

report

meeting	NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE & RESCUE AUTHORITY	
date	29 July 2005	agenda item number

REPORT OF THE TREASURER

INTERNAL AUDIT 2004/5 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 an Internal Audit service to the Fire Authority since its formation in 1998. It has been agreed that in the interests of good governance the Internal Auditors annual report should be presented directly to the Fire Authority along with the internal audit plan of activity for 2005/6.

2.2 The annual report for 2004/5 and the audit plan for 2005/6 are attached in full as Appendix A, however the following sections 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 2004/05
- C Summary of Reports Issued to Date
- D Audit Plan for 2005/6

3.2 The auditors comment in their narrative summary, that the majority of Audit Reports issued during the year confirmed that satisfactory procedures were in operation. They do however comment that an unsatisfactory opinion was issued in respect of Income and Debtors for the second year in succession.

3.3 The narrative section also shows the amount of audit time spent during 2004/5 and the level at which this was provided – ie: 63% provided by senior staff.

3.4 The Auditors also provide a Statement on Internal Control which concludes that :

“From the work carried out during the 2004/5 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.”

This statement supports the Authority's own adopted statement on internal control agreed at the Fire Authority meeting on 3 June 2005.

- 3.5 Section B of the audit report shows the auditors actual performance against planned activity for the year 2004/5. The auditors had planned to work for 95 days and actually provided 105 days. There are variations on some individual areas of work which are set out in the appropriate section.
- 3.6 Section C of the report deals with the Internal Audit Reports that have been issued during 2004/5 and the opinions of the auditors on the particular areas that have been examined. In all cases management actions have been agreed where possible.
- 3.7 There are however, three areas where the Auditors have issued “unsatisfactory” opinions.
- 3.8 The Auditors were specifically requested to examine the area of Data Protection Act compliance and have concluded that arrangements are currently unsatisfactory. This report is currently in draft form as a response is being formulated by management in order that proper compliance can be achieved.
- 3.9 The Auditors have concluded that procedures for income, debtors and cash processing are unsatisfactory from an internal control perspective. This is not a major area of activity for the Fire Authority and whilst efforts have been made to improve procedures and processes relating specifically to debt collection, it has proved impossible, given current staffing shortages, to make any significant progress in this area. The appointment of a new Principal Accountant over the coming months will enable a fresh approach to be taken towards this area.
- 3.10 Issues around the recently implemented financial system, Kypera, are extant from the previous year’s audit and relate entirely to improvements that the Authority is seeking from the suppliers of the system. All of these improvements are available in the new version of the system which is to be implemented in July 2005. It should perhaps be emphasised again that this was a specific piece of work that the auditors carried out at the request of management to give assurances on the preservation of the internal control environment following the implementation of the Kypera system
- 3.11 Section D sets out the internal auditors plan for 2005/6 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. 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.

7. EQUALITY IMPACT ASSESSMENT

An initial impact assessment has revealed there are no specific issues of equality arising from this report.

8. RECOMMENDATIONS

That Members note the auditors annual report and approve the audit plan for 2005/6.

9. BACKGROUND PAPERS FOR INSPECTION

None

Alan Sumbly
TREASURER TO THE FIRE & RESCUE AUTHORITY

INTERNAL AUDIT SERVICES
2004/05 ANNUAL REPORT TO THE
CHIEF FIRE OFFICER

<u>SECTION</u>	<u>CONTENTS</u>
A	Narrative Summary for the Year
B	Detailed Analysis of Progress against Plan for 2004/05
C	Summary of Reports Issued to Date
D	Audit Plan for 2005/2006

2004/05 ANNUAL SUMMARY

- 1 One hundred and five days have been completed (95 in 2003/04), against a planned input of ninety-five days. Sixty-six 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 'Corporate Governance' and 'Partnerships'. Contingency days in the plan were initially applied to a review of security arrangements for CFA exempt papers and wider site security at HQ, with time also being applied to three follow-up audits relating to 2003/4 reports where an 'unsatisfactory' opinion had been given.
- 3 Analysis of the planned and actual audit days is attached (Section B).

A summary of reports issued in the 2004/05 financial year, together with main findings, is also attached (Section C).

- 4 The majority of audit reports issued during the year confirmed that satisfactory procedures are in operation. However, an 'unsatisfactory' opinion was attached to the 'managed' audit of income and debtors for the second time.

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 Statement on Internal Control

The Accounts and Audit Regulations 2003 require the publication by a local authority (including Fire Authorities) of an annual Statement on Internal Control to cover the effectiveness of the Authority's systems for risk management and internal control. In order to meet the principles of effective risk management and internal control, the Authority needs to put in place effective risk management systems, including sound systems of internal control and an internal audit function. These arrangements need to ensure compliance with all applicable statutes and regulations and other relevant statements of best practice, and need to ensure that public funds are properly safeguarded and are used economically, efficiently and effectively.

Internal Audit are appointed by the Chief Fire Officer and Treasurer (who is the Section 151 officer for the Fire Authority), and provide management with an independent appraisal of these matters.

