



# Strategy for Internal Audit

2008/09 to 2010/11

Including the Periodic Audit Plan for 2008/09

WEST MIDLANDS FIRE SERVICE

Table of Contents		Page
<b>1</b>	Introduction	1
<b>2</b>	Assessing the Effectiveness of Risk Management and Governance	1
<b>3</b>	Assessing the Effectiveness of the System of Control	2
<b>4</b>	Audit Needs Assessment Methodology	3
<b>5</b>	The Assessment of Internal Audit Needs	4
<b>6</b>	Developing a Strategy for Internal Audit	6
<b>7</b>	Considerations Required of the Authority	7
<b>8</b>	Information to Support the Internal Audit Strategy	7
	<b>Appendices</b>	
<b>A</b>	Proposed Strategic Internal Audit Plan	8
<b>B</b>	Periodic Audit Plan	10

## **1 Introduction**

- 1.1 The purpose of internal audit is to provide the West Midlands Fire & Rescue Authority with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the Authority's agreed objectives. In order to provide this opinion, we are required to review annually the risk management and governance processes within the Authority. We also need to review on a cyclical basis, the operation of internal control systems within the Authority.

Internal audit is not a substitute for effective internal control. The proper role of internal audit is to contribute to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness.

- 1.2 The purpose of this document is to provide the Authority with a Strategy for Internal Audit, based upon an assessment of the Authority's audit needs. The Audit Needs Assessment (ANA) exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The ANA will be used to direct internal audit resources to those aspects of the Authority which are assessed as generating the greatest risk to the achievement of its objectives.

## **2 Assessing the effectiveness of Risk Management and Governance**

- 2.1 The effectiveness of risk management and governance will be reviewed annually, to gather evidence to support our opinion to the Authority. This opinion is reflected in the general level of assurance given in our Annual Report and within separate reports covering risk management and governance. This review will cover the elements of the risk analysis which we regard as essential for annual review in order to provide a positive, reasonable assurance to the Authority.

### **3 Assessing the effectiveness of the system of control**

#### **3.1 In order to be adequate and effective, management should:**

- Establish and monitor the achievement of the Authority's objectives and facilitate policy and decision making
- Identify, assess and manage the risks to achieving the Authority's objectives.
- Ensure the economical, effective and efficient use of resources.
- Ensure compliance with established policies, procedures, laws and regulations.
- Safeguard the Authority's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.
- Ensure the integrity and reliability of information, accounts and data.

These objectives are achieved by the implementation of effective management processes and through the operation a sound system of internal control.

The annual reviews of risk management and governance will cover the control environment and risk assessment elements, at a high level. The programme of work developed as the outcome of the ANA exercise will cover the system level control activities.

#### **3.3 The Internal Audit Strategy contained within this report is our assessment of the audit work required in order to measure, evaluate and report on the effectiveness of risk management, governance and internal control.**

## 4 Audit Needs Assessment (ANA) methodology

### The Audit Needs Assessment process

- 4.1 Internal audit should encompass the whole internal control system and not be limited only to financial control systems, the scope of internal audit work should reflect the core objectives of the Authority and the key risks that it faces. As such, each audit cycle starts with a comprehensive analysis of the whole system of internal control that ensures the achievements of the Authority's objectives.
- 4.2 Activities that contribute significantly to the Authority's internal control system, and also to the risks it faces, may not have an intrinsic financial value necessarily. Therefore, our approach seeks not to try and measure the level of risk in activities but to assign a relative risk value. The purpose of this approach is to enable the delivery of assurance to the Authority over the reliability of its system of control in an effective and efficient manner.
- 4.3 We have undertaken the needs assessment using the following process:
- We identified the core objectives of the Authority and, where available, the specific key risks associated with the achievement of those objectives.
  - We then identified the auditable areas that impact significantly on the achievement of the control objectives.
  - We assigned risk values to the auditable areas, based on the evidence we obtained.
- 4.4 The Internal Audit Strategy is drawn out of the assessment of audit need. The proposed plan covering the period 2008/09 to 2010/11 is detailed at **Appendix A**.

## 5 The Assessment of Internal Audit needs

### Identifying the core Authority objectives and the associated risks

5.1 The key priorities for the Authority are as follows:

<b>1</b>	<b>Communities &amp; Partnerships</b>
1.1	Educate, inform, target vulnerable groups
1.2	Ensure our services meet the needs of diverse local communities
1.3	Advice and enforcement
1.4	Combat arson and fire crime
1.5	Work with partner agencies to achieve our common objectives
1.6	Contribute to improvements in local well-being
<b>2</b>	<b>Response</b>
2.1	Deploy appropriate resources
2.2	Deal efficiently with incidents
2.3	Provide appropriate vehicles, equipment and risk information
2.4	Develop civil resilience and planning
<b>3</b>	<b>People</b>
3.1	Developing leadership capacity
3.2	Developing the organisation
3.3	Developing the skills and capacity of our workforce
3.4	Resourcing the West Midlands Fire Service
3.5	Reward and recognition
3.6	Promoting the health, safety and well-being of the workforce
<b>4</b>	<b>Value for Money</b>
4.1	Budget to demonstrate Value for Money
4.2	Ensure continuous improvement

