

APPENDIX A

INTERNAL AUDIT SERVICE FOR THE COMBINED FIRE AUTHORITY

To: Members of Leicester, Leicestershire & Rutland CFA

Date: JULY 2007

Internal Audit Work During 2006-2007

Overall Opinion

The CIPFA Code of Practice for Internal Audit requires the Head of Audit to provide an overall opinion on the adequacy and effectiveness of the Authority's "internal control environment". Based on the evidence of audit work in 2006-07 for the CFA (and other relatively recent work for both the CFA and the County Council) the following conclusions have been drawn:-

On the main financial systems, a statement of assurance has been given to the Treasurer in relation to 2006-07. However as detailed in the summary of work below, in the treasury management audit a high importance recommendation was made in 2005-06 that has still to be acted upon.

On the wider issue of governance, generally the controls expected were either found to be in place or an acceptable alternative was operated. However action on one high importance recommendation relating to officers cars has as yet not been taken. In addition a number of potential efficiency gains have been recommended but confirmation of whether they are agreed or not is still outstanding.

The time taken to finalise reports with management, including agreeing what actions are to be taken in response to recommendations, **continues to be a concern.**

Audit Requirement

Treasurer responsible for arranging continuous audit

1. Under the CFA's Financial Regulations the Treasurer is responsible for arranging a continuous internal audit of the CFA's accounts. The audit is designed to cover financial and related systems and the use of assets.

Background

Leicestershire CC auditors carry out the work

2. The internal audit of the CFA is carried out by Leicestershire County Council's auditors. They work closely with the external auditor PricewaterhouseCoopers (PwC) so as to minimise duplication.

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Giving assurance about internal controls

Background

What effective controls should be doing

2. The internal audit of the CFA is carried out by Leicestershire County Council's auditors. They work closely with the external auditor PricewaterhouseCoopers (PwC) so as to minimise duplication.

3. The primary objective of the internal audit is to provide members and managers, including the Treasurer, with assurance that the internal control systems of the Authority are operating properly. Effective controls should ensure that:-

- The assets of the CFA are safeguarded against loss, claim or fraud.
- Decisions are recommended and authorised according to CFA rules and service procedures and that accurate and relevant financial and management information is produced to assist in this.
- Resources are used in furtherance of agreed plans in an effective manner which is also efficient and economical taking into account any community or environment requirements of the CFA.
- Agreed CFA policies and legal requirements are being correctly observed.

Responsibility of managers and auditors in respect of controls

4. It should be stressed that responsibility for the development and correct operation of internal controls rests with service managers. The internal auditor's task is to carry out an independent review, highlight weaknesses and make recommendations to improve controls where appropriate.

Wider scope of audit coverage

5. With the increasing emphasis being placed nationally on wider governance issues, especially in relation to performance and risks, the methodology used to assess the need for internal audit coverage has been updated. Before the criteria were based on factors relevant to financial systems eg invoices paid.

**Relative need for
audit coverage
assessed using
new methodology**

**New CFA systems
and “joint audit”
work with PwC
increases number
of audit days
needed**

Risk based auditing

**High importance
recommendations**

**CFA member
involvement**

Summary of Work

**Audit work takes
longer than
originally planned**

9. 55 days were charged for against an original plan of 50. This was because of additional work being required on the “joint audit”. Work undertaken during the year is listed below. Some jobs were brought forward from 2005-06 as not finalised. Those planned jobs

A number of jobs still await manager finalisation
Brought forward from 2005-06

Five draft reports were brought forward into 2006-07 for finalisation. One contained high importance recommendations. **As yet, the Treasurer has not reported his intended plan of action to the Policy Committee.**

Joint audit - Treasury management

Draft
There was one high importance recommendation. In order to comply with CIPFA's Code of Practice on Treasury Management, formal procedure notes should be introduced in conjunction with revising job descriptions and the appropriate risk register to reflect treasury management activities.

There were other minor recommendations.

Joint audit - Vehicle stocks and stores

Draft
No high importance recommendations. However, the audit identified two potential efficiency gains. Firstly, to stop the completion of manual and electronic stores records. Secondly, devise electronic station fuel records if a recommended review of the necessity for maintaining fuel records deemed such records to be worthwhile.

Joint audit - Payroll

Draft
No high importance recommendations. However, the audit identified two potential efficiency gains. Firstly, stop the duplication of starter and leaver information. Secondly, use of bespoke system reports to identify allowances rather than manual calculations.