The scope and cyclical frequency of work carried out by Internal Audit during each financial year is mainly based on an assessment of (predominately) financial risk on all activities that form the responsibility of the Fire Authority. Annual reviews of the main financial systems are also conducted on behalf of external audit, under the managed audit programme.

The objective of the audits is to form an opinion on the adequacy of the systems of internal control put in place by management; to review efficiency, effectiveness and best value issues and to ensure that the assets of the authority are properly safeguarded. Formal reporting procedures are in place to provide assurance to management where effective controls are being operated, and to make recommendations for change and improvement where control weaknesses are identified.

From the work carried out during the 2004/5 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. This view is based on analysis of the controls reviewed and the recommendations made, which is summarised here in tabular form :

No of Controls reviewed	286	100%
Satisfactory	176	62%
Mainly or partly satisfactory	48	17%
Unsatisfactory	62	21%

No of recommendations made:			
High	Medium	Low	Best Value
12	74	20	3

A significant proportion of the high risk recommendations (seven) relate to system administrator duties and security access arrangements relating to the financial management system (Kypera), with some overlap occurring between controls within the Kypera system and the Financial Management Managed Audits. Unsatisfactory audit opinions were reported with regard to Income and Debtors, Data Protection Act Compliance and the Kypera financial system. Details of the weaknesses identified in the reviews are contained in the summary of reports (Section C) and management have responded positively to the recommendations, although implementation is, in some cases, dependent on internal resource availability and the actions of external contractors.

Richard Bold
ASSISTANT AUDIT MANAGER

12/05/2005

NOTTINGHAMSHIRE & CITY OF NOTTINGHAM COMBINED FIRE AUTHORITY

B

INTERNAL AUDIT PLANNED & ACTUAL DAYS 2004/2005

Area of Service Activity	Planned Audit	Managed Audit	Annual Plan	Actual Days	Report Ref:	Comments
Payroll		6	6	9.0	FS62	
Pensions						
Assets	6	3	9	7.0	FS59	
Premises						
Purchasing/Creditors		6	6	9.5	FS63	
Establishment Expenses						
Transport						
Financial Management & Admin.						
Fin Mngt / Budgets	3	4	7	13.5	FS57 FS60	Includes a follow-up to the 'unsatisfactory' report in 2003/4.
General Ledger	2	4	6	6.0	FS58	Includes a follow-up to the 'unsatisfactory' report in 2003/4.
Treasury Management						
Income/Debtors	3	4	7	15.5	FS56 FS61	Includes a follow-up to the 'unsatisfactory' report in 2003/4.
Trading Activities						
IT Audit	7		7	8.5	FS55	
Capital		3	3	3.0	FS59	
Cardiff Checks	10		10	9.0	CFA	Report on each payment to CFA.
Client Management	6		6	6.5		
Corporate Governance	10		10	0.0		Reviewed internally by the Head of Resources & Finance
Partnership Schemes	8		8	0.0		External Audit is to review this
Security Review	10		10	17.5	FS54	
Total Audit Days for the Year	65	30	95	105.0		

SUMMARY OF REPORTS ISSUED TO THE FIRE AND RESCUE SERVICE
FOR THE FINANCIAL YEAR 2004/2005

1. FS 54 – SECURITY OF CFA EXEMPT PAPERS (Draft Report Stage)

This audit was carried out at the request of the Chief Fire Officer, following concerns regarding the security of confidential papers and associated handling, storage and disposal arrangements. The audit opinion given was 'generally sound' for confidential documents and 'mainly satisfactory' with regard to site security, although the magnetic swipe card system was identified as requiring fundamental change or replacement. Staff vigilance and awareness of security issues was also considered to be weak in some areas and would benefit from guidance and reinforcement by management.

2. FS 55 – DATA PROTECTION ACT COMPLIANCE (Draft Report Stage)

The audit opinion given was 'unsatisfactory'. A number of the arrangements for compliance with Data Protection are currently unsatisfactory, resulting in unacceptable levels of risk. Two main areas were identified for improvement. The first being the creation of a register of personal data-sets to enable data to be identified and managed accordingly, and the second area is to consider a Data Protection board, which would oversee projects such as the guidance and training roll-out, and direct and monitor the future compliance checking programme.

3. FS 56 – INCOME/DEBTORS & CASH PROCESSING – Follow-up Audit.

This was a further review of control issues reported as 'unsatisfactory' at the 2003/4 managed audit. Of the 12 recommendations made at the previous audit two had been implemented and 10 remained outstanding. A further 5 recommendations were made in this report. Key control issues arising included: invoice processing timescales to be improved, invoice and debt policy and procedural guidance to be put in place, credit notes to be accessible, system controls to be introduced to prevent unauthorised invoice amendment, and debt management and recovery procedures to be reintroduced and strengthened. Controls were again found to be unsatisfactory and a follow-up audit was incorporated into the annual managed audit for 2004/5 (see FS 61).

