

INTERNAL AUDIT SERVICE FOR THE COMBINED FIRE AUTHORITY

To: Members of Leicester, Leicestershire & Rutland CFA

Date: AUGUST 2008

Internal Audit Work During 2007-2008

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 2007-08 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 2007-08. Findings and recommendations were generally low key but a number of potential efficiency gains were recommended.

On the wider issue of governance, generally the controls expected were either found to be in place or an acceptable alternative was operated.

Audit Requirement

Treasurer responsible for arranging continuous audit

1. Under the CFA's Constitution 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. During 2007-08, LFRS appointed an 'Audit and Review' officer to conduct reviews of operational systems and procedures. Future Internal Audit and Audit and Review plans will be co-ordinated to avoid the risk of gaps or duplication and ensure coverage of key areas in the wider "internal control environment".

- Giving assurance about internal controls** 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:-
- What effective controls should be doing**
- 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. Scores are now based around risk factors, namely materiality; risk likelihood; its impact and known reductions in risk exposure. This is then used to rate the relative importance of a number of different headings such as governance arrangements, personnel procedures, safeguarding of assets, procurement and information quality and safeguards.
- Relative need for audit coverage assessed using new methodology**
- New CFA systems and "joint audit" work with PwC** 6. A continuing issue with the CFA audit is the need to balance the coverage identified with providing internal audit at a reasonable cost.

increases number of audit days needed

This has become increasingly difficult as the CFA develops its own systems rather than using County Council ones (which have to be audited anyway for County Council purposes). An additional issue has been an increased time spent by internal auditors on “joint audit” work that specifically related to the external audit requirements of PwC.

7. In 2007-08, a total of 60 days of internal audit work was charged for at a cost of £15,000.

Risk based auditing

8. Internal Audit uses a number of techniques to provide a statement of assurance. In the case of the CFA much work will be based around a “risk based” audit. With this technique key risks (based on likelihood and impact) are identified and agreed at the start of the audit. The quality of controls to mitigate these risks is then tested. Where risk levels are considered still to be significant, recommendations are designated as High Importance. If agreement cannot be reached between the line managers and the auditor on ways to reduce these risks, the Chief Fire and Rescue Officer and the Treasurer will be asked to consider the risk implications and the recommendation made. They would then need to agree upon what changes should be made and what level of (residual) risk is acceptable.

High importance recommendations**CFA member involvement**

9. The CFA Treasurer reports on internal audit work and proposed actions to the Policy Committee.

Summary of Work**Audit work takes longer than originally planned**

10. 60 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.

Work undertaken in 2007-08**Corporate Governance Arrangements**

11. 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”.

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| Joint audit – Payroll | 12. | Whilst there were no control weaknesses, an ongoing recommendation was accepted to improve efficiency by reviewing manual record keeping. |
| Joint audit – Reconciliations and control accounts | 13. | The audit scope was widened this year but there were only two recommendations (improving narrative to amendments and setting time limits for completing reconciliations). Neither was deemed a serious control weakness. |
| Retained payroll | 14. | All recommendations agreed. There were two efficiency recommendations to reduce additional manual checks. |
| National Fraud Initiative | 15. | The Section acts as the CFA’s co-ordinator of the Audit Commission’s National Fraud Initiative (NFI). This is a bi-annual data matching exercise drawing information from Fire and Local Authorities, Central Government, the NHS and some private sector pension funds. Data will be required for NFI 2008 in September. <i>This will cover members’ payments</i> as well as those to staff and pensioners. It should be stressed that a match does not imply anything is wrong only that, where the amount is material, further investigation should be undertaken. |
| Data matching | | |
| NFI 2008 includes members | | |
| A match does not mean anything is wrong, only a reason should be sought | | |
| Advice | 16. | Research was undertaken and advice given on the Community Fire Risk Management Information System (CFRMIS) and the Red Kite asset management systems. |
| Note on previous financial system high importance recommendations | 17. | For some parts of the main financial systems, audit coverage is rotated between Internal Audit and External Audit (PWC). For 2007-08 PWC audited treasury management and budgetary control. However, those two areas were subject to Internal Audit ‘high importance’ (HI) recommendations in previous years. To close down the HI recommendations, Internal Audit gained assurance from the Head of Finance on behalf of the Treasurer that for treasury management action had already been taken and for budgetary control action was |

planned in conjunction with the new regional finance system. Internal Audit confirmed with PwC that their audit wouldn't be identifying control weakness in those specific areas.

Conclusion

17. 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 2007-08 has been listed above
18. 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 2007-08 is given at the start of this report.

Persons to Contact about this Report

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