

## report

meeting	<b>NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE &amp; RESCUE AUTHORITY</b>	
date	<b>29 June 2007</b>	agenda item number

### REPORT OF THE TREASURER

#### INTERNAL AUDIT ANNUAL REPORT 2006/2007

##### 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 Authority since its formation in 1998. It has been agreed that in the interests of good governance that the Internal Auditors annual report should be presented directly to the Fire Authority along with the internal audit plans of activity for 2007/8 and strategic plans up to 2009/2010.
- 2.2 The annual report for 2006/7 and the above audit plans are attached in full.
- 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.

##### 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 2006/7
- C Summary of reports issued to date
- D Strategic Plan 2008 to 2010 and Annual Plan 2007/8

- 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 unsatisfactory opinions were issued in respect of the audit of the Transport system and an audit of IT Access rights.
- 3.3 The narrative section also shows the amount of audit time spent during 2006/7 and the level at which this was provided i.e. over 61% provided by an Audit Manager or Assistant Audit Manager, an increase of 11% over 2005/6.

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

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

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 2006/7. The auditors have completed their planned activity of 95 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 2006/7 and the opinions of the auditors on the particular areas that have been examined. In all cases management actions have been agreed where possible. These reports have also been presented to the Finance and Resources Committee for consideration and scrutiny.
- 3.7 The report on Transport Management relates not so much to the actual management of the fleet but to the selection and implementation of the new fleet management system. There is no suggestion from the auditors that the fleet is not being effectively managed and their comments relate mainly to project planning. The areas within their report have been appropriately addressed.
- 3.8 The report on IT Access rights is currently in draft and is being considered by management. It is acknowledged that controls over starters and leavers require improvement and steps will be taken to review and improve controls in this area.
- 3.9 Section D sets out the internal auditors plan for 2007/8 and their “look forward” to 2008/9 and 2009/10. This work is soundly based on risk assessments and both management and the external auditors have been consulted.

#### **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 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 carry out an annual review of Internal Audit. A copy of this review is attached to this report as appendix B.

## **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. EQUAL IMPACT ASSESSMENT**

There is no impact on equal opportunities arising from this report.

## **8. RECOMMENDATIONS**

- 8.1 That Members note the Auditors Annual report and approve the audit plan for 2007/8.
- 8.2 That Members note the Review of Internal Audit.

Peter Hurford  
**Treasurer**

**INTERNAL AUDIT ANNUAL REPORT 2006/07**  
**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 2006/07</b>
<b>C</b>	<b>Summary of Reports Issued to Date</b>
<b>D</b>	<b>Strategic Plan 2008 to 2010 and Annual Plan 2007/8</b>

**INTERNAL AUDIT ANNUAL REPORT 2006/07****SUMMARY****1 Audit Coverage 2006/7**

- 1.1 A total of 95 days have been completed against a planned input of ninety-five days. Fifty-nine days (61%) were completed by an audit manager or an assistant audit manager. Ten audits were completed against a plan of twelve, the difference being a reduction in the number of managed audits, caused by the switch to International Auditing Standards and the allocation of work between External and Internal audit.
- 1.2 An analysis of the planned and actual audit days is attached (Section B).
- 1.3 A summary of reports issued in the 2006/07 financial year, together with main findings, is also attached (Section C). From this year on, due to changes in the scope of managed audit work, all reporting of work carried out on behalf of External Audit will be presented in a composite format to improve administrative efficiency.
- 1.4 The majority of audit reports issued during the year confirmed that satisfactory procedures are in operation. However, an 'unsatisfactory' opinion was attached to the audits of 'Transport' and 'IT Access Rights' and follow-up audits will be carried out to review progress on implementation of the changes agreed with management.

**2 Audit Strategy 2007/8 to 2009/10**

- 2.1 The three year, risk based, Internal Audit strategy document was approved at the April 2007 meeting of the Finance and Resources Committee, together with the detailed audit programme for 2007/8. In the interests of completeness, these documents are reproduced in Section D.

**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 satisfy 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 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 Authority. Annual reviews of key control areas for 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 2006/7 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:

<b>No of Controls reviewed</b>	<b>92</b>	<b>100%</b>
Satisfactory	47	51%
Mainly or partly satisfactory	34	37%
Unsatisfactory	11	12%

<b>No of recommendations made:</b>			
<b>High Risk</b>	<b>Medium Risk</b>	<b>Low Risk</b>	<b>Best value</b>
0	43	15	5

- 3.6 From the above, it can be seen that approximately 88% of the controls reviewed were satisfactory or mainly / partly satisfactory, with the remaining 12% unsatisfactory. No high risk recommendations were made during the year.

The Chief Fire Officer and his managers have responded positively to all recommendations made in the reports that have been finalised, 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  
22/05/2007

# B

## NOTTINGHAMSHIRE & CITY OF NOTTINGHAM FIRE AND RESCUE AUTHORITY

### INTERNAL AUDIT ANNUAL PLAN AND ACTUAL DAYS 2006/2007

Area of Service Activity	Planned Audit	Managed Audit	Annual Plan	Actual Days	Report Ref:	Comments
Payroll		6	6	6	FS 73	Managed audit
Pensions		2	2	2	FS 73	System and testing included in NCC Pensions managed audit
Capital & Assets		6	6	0		No longer part of managed audit - therefore omitted this year
Premises			0	0		
Purchasing/Creditors		7	7	8	FS 73	Managed audit.
Expense Claims	10		10	12	FS 71	General review across range of employee claims and associated controls
Transport	10		10	12	FS 72	Reviewed new transport management system
Financial Management & Budgets.		7	7	0		Managed audit - Performed by External Audit
KYPERA Financial System			0	0		
General Ledger		6	6	0		Managed audit - Performed by External Audit
Treasury Management			0	8	FS 73	Managed audit - introduced this year for the first time
Income/Debtors		5	5	6	FS 73	Managed audit
Trading Activities			0	0		
IT Audit	8		8	6	FS 74	Access management
Cardiff Checks / Contingency	14		14	15	Comm Report	Selection of paid invoices by CFA Members for detailed investigation.
Corporate Governance			0	0		
Partnership Schemes	8		8	11	FS 70	Review of partnership arrangements and control systems
Advisory Service & Client Management	6		6	9		
<b>Total Audit Days for the Year</b>	<b>56</b>	<b>39</b>	<b>95</b>	<b>95</b>		