4. FS57 – FINANCIAL MANAGEMENT & BUDGETS – Follow-up Audit.

This was a further review of control issues reported as 'unsatisfactory' at the 2003/4 managed audit. Whilst a number of recommendations had been implemented there remained fundamental concerns regarding the absence of records for the granting of systems access controls to employees. Management were depending on the system supplier providing this information, although other options were discussed. Again, a follow-up audit was effectively carried out during the annual managed audit for 2004/5 (see FS 60).

5. FS 58 – KYPERA FINANCIAL SYSTEM – Follow-up Audit.

This was a further review of control issues reported as 'unsatisfactory' in audit report FS 46. Whilst a number of recommendations contained within the original report had not been implemented (10 out of 17), it was acknowledged that ongoing problems with the Kypera Financial System, and reliance on the supplier to assist with such problems, had prevented implementation in several cases. Also, some of the control issues are identified in the 'Financial Management & Budgets' audit report, due to the overlap of control areas. However, significant control weaknesses were identified in the systems administrator role and the updating of access rights for leavers / transferred employees, while system logs should be made more user-friendly and follow-up procedures should be instituted regarding any unauthorised attempts to access the system. Consequently, the overall opinion remained 'unsatisfactory' and a follow-up audit will be carried out during 2005/6.

6. FS 59 – ASSETS & CAPITAL – MANAGED AUDIT

The audit opinion given was 'satisfactory', although a number of weaknesses have repeatedly been identified and require addressing. These include: weaknesses and inconsistencies in departmental asset management and recording; inconsistencies between departmental and financial asset records, and a need for (evidenced) periodic physical checking of assets. Whilst the implementation of a computerised corporate asset management system may improve the quality of record keeping, this is by no means guaranteed and reinforcement of standards through guidance and monitoring by management is advised.

7. FS 60 – FINANCIAL MANAGEMENT & BUDGETS - MANAGED AUDIT (see para 4)

The audit opinion given was 'mostly satisfactory'. However, the issue of documentary records of security access rights remains unresolved, and it was recommended that the Kypera system administrator role and responsibilities be documented and separated from the Finance role.

8. FS 61 – INCOME/DEBTORS AND CASH PROCESSING - MANAGED AUDIT (see para 3)

A number of the arrangements for income/debtor management were found to be unsatisfactory. Continuing concerns were expressed regarding the absence of consistent and effective debt recovery activity, and the need to establish formal policy and procedures for the guidance of service providers and Finance staff. In accordance with normal procedures a follow-up audit will be carried out during 2005/6.

9. FS 62 – PAYROLL – MANAGED AUDIT

The audit opinion given was 'mostly satisfactory', although recommendations concerning proper authorisation of permanent changes to the payroll, and the use of control totals for retained pay inputs, are of key importance and should be implemented without delay.

10. FS 63 – PURCHASING & CREDITOR PAYMENTS - MANAGED AUDIT

The audit opinion given was 'mostly satisfactory'. However, weaknesses in security access records and approval rights associated with procurement were reinforced (see FS57 & FS60 above). Also, management should strongly encourage employees to utilise the official ordering system where relevant and appropriate, as non-use presents avoidable risks and weakens monitoring and control processes, while the system supplier needs to re-instate the reporting function for creditor payment performance statistics.



NOTTINGHAMSHIRE & CITY OF NOTTINGHAM COMBINED FIRE AUTHORITY

D

INTERNAL AUDIT ANNUAL PLAN 2005/2006

Area of Service Activity	Risk Index	Planned Audit	Managed Audit	Annual Plan	Intended Scope
Payroll	79	8	6	14	Managed audit and review of one aspect of pay (to be decided)
Pensions	72			0	
Assets	57			0	Included in capital managed audit
Premises	66	10		10	Property records, transactions and general management issues
Purchasing/Creditors	76		7	7	Managed audit
Establishment Expenses	51			0	
Transport	57			0	
Financial Management & Budgets.	83		7	7	Managed audit
KYPERA Financial System	83	4		4	Follow-up of FS58 in accordance with the 'unsatisfactory' audit opinion
General Ledger	83		6	6	Managed audit
Treasury Management	69	8		8	Management and accounting for cash flow
Income/Debtors	61		7	7	Managed audit Plus: Follow-up FS58 in accordance with the 'unsatisfactory' audit option
Trading Activities	69			0	

Area of Service Activity	Risk Index	Planned Audit	Managed Audit	Annual Plan	Intended Scope
IT Audit	71	10		10	Topic/scope to be agreed with the Head of Resources & Finance Plus: Follow-up of FS 55 regarding Data Protection Act Compliance
Capital	63		4	4	Managed audit
Cardiff Checks / Contingency	76	12		12	Selection of paid invoices by CFA Members for detailed investigation
Corporate Governance	98			0	
Partnership Schemes	82			0	
Advisory Service & Client Management	n/a	6		6	
Total Audit Days for the Year		58	37	95	

Follow-up audits for 2005/6

DATA PROTECTION ACT COMPLIANCE FS55
KYPERA FINANCIAL SYSTEM FS58
INCOME/DEBTORS AND CASH FS61
PROCESSING