SHROPSHIRE AND WREKIN FIRE AND RESCUE AUTHORITY
INTERNAL AUDIT ANNUAL REPORT 2011/12

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1. Summary

This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2012. It reports on progress against the annual audit plan. It also provides the Head of Audit's (Audit Service Manager's) opinion on the internal controls, as required by the CIPFA Code of Practice for Internal Audit in Local Government, which in turn contributes to the review of the effectiveness of the systems of internal control as required by the Accounts and Audit Regulations 2011 4(2).

Final performance has been good with 100% of the revised plan being delivered.

Five good and three reasonable assurances were made. One unsatisfactory assurance opinion was delivered on the Network Administration. A total of 63 recommendations have been made in the eight audit reports issued in the year. No Fundamental recommendations have been made.

On the basis of the work undertaken and management responses received; the Authority's financial systems, internal control environment and risk management procedures are sound and working effectively and the Audit Service Manager is able to deliver a positive year end opinion on the Authority's internal control environment for 2011/12.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

a) Performance against the Audit Plan for the year ended 31 March 2012.

b) That the system of internal control is operating effectively and can be relied upon when considering the Annual Governance Statement for 2011/12.

c) The Audit Service Manager's positive year end opinion on the Authority's internal control environment for 2011/12 on the basis of the work undertaken and management responses received.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1   The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Authority's financial and risk management systems and procedures and is closely aligned to the Authority's risk register. The Plan is delivered in an effective manner; where Internal Audit independently and objectively examines, evaluates and reports on the adequacy of its customers control environments as a contribution to the proper, economic, efficient and effective use of resources. It provides assurances on the Internal Control systems, by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal controls create an environment where poor performance, fraud, irregularity and inefficiency can go undetected leading to financial loss and reputational damage.

3.2   The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.

3.3   There are no direct environmental, equalities or climate change consequences of this proposal.

3.4   Internal Audit customers are consulted on the service that they receive, feedback from which is included in this report and continues to be positive.

4. Financial Implications

4.1   The Internal Audit plan is delivered within approved budgets; the work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the Service.

5. Background

5.1   This report is the culmination of the work of the Internal Audit team during 2011/12 and seeks to:

  ➢ Provide an opinion on the adequacy of the governance arrangements;

  ➢ Inform the annual review of the effectiveness of its system of internal control that informs the Annual Governance Statement by commenting on the nature and extent of significant risks; and

  ➢ Inform the review of an effective Internal Audit by providing performance data against the plan.

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5.2 The requirement for Internal Audit derives from local government legislation, including section 151 of the Local Government Act 1972 which requires the Authority to make arrangements for the proper administration of its financial affairs. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2011, in that "a relevant body must undertake an adequate and effective internal audit of its accounting records and systems of internal control in accordance with the proper practices in relation to internal control".

5.3 The CIPFA Code of Practice for Internal Auditors in Local Government defines the scope of the annual report on internal audit activity. The annual report should include an assessment as to the extent to which compliance with the Code has been achieved. This annual report provides information to support that assessment and that an effective Internal Audit is established at the Council, in accordance with the requirements of the 2011 Accounts and Audit Regulations. A report on Internal Audit's compliance with the full Code of Practice is reported to the Shropshire Council Audit Committee and can be accessed on the Council website.

5.4 Internal Audit operates a strategic risk based plan. The plan is reviewed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk, this results in a comprehensive range of audits undertaken in the year, to support the overall opinion on the control environment. The plan does not contain any contingency provision; any unforeseen work demands that may arise, i.e. special investigations, are delivered in addition to the planned work in agreement with the Chief Fire Officer.

Annual Internal Audit Opinion from Internal Audit Work undertaken during 2011/12

5.5 It is the responsibility of Shropshire and Wrekin Fire and Rescue Authority to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under the CIPFA Code of Practice 2006 to form an opinion on the Authority's overall control system. This opinion plays a key part in informing the Authority's Annual Governance Statement and enabling the Audit and Performance Management Committee to deliver their annual assurance statement to the Fire and Rescue Authority (FRA).

