

report

Meeting	NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AUTHORITY	
Date	22 October 2004	agenda item number

REPORT OF THE TREASURER

INTERNAL AUDIT 2003/4 ANNUAL REPORT

1 PURPOSE OF REPORT

The purpose of this report is to bring to the attention of Members the annual report prepared by the Authority's Internal Auditors.

2 BACKGROUND

2.1 Nottinghamshire County Council have provided and Internal Audit service to the Fire Authority since its formation in 1998. The internal auditors submit an annual report to the Chief Fire Officer, but to date this has not been presented to the Fire Authority. It has been agreed with the External Auditors that, in the interests of good governance, both the internal audit annual report and the agreed audit plan should be presented to Members.

2.2 The annual report for 2003/4 and the audit plan for 2004/5 are attached in full. The following sections however, will explain some of the actions taken by management since the issue of these reports.

3. AUDITORS REPORT

3.1 The Auditors report is divided up into four sections :

- A A Narrative Summary
- B A detailed analysis of progress against the plan 2003/04
- C Summary of reports issued to date
- D Audit Plan for 2004/5

3.2 The auditors comment in their narrative summary, that the overall level of management control is satisfactory and provides a good basis for effective financial and resource management. They go on to say however, that there were three specific areas where controls were unsatisfactory and it is these areas specifically which require some explanation to Members. These areas are also referred to in more detail within Section D.

3.3 The introduction of the new financial system has largely been a success, however management were concerned that the internal control environment should be assured throughout the introduction of the new system and had therefore requested internal audit to carry out some specific work in this area. The auditors, unsurprisingly, identified a number of areas where improvements could be made. Management have responded to these recommendations and have taken some steps to implement them, however the auditors have recently completed a further review of this area and it is understood that they still have a number of concerns.

- 3.4 The auditors have also issued an unsatisfactory audit report in respect of debtors and cash processing. Income is not generally considered an area where the Authority is exposed to large risks, however the auditors correctly point out that there are a number of areas of internal control which are unsatisfactory. Again management have taken action and the auditors are to carry out a further review in this area.
- 3.5 The auditors have also issued a “partially unsatisfactory” report in respect of financial management, although it should be emphasised that this does not criticise the actual management of the Authority’s finances but focuses instead upon the financial management information given to managers. The auditors are particularly critical of the “roll out” of management information, budgetary control information and the provision of training. These issues have all now been addressed.
- 3.6 Section B of the audit report shows the auditors actual performance against planned activity for the year 2003/4. The auditors had planned to work for 95 days and actually did so. There are variations on some individual areas of work but these are minimal.
- 3.7 Section D sets out the internal auditors plan for 2004/5 which is based on their risk assessment work.

4 PERSONNEL IMPLICATIONS

There are no specific personnel implications which arise directly from this report.

5. FINANCIAL IMPLICATIONS

Whilst this report deals with matters which are financial there are no actual financial implications arising.

6. EQUAL OPPORTUNITIES IMPLICATIONS

There are no equal opportunities implications which arise from this report

7. RISK MANAGEMENT IMPLICATIONS

Internal Audit form part of the wider system of internal control which deals entirely with the Authority’s exposure to financial, and to some extent non-financial risk. Presenting the annual report to the Fire Authority enables members to see the work of internal audit and the contribution that they make to the overall system of internal control. Outcomes of the audit are fed into the Service’s internal audit/performance review process to verify action has taken place in respect of recommendations.

8. RECOMMENDATIONS

That Members note the auditors annual report and approve the audit plan for 2004/5.

9. BACKGROUND PAPERS FOR INSPECTION

None.

