

**AUDIT SERVICES**  
**SHROPSHIRE FIRE AND RESCUE SERVICE**  
**2010/11 SUMMARY AUDIT REPORT**

**1. EXECUTIVE SUMMARY**

This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2011. It reports on progress against the annual audit plan and contributes to the review of the effectiveness of the Internal Audit team as required by the Accounts and Audit Regulations 2011 6(3). It also provides the 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).

**Overall Audit Opinion**

It is the responsibility of Shropshire Fire & Rescue Service 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 Committee to deliver their annual assurance statement to FRA.

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, the following have been 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 result in a material misstatement in the Authority's accounts and that reliance can be placed upon them.
- 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.

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.

## 2. INTRODUCTION

### Background

This report is the culmination of the work of Internal Audit during 2010/11 and seeks to:

- Provide an opinion on the adequacy of the governance arrangements; and
- 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.

The requirement for Internal Audit derives from local government legislation, including Section 151 of the Local Government Act 1972 which requires the Treasurer to make arrangements for the proper administration of the Authorities 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”.

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 Fire Authority, in accordance with the requirements of the 2011 Accounts and Audit Regulations. The Internal Audit Service is provided by Shropshire Council. In June 2011, a paper is to be presented to Shropshire Council’s Audit Committee which provides assurance on the service, against the CIPFA Code. Shropshire Fire & Rescue Service can take assurance from this report.

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.

This year was the third year of a four year strategic audit plan determined using a risk based audit needs assessment model and agreed by the Audit Service Manager (formerly the Head of Audit Services) and the Authority’s Treasurer in consultation with the Audit Commission. The audit coverage over the four year strategic plan provides assurance to the Authority’s management regarding the overall control environment.

### Scope

The areas to be examined each year are identified in the 2008/09 to 2012/13 strategic audit plan, which is approved by the Audit Committee. In a report to the Audit Committee in February 2010 the Treasurer advised that, due to commitments of key staff in relation to the headquarters capital project, three audits scheduled for 2009/10 were postponed to the following year: these were the Purchasing and Procurement, Asset Management, and Vehicle Fleet audits. This did not result in a significant increase in risk and these audits were completed, as re-scheduled, in 2010/11. To compensate for this, the audits of Insurance and Banking Arrangements scheduled for 2010/11 were performed in 2009/10, and were reported to members in last year’s annual report. As a result, the following audits were performed in 2010/11:

- Payroll and Personnel;
- Creditors;
- Partnerships;
- Purchasing and Procurement/Estates Management;
- Asset Management/Vehicle Fleet;
- Risk Management;
- Corporate Governance and review of the Annual Governance Statement;

- Fraud and Corruption – Previous Recommendations pre March 2009; and
- Follow up of previous recommendations.

The findings from these audit areas are also summarised in Section 3. Following each summary is the Internal Auditors assurance level. 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:

<b>Good</b>	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.
<b>Reasonable</b>	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.
<b>Limited</b>	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.
<b>Unsatisfactory</b>	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.

### 3. DETAILED FINDINGS AND RECOMMENDATIONS

#### **Payroll and Personnel**

Payroll and personnel procedures are reviewed annually. 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. It was noted that, of the twelve previous recommendations made, three still need to be satisfactorily implemented. This review gave rise to an additional thirteen recommendations which require attention to address further weaknesses identified. In order that the risks associated with these recommendations are appropriately recognised and controlled, their prompt implementation is strongly advised.

**Assurance Level: Reasonable**

#### **Creditors**

This audit 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. Three significant exceptions that were noted relate to the need to observe authorisation limits more closely and ensure that all officers are aware of quotation and tender procedures. These weaknesses have been identified in previous audits and remain to be satisfactorily addressed. Five further recommendations, of a less significant nature, have been made to improve existing controls.

**Assurance Level: Reasonable**

#### **Partnerships** *(please note that this report is currently issued as a draft version)*

This review has identified that the arrangements for partnership working are satisfactory and that the authority is demonstrating and operating a wide range of best practices. A comprehensive partnership register is held which is populated with relevant information. Individual officers have specific responsibilities for partnerships and agreements are in place for all examined. The review has made a small number of recommendations for consideration and one significant weakness has been identified in respect of the holding of personal information which is in conflict with the partnership agreement.

