

Hampshire Fire & Rescue Service	
Report to	Service Management Team (SMT)
From:	Jason Treasure
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Subject:	Annual Audit Opinion (2001/02)

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1 Summary

- 1.1 In our opinion Hampshire Fire and Rescue Service (HFRS) have an effective framework of control which provides reasonable assurance regarding the effective, efficient and economic achievement of HFRS's objectives. Audit testing has shown controls to be working in practice, although non-compliance with financial regulations and service orders is becoming more frequent, particularly with inventories.

2 Background

- 2.1 In 2000/01 we developed annual internal audit opinions for each department and external organisation and reported these to Departmental Management Teams. For 2002/03 the Code of Practice on Local Authority Accounting in the UK requires the County Treasurer to sign a statement on the system of internal financial control as a note to the published accounts. To enable him to do this the Chief Internal Auditor is required to provide an independent opinion on the adequacy and effectiveness of the system of internal financial control operating in the County Council and this is consistent with the approach we adopted in 2000/01.
- 2.2 However, from 2001/02 this assurance will be appended to the annual accounts for HFRS and reported initially to the Finance and General Purposes Committee and then to the Hampshire Fire and Rescue Authority. An example of the assurance statement is attached.
- 2.3 It is a management responsibility to develop and maintain the internal control framework, and to ensure that an organisation's resources are properly applied in the manner and on the activities intended. The main objectives of internal control, financial and otherwise, are:

- ◆ to ensure adherence to management policies and directives in order to achieve the organisation's objectives
- ◆ to safeguard assets, including data
- ◆ to secure the relevance, reliability and integrity of information,
- ◆ to ensure as far as possible the completeness and accuracy of records
- ◆ to ensure compliance with statutory requirements.

3 Objectives

3.1 This report will outline the level of assurance that we are able to provide, based on the internal audit work completed during the year. It will give:

- ◆ a statement on the effectiveness of the system of internal control in meeting HFRS's objectives
- ◆ a comparison of internal audit activity during the year with that planned, placed in the context of internal audit need
- ◆ an analysis of common or significant weaknesses arising
- ◆ details of any major findings where action appears desirable but has not been taken and which thus needs to be brought to the attention of HFRS's management.

4 Scope

4.1 The Chief Internal Auditor is required to provide the Hampshire Fire and Rescue Authority with assurances on the whole system of internal control at HFRS. It should be noted, however that this assurance can never be absolute. The most that the internal audit can do is to provide reasonable assurance that there are no major weaknesses in the system of control. In assessing the level of assurance to be given we have taken into account:

- ◆ all audits completed during 2001/02, including those audits carried forward from 2000/01
- ◆ any follow up action taken in respect of audits from previous periods
- ◆ any significant recommendations not accepted by management and the consequent risks
- ◆ the effects of any significant changes to HFRS's objectives or systems
- ◆ the quality of internal audit's performance
- ◆ the proportion of HFRS's audit need that has been covered to date
- ◆ the extent to which resource constraints may limit the ability to meet the full audit needs of HFRS

- ◆ any limitations that may have been placed on the scope of internal audit.

5 Audit service quality

5.1 The service we provide is designed to ensure compliance with the standards for internal audit promulgated by the Auditing Practices Board of the CCAB in Guideline No 308, 'Guidance for Internal Auditors'. The standards cover the following areas:

- ◆ independence
- ◆ staffing and training
- ◆ relationships
- ◆ due care
- ◆ planning, controlling and recording
- ◆ evaluation of internal control system
- ◆ evidence
- ◆ reporting and follow up.

5.2 Hampshire Audit Services is registered under ISO9001, the international quality management standard and we have developed comprehensive procedures to ensure that all audits are conducted to the required standard. In particular, the audit planning memorandum is approved, before site work commences, by the Audit Manager, who also reviews each draft and final report before it is issued to ensure that all key controls have been properly evaluated and that adequate audit evidence has been obtained to support the findings. In addition, our work is subject to annual review by District Audit who continue to rely on our work to support their audit opinion.