While we understand the Authority is currently reviewing its risk register, the last available register at the time this strategy was prepared was as follows:

Scenario	Risk	Likelihood	Impact	Risk Ownership
A	Failure to maintain the current Command and Control function, resulting in an inability to receive, process and respond to emergency calls effectively.	3	4	Director (Operations Support)
B	ICT Reliance (Integration) and Business Suite	2	4	Director (Technical Services)
C	Fire Control National Project	3	4	Director (Technical Services)
D	Funding Shortfall	3	4	Head of Finance & Procurement
E	Terrorism	3	3	Director (Operations Support)

## Identifying the “audit universe”

- 5.2 In order to undertake the audit needs assessment, it is first necessary to define the audit universe for the Authority. The audit universe describes all the systems, functions, operations and activities undertaken by the Authority. Given that the key risk to the Authority is that it fails to achieve its objectives, we have identified the audit universe by determining which systems and operations impact upon the achievement of the core objectives of the Authority, as identified in 5.1 above, and the management objectives in 3.1 above. These auditable areas include the control processes put in place to address the key risks.

The auditable areas identified within the audit universe are set out in Appendix A.

## Assessing the risk of auditable areas

- 5.3 Risk is defined as “The threat that an event or action will adversely affect an organisation's ability to achieve its Business objectives and execute its strategies.” Source: Economist Intelligence Unit - Executive Briefing.
- 5.4 There are a number of key factors for assessing the degree of risk within the auditable area. These have been used in our calculation for each auditable area and are based on the following factors:

- |                       |
|-----------------------|
| • Materiality         |
| • Business Impact     |
| • Audit Experience    |
| • Risk                |
| • Potential for Fraud |

## Deriving the level of risk from the risk values

- 5.5 In this model, the assignment of the relative values are translated into an assessment of risk. The risk ratings used are high, medium or low to establish the frequency of coverage of internal audit.

## 6 Developing a strategy for Internal Audit

6.1 The Strategy for Internal Audit is based on management's risk priorities, as set out in the Authority's own risk analysis/assessment. The Strategy has been designed so as to, wherever possible, cover the key risks identified by this risk analysis.

6.2 In establishing a strategy for Internal Audit, the relationship between risk and frequency of audit remains absolute. The level of risk will always determine the frequency by which auditable areas will be subject to audit. This ensures that key risk areas are looked at on a frequent basis. The aim of this approach is to ensure the maximum level of assurance can be provided with the minimum level of audit coverage.

In the course of the period covered by the internal audit strategy, the priority and frequency of audit work will be subject to amendment in order to recognise alterations in the audit needs assessment/risk analysis, caused by change within the Authority.

Auditor's judgement has been applied in assessing the number of days required for each audit identified in the strategic cycle.

The Strategy for Internal Audit is not static, but a dynamic plan which may be updated periodically to reflect changes in the risks faced by the Authority.

6.3 The audit needs assessment's purpose is to:

- determine priorities and establish the most cost-effective means of achieving audit objectives;
- assist in the direction and control of all audit work

6.4 This approach replaces the previous Strategy for Internal Audit prepared for 2007/08.

6.5 Included within the strategy, in addition to audit days for field assignments are:

- a contingency allocation, which will be utilised when the need arises, for example, special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested. This element has been calculated on the basis of past experience.
- a follow-up allocation, which will be utilised to assess the degree of implementation achieved in relation to recommendations agreed by management during the prior year.
- an audit management allocation, which is used for management, quality control, client and External Audit liaison and for preparation for, and attendance at various meetings etc.



## **7 Considerations required of the West Midlands Fire & Rescue Authority**

- Are the objectives and key risks identified consistent with those recognised by the Authority?
- Does the audit universe identified include all those systems which would be expected to be subject to internal audit?
- Are the risk scores applied to the audit universe reasonable and reflect the Service as it is recognised by the Authority?
- Does the Strategy for Internal Audit cover the key risks as they are recognised?
- Is the allocation of audit resource accepted, and agreed as appropriate, given the level of risk identified?

## **8 Information to support the Internal Audit Strategy**

### **Resources required**

It is estimated that approximately 256 internal audit days will be required to deliver the Periodic Audit Plan for 2008/09 as detailed in Appendix 2.

### **Communication of results**

The outcome of internal audit reviews is communicated by way of a written report on each assignment undertaken. However, should a serious matter come to light, this will be reported to the appropriate level of management without delay.

### **Staffing**

Staff are recruited, trained and provided with opportunities for continuing professional development. Staff are also sponsored to undertake relevant professional qualifications. All staff are subject to a Personal Performance and Development programme, which leads to an identification of training needs. In this way, we ensure that staff are suitably skilled to deliver the internal audit service. This includes the delivery of specialist skills which are provided by staff within the service with the relevant knowledge, skills and experience.

