

## report

meeting	<b>NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE &amp; RESCUE AUTHORITY</b>	
date	<b>9 June 2006</b>	agenda item number

## REPORT OF THE TREASURER

### INTERNAL AUDIT 2005/6 ANNUAL REPORT

### REVIEW OF INTERNAL AUDIT

#### 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 and to inform Members of the Review of Internal Audit which has been conducted by the Head of Finance and Resources.

#### 2. BACKGROUND

- 2.1 Nottinghamshire County Council have provided an Internal Audit service to the Fire & Rescue 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 & Rescue Authority along with the internal audit plan of activity for 2006/7.
- 2.2 The annual report for 2005/6 and the audit plan for 2006/7 are attached in full as Appendix A.
- 2.3 Under the provisions of the latest Statement of Recommended Practice, the Authority is required to annually review its arrangements for the provision of Internal Audit and comment on that review in the final accounts. This report sets out the basis of that review and a draft statement on Internal Audit is attached as Appendix B.

#### 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 2005/06
  - C Summary of reports issued to date
  - D Audit Plan for 2006/2007
- 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 Premises.
- 3.3 The narrative section also shows the amount of audit time spent during 2005/6 and the level at which this was provided – ie: approximately 50% provided by an Audit Manager or an Assistant Audit Manager.

- 3.4 The Auditors also provide a Statement on Internal Control which concludes that :
- “From the work carried out during the 2005/6 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 statement on internal control which appears elsewhere on this agenda.
- 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 82 days. There are always some variations on individual areas of work and in previous years Internal Audit have spent more than their allocated time. In 2004/5 for example 105 days were provided.
- 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 is however, one area where the Auditors have issued an “unsatisfactory” opinion. This is in the area of Premises.
- 3.8 The more serious aspects of this report related to the availability of deeds for property and some aspects of tendering procedures for some maintenance work. The issues around tendering have now been resolved, however the Authority continues to have difficulties in obtaining legal documents relating to property from the County Council which holds them. The process of transferring title of property has been ongoing since 1998 and even though this work has been contracted out to a commercial firm there has been little progress.
- 3.9 Section D sets out the internal auditors plan for 2005/6 which is based on their risk assessment work.

#### **4. REVIEW OF INTERNAL AUDIT**

- 4.1 The requirement for an Authority to maintain an Internal Audit function is derived from the local government legislation, including Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2003 amended in 2006, in that a relevant body must :
- “maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”.
- 4.2 The responsibility for ensuring an effective internal audit function rests with the Authority Treasurer as part of his Section 151 obligations.
- 4.3 The Fire & Rescue Authority views Internal Audit as an integral part of the corporate governance framework, particularly in so far as it relates to the system of Internal Control. Whilst it is acknowledged that Internal Control is a managerial responsibility, Internal Audit can provide managers with independent assurance that the system is working effectively and draw to the attention of managers deficiencies in the system.
- 4.4 These assurances however can only be relied upon providing the internal audit service is adequate to meet the needs of the organisation and is provided professionally.

- 4.5 The Internal Audit Service of the Authority is provided under a Service Level Agreement with Nottinghamshire County Council and under a set of conditions which require them to operate within the guidelines set down by CIPFA for the Internal Audit of Local Government. This is known as the CIPFA Code of Practice.
- 4.6 Operating within this Code and to the standards set out therein ensures that the Authority meets its obligations under statute.
- 4.7 The External Auditors, in their general review of controls and as part of their specific annual audit, are required to comment on the adequacy or otherwise of Internal Audit. To date they have always been satisfied that the work of Internal Audit is sufficient for them to rely on their audit work and that the service is effective.
- 4.8 Under the Accounts and Audit Regulations (Amended) 2006 the Authority has to provide a Review of Internal Audit as part of the final accounts. A draft of this Review is attached to this report and Members are invited to approve this statement.

## **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 & Rescue 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 assessment has revealed there are no equality issues arising from this report.

## **8. RECOMMENDATIONS**

- 8.1 That Members note the auditors annual report and approve the audit plan for 2006/7.
- 8.2 That Members approve the Review of Internal Audit statement for inclusion within the final accounts.
- 8.3 That Members refer the auditors annual report and audit plan to the Finance and Resources Committee.

## **9. BACKGROUND PAPERS FOR INSPECTION**

None.