**Assurance Level: Reasonable**

**Purchasing and Procurement/Estates Management** (*please note that this report is currently issued as a draft version*)

These two areas were included in the annual plan as separate audits. Following discussion and agreement with the Treasurer and the Head of Resources, it was agreed to perform a single audit to cover both of these areas, in order to make best use of the time available.

The review concluded that the processes for the management of Purchasing and Procurement contracts varies across the areas examined. It is pleasing to report that no recommendations arose in relation to the contract for Breathing Apparatus, but there were instances of non-compliance in the other four areas examined. Exceptions that were noted relate to the adequacy of processes for the identification and assessment of risks associated with individual contract activity; compliance with Standing Orders where exemptions are required; and the need for formal contracts to be held where appropriate. A further seven recommendations are made which require attention.

**Assurance Level: Reasonable**

**Asset Management/Vehicle Fleet**

These two areas were also included in the annual plan as separate audits and were amalgamated as above. Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control which is designed to address relevant risks, with controls being consistently applied. Minor exceptions were noted in eight instances and no significant issues were identified, which is commendable.

**Assurance Level: Good**

**Risk Management**

This review confirmed that Risk Management processes continued to become embedded into the authority. A comprehensive Risk Management Strategy is in place, roles and responsibilities have been determined and a system for recording risks and their control measures adopted. The Protocol provides a comprehensive source of guidance on Risk Management, although it is important to ensure that these key documents are kept up to date and a new recommendation has been made to supersede two previous recommendations that relate to this. Reduced activity has been noted in relation to training and availability of current issues and information to staff and members and a recommendation is made to this effect. Whilst two of the three previous recommendations have not been satisfactorily addressed, the remaining recommendation is assessed as implemented. Three additional minor recommendations have arisen from this audit, which aim to improve the existing robust processes that are in place.

**Assurance Level: Good**

**Corporate Governance and review of the Annual Governance Statement**

From the audit work undertaken and the explanations provided, it is the auditor's opinion that Shropshire Fire and Rescue Service has full compliance with their Code of Corporate Governance in respect of the areas examined. Two recommendations were made as a result of this review, which were addressed before the Code was formally adopted.

**Assurance Level: Good**

**Fraud and Corruption – Previous Recommendations pre March 2009**

Twenty-nine recommendations were examined during this review. Of these, thirteen were assessed as implemented, two were withdrawn following the acceptance of the risk by management and five were superseded. Of the remaining recommendations, four were assessed as partially implemented and five as outstanding. These nine recommendations are reiterated in this report and will be reassessed as part of the routine follow up audit work.

Risk Management Group is committed to ensuring that these recommendations and future audit recommendations are addressed in a prompt and timely manner to ensure that associated risks are mitigated as soon as possible.

***Assurance Level: Reasonable***

**Follow up of previous recommendations made in 2009/10**

For audits that are performed annually, previous recommendations are included within each specific review. For other audits that are performed on a less frequent basis, recommendations are captured into a specific allocation for Follow Up work which is included in the Audit Plan each year. Since September 2008, the Audit Committee has received regular reports from the Risk Management Group (RMG) on progress made in the implementation of audit recommendations. During the year, the Auditor has continued to work with the RMG to refine the process to our mutual benefit.

The objective of the audit was to review recommendations made in 2009/10 and assess the degree to which they have been satisfactorily implemented, in order to provide assurance to Risk Management Group and the Audit Committee that appropriate action is being taken by named, responsible officers.

It is pleasing to report that, of the 29 recommendations made in 2009/10 audit reports; 17 have been satisfactorily implemented and one superseded. This report reiterated three recommendations which remain outstanding and one new recommendation. A further seven recommendations have been reiterated in reports already issued in 2010/11.

***Assurance Level: Reasonable***

The Auditors would like to take this opportunity to thank those staff at Shropshire Fire & Rescue Service for their cooperation and assistance during the course of the audits.

Ceri Pilawski  
Audit Service Manager  
May 2011