INTERNAL AUDIT SERVICES
2003\04 ANNUAL REPORT TO THE
CHIEF FIRE OFFICER

CONTENTS

- A Narrative Summary for the Year**
- B Detailed Analysis of Progress against Plan for 2003/04**
- C Summary of Reports Issued to Date**
- D Audit Plan for 2004/2005**

2003/04 ANNUAL SUMMARY

- 1** Ninety-five days have been completed (117 in 2002/3), against a planned input of ninety-five days. Fifty-one days were completed by an audit manager or an assistant audit manager.
- 2** The majority of planned audits have been completed within the financial year, with the exception of payroll overtime (no access to stations due to industrial action), and Cardiff checks (No request for checks to be carried out). Contingency days set aside for the possible introduction of a new payroll system were instead applied to the new finance system, the review of which required a greater resource input than was forecast.
- 3** Analysis of the planned and actual audit days is attached (B). A summary of reports issued in the 2003/2004 financial year is also attached (C).
- 4** The majority of audit reports issued during the year confirmed that sound or satisfactory procedures were in operation. However, an 'unsatisfactory' opinion was attached to reports on the new finance system (Kypera), and the 'managed' audit of financial management – although both audits identified very similar control weaknesses. The 'managed' audit of income and debtors was also assessed as unsatisfactory.

A summary of the main weaknesses arising from these audits, and from other audits completed during the year, may be found in section 'C'.
- 5** From the work carried out during the 2003/4 financial year, we have been able to satisfy ourselves that the overall level of management control is satisfactory and provides a good basis for effective financial and resource management. We have been assured that the difficulties encountered with the implementation and development of the Kypera finance system have now largely been resolved, and a further review of the financial system, and other systems with an 'unsatisfactory' audit opinion in 2003/4, will be carried out during 2004/5.

Richard Bold
Assistant Audit Manager
16/6/2004

**NOTTINGHAMSHIRE & CITY OF NOTTINGHAM
COMBINED FIRE AUTHORITY**

B

INTERNAL AUDIT PLANNED & ACTUAL DAYS 2003/2004

Area of Service Activity	Planned Audit	Managed Audit	Annual Plan	Actual Days
Payroll	10	6	16	10.0
Pensions				
Assets		6	6	10.0
Premises				
Purchasing/Creditors		6	6	8.5
Establishment Expenses				
Transport				
Financial Management & Admin.				
Fin Mngt / Budgets		4	4	6.0
General Ledger		4	4	6.0
Treasury Management	5		5	7.0
Income/Debtors		4	4	7.0
Trading Activities				
IT Audit	7		7	6.0
Capital				
Cardiff Checks	10		10	
Client Management	5		5	7.5
Kypera - Purchase Ledger	5		5	5.0
Kypera - Sales Ledger	5		5	5.0
Kypera - General Ledger	5		5	15.0
Electronic Creditor Payments	6		6	
New Payroll System	7		7	
Finalising 2002/3 audit reports				2.0
Total Audit Days for the Year	65	30	95	95.0
Clear 02_03 reports				2.0
Pay Irreg				0.5
				97.5

SUMMARY OF REPORTS ISSUED TO THE FIRE AND RESCUE SERVICE
FOR THE FINANCIAL YEAR 2003/2004

1. FS 46 – NEW FINANCIAL SYSTEM (KYPERA).

This audit was carried out at the request of the Head of Resources and Finance, who had concerns regarding the control environment for Kypera. The audit opinion given was 'unsatisfactory'. Concerns were identified with regard to system access controls, administrator functions, system restoration testing, user guidance manuals, the issue of new accounting codes, purchase ledger and budget procedures, sales credit note authorisation and debt recovery management. However, this was the first audit of the new financial system, which was still being developed by the system supplier. It is our understanding that many of the weaknesses identified have now been resolved, and the implementation date for recommendations is mainly June 2004. Consequently, it is our intention to review the position early in the 2004/5 financial year, in July or August.

2. FS 47 - CHEQUE STOCKS.

The audit opinion given was 'mostly satisfactory'. This audit was not planned but was carried out in conjunction with the audit of the new financial system, as it was an area that had not previously been subject to audit. With the move towards electronic bank transfers, the use of cheque payments is diminishing however the risks associated with cheque storage, reconciliation and disposal (of cancelled cheques) need to be assessed and adequately controlled.

