ESSEX FIRE AUTHORITY

Internal Audit Progress Report

Audit Sub-Committee Meeting: April 2012
The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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1. INTRODUCTION

1.1 The periodic internal audit plan for 2011/12 was approved by the Audit Sub-Committee in July 2011. This report summarises the outcome of work completed to date against that plan. Appendices A and B provide cumulative data in support of internal audit performance.

2. FINAL REPORTS ISSUED

2.1 We have finalised two reports from the 2011/12 audit plan since the last meeting, these being in the areas of:
   - Safer Communities (6.11/12); and
   - Key Financial Controls (7.11/12).

2.2 Appendix A summarises our opinions and the number of recommendations made during the year to date.

3. KEY FINDINGS FROM INTERNAL AUDIT WORK

3.1 The Audit Sub-Committee should note that the assurances given in our audit assignments will be taken into account when we form our overall opinion on the assurance that we provide in our Annual Report at the end of the year. In particular the Audit Sub-Committee should note that any negative assurance opinions will need to be noted in the annual report and may result in a qualified or negative annual opinion. However we have not identified any issues that will result in a qualified opinion to date.

3.2 No common weaknesses have been identified within our reports so far for 2011/12.

4. WORK IN PROGRESS OR PLANNED

4.1 We have issued one further draft report, this being in the area of:
   - Follow Up (8.11/12).

5. LIAISON WITH MANAGEMENT AND EXTERNAL AUDIT

5.1 We have held a meeting with Management to discuss the Internal Audit Plan for 2012/13.

5.2 External Audit has reviewed our work during their interim assessments.
5.3 CHANGES TO OUR PLAN

5.4 We have made no changes to the audits within the agreed plan.

6. CLIENT BRIEFINGS

6.1 There has been one further relevant client briefing issued since the last Audit-Sub Committee. This is included at Appendix C
### APPENDIX A: 2011/12 WORK COMPLETED TO DATE INCLUDING SUMMARY OF ASURANCE LEVELS AND RECOMMENDATIONS

Reports being considered at this Committee are shown in italics.

<table>
<thead>
<tr>
<th>Auditable Area</th>
<th>Start Date</th>
<th>Debrief Date</th>
<th>Draft Report Issued</th>
<th>Responses Received</th>
<th>Final Report Issued</th>
<th>Audit Sub-Committee</th>
<th>Assurance Level Given</th>
<th>Number of Recommendations Made</th>
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<tbody>
<tr>
<td>Risk Management (1.11/12)</td>
<td>4 Jul 2011</td>
<td>7 Jul 11</td>
<td>19 Jul 11</td>
<td>8 Sept 11</td>
<td>9 Sept 11</td>
<td>October 2011</td>
<td>[Diagram]</td>
<td>0 3 1 4 4</td>
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<tr>
<td>Budgetary Control and Financial Planning (4.11/12)</td>
<td>23 Sept 2011</td>
<td>27 Sept 11</td>
<td>7 Oct 11</td>
<td>17 Nov 11</td>
<td>17 Nov 11</td>
<td>February 2012</td>
<td>[Diagram]</td>
<td>0 0 0 0 0</td>
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<tr>
<td>Safer Communities (6.11/12)</td>
<td>23 Jan 2012</td>
<td>23 Feb 12</td>
<td>9 March 12</td>
<td>10 April 12</td>
<td>10 April 12</td>
<td>April 2012</td>
<td>[Diagram]</td>
<td>0 0 3 3 3</td>
</tr>
<tr>
<td>Auditable Area</td>
<td>Start Date</td>
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<tr>
<td>Key Financial Controls (7.11/12)</td>
<td>22 Feb 2012</td>
<td>24 Feb 12</td>
<td>20 March 12</td>
<td>11 April 12</td>
<td>11 April 12</td>
<td>April 2012</td>
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**Totals to date:**
0 | 12 | 26 | 42 | 42
## APPENDIX B: WORK IN PROGRESS OR YET TO START (INCLUDING REPORTS STILL IN DRAFT)

<table>
<thead>
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<th>Debrief date</th>
<th>Draft report issued</th>
<th>Responses received</th>
<th>Audit Sub-Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Follow Up (8.11/12)</td>
<td>24 February 2012</td>
<td>7 March 2012</td>
<td>30 March 2012</td>
<td>April 2012</td>
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<td>ICT</td>
<td>May / June 2012</td>
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APPENDIX C: CLIENT BRIEFINGS

Fraud risk: changing supplier details

27 February 2012

Client Briefing - Gen 01.12

This client briefing has been issued following the investigation of a number of cases involving spurious requests purporting to be from suppliers detailing changes of bank account details. The requests are followed by fraudulent invoices which have subsequently been paid by organisations.

This type of fraud has been an issue previously in the NHS and the private sector and more recently in local authorities and the education sector. As fraudsters continually develop and apply new methods to circumvent controls, it is essential that all organisations assess the effectiveness of controls in relation to the administration procedures for changing supplier bank account details on invoice payment systems. It is also important to ensure that mitigating action is taken where necessary to minimise any fraud risk; for example, by independently verifying with the supplier the change to supplier details before it is actioned.

The result of such scams can have a multitude of repercussions, such as impacting upon resource levels, causing conflict within the organisation and reputational damage. The results of these consequences could be significant financial loss, job losses, costly disciplinary / investigation processes, legal fees, disfavour with key stakeholders and loss of public confidence / trust.

A number of cases have been identified where the bank details of legitimate suppliers and contractors have been changed on organisations’ finance systems in order for payments to be diverted to bank accounts controlled by fraudsters; for example:

- A local authority processed two amendments with a resulting loss of £500,000.
- The Olympic Development Agency lost £2m as a result of a key building contractor’s identity being hijacked and payments diverted into the fraudster’s account.
- In the NHS approximately £1.5m of fraudulent transactions have been paid to fraudsters through supplier bank account amendment requests. The payments have ranged from a few thousand to £864,000.
The cases so far indicate that the criminals are targeting larger companies for identity assumption. Criminals are researching the suppliers engaged with organisations through reviewing public domain information such as published tender awards or supplier lists.

If you would like to discuss your organisation’s controls over suppliers and Accounts Payable, please contact your internal audit manager in the first instance. Alternatively you can contact RSM Tenon’s Fraud Solutions team who will be happy to assist your organisation to minimise this fraud risk.

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