**INTERNAL AUDIT ANNUAL REPORT 2005/06**  
**TO THE CHIEF FIRE OFFICER**

<b><u>SECTION</u></b>	<b><u>CONTENTS</u></b>
<b>A</b>	<b>Narrative Summary for the Year</b>
<b>B</b>	<b>Detailed Analysis of Progress against Plan for 2005/06</b>
<b>C</b>	<b>Summary of Reports Issued to Date</b>
<b>D</b>	<b>Audit Plan for 2006/2007</b>

**INTERNAL AUDIT ANNUAL REPORT 2005/06****SUMMARY****1 Audit Coverage 2005/6**

- 1.1 A total of 82 days have been completed against a planned input of ninety-five days. 39 days were completed by an audit manager or an assistant audit manager. Six audits were completed against a plan of ten. An analysis of the planned and actual audit days is attached (Section B). A summary of reports issued in the 2005/06 financial year, together with main findings, is also attached (Section C).
- 1.2 The majority of audit reports issued during the year confirmed that satisfactory procedures are in operation. However, an 'unsatisfactory' opinion was attached to the audit of 'Premises' and a follow-up audit will shortly be carried out to review progress on implementation of the changes agreed with management.
- 1.3 Managed audit work has taken priority this financial year, with the change of external auditor leading to a revised approach, which included process mapping of the main systems and greater emphasis on analytical review of these systems to provide a focus for testing work. This has resulted in planned timescales being exceeded and some managed audit work being undertaken by external audit (this year – with the agreement of the Head of Finance and Resources), although this is a one-off occurrence which should result in more efficient and effective managed audits in future years.

**2 Audit Plan 2006/7**

- 2.1 The audit plan for 2006/7 has been agreed with the Head of Finance and Resources and is detailed in Section D. It involves coverage of twelve areas within an estimated total of ninety-five days.

**3 Statement on Internal Control**

- 3.1 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.

- 3.2 Internal Audit are appointed by the Chief Fire Officer and Treasurer (who is the Section 151 officer for the Fire & Rescue Authority), and provide management with an independent appraisal of these matters.
- 3.3 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 & Rescue Authority. Annual reviews of the main financial systems are also conducted on behalf of external audit, under the managed audit programme.
- 3.4 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.
- 3.5 From the work carried out during the 2005/6 financial year, we have been able to satisfy ourselves that the overall level of internal 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	<b>163</b>	100%
Satisfactory	129	79%
Mainly or partly satisfactory	20	12%
Unsatisfactory	14	9%

No of recommendations made:			
High	Medium	Low	Best value
2	27	8	3

- 3.6 From the above, it can be seen that approximately 91% of the controls reviewed were satisfactory or mainly / partly satisfactory, with the remaining 9% unsatisfactory. Only two high risk recommendations were made during the year and these related to property issues regarding contract cost estimates and the security of deeds and other property documents.

The Chief Fire Officer and his managers have responded positively to all the recommendations made, and there is an internal monitoring function which follows up and obtains an assurance of implementation from responsible officers.

#### **4 Conclusion**

Based on the Internal Audit work completed during the year, we have concluded that the overall level of internal control is satisfactory.

Richard Bold  
Assistant Audit Manager  
11/05/2006

**B****DETAILED ANALYSIS OF PROGRESS AGAINST PLAN FOR 2005/2006**

<b>Area of Service Activity</b>	<b>Planned Audit</b>	<b>Managed Audit</b>	<b>Annual Plan</b>	<b>Actual Days</b>	<b>Report Ref:</b>	<b>Comments</b>
<b>Payroll</b>	8	6	14	14.0	FS67	
<b>Premises</b>	10		10	15.0	FS65	Additional work re contract arrangements and storage of deeds.
<b>Purchasing/Creditors</b>		7	7	10.0	FS68	
<b>Financial Management &amp; Admin.</b>		7	7			Combined audit for reporting purposes carried out by External Audit this year
<b>General Ledger</b>		6	6			
<b>KYPERA Financial System</b>	4		4			
<b>Treasury Management</b>	8		8	12.0	FS64	Extended to cover Prudential Code
<b>Income/Debtors</b>		7	7	9.0	FS66	
<b>IT Audit</b>	10		10	0.0		
<b>Capital &amp; Assets</b>		4	4	8.0	FS69	
<b>Cardiff Checks / Contingency</b>	12		12	5.0		Completion of 2004/5 managed audits.
<b>Advisory Service &amp; Client Management</b>	6		6	9.0		
<b>Total Audit Days for the Year</b>	<b>58</b>	<b>37</b>	<b>95</b>	<b>82.0</b>		





**SUMMARY OF REPORTS ISSUED TO THE FIRE AND RESCUE SERVICE**  
**FOR THE FINANCIAL YEAR 2005/2006**

**1. FS 64 – TREASURY MANAGEMENT**

The audit opinion given was 'satisfactory'. No significant risks were identified, although recommendations were made in respect of the formalisation of business continuity procedures; the review of bank overdraft rates and a formal review and sign-off of by senior finance staff of cash forecasts and the analysis of variations (of actual cash flow) from forecast.

**2. FS 65 – PREMISES**

The audit opinion given was 'unsatisfactory'. High risk issues were identified regarding the security and recording of property deeds, and the tendering of works / compliance with Financial Regulations. Recommendations were also made in respect of Health and Safety and local site logs; the formulation of a waste management strategy; improved control over external agencies and the formalisation / review of shared property arrangements.

