

## **LCC INTERNAL AUDIT WORK FOR MERSEYSIDE FIRE AND RESCUE SERVICE**

*Liverpool City Council is contracted to provide the internal audit function for MF&RS. As part of the 2006 Use of Resources assessment, an area for auditor judgement is “**internal control**”, which includes a review of the internal audit function. No weaknesses were identified within the current internal audit provision and overall the Authority’s internal control was assessed at level 3 - consistently above the minimum requirements and performing well.*

### **Annual Audit Report 2006/07**

#### **1 Introduction**

- 1.1 This is a summary of the work performed on behalf of MFRS for the year ended 2006/07. The work has been carried out in accordance with the 2006/07 audit plan, which was agreed with the Authority. A summary of the time spent on each audit review is attached for information.
- 1.2 The contracted audit days for 2006/07 have been provided; although three planned audits were on going at the year-end. The completion of the ongoing audits has been incorporated within the audit plan for 2007/08 and will be reported in the Annual Report for that year.
- 1.3 Internal Audit are required to give an opinion on the overall adequacy and effectiveness of the Authority’s internal control environment under the 2006 CIPFA Code of Practice for Internal Audit in Local Government. This report presents our opinion based upon the work we have performed.
- 1.4 In addition The Accounts & Audit (Amended) Regulations 2006 require a local authority to “conduct a review at least once in every year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in accordance with proper practices, with... any statements of accounts it is obliged to publish.”
- 1.5 The production of the statement on internal control will be informed by several sources, such as external audit and inspections, service management’s own review process and the risk management and performance management frameworks. In addition, much of the fundamental systems audit work carried out by Internal Audit in 2006/07 will support the statement. This report is timed to support the preparation of the statement on internal control for the 2006-07 year.
- 1.6 The matters set out in this report have been the subject of discussions during the year with individual members of the Corporate Leadership Team.

***Acknowledgements***

- 1.7 We are grateful for the assistance that has been provided to us by staff across MFRS in the course of our work during the year.

**2 Overall Opinion**

- 2.1 On the basis of our programme of work for the year, we can conclude that the Authority's internal control environment is adequate and generally effective, bearing in mind that any control system can provide only reasonable and not absolute assurance.
- 2.2 From our work during 2006/07 we are not aware of any significant control weaknesses within MFRS which impact on the Statement on Internal Control.

**3 Summary of Findings**

***Payroll (Flexible Working Arrangements) and Pensions***

- 3.1 The objective of this audit was to review the new flexible working arrangements introduced in the Authority to ensure that approved efficiency savings were being achieved and to review the controls over the new pension arrangements.
- 3.2 The 2006/07 efficiency savings on the Low Level of Activity and Risk (LLAR) fire stations were achieved and payroll costs were being effectively monitored. The new pension arrangements complied with government requirements and the reported amounts on the account were both accurate and valid. There were no key issues arising from this audit.

***Creditors***

- 3.3 The audit work comprised a follow up of the 11 recommendations made in the 2005/06 creditors review. We identified that all the recommendations had been implemented, or appropriate action is being taken to address them.

***Budgetary control & cost centre management***

- 3.4 The fieldwork has been completed but the draft report is yet to be issued, it is therefore inappropriate to provide an opinion at this stage. We shall report the opinion in the next progress report.

***Treasury Management***

- 3.5 The fieldwork has been completed but the draft report is yet to be issued, it is therefore inappropriate to provide an opinion at this stage. We shall report the opinion in the next progress report.

***Income and Debtors***

- 3.6 The audit considered the controls in relation to the receipt of Sales Invoice Request Forms (SIRFs), the raising of invoices, and the receipt and banking of income. Our overall conclusion was that the controls are operating effectively, although there are a number of areas for improvement. Six minor recommendations were made to address the identified weaknesses.
- 3.7 It should be ensured that monthly debt pursuance monitoring figures are based on all due pursuance actions, and not just where pursuance action had been implemented. In addition, we recommended that management review the terms being offered for settlement of invoices and a review of the arrangements to cover short-term absences in the finance section should be performed.

***Private Finance Initiative (PFI)***

- 3.8 Our initial brief was to review the Outline Business Case (OBC) and the arrangements for the appointment of the external advisors. Early enquiries found that the OBC had not progressed sufficiently for it to be reviewed. However, good progress had been made on the appointment of the external advisors. Overall, we found that expected controls were in place and on the whole working effectively. We made four recommendations, which have been appropriately responded to.

***Local Performance Indicators***

- 3.9 The objective of this audit was to review the use of Local Performance Indicators to assess how effectively they (and the related application OWLE) are used to continually improve performance.
- 3.10 A high standard of performance is maintained across the Authority, in line with its excellent CPA rating. The review concluded that the implementation of the OWLE application has provided a useful tool for monitoring and maintaining performance levels.
- 3.11 The performance system contains a number of controls, which are working effectively, however a number of recommendations have been made to further improve the control environment. The recommendations included a need for additional guidance in a number of areas and a formal system for the review of action plans. In addition, local performance indicators should be reviewed to ensure that they add value to the service and they continue to be in line with the Authority's corporate aims. Management responses to our recommendations identify that positive action has already been taken.

***Fire Prevention – Partnership Working Arrangements***

- 3.12 The objectives of the audit were to assess how embedded within the culture of the Authority the use of formal Partnership Agreements is and the effectiveness of the decision-making surrounding this.
- 3.13 The Authority has identified the requirement for a standard, formal approach to partnership working. However, assessment and evaluation of the agreements had yet to be undertaken. A Partnership Register was also in the process of being developed. Although good progress had been made we were only able to perform limited testing on the system at the time of the audit review.
- 3.14 Five recommendations were made and all were accepted and action taken to implement them.

***ICT Security Follow Up***

- 3.15 A follow up review is currently being conducted of a 2005/06 ICT Security audit. We shall report the opinion in the next progress report.

***Investigations***

- 3.16 Time spent largely relates to two particular cases. The first case involved the investigation of a fire fighter who had been off sick with a back injury allegedly sustained at work. The second case relates to our involvement in a petty cash investigation. We were asked to review the investigative work already undertaken, comment on its adequacy and make any additional recommendations in relation to petty cash controls.
- 3.17 There was no evidence to suggest a misappropriation of funds by any member of staff and it was more likely to have been an administrative error. Recommendations were made to ensure that the procedures in place for petty cash are being adhered to. Management were also recommended to consider if there is a need to hold refresher training for all staff involved in administrating and authorising petty cash payments.

***Advice***

- 3.18 Advice and assistance relating to control and risk issues were provided during the year, in particular in relation to the implementation of FMIS.

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