

<b>REPORT TO</b>	<b>Performance Review and Audit Committee</b>
<b>DATE:</b>	<b>30<sup>th</sup> July 2007</b>

**Internal Audit Plan for 2007/08**

**SUMMARY:**

Each year the Treasurer agrees an Internal Audit Plan with the Internal Audit provider to the Authority, Carmarthenshire County Council. In future this plan will need to be agreed and subsequently monitored by this committee. Last years Internal Audit report is attached for information.

**IMPLICATIONS:**

OPERATIONAL RISK:	None
COMMUNITY RISK:	None
TRAINING:	None
H.R	None
FINANCE:	Part of the Service Level Agreement with Carmarthenshire County Council
I.T/COMMS:	None
EQUALITY & DIVERSITY:	None
HEALTH & SAFETY:	None
LEGAL:	Informs that statutory external audit.

**RECOMMENDATION:**

That members approve the Internal Audit Plan

**BACKGROUND PAPERS USED IN PREPARATION OF THIS REPORT**  
WAO Joint Risk Assessment

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# REPORT TO THE PERFORMANCE REVIEW AND AUDIT COMMITTEE 30<sup>TH</sup> JULY 2007

## INTERNAL AUDIT 2007- 08

### 1 BACKGROUND

Carmarthenshire County Council Internal Audit Section have provided the Internal Audit function for Mid and West Wales Fire and Rescue Service (MWWFRS) since Local Government reorganisation in 1996. The Audit programme and the number of Audit days (currently 35days) has previously been agreed with the Treasurer of the MWWFRS. The cost of the Internal Audit Service is included in the Service Level agreement with Carmarthenshire County Council; payment being made on a half yearly basis.

### 2 INTERNAL AUDIT

Internal Audit works to Professional Standards laid down by the Accountancy Profession (Consultative Committee of Accountancy Bodies), in particular the Code of Practice for Internal Audit in Local Government in the UK 2006 produced by the Chartered Institute of Public Finance and Accountancy.

The Code of Practice defines Internal Audit as “ an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisational objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.”

The Professional Standards define the way in which Internal audit should undertake its duties and include:

**Independence** – enabling auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations.

**Ethical responsibility** – setting the minimum standards for the performance and conduct of all Internal Auditors. The four main principles relate to integrity, objectivity, competence and confidentiality.

**Relationships** – ensuring clarity of responsibility, expectation and objectives, thus minimising duplication.

**Staffing** – ensuring suitably qualified and experienced staff undertake reviews.

**Planning** – developing a risk based Plan.

**Audit Work** - the methodology for planning, controlling and recording audit reviews.

**Due Professional Care** – ensuring the work undertaken and the Internal Auditor personally apply the principles of due professional care and comply with the standards.

**Reporting** – providing management with information that provides an independent and objective opinion on the control environment, risk exposure and to prompt management to implement agreed actions.

**Performance** – ensuring appropriate measures are in place to evaluate the performance, quality and effectiveness of the individual audit and the Internal Audit Service.

Carmarthenshire Internal Audit ensures compliance with these standards through monitoring and peer review.

Wales Audit Office independently evaluates the effectiveness of the Internal Audit Service and compliance with agreed Standards.

### **3 INTERNAL AUDIT 2007 - 08**

Preliminary discussions have already taken place with the Director of Finance and Procurement to determine the number of Internal Audit days required and to establish a draft audit programme for the forthcoming financial year for your approval.

The Draft Audit Programme in the 35 days available is as follows:

- Follow up of recommendations detailed in the 2006 - 07 Internal Audit Report.
- A review of the central Financial Management Systems
- A review of Payroll function for all staff
- A review of the Procurement process in particular, the new Stock/Procurement System and proposed introduction of Purchasing Cards
- Attendance at Performance, Review and Audit Committee
- Periodic meetings with the Director of Finance and Procurement

This Audit Programme has been drawn up based on Risk Principles and taking into account the Risk Evaluation of the Brigade by the Wales Audit Office.

### **4 INTERNAL AUDIT RESOURCES 2007 – 08**

The review will be undertaken within the 35 days and will be led by the Audit Manager. Suitably qualified and experienced staff will be used to undertake the approved reviews.

### **5 AUDIT APPROACH 2007 - 08**

Internal audit will be allowed access to all relevant records, assets and staff deemed necessary to undertake the approved reviews.