**SUMMARY OF REPORTS ISSUED TO THE FIRE AND RESCUE SERVICE**  
**FOR THE FINANCIAL YEAR 2006/2007**

**1. FS 70 – PARTNERSHIP SCHEMES**

The audit opinion given was 'satisfactory'. The development of formal policy guidance and an evaluation questionnaire was found to be progressing well, in accordance with recommendations contained in the final report of the best value review of partnership working (2005). Also, it was confirmed that a central register of partnership arrangements is to be compiled.

Recommendations were made for the early approval and sign-off of formal agreements for the two 'live' partnerships, subject to the Natfire draft agreement being evaluated for compliance against the new policy standards, with issues such as audit arrangements, business planning, budgeting and capital investment being considered for inclusion before formal ratification.

**2. FS 71 – EXPENSE CLAIMS**

The audit opinion given was 'satisfactory'. A recommendation was made for the F5 travel expenses claim to be redrafted to require the signature of the claimant, and to certify that appropriate business use insurance is held.

**3. FS 72 – TRANSPORT MANAGEMENT (Draft Report Stage)**

The audit opinion given was 'unsatisfactory'. While some aspects of the selection and implementation process have been documented, formal project management processes were not followed for the installation of the new transport management system. As a consequence planned actions have been omitted or delayed without there being any independent review process to monitor progress and consider options and priorities.

Also, while the recording of vehicle whole-life costs has been cited as a key objective of the system, historic cost data has not been migrated from the legacy system and there appear to be technical and/or data reliability issues associated with this action. Also, the input of fuel costs has been delayed pending the development of an electronic upload facility by in-house IT staff. As a consequence the ability of the system to supply meaningful management information is restricted, while key issues such as the downtime for operational vehicles do not appear to be reported on.

**4. FS 73 – MANAGED AUDIT COMPOSITE REPORT (Draft Report Stage)**

The audit opinion given was 'satisfactory'.

Creditor payments – payment files should be read only or restricted access to provide stronger security.

Payroll – some failures of observing agreed internal check procedures and difficulties in the identification of employees authorising documents. Some delays were identified with the completion of exception reports and the reconciliation of payroll and accounting systems.

Other managed audit work associated with treasury management, pensions and debtors identified that satisfactory controls are in operation for key processes.



**5. FS 74 – IT ACCESS RIGHTS (Draft Report Stage)**

The audit opinion given was 'unsatisfactory'. Three main areas for improvement were identified, including the need for more robust procedures for the prompt notification of starters and leavers to allow security access rights to reflect authorised need; the access request process requires an extra step to enable a system or team-drive owner to approve the request (possibly based on an electronic system), while there is no reliable list of user accesses to be addressed when a user leaves.

**NOTTINGHAMSHIRE AND CITY OF NOTTINGHAM FIRE AND RESCUE AUTHORITY**

**INTERNAL AUDIT STRATEGIC PLAN FOR 2008 to 2010**

SERVICE AREA	Assessed Risk Factor	Audit Frequency (Years)	AUDIT DAYS PLANNED FOR 2008 /10								
			Year to 31st March 2008			Year to 31st March 2009			Year to 31st March 2010		
			Planned	Managed Audit	Total Days	Planned	Managed Audit	Total Days	Planned	Managed Audit	Total Days
Payroll	HIGH	Annual Mngd Audit		7	7	12	7	19	12	7	19
Pensions	MEDIUM	Annual Mngd Audit	8	4	12		4	4		4	4
Assets	LOW	4	8		8			0			0
Premises	MEDIUM	3			0	12		12			0
Purchasing & Creditor Payments	MEDIUM	Annual Mngd Audit		6	6		6	6	11	6	17
Supplies & Services	LOW	4			0			0			0
Transport	LOW	4	5		5			0			0
Financial Management / Kypera	HIGH	2	12		12			0	12		12
Treasury Management	MEDIUM	Annual Mngd Audit		6	6		6	6		6	6
Income & Debtors	MEDIUM	Annual Mngd Audit		5	5		5	5		5	5
Trading Activities	MEDIUM	3			0	10					0
Computer	MEDIUM	3	7		7	7		7	7		7
Capital	MEDIUM	3			0			0			0
Cardiff Checks / Contingency	MEDIUM	3	10		10	10		10	10		10
Corporate Governance	HIGH	2	10		10			0			0
Risk Management	HIGH	2				9		9			
Partner Schemes	MEDIUM	3			0			0	8		8
Client Management	n/a		7		7	7		7	7		7
<b>Total Planned Days For The Year</b>			<b>67</b>	<b>28</b>	<b>95</b>	<b>67</b>	<b>28</b>	<b>95</b>	<b>67</b>	<b>28</b>	<b>95</b>

## **REVIEW OF INTERNAL AUDIT 2006/2007**

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 the annual external audit. 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 to provide an additional level of scrutiny and to strengthen the independence of the Internal Auditors.