WEST MIDLANDS FIRE SERVICE

Internal Audit Plan 2017/18

A quick guide to the audit planning process

Step 1- Audit universe/auditable areas and the Authority's objectives

Identify the audit universe (i.e. a list of areas that may require auditing) using a variety of methods:

- Areas of risk identified by the Authority as having the potential to impact upon its ability to deliver its objectives and its statutory responsibilities, captured through a strategic risk register.
- Mandatory areas, such as the key financial systems work we do to, where appropriate, support the work of the external auditors, grant claim certification etc.
- Areas where we use auditor's knowledge, management requests and past experience etc.

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Step 2 – Ranking

Score each auditable area as high, medium or low risk using the CIPFA scoring methodology: materiality/business impact/audit experience/risk/potential for fraud.

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Step 3 – the 2017/18 audit plan

Identify the areas where assurance will be provided in 2017/18. High risk areas will generally be audited annually, while medium risks may be visited once in a three year cycle. A watching brief will remain on the low risks.

Glossary of terms

Governance

The arrangements in place to ensure that the Authority fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in an economical, effective, efficient and ethical manner.

Control environment

This comprises the systems of governance, risk management and internal control. The key elements include:

- establishing and monitoring the achievement of the Authority's objectives,
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement
- the financial management of the Authority and the reporting of financial management; and
- the performance management of the Authority and the reporting of performance management

System of internal control

The totality of the way an organisation designs, implements, tests and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.

Risk management

A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating the risks associated with any activity, function or process in a way that will enable the organisation to minimise losses and maximise opportunities.

Risk based audit

An audit that:

- identifies and records the objectives, risks and controls
- establishes the extent to which the objectives of the system are consistent with higher-level corporate objectives
- evaluates the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose, addressing the organisation's risks
- identifies any instances of over and under control and provides management with a clear articulation of residual risks where existing controls are inadequate
- determines an appropriate strategy to test the effectiveness of controls i.e. through compliance and/or substantive testing; and
- arrives at conclusions and produces a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment

Audit Committee

The governance group charged with independent assurance of the adequacy of the internal control environment and the integrity of financial reporting.

Internal audit

Definition of internal auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Assurance

A confident assertion, based on sufficient, relevant and reliable evidence, that something is satisfactory, with the aim of giving comfort to the recipient. The basis of the assurance will be set out and it may be qualified if full comfort cannot be given. The Head of Audit may be unable to give an assurance if arrangements are unsatisfactory. Assurance can come from a variety of sources and internal audit can be seen as the 'third line of defence' with the first line being the Authority's policies, processes and controls and the second being managers' own checks of this first line.

The Three Lines of Defence

Internal Audit standards

The Internal Audit team comply with the standards as laid out in the Public Sector Internal Audit Standards that came into effect on 1 April 2013.

1 Introduction

The purpose of internal audit is to provide the 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.

There is a statutory requirement for internal audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards'. The Authority has an internal audit charter which was approved by the Audit Committee and defines the activity, purpose, authority and responsibility of internal audit, and establishes its position within the Authority. This document sits alongside the charter, and helps determine how the internal audit service will be developed.

The purpose of this document is to provide the Authority with an internal audit plan based upon an assessment of the Authority's audit needs. The assessment of assurance need exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment 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

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

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; and
•	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 of 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 internal audit plan 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 Assessment of assurance need methodology

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.

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.

We have undertaken the 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.

The plan is drawn out of the assessment of audit need. The proposed internal audit plan covering the period 2017/18 is detailed towards the back of this document.

5 The assessment of internal audit assurance needs

Identifying the Authority's objectives and the associated risks

The Authority's objectives are as follows:

- Safer and healthier communities.
- Stronger business communities.
- Dealing effectively with emergencies.

The key risks to the Authority in meeting these objectives, as identified through its risk management process, at the time this plan was prepared, were:

Risk
• Public Service Reform enables new duties and/or major changes to the governance, structure, role or activities of the fire and rescue service requiring major re-organisation, resulting in an inability to deliver against organisational strategy and planned community outcomes.
• The Fire Authority is unable to positively position itself within public service reform to sustain and create new services resulting in reduced confidence, credibility and/or reputational damage.
• The Fire Authority is unable to maintain positive staff consultation and engagement, resulting in an inability to deliver strategic objectives, outcomes and continuous improvement.
• The Fire Authority is unable to deliver its Service Delivery Model effectively, as a result of insufficient or ineffective employees, throughout the organisation, resulting in reduced confidence and credibility; and increased reputational damage.
• The Fire Authority is unable to meet statutory duties to provide a safe and healthy workplace and protect the environment, resulting in a significant failure and reduced confidence and credibility; and increased criminal proceedings, litigation and reputational damage.
• The Fire Authority is unable to engage with the most vulnerable members of the community and reduce community risk resulting in increased fire and non-fire related incidents, fatalities and injuries.
• The Fire Authority is unable to establish effective partnership arrangements and deliver community outcomes, resulting in a significant impact upon the organisation's financial standing, reputation and ability to deliver key objectives.
• The Fire Authority is unable to effectively discharge its duties under the Regulatory Reform (Fire Safety) Order and associated legislation, resulting in a decline in non-domestic fire safety standards; reduced confidence and credibility; and increased litigation and reputational damage.
• The Fire Authority is unable to maintain its command and control function, resulting in an inability to receive, process and respond to emergency calls effectively, so increasing community risk; reducing confidence and credibility; and increasing reputational damage.
• The Fire Authority is unable to ensure that operational incidents are dealt with safely, assertively and effectively using appropriate levels of resources and personnel, resulting in increased firefighter and community risk; reduced confidence and credibility; and increased reputational damage.
• The Fire Authority is unable to provide business continuity arrangements, to maintain delivery of core functions, as a result of extensive disruption to normal working arrangements, including national and international deployments, significant and major events, resulting in increased community risk; reduced confidence; increased reputational damage; and external

scrutiny.

- The Fire Authority is unable to provide and maintain an effective ICT provision to support the delivery of core functions, resulting in significant disruption to the organisation's functionality, reduced confidence, credibility, reputational damage and external scrutiny.
- The Fire Authority is unable to provide effective management and security of organisational information and documentation including the receipt, storage, sharing and transfer of information and data, resulting in reputational damage, litigation, substantial fines and external scrutiny.
- The Fire Authority is unable to deliver its statutory responsibilities, predominantly through the Service Delivery Model, due to insufficient funds, resulting in external scrutiny and intervention; reduced confidence and credibility; and increased reputational damage.
- The Fire Authority is unable to deliver effective financial management arrangements, due to misuse