**3. FS 66 – INCOME/DEBTORS & CASH PROCESSING - MANAGED AUDIT**

The audit opinion given was 'satisfactory'. Improvements have been made to procedures in the last year, although further improvements were recommended in respect of processing efficiency and performance review; the treatment of VAT on catering sales and the introduction of a formal policy on debt recovery, associated with procedural guidance and management monitoring and review.

**4. FS 67 – PAYROLL – MANAGED AUDIT**

The audit opinion given was 'satisfactory'. Recommendations were made concerning the manuscript authorisation of new starters and the timely receipt of contracts of employment within Personnel section. A more formal process for the review and sign-off of exception reports was agreed, together with the inclusion of reports on overtime costs in the budget monitoring cycle.

**5. FS 68 – PURCHASING & CREDITOR PAYMENTS - MANAGED AUDIT (Draft Report Stage)**

The audit opinion given was 'satisfactory'. Recommendations have been made to strengthen controls over the return of goods to store, and for changes to the suppliers file (on Kypera) to be monitored.

**6. FS 69 – CAPITAL & ASSETS – MANAGED AUDIT (Draft Report Stage)**

The audit opinion given was 'satisfactory'. However, the audit identified a need for formal procedures to be drawn up regarding the authorisation / inclusion of capital projects additional to the approved capital programme. Formal guidance is also required to assist employees to fully comply with Financial Regulation 14.3, regarding the form and content of asset records and the frequency of stores and inventory physical checks. The independent verification of finance department asset records by relevant departmental budget holders / managers has also been suggested as an important secondary control measure to ensure the accuracy of balance sheet assets.

## INTERNAL AUDIT PLAN 2006/2007

Area of Service Activity	Risk Index	Planned Audit	Managed Audit	Annual Plan	Intended Scope
Payroll	79		6	6	Managed audit
Pensions	72		2	2	System and testing included in NCC Pensions managed audit
Capital & Assets	57		6	6	
Premises	66				
Purchasing/Creditors	76		7	7	Managed audit.
Expense Claims	51	10		10	General review across range of employee claims and associated controls
Transport	57	10		10	Review new management system (later in year)
Financial Management & Budgets.	83		7	7	Managed audit
KYPERA Financial System	83				
General Ledger	83		6	6	Managed audit
Treasury Management	69				
Income/Debtors	61		5	5	Managed audit
Trading Activities	69				
IT Audit	71	8		8	Topic/scope to be agreed with the Head of Finance & Resources
VFM / Contingency	63	6		6	
Cardiff Checks	76	8		8	Selection of paid invoices by CFA Members.
Corporate Governance	98				
Partnership Schemes	82	8		8	
Advisory Service & Client Management	n/a	6		6	
<b>Total Audit Days for the Year</b>		<b>56</b>	<b>39</b>	<b>95</b>	



### REVIEW OF INTERNAL AUDIT 2005/2006

The requirement for an Authority to maintain an Internal Audit function is derived from the local government legislation including Section 151 of the Local government Act 1972 and the Accounts and Audit Regulations 2003 amended in 2006 in that a relevant body must:

“maintain and adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”.

The responsibility for ensuring an effective internal audit function rests with the Authority Treasurer as part of his Section 151 obligations.

The Fire & Rescue Authority views Internal Audit as an integral part of the corporate governance framework particularly in so far as it relates to the system of Internal Control. Whilst it is acknowledged that Internal Control is a managerial responsibility Internal Audit can provide managers with independent assurance that the system is working effectively and draw to the attention of managers deficiencies in the system.

This review presents the current position in respect of Internal Audit and concludes that it meets the required standard.

The Internal Audit Service of the Authority is provided under a Service Level Agreement with Nottinghamshire County Council and under a set of conditions which require them to operate within the guidelines set down by CIPFA for the Internal Audit of Local Government. This is known as the CIPFA Code of Practice.

Operating within this Code and to the standards set out therein ensures that the Authority meets its obligations under statute.

The Internal Auditors use a risk based approach to their audit work and in conjunction with the external auditors also provide some managed audits which contribute to their annual audits. This approach ensures that areas of the greatest risk are covered at appropriate intervals within the audit cycle.

Internal Audit provide an appropriate level of experienced and professional staff to carry out the audits as well as having a robust quality control process to ensure that their audit work is carried out to the highest professional standards.

The External Auditors, in their general review of controls and as part of their specific annual audit are required to comment on the adequacy or otherwise of Internal Audit. To date they have always been satisfied that the work of Internal Audit is sufficient for them to rely on their audit work and that the service is effective.

Internal Audit report initially to the Head of Finance and Resources who is responsible for responding to reports on behalf of the Chief Fire Officer. Reports are also passed to the Information Services Department who carry out follow up enquiries to ensure that Audit Recommendations are implemented. Internal Audit Reports are also to be passed to the Finance and Resources Committee from 2006/2007 to provide an additional level of scrutiny and to strengthen the independence of the Internal Auditors.