The audit will involve the comparison of actual to expected procedures and controls by: -

- Discussions with relevant officers,
- Examining relevant documentation,
- Reviewing and Evaluating the system and procedures,
- Evaluation of the risks and the adequacy of the controls, including appropriate testing.
- Producing a Report and where appropriate recommendations for improvement.

## **6 INTERNAL AUDIT TIMETABLE 2007 – 08**

All reviews will be undertaken by the end of the Financial Year. Start dates for the reviews will be agreed with the Director of Finance and Procurement to enable relevant staff and records to be made available. Progress reports will be brought to the Performance, Review and Audit Committee.

## **7 INTERNAL AUDIT REPORTING ARRANGEMENTS 2007 – 08**

Draft Audit reports will be discussed with the Director of Finance and Procurement and once agreed a Final Internal Audit report will be presented to the Performance, Review and Audit Committee.

Where necessary the Internal Audit Report will include an Action Plan detailing recommendations for improvement. The recommendations will include a risk rating as detailed below, the Officer responsible for implementing the recommendation and a date of implementation:

- \*\*\* Recommendation should be introduced as a high priority
- \*\* Implementation is strongly recommended
- \* Implementation of recommendation is desirable to comply with best practice guidance

Recommendations will be followed up to confirm implementation.

# **1. INTRODUCTION**

## **1.1 Background**

Carmarthenshire County Council provides Internal Audit Services to the Mid and West Wales Fire and Rescue Service (MWWFR), through an Audit Plan agreed annually with representatives of the Service. The 2006/07 Plan provided for 35 internal Audit days.

## **1.2 Scope of Work**

A review was undertaken of the systems and controls in the following areas:

- Follow up of the 2005/06 Audit Review findings
- A review of the Centralised Payroll system
- Contract Audit – Final A/C of the recently constructed Fire HQ
- Financial Management Arrangements at Pembrokeshire, Swansea, and Powys County Commands
- Selected Fire Station Visits
- An overview of the Budget setting process and the main accounting system.

## **1.3 Audit Objectives**

- To ensure that previous recommendations detailed in the last year Audit Action Plan had been implemented.
- To ensure salaries and related expenditure is incurred only in respect of staff employed in authorised posts and that payments are accurately processed and recorded in the accounting system.
- To evaluate the effectiveness of systems and procedures for Delegation arrangements and monitoring within the County Commands.
- To evaluate the effectiveness of systems and procedures for the main accounting system within the Brigade.
- To ensure that the Stations visited complied with agreed practices and adopted a standardised approach in relation to selected income and expenditure systems.

## **2 FINDINGS**

### **General Opinion**

- 2.1 It was pleasing to note that most of the agreed recommendations from the 2005-06 Internal Audit Report had been actioned, though one issue regarding Brigade Standing Orders had yet to be addressed. Additionally, all the issues relating to the review of the Mess Accounts remain outstanding, though the sensitivity of this issue is appreciated.

Generally, the systems in operation were found to be robust and with the recent appointments within the Finance function it is anticipated that the development and monitoring of systems and procedures will be further improved.

There were no fundamental areas of concern identified by the review; the recommendations detailed within the Action Plan if adopted should further enhance the existing robust systems.

### **2.2 Payroll**

The systems and procedures linked to Payroll are considered to be of High Risk to the Brigade, given the number and value of transactions processed annually. The budgeted payroll for 2006/07 is in excess of £20m and represents 70% of the Services' total budget. However, as in previous years Internal Audit found the controls to be robust and staff well aware of their responsibilities.

It is acknowledged that the formalised Brigade payroll procedures were complete with the exception of those relating to the Payroll Manager functions. Once complete these should enhance the current robust procedures.

### **2.3 Command/ Station Visits**

A scheme of financial delegation had been formalised which clearly outlined roles and responsibilities within the Brigade. However there was clearly no standardised approach to the budget monitoring processes at the three Commands visited.

Powys and Swansea County Command was found to be complying fully with these formalised procedures, however there was no evidence that monitoring was undertaken at the Pembrokeshire Command. As reported in previous years, it is a concern that a designated budget holder may be incurring costs without the necessary budget funding.

The stations visited were found to be well administered with staff enthusiastic in their approach to financial management. Issues relating to the management of Mess Accounts remain outstanding.

## 2.4 Construction of Fire Brigade Headquarters

An overview of the procedures and processes of the construction of the Fire Headquarters was undertaken and the following observations made.