6 Audit needs

- 6.1 A detailed risk assessment was undertaken for the 2001/02 audit plan, which involved an analytical review of data relating to the department including size of budgets, committee reports, previous audit findings and consultation with the Director of Corporate Services and the Financial/Office Services Manager to ensure the audit plan addressed the key risks facing the organisation.
- 6.2 A summary of audit days delivered during 2001/02 is provided in Table 1.

Table 1 - Summary of audit days delivered

Detail	2001/02	
Previous year carry forward		50
Audit Plan agreed by Director of Corporate Services and Chief Internal Auditor	187	
Variations to the plan	+8	
Revised plan at the year end		195
Total days delivered including carry forward		245
Carry forward to the next year		18

- 6.3 The audit plan was revised during the year to 195 days including 50 days carried forward from 2000/01. The carry forward related to audits where a draft was issued and awaiting management response (four audits) or where testing was still in progress (five audits). For all carry forward audits completed during 2001/02 an audit opinion is provided as part of the 2001/02 Annual Audit Opinion.
- 6.4 195 days were delivered during 2001/02. As a result of ongoing risk assessment various changes made to the 2001/02 audit plan during the year reflected the following:
- ◆ cancellation of a fifteen day audit on best value – property, after it was agreed¹ to rationalise studies as either best value reviews (if the area is strategic in nature) or scoping studies (if the area is insufficiently strategic in nature). A smaller scoping study was therefore undertaken by HFRS for property, which was considered to be low-risk.
 - ◆ cancellation of a fifteen day audit on best value - catering (following rationalisation this became a scoping study) after delays were experienced by HFRS in completing the audit. Audit advice was provided at the start of the scoping study.
 - ◆ additional days were allocated to several regularity audits (a total of thirteen days) for further testing
 - ◆ an additional ten days were provided for the debtors and cash income audit after the scope of the audit was extended to include testing of Target 2000 income
 - ◆ additional days were allocated to the audits of property management, workshops and unofficial funds to provide for further testing

¹ Agreement from SMT and District Audit based on recommendations from the Her Majesty's Chief Inspector of Fire Services (HMCIFS)

- ◆ an additional eight days were provided for a follow-up of the 2000/01 audits of payroll and recruitment processing
 - ◆ following the implementation of a new payroll system by Hampshire County Council in September 2001, additional testing was undertaken on overtime.
 - ◆ with additional testing being undertaken by Hampshire Audit Services for both Hampshire County Council (HCC) and HFRS following the implementation of a new SAP integrated payroll system by HCC, a ten day audit of pay processing was cancelled
 - ◆ postponement of a ten day computer audit of data protection after District Audit had recently completed a review on this area
 - ◆ postponement of a ten day computer audit of IT management where additional computer audit testing was undertaken as part of the two departmental audits of training superbase and the Information Service's command and control.
- 6.5 No limitations were placed on the scope of our work during the year.
- 6.6 There were three audits where testing was not completed by the 31 March 2002. These were:
- ◆ a thirteen day audit of property management
 - ◆ a fourteen day audit of Information Service's command and control system
 - ◆ a ten day audit of the training database.
- 6.7 An opinion on these three audits will be provided as part of the 2002/03 annual audit opinion.

7 Audit approach

- 7.1 We examined systems operating to achieve objectives set by management in each of the areas detailed in appendix A. However, findings from audits that have involved testing of SAP may no longer be relevant as SAP continues to develop.
- 7.2 Our work has been carried out using a systems based audit approach. This covers the internal control systems of HFRS and during the conduct of our work, particular attention was given to arrangements established to ensure:
- ◆ financial control
 - ◆ safeguarding of assets to reduce exposure to theft or fraud
 - ◆ compliance with HFRS's policies, procedures, laws and regulations which promote the integrity and reliability of information and data
 - ◆ value for money.

7.3 An implicit part of our systems based audit approach is an evaluation of the controls in place to prevent and detect fraud and we perform sufficient audit testing to confirm that controls are working in practice.

8 Audit liaison

8.1 Staff at HFRS have been co-operative and helpful during audits, and have worked with us to ensure that audits have been timed to suit both parties.