5.6 The results of individual audits, when combined, form the basis for the overall opinion on the adequacy of the Authority's internal control systems.
No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that absolute assurance. The work of Internal Audit is intended only to provide reasonable assurance on controls on the basis of the work undertaken. In assessing the level of assurance to be given, I have taken into account:

➢ The work undertaken on the fundamental financial systems. Whilst revealing a number of areas of weakness and identifying areas for improvement there are no significant material weaknesses that could

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result in a material misstatement in the Authority's accounts and reliance can be placed upon them. Plans have been adopted to manage outstanding concerns.

> ➢ From other planned audit work undertaken during the year, there have been no major financial weaknesses or issues identified; the Authority's financial systems, internal control environment and risk management procedures are sound and working effectively.

5.7   These assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested.

5.8   **On the basis of the work undertaken and management responses received; the Authority's financial systems, internal control environment and risk management procedures are sound and working effectively and the Audit Service Manager is able to deliver a positive year end opinion on the Council's internal control environment for 2011/12.**

Key Assurances provided during 2011/12

5.9   Audit assurance opinions are awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows:

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key control.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

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Audit assurance opinions delivered in 2011/12

Audit	Good	Reasonable	Limited	Unsatisfactory
Budget Preparation and Control	✓			
Capital Accounting and Budgeting	✓			
Corporate Governance	✓			
Payroll, Travel and Subsistence		✓		
Previous Recommendations (Requires Attention from pre April 2009)	✓			
Recommendation Follow Up (2010/11 Recommendations)		✓		
Risk Management		✓		
Network Administration				✓
Total for year				
➢ **numbers**	**4**	**3**	**0**	**1**
➢ **percentage**	**50%**	**37.5%**	**0%**	**12.5%**

5.10   Seven good and reasonable assurances were made in the year. One unsatisfactory was also issued. In each case positive responses have been received by management and will be followed up next year to determine whether satisfactory improvements have been made

5.11   An unsatisfactory audit opinion was issued on the Network Administration audit reflecting a poor control environment which, within the same financial year, contributed to a significant ICT failure which was the subject of a separate IT Audit Report.

5.12   Changes to the Internal Audit plan were approved by Audit and Performance Management Committee on 8 September 2011. This was to part accommodate an additional piece of work to review the reasons for an ICT failure. Two days allocated to Fraud and Corruption work, and three days out of six allocated to Risk Management were offset against the additional work required.

5.13   The team has achieved 100% of the revised plan which is in line with its target. Additional work performed by the IT Auditor on the June 2011 ICT failure accounted for an additional 25 days which have been charged separately.

5.14   In order to provide assurance over the improvements and controls that have been put in place since the ICT failure 15 days of the 2012/13 plan have been agreed with the Chief Fire Officer to be allocated to performing work on the

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processes for back up and on the implementation of the recommendations in the ICT failure report..

5.15   Audit recommendations are also an indicator of the effectiveness of the Authority's internal control environment and are rated according to their priority:

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

5.16   Recommendations are rated in relation to the audit area rather than the Authority's control environment, for example, a control weakness deemed serious in one area which results in a significant or fundamental recommendation may not affect the Authority's overall control environment. Similarly, a number of significant recommendations in a small number of areas would not result in a limited opinion if the majority of areas examined were sound, consequently, the number of significant recommendations in the table below will not necessarily correlate directly with the number of limited assurance opinions issued in above. Any significant or fundamental recommendations resulting from a control weakness in the Authority's control environment would be reported in detail to the Audit and Performance Management Committee

5.17   A total of 63 recommendations have been made in the eight audit reports issued in the year; these are broken down by audit area in the table overleaf.