### **Feasibility study**

An officer working group considered various options and these were reported to the Property Working Group during August 2003. The content of the report could be construed as a feasibility study.

### **Consultancy Services**

Fee bids for professional services for the design and project management were requested from 3 consultancy organisations. Pembroke Design were appointed as the designated consultants. The arrangements appeared to be acceptable.

### **Contractors**

The consultants invited tenderers for the construction in accordance with the Fire Brigade's standard contract procedures. Expressions of interest were sent to a number of companies and, as a result of the responses, a list of contractors was compiled. The contractor that won the tender was "Dawnus".

### **Interim Payments & Cost Monitoring**

Pembroke Design prepared valuations for work carried out on the construction for payment by the Brigade. Certificates were seen and all were consecutive thus allowing cost monitoring, however, Internal Audit have not carried out any checks to ensure that the make-up of the payments were accurate nor checked if the costs were reported to the Property Working Group.

### **Reporting Arrangements**

Copies of minutes of the monthly site meetings held during the construction phase were seen. These minutes were circulated to all present at the meetings and relevant Brigade officers. No check was carried out to ascertain the reported progress was in accordance with the payments claimed.

### **Post Implementation Review**

There has been no review by the Brigade of the building and if it meets the requirement envisaged. Undoubtedly the main reason for the construction was to vacate leased property and co-locate at the site; this has, of course, been achieved.

## **2.5 Main Accounting**

Systems and Procedures were found to be strong. It is acknowledged that there have been a range of staffing issues that have impacted on performance, but with the appointment of the Finance Manager there will and already has been a further strengthening of the existing systems.

### 3 ACTION PLAN – RECOMMENDATIONS

#### Ratings

- \*\*\* Recommendation should be introduced as a high priority
- \*\* Implementation is strongly recommended
- \* Implementation of recommendation is desirable to comply with best practice guidance

Ref	Summary of Issues	Recommendations	Rating	Comments / Agreed Action	Officer Responsible	Target Date
	<b>PAYROLL</b>					
R1	The Brigade payroll procedures were complete with the exception of the responsibilities relating to the Payroll Manager functions.	The payroll procedures should be completed and agreed by management. These should then be updated where necessary to reflect current procedures. The development should prove useful in the induction of new staff and provide useful reference for existing staff.	**	The payroll procedures will be completed and agreed by the Finance Manager.	Steven Flather Finance Manager	31/07/07
R2	A report detailing starters and leavers is produced monthly by the payroll system and reviewed independently by the HR Section. The reports for this financial year 06/07 were reviewed to ensure that they had been checked – results of the test showed that they had all been checked, however the first three months were all checked in August. The delay of 3 months could have resulted incorrect or inappropriate payments being made.	Starters and leavers forms should be reviewed and checked by the HR Section promptly to ensure that details are correct to minimise the risk of overpayments or underpayments.	**	The monthly report detailing starters and leavers will be reviewed by the Human Resources Section and a reply forwarded to Payroll Section within 10 working days of receipt of the report.	Mark Miles HR Manager	01/04/07

Ref	Summary of Issues	Recommendations	Rating	Comments / Agreed Action	Officer Responsible	Target Date
R3	The list of starters and leavers from Resource Link was compared to that held on Terrian to ensure that they both agree. A number of variances were identified between both sets of data – a list was produced and given to the HR Officer and Payroll Manager for further investigation.	All variances should be investigated promptly to minimise the risk of overpayments or underpayments.	**	All variances are investigated, but it is agreed that these should be carried out promptly to minimise risk. A monthly review target of 10 working days from pay date has been introduced and will be monitored.	Steven Flather Finance Manager  Mark Miles HR Manager	01/04/07
R4	A random sample of 10 leavers were selected from the Resource Link Report. Testing was undertaken to ensure that appropriate documentation available to support the information on Resource Link. Test results showed that Leaver forms were not used. HR informs Payroll of the leaver by copying them in on the letter to the employee. Therefore, it was not always possible to ensure that an authorised officer had approved the change to payroll.	Procedures in relation to Leavers should be reviewed to ensure appropriate approved documents are available to support the termination of an employee.	**	The procedure for advising the Payroll Section in relation to leavers will be reviewed to ensure that an authorised officer approves the change to payroll.	Steven Flather Finance Manager  Mark Miles HR Manager	31/07/07