Joint audit - Accounting Reconciliation

Draft
Only minor recommendations

Payables localised input of invoices

Draft
No high importance recommendations. However, the audit identified several potential efficiency gains to speed up invoice capture and hence increase confidence of achieving the specific Best Value Performance Indicator on prompt payment of supplier's invoices. In addition, the audit recommended an increased use of BACS payments.

**Work undertaken in
2006-07**

**Corporate
Governance
Arrangements**

This audit gave a substantial assurance rating. Most recommendations related to ways the risk management process could be improved. Comment was also made on how progress on improving aspects of governance (including actions to reduce risk) could be monitored by including position at specific review dates. This is particularly relevant where action timetables have the reference "on-going".

Joint audit – Payroll

Whilst there were no control weaknesses, an ongoing recommendation was accepted to improve efficiency by reviewing record keeping.

**Joint audit –
Budget monitoring**

Draft
Whilst there were no control weaknesses, a number of **efficiency** recommendations (one of which is of high importance) were made to: -

- Strategically determine whether the full principles of delegated budgeting are to be applied, otherwise duplication of effort will continue
- Pending the introduction of electronic procurement, widen access to the electronic commitment system
- Provide guidance to enable budget managers to be consistent in their approach and avoid duplicated effort

**Joint audit –
Reconciliations and
control accounts**

Draft
The audit revealed that the minor recommendations outstanding from the previous year hadn't been acted upon. Due to staff changes and uncertainty over responsibilities at both LFRS and the County Council's finance teams, the audit revealed that certain reconciliations hadn't been undertaken. This control weakness wasn't determined to be high importance. The need for a revised service level agreement with the County Council's finance team is paramount.

**Joint audit -
Payables invoice
coding**

Draft
Only minor findings

Officer's cars

Whilst all recommendations were agreed, a long standing high importance recommendation to introduce a robust system for annually checking driving licences was

Member's allowances

importance) were made to: -

- Strategically determine whether the full principles of delegated budgeting are to be applied, otherwise duplication of effort will continue
- Pending the introduction of electronic procurement, widen access to the electronic commitment system
- Provide guidance to enable budget managers to be consistent in their approach and avoid duplicated effort

Fire-fighter's time off in lieu

Procurement Cards

Draft

The audit revealed that the minor recommendations outstanding from the previous year hadn't been acted upon. Due to staff changes and uncertainty over responsibilities at both LFRS and the County Council's finance teams, the audit revealed that certain reconciliations hadn't been undertaken. This control weakness wasn't determined to be high importance. The need for a revised service level agreement with the County Council's finance team is paramount.

National Fraud Initiative

Draft

Only minor findings

Whilst all recommendations were agreed, a long standing high importance recommendation to introduce a robust system for annually checking driving licences was repeated.

All recommendations agreed. Whilst the audit revealed a breach of regulations, since no claims had been made, the control weakness was not deemed high importance. The Solicitor informed the CFA of a modification to the scheme in December 2006.

All minor recommendations agreed. There was an efficiency recommendation to remove duplicate record keeping.

All minor recommendations agreed.

The Section has acted as the CFA's co-ordinator of the Audit Commission's National Fraud Initiative (NFI). This is a data matching exercise drawing information from Fire and Local Authorities, Central Government, the

NHS and some private sector pension funds. Data submitted for NFI 2006 covered payments to pensioners and members as well as staff. Only a limited number of matches were listed and following investigation have been cleared. NFI also covered creditor payments for the first time. Potential duplication of payments is currently being checked.

Advice

Research was undertaken and advice given on the proposals for improving the performance indicator for paying invoices within 30 days.

Carried forward into 2007-08

Audits continued into 2007-08 are: -

- hydrant installation to ensure adherence to the agreement with STWA
- e:ordering uniforms to ensure electronic ordering of uniforms is secure and payments are valid

Conclusion

10. Coverage of fundamental financial systems has been linked to work undertaken on County Council systems. Specific CFA coverage is based on a methodology to assess need. Scores over set headings are given following discussion with the Treasurer and jobs prioritised accordingly. The plan has also been adapted to incorporate PwC "joint audit" requirements. The work for 2006-07 has been listed above. The problem relating to delays in finalising draft reports continues, which also increases the time that has to be spent on audits.
11. The CIPFA Code of Practice for Internal Audit requires the Head of Audit to provide an overall opinion on the adequacy and effectiveness of the Authority's "internal control environment". The opinion for 2006-07 is given at the start of this report.

Person to Contact about this Report

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