

REPORT OF THE TREASURER

INTERNAL AUDIT - 2005/06 SUMMARY AUDIT REPORT

1 Purpose of Report

This report presents the Summary produced by the Fire Authority's Internal Auditors following their work during 2005/06. It also updates Members on the latest discussions with Internal Audit.

2 Recommendations

The Committee is asked to note the Internal Auditors' Summary Audit Report attached at Appendix A to this report and the actions taken by officers in response.

3 Background

The Committee on 9 January considered the current strategy for delivering internal audit and the four-year strategic audit plan. This report presents the Auditors' summary of their work on year 2 of these plans, i.e. 2005/06.

4 2005/06 Summary Audit Report

The report itself is attached at Appendix A. The key features are that it covers follow-up issues from the 2004/05 audit, and then deals with matters that have arisen from work on the 2005/06 programme. An overall Audit opinion that control arrangements are satisfactory in the areas considered has been given.



5 2004/05 Recommendations Review

A number of recommendations have not been satisfactorily dealt with in practice and have been repeated. Recommendations are classified as:

- i. Fundamental** Immediate action is required, where problems give rise to a lack of control and could lead to material loss to the Fire Authority.
- ii. Significant** Where controls may exist but are not working fully and errors may go undetected
- iii. Requiring attention** Involves management attention to ensure documentation and procedures are properly maintained at all times, where a management policy decision is required or where efficiencies could be obtained

Appendix B sets out the recommendations for 2004/05 that have been repeated. Members can see that action does need to be taken by managers, who also need to maintain standards at all times. None of the recommendations is, however, fundamental or affect the overall satisfactory audit opinion.

6 2005/06 Recommendations

Officers have responded to the issues arising in the 2005/06 audit. The issues are set out in the Audit Report in Appendix A. The recommendations are accepted. Repeated recommendations are listed in Appendix B.

Payroll recommendations mostly involve lapses in procedure, identified by sampling, that are not systematic or ongoing. Nevertheless steps have been taken to minimise these errors in future.

Important recommendations have been made in respect of ordering goods, tendering procedures and maintenance of the contracts register, and these will be implemented. The Fraud and Corruption audit has revealed a minor error, involving less than £50, which is being pursued. It does not involve fraud or corruption.

7 2006/07 Audit

Discussions have taken place between Finance staff and the Auditors to review progress on the four-year plan. The Corporate Governance and Statement of Internal Control Audits are being scheduled for completion by the end of May, in time to inform the Fire Authority at its June meeting, if there are any important issues to consider.

The programme for 2006/07 has been confirmed, as it is based on risk assessment and forms part of a four-year comprehensive strategy, linked to Audit Commission requirements.

Finally, care will be taken to ensure undue pressure is not placed on officers by internal auditors during the autumn, when the Use of Resources Audit is being conducted and the 2007/08 Budget Process commences.



8 Legal Comment

There are no legal implications arising directly out of this report.

9 Appendices

Appendix A Shropshire and Wrekin Fire Authority 2005/06 Summary Audit Report

Appendix B Audit Recommendations Repeated

10 Background Papers

There are no background papers associated with this report.

Implications of all of the following have been considered and, where they are significant (i.e. marked with an asterisk); the implications are detailed within the report itself.

Balance Score Card		Integrated Risk Management Planning	
Business Continuity Planning		Legal	
Capacity		Member Involvement	
Civil Contingencies Act		National Framework	
Comprehensive Performance Assessment		Operational Assurance	
Equality and Diversity		Retained	
Efficiency Savings		Risk and Insurance	*
Environmental		Staff	
Financial	*	Strategic Planning	
Fire Control/Fire Link		West Midlands Regional Management Board	

For further information about this report please contact Keith Dixon, Treasurer, on 01743 260202.



AUDIT AND CONSULTANCY SERVICES

SHROPSHIRE & WREKIN FIRE AUTHORITY 2005/06 SUMMARY AUDIT REPORT

1. EXECUTIVE SUMMARY

Overview

Shropshire Fire & Rescue Service became a Combined Fire Authority in April 1998 following Local Government Reorganisation in Shropshire and as such was required to establish an internal audit function under Section 151 of the Local Government Act 1972.