3. FS 48 – INCOME/DEBTORS & CASH PROCESSING – MANAGED AUDIT.

The audit opinion given was 'unsatisfactory'. Recommendations were made for invoice processing timescales to be improved, invoice and debt policy and procedural guidance to be put in place, credit notes to be authorised appropriately, system controls to be introduced to prevent unauthorised invoice amendment, and debt management and recovery procedures to be reintroduced and strengthened. In accordance with normal audit procedures, a follow-up audit will be carried out in 2004/5, in conjunction with the follow-up audit of the Kypera system.

4. FS49 – PURCHASING AND CREDITOR PAYMENTS – MANAGED AUDIT

The audit opinion given was 'mostly satisfactory'. As reported in FS 46, systems administrator controls regarding purchase ledger access and authorisation rights require attention, together with management monitoring of performance statistics on creditor payments.

5. FS 50 – FINANCIAL MANAGEMENT - MANAGED AUDIT.

The audit opinion given was partially 'unsatisfactory'. Key issues to be addressed include: system access controls are to be formalised and current access records are to be obtained from the supplier; system controls are to enforce a separation of duties (input and authorisation) for journal transactions, while journal transaction details are to be confined to one reference field, and an action plan is to be prepared for the development and roll-out of management information and devolved budgetary control, including the provision of training.

6. FS 51 – TREASURY MANAGEMENT

The audit opinion given was 'mostly satisfactory'. Policy and guidance is to be reviewed, while daily monitoring of bank balances and charges is to be undertaken. A review of contractual arrangements with the bank is to be undertaken, and recovery of incorrect bank charges followed up.

7. FS 52 – PAYROLL – MANAGED AUDIT

The audit opinion given was 'mostly satisfactory'. Procedures for the notification and authorisation of starters and leavers were found to be unsatisfactory and urgent action was taken by the Head of Resources and Finance to correct the situation. Recommendations for the further development of monthly reconciliation procedures between payroll and general ledger, and regular clearance of suspense account items were also accepted and acted upon.

8. FS 53 – ASSETS AND CAPITAL - MANAGED AUDIT

The audit opinion given was 'mostly satisfactory'. Recommendations were accepted for convening a capital monitoring group in the form of the 'Performance Management Group' and for strengthening controls for the entry of assets on the accounting system. Weaknesses continue to be evident in departmental asset registers, while inconsistencies between departmental and financial asset records may be resolved once the (delayed) plans for the introduction of a computerised corporate asset management system are implemented.

8. FS 45 – IT NETWORK

The audit opinion given was 'mostly satisfactory'. Recommendations were included to improve controls over proactive monitoring, dial-up access, updating email and internet policies and their approval, and change control. A wider issue was identified in terms of the structure of the IT Section, which requires strengthening and revising to separate development, support and monitoring functions to reduce the current priority conflicts.

**NOTTINGHAMSHIRE & CITY OF NOTTINGHAM COMBINED FIRE
AUTHORITY**

INTERNAL AUDIT ANNUAL PLAN 2004/2005

Area of Service Activity	Risk Index	Planned Audit	Managed Audit	Annual Plan	Intended Scope
Payroll	79		6	6	Managed audit
Pensions	72				
Assets	57	6	3	9	Managed audit.& a review of the new asset management system.
Premises	66				
Purchasing/Creditors	76		6	6	Managed audit.
Establishment Expenses	51				
Transport	57				
Financial Management & Admin.					
Fin Mngt / Budgets	83	3	4	7	Managed audit and a follow-up audit following an unsatisfactory audit opinion in March 2004.
General Ledger	83	2	4	6	Managed audit and a follow-up audit following an unsatisfactory audit opinion in March 2004.
Treasury Management	69				
Income/Debtors	61	3	4	7	Managed audit and a follow-up audit following an unsatisfactory audit opinion in March 2004.
Trading Activities	69				
IT Audit	71	7		7	Data Protection Act & Freedom of Information Act.
Capital	63		3	3	

Cardiff Checks / Contingency	76	10		10	Selection of paid invoices by CFA Members for detailed investigation.
Corporate Governance	98	10		10	
Partnership Schemes	82	8		8	
Contingency	n/a	10		10	Review of security and processing of confidential papers.
Advisory Service & Client Management	n/a	6		6	
Total Audit Days for the Year		65	30	95	