### **Quality assurance**

Sandwell Audit Services are BS EN ISO 9001:2000 compliant. Our Procedures Manual stipulates the quality control mechanisms that will operate on each audit assignment. The Procedures Manual has been constructed so as to ensure that Sandwell Audit Services meet the requirements of and complies with appropriate professional and technical standards for internal audit work. The quality of work is assured through the review of files of working papers and reports by a Principal Auditor or Audit Manager.

## Appendix A

**West Midlands Fire Service - Strategy for Internal Audit**  
**For the period: 1 April 2008 to 31 March 2011**

<b>Auditable Areas:</b>	<b>Risk</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
<b><u>Director – Performance, Assessment &amp; Improvement Team</u></b>				
Performance Management	Medium		√	
<b><u>Director of Human Resources</u></b>				
Sickness/Absence Management	High	√	√	√
<b><u>Director – Technical Services</u></b>				
Maintenance / Insurance Claims	Medium			√
Purchase / Disposal of Vehicles	Medium		√	
HQ Relocation Follow-up	High	√	√	√
IT	High	√	√	√
<b><u>Director – Operations</u></b>				
Home Risks	Low	√		
Fire Stations – Management of Cash	Medium		√	
Fire Stations – Management of Fuel	Medium	√		
<b><u>Director – Corporate Planning and Support</u></b>				
Governance	High	√	√	√
Risk Management	High	√	√	√
Risk Assurance Framework	-	√	√	√
Counter Fraud	-	√	√	√
Freedom of Information	Medium			√
Follow up	-	√	√	√
<b><u>Head of Finance and Procurement</u></b>				
Payroll /Pensions ( <i>Note each topic is performed in alternate years</i> )	KFS	√	√	√
Creditors	KFS	√	√	√
Debtors	KFS	√	√	√
Budgetary Control	KFS	√	√	√
Bank Account	Medium	√		
National Fraud Initiative	NFI	√	√	√
Partnerships	Medium	√		
Procurement	Medium	√		
<b><u>Head of Operational Support</u></b>				
Business Continuity Plan	Medium		√	
Health and Safety	Medium			√
<b><u>Other</u></b>				
Contingency: Special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested.		√	√	√

Auditable Areas:	Risk	2008/09	2009/10	2010/11
Management: Management, quality control, client and External Audit liaison and for preparation for and attendance at various meetings etc.		√	√	√

**Key:**

√	Auditable area will be subject to review in this year
KFS	All key financial systems reviews are undertaken on behalf of the external auditors, in order to enable them to place reliance upon our work and reduce their workload accordingly.

## Periodic Audit Plan for the period 1 April 2008 to 31 March 2009

## Appendix B

Auditable Area	Purpose	Risk Category
<b><u>Director of Human Resources</u></b>		
Sickness/Absence Management	A review of the sickness/ absence monitoring recording and follow-up procedures	High
<b><u>Director – Technical Services</u></b>		
HQ Relocation Follow-up	The follow-up of any issues raised by the External Auditors.	High
IT	Audit work will continue to focus upon the E-Business suite	High
<b><u>Director – Operations</u></b>		
Home Risks	A review of the operation of the Home Risks initiative.	Low
Fire Stations – Management of Fuel	A programme of visits to fire stations to review controls over fuel stocks.	Medium
<b><u>Director – Corporate Planning and Support</u></b>		
Governance	An annual review of an aspect of the Service's governance arrangements.	High
Risk Management	A review to ensure the Service is adequately identifying, assessing and managing the risks it faces in achieving its objectives.	High
Risk Assurance Framework	Advice and assistance with the ongoing mapping exercise between the controls identified as mitigating risk from the Corporate risk register, to the sources of assurance that these controls are operating. This will play a key part in the compilation of the annual governance statement.	High
Counter Fraud	A series of Counter Fraud activities including targeted testing of areas within the Service open to the potential of fraudulent activity, hosting a raising fraud awareness seminar etc.	-

Auditable Area	Purpose	Risk Category
Follow up	A follow up of the key audit recommendations made during the previous year.	-
Liaison with External Audit	Liaison with the Audit Commission.	-
<b>Head of Finance and Procurement</b>		
Payroll /Pensions ( <i>Note each topic is performed in alternate years</i> )	A review of the key financial controls relating to the administration of the Pension System.	KFS
Creditors	A review of the key financial controls relating to the ordering and payment of goods and services.	KFS
Debtors	A review of the key financial controls relating to invoicing and collection of debts.	KFS
Budgetary Control	A review of the key financial controls relating to Budgetary Control.	KFS
Bank Account	A review of bank reconciliation procedures following the recent interception of fraudulent cheques.	Medium
National Fraud Initiative	In accordance with Audit Commission requirements we will lead on the Fire Service's NFI requirements and undertake a review and comparison of the information supplied under the National Fraud Initiative.	-
Partnerships	A review of the controls over viability, funding and outcomes.	Medium
Procurement	The impact of e-procurement will be assessed.	Medium
<b>Other</b>		
Contingency	Special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested.	N/A
Management	Management, quality control, client liaison and for preparation for and attendance at various meetings.	N/A