Overall Audit Opinion

On the basis of the responses and assurances given by Shropshire Fire & Rescue Service's management to last year's audit recommendations and the audit findings and initial management responses to the current year's audit work, full assurance can be given that the overall control arrangements of Shropshire & Wrekin Fire Authority are considered satisfactory in the areas examined. However, it should be noted that the lack of progress in implementing the recommendations made in the 2004/05 audits of IT Installation and the Data Protection Act 1998 is disappointing.

2. INTRODUCTION

Background

This audit is the second year of a four year strategic audit plan determined using a risk based audit needs assessment model and agreed by the Head of Audit & Consultancy 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 2005/06 audit included the specific follow up of recommendations made as a result of the 2004/05 audit in areas which were not covered separately during 2005/06. These follow ups were achieved through discussions with the relevant staff and some limited testing. The recommendations followed up related to the following areas:

- Prudential Code;
- Capital Accounting System;
- Banking Arrangements;
- IT Installation; and
- Data Protection Act 1998.

The results of these follow ups are summarised in **Section 3**.

A review of controls in place in the following main areas, as shown in the 2004/05 to 2007/08 strategic audit plan, has been carried out:

- Payroll;
- Fire Formula Spending Share (FSS) and Statistics / Statutory Returns;
- Fraud and Corruption;
- Creditors;
- Personnel;
- Debtors;
- Stores; and
- Risk Management.

The findings from the 2005/06 audit areas are summarised in **Section 3**.

3. DETAILED FINDINGS AND RECOMMENDATIONS

2004/05 Recommendations Review

Prudential Code

The one recommendation made as a result of the 2004/05 system review has been implemented.

Capital Accounting System

The two recommendations made as a result of the 2004/05 system review have both been implemented.

Banking Arrangements

Of the seven recommendations made as a result of the 2004/05 system review, four remain outstanding and the recommendations have been repeated.

IT Installation

Of the sixteen recommendations made as a result of the 2004/05 system review, five were identified as implemented by the Authority. Eleven recommendations have not been implemented and the recommendations have been repeated

Data Protection Act 1998

Of the eight recommendations made as a result of the 2004/05 system review, none were identified as implemented by the Authority. All of the recommendations have, therefore, been repeated.

2005/06 Audit Findings

Payroll system

Satisfactory controls exist over the payroll procedures in place at Shropshire Fire & Rescue Service and in general, they are operating well. Recommendations have been made in response to exceptions identified in testing where claim forms had not always been appropriately completed or authorised.

Fire Formula Spending Share (FSS) and Statistics / Statutory Returns

The Fire Formula Spending Share arrangements, statistics and statutory returns procedures and self precepting arrangements in place at Shropshire Fire & Rescue Service are operating well. No recommendations have been made.

Fraud and corruption

Four tests have been carried out which have reviewed different aspects of retained firefighter payments. Adequate explanations and evidence have been provided for the high and unusual payments identified during these tests. An exception was

noted during test one which Personnel staff have still to investigate and a recommendation has been made in response to this.

Creditors

Satisfactory controls exist over the creditors system and in general, they are operating well. Three previous recommendations have been repeated in addition to recommendations made in response to exceptions identified during this year's testing.

Personnel

Satisfactory controls exist over the procedures for recruiting and selecting new staff and the procedures when an employee resigns. Personnel staff are appropriately trained and are aware of the procedures to be followed when recruiting new staff. Recommendations have been made to formalise these procedures where they are not currently documented. Recommendations have also been made to improve controls at the stage where a new employee starts work i.e. induction and probationary periods. Staff are also aware of the procedures to be followed when a member of staff resigns although it has been recommended that the steps are formalised in a Brigade Order.

Debtors

Since the previous audit there have been a number of improvements to controls introduced within the system, there is one recommendation which is re-iterated from 2003/04 but it is pleasing to note that only one minor recommendation has arisen from the 2005/06 audit.

Stores

A review of the action taken to address the three recommendations made as a result of the previous audit has shown that they have been partially implemented. Improvements have been made to the checking and verification of BOSS invoices and the evidencing of such checks. Recommendations have been made in this audit to extend this procedure to include IAW invoices. The inclusion of the requisition number on the Customer Order section of the website will aid this retrospective checking.