Audit opinion and recommendations made on 2011/12 audits

System	Level of Assurance Given	Number of Recommendations made				
		BP	RA	S	F	Total
Budget Preparation and Control *	**Good**	0	0	0	0	0
Capital Accounting and Budgeting	**Good**	1	1	0	0	2
Corporate Governance *	**Good**	1	1	0	0	2
Payroll, Travel and Subsistence *	**Reasonable**	3	8	2	0	13
Previous Recommendations (Requires Attention from pre April 2009)	**Good**	0	4	0	0	4
Recommendation Follow Up (2010/11 Recommendations)	**Reasonable**	1	4	10	0	15
Risk Management *	**Reasonable**	2	4	2	0	8
Network Administration	**Unsatisfactory**	0	3	16	0	19
Totals		**8**	**25**	**30**	**0**	**63**
Percentage		**12.7%**	**39.7%**	**47.6%**	**0**	**100%**

* Indicates a fundamental system

5.18   It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. With the exception of annual audits where recommendations are revisited as a matter of course; remaining recommendations are followed up annually by obtaining an update from management on progress made and performing sample testing. A total of six recommendations have been rejected in the year by management. Four of these were in respect of weaknesses identified in the previous year and two related to recommendations originally raised prior to April 2009. After due consideration by the Risk Management Group on the value of implementing recommended action, the agreement of the Chief Fire Officer was secured to accept the residual risk of these. All rejected recommendations have been discussed with the managers concerned and the reasons for rejection accepted.

Audit Performance

5.19   Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the CIPFA Code of Practice, benchmarking the service against others in the sector and evaluating improvements made over the last twelve months. The effectiveness of Internal Audit is further reviewed through the Audit Committee's delivery of its responsibilities and direct from customers as they provided responses to surveys sent out after each audit.

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Reporting

5.20   All Internal Audit work is reviewed by a senior auditor to ensure it complies with Internal Audit's standards and that the recommendations made are supported by the work undertaken before any audit reports are issued. This is seen as a fundamental part of ensuring audit quality and that clients receive reports which are both informative, useful and add value to their work processes and procedures.

5.21   All audit assignments are subject to formal feedback to management. Draft reports are issued to the managers responsible for the area under review for agreement to the factual accuracy of findings and recommendations. After agreement, a formal implementation plan containing management's agreed actions and comments is issued to relevant officers. Follow up reviews capture evidence of implementation of recommendations.

Quality Assurance/Customer Feedback Survey

5.22   A customer feedback survey form is sent out with the all audits completed. These provide key feedback on the quality of audit service in relation to a number of areas, including:
- ➢ Pre auditing arrangements;
- ➢ Post audit briefings;
- ➢ Audit scope;
- ➢ Accuracy, clarity and timeliness of the report production;
- ➢ Practicality of recommendations;
- ➢ Professionalism of approach and
- ➢ Communication skills.

5.23   The surveys are a key part of ensuring the work meets our client expectations and that the quality of audit work is maintained. The results have been analysed over the last year and the percentage of responses are identified in the table below:

Customer Feedback Survey Forms - percentage of excellent and good responses

Item Being Scored	2011/12
Pre-audit arrangements	88%
Post-audit briefing	83%
Audit coverage/scope of the audit	94%
Timeliness of production of report	94%
Accuracy and clarity of report	94%
Practicality of recommendations	100%
Professionalism of approach	100%
Communication skills	100%
Timeliness, competence, manner	100%
Number of forms returned	4

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5.24   Overall the results are pleasing, showing services delivered consistently at a high level. The information is used both to improve techniques overall within the team and at annual performance appraisals to identify future development focus relating to individual skills or competences. We still need to further improve on our pre-audit and post-audit meetings which is reflected in some of the scores we have received.

5.25   During the last year no specific compliments and comments have been received in respect of the audit service from either questionnaires or directly.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Proposed 2011/12 Audit Plan - Audit and Performance Management Committee on 10 March 2011

Revised Internal Audit Plan - Audit and Performance Management Committee on 8 September 2011

Code of Practice for Internal Auditors in Local Government 2006 –published December 2006.
Accounts and Audit Regulations 2011.

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