8.2 Audit Appraisal Questionnaires (AAQ) have been received from six of the eleven system audits completed during 2001/02, with an average satisfaction score of 89%. AAQ's were also received for all eleven of the regularity audits finalised during 2001/02, with an average satisfaction score of 90%. This provides an overall average of 90%, which is an improvement on last year's average score of 86% and demonstrates a good working relationship between Internal Audit and HFRS.

8.3 However, delays have been experienced with management agreeing factual accuracy and providing responses to audit reports. During 2001/02, this process was undertaken in an average of 64 days, against an agreed target of 42 days.

8.4 Further analysis of the 64 day average is provided:

- ◆ the average excludes two audits relating to personnel / payroll that were finalised with no management responses (retained firefighters and travel and subsistence) in order to report findings that would still be relevant and timely. A response was then provided after the final audit reports were issued with no management action included
- ◆ HFRS management requested a special investigation into the audio-visual department and a draft report was issued. A response from management containing an action plan was not received until nine months later. We are concerned that controls to address the weaknesses were not put in place until at least nine months after they were identified.

9 Overall assurance

9.1 In our opinion HFRS have an effective framework of control which provides reasonable assurance regarding the effective, efficient and economic achievement of HFRS's objectives. Audit testing has shown that generally controls are working in practice, although non-compliance with financial regulations and service orders is becoming more frequent, particularly in the maintenance of inventories.

9.2 Where improvements to control were required, we are satisfied that appropriate action has been agreed by relevant managers. Management have particularly shown good progress in addressing weaknesses in the recruitment process and we would like to see this level of commitment continue. However, reservations are expressed over the failure to provide management responses for two other personnel related audits. Whilst appreciating the staffing pressures faced by HFRS

personnel department, it is essential that the personnel department enforce the control framework contained in financial regulations, service orders and other in-house and external guidance, including internal audit reports.

9.3 Detailed reports, giving our conclusion on each of the systems examined have been issued to individual managers who have considered each report and provided a management response. Each report provides an opinion on the control framework for the system reviewed which uses the following definitions:

- ◆ good – a comprehensive system of controls is in place to ensure the achievement of service objectives, good financial management and to protect HFRS against loss
- ◆ effective – key controls exist to enable the achievement of system objectives and to protect the organisation from material loss. However, cost effective opportunities to strengthen the control system exist
- ◆ basic - there is a basic control framework in place but there are gaps which weaken the system and losses or failure to achieve system objectives could occur. There is a need to introduce additional controls to reduce the risk to the organisation.
- ◆ inadequate - controls are considered to be insufficient with the absence of at least one critical control mechanism. Failure to improve controls could lead to a decline in financial integrity and lead to an increased risk of major loss or embarrassment to the organisation.

9.4 In order to prioritise our recommendations we made a distinction between action points and recommendations:

- ◆ action points are required to ensure that HFRS complies with its Financial Regulations and legislation or to correct fundamental control weaknesses.
- ◆ recommendations identify improvements over controls or the effectiveness of the system.

10 Issues raised during 2001/02

Main Findings

10.1 Concerns regarding the system of internal control were raised in respect of the systems shown below. In all other areas reviewed during 2001/02 we are satisfied that, based on the audit evidence obtained, the internal controls are effective ensuring that activities and procedures achieve HFRS's objectives. Audit testing has shown controls in these areas to be working in practice and no significant risks or opportunities for significant improvements were identified.

- ◆ **inventories:** controls surrounding inventory with regards to the completeness of records, the informal process of disposals, and the undertaking of an annual stock take

- ◆ **computer security:** the lack of a periodic review on the adequacy of access rights assigned to staff using HFRS's computer systems.
- 10.2 Recommendations have also been made to improve the quality of supporting documentation, particularly the trail to document decisions taken for the temporary promotions of uniformed staff.
- 10.3 Regularity audits have also highlighted common weaknesses in relation to the monitoring of internet usage at stations and general compliance with financial regulations and service orders in relation to inventory, particularly the need to undertake an annual stock check and the completeness of inventory lists maintained by stations. Staff costs charged to stations continued to be incorrect, where subjective financial codes have not been amended on the financial system to reflect staff transfers.