Risk Management

A considerable amount of work has been carried out to introduce a formal risk management process by the Head of Risk Management since he took up the post in April 2005. A comprehensive risk management strategy is in place, roles and responsibilities have been determined and a system for recording risks and their control measures is in place. Whilst there appears to be a good level of risk awareness at the higher levels within the Authority, work has still to be carried out to increase awareness of both corporate and operational risks amongst the wider staff group. It is anticipated that this will develop in time once the appropriate training has been provided and there is a subsequent increase in the profile of the risk management process.

The auditors would like to take this opportunity to thank the staff of Shropshire Fire & Rescue Service for their help and assistance during the course of the audit.

G R TART
Head of Audit & Consultancy Services
May 2006

AUDIT RECOMMENDATIONS REPEATED

2004/05 Review

1. Banking

- i. Care should be taken to ensure that the management review of the bank/ledger reconciliation is consistently evidenced by signing/initialling and dating the documents examined (Requires attention)
- ii. A regular management review of the use of the company charge cards should be undertaken. The review should check the appropriateness of transactions incurred, ensure that credit limits have not been exceeded and review transactions which exceed the individual transaction limit of £200. This review should be evidenced by signing/initialling and dating the documents examined (Significant)
- iii. Credit card transactions should be scrutinised by the Finance Assistant prior to posting to the ledger and any anomalies should be raised with the Accountant. (Requires attention)
- iv. Company charge cardholders should be reminded of the following requirements:-
 - A single transaction should not normally exceed £200
 - The credit limit of £1000 should not normally be exceeded
 - All transactions must be authorised by the cardholder as appropriate
 - All transactions must be supported by an appropriate voucher(Requires attention)

2. IT Installation

- i. The IT strategy should be finalised and approved as soon as possible. (Requires attention)
- ii. Management should ensure that all staff are aware of the security incident procedure and implement a formal process to record and escalate incidents as appropriate. (Requires attention)
- iii. The draft network access request form should be finalised (Requires attention)

- iv. A formal process of notifying IT of staff leavers should be implemented to ensure that access for staff leaving the authority is removed promptly (Requires attention)
- v. A process should be defined to ensure that leavers have deleted all personal information from their mailbox, computer and network drive prior to leaving the authority. (Requires attention)
- vi. Formal guidance should be written to ensure that staff are aware of their responsibilities for securing the equipment and information contained on it. (Requires attention)
- vii. IT should be involved in the full procurement cycle and not just the specification stage. (Requires attention)
- viii. The authority should consider the advantages of installing an automatic fire extinguishing system in the server room. (Significant)
- ix. The back up tapes should be stored in a secure off-site location. (Significant)
- x. The Authority should produce a business continuity plan (BCP) as a matter of urgency as this is a significant area of risk. The plan should identify the criticality of key systems and the timeframes by which these should be available in the event of an incident and address this need with the necessary arrangements. (Significant)
- xi. A formal procedure should be implemented for recording all software installations, movements and disposals. (Requires attention)

3. Data Protection Act 1998

- i. Improve communications to staff of the Data Protection Policy Handbook, awareness material and training packages. (Requires attention)
- ii. Introduce data protection information into employment terms and conditions and into job descriptions. (Requires attention)
- iii. Checks should be undertaken to establish if information is being processed in accordance with the authority's data protection policy and online privacy policy. (Requires attention)
- iv. Produce relevant procedures for staff in relation to updating and amending data where it is duplicated or held separately. (Requires attention)
- v. Develop procedures for monitoring data protection compliance on a periodic basis. (Requires attention)
- vi. Introduce a mechanism for addressing data protection issues. (Requires attention)

- vii. Introduce a procedure/system for recording details of requests made, how they were processed and what information was provided and/or withheld. (Requires attention)
- viii. Define retention periods for information sets and communicate this to staff. (Requires attention)

2005/06 Audit Findings

1. Creditors

- i. Occasions were again identified where the appropriate entry had not been made in the Contracts register. (Requires attention)
- ii. Instances were once more identified where authorisation for exemption from the tender process had not been formally sought. (Requires attention)
- iii. Instances were identified where the appropriate credit limits and single transaction limits had not been entered on the Company Charge Card Indemnity forms. (Requires attention)

2. Debtors

- i. It would be advantageous to liaise with Shropshire County Council to investigate whether the Sales Ledger system could be used to produce sales invoices directly, thereby improving existing controls on invoice generation. (Requires attention)