

As at 31 December 2008, we have followed up on 21 recommendations covering the areas listed below and found that all but one 2 star recommendation have been implemented:

	3 ☆	2 ☆
PFI	1	6
General Ledger		2
Creditors	1	2
Payroll		7
Asset Management		2

The one payroll recommendation outstanding relates to the payroll contingency plan which is in the process of being updated. We will do further follow-up on all other 2 and 3 star recommendations, reporting any exceptions in the annual audit report.