<b>Ref</b>	<b>Summary of Issues</b>	<b>Recommendations</b>	<b>Rating</b>	<b>Comments / Agreed Action</b>	<b>Officer Responsible</b>	<b>Target Date</b>
R5	It was noted that the agreed six monthly headcount had been issued to Stations in September 2006 with a return date of October. The exercise was last undertaken in April 2005.	Six monthly headcount should be done on a regular basis as agreed from the previous audit reviews.	**	Headcounts will be carried out at six monthly intervals in line with previous audit recommendations. This will generally be undertaken in March and October each year.	Mark Miles HR Manager	March 07
R6	Standing reference data including permanent allowances had not been checked as agreed in the Action Plan for 2005/06.	Standing reference data should be checked at least on an annual basis – this could be combined with the headcount check.	**	Standing reference data will be checked on an annual basis.	Mark Miles HR Manager	June 07
R7	3 months exception prints were reviewed to ensure that they had been monitored and authorised by the Finance Manger or equivalent. There was no evidence on 2 prints that they had been checked or counter signed as correct by an independent person.	Agreed procedures should be followed and an independent authorising officer should countersign all prints.	**	Agreed procedures will always be followed and all exception reports will be countersigned by the Finance Manager, or in his absence, another independent authorising officer.	Steven Flather Finance Manager	28 February 2007
R8	One variance per month from the 'Net Pay Variance Report' was re-calculated to ensure accuracy and that they were supported by approved prime documents. The test was satisfactory. However, it was noted that one employee had 3 months overtime (June/July/Aug) processed in one month i.e. September, which could impact on budgets and control.	Staff and managers should be reminded that overtime should be paid in the month following the overtime worked.	**	This recommendation can not be actioned as currently the Brigade Standing Orders allow a six month period for submitting claims.  Standing Orders are due for review and this may be one area that could be renegotiated.		

Ref	Summary of Issues	Recommendations	Rating	Comments / Agreed Action	Officer Responsible	Target Date
R9	Reconciliation of the Payroll Control accounts had not been undertaken throughout the year. It is acknowledged that there have been difficulties within the section due to illness and staff changeover, but contingency arrangements should have been established to accommodate to allow for work to continue effectively in the absence of key employees.	A review of current contingency arrangements should be undertaken to ensure essential work is undertaken in the absence of key staff.	**	Agreed – as from mid April 2007 the Accountancy team will be fully staffed as will the payroll team from the end of September. Arrangements are in place for this work to continue and a review of contingency arrangements will be carried out when the teams are fully staffed.	Steven Flather Finance Manager	31/10/07
	<b>County Commands/Stations</b>					
R10	Pembroke County Command staff were unclear of roles and responsibilities and were certainly not complying with the formalised budget procedures.	Roles and responsibilities should be reaffirmed with staff in the Pembroke County Command.	**	Agreed – this issue will be discussed with the Pembrokeshire County Commander as part of the budget setting process for 2007/08 and training offered to Pembrokeshire County Command Staff after the accounts closure period.	Steven Flather Finance Manager	31/08/07
	<b>Main Accounting</b>					
R11	It is acknowledged that there is an approved delegation and budgetary control process however, as in the previous year it was noted that Pembroke Command were not following agreed procedures. It was fortuitous that there was no	The agreed budgetary control process should be undertaken at all Commands.	**	Agreed – after the closure period a review will be undertaken of budgetary control processes undertaken in all budget centres. If necessary a good practice guide will be produced and further training offered.	Steven Flather Finance Manager	31/12/07

	budget overspend. It is acknowledged that training has been provided to staff and that with the appointment of the					
<b>Ref</b>	<b>Summary of Issues</b>	<b>Recommendations</b>	<b>Rating</b>	<b>Comments / Agreed Action</b>	<b>Officer Responsible</b>	<b>Target Date</b>
	Finance Manager effective monitoring procedures will be developed.					
R12	There were a number of suspense accounts in operation and it was noted that some had "carried forward" balances from the previous year.	Every effort should be made to ensure that suspense accounts are cleared periodically especially at the year end.	**	<p>There is only one suspense account in operation. However, there are a number of other holding accounts which held balances at the year end relating to deferred specific grants.</p> <p>It is agreed that the suspense account did hold a balance on it at 31/3/06. The suspense account will be periodically cleared, especially at year end.</p>	Steven Flather Finance Manager	30/06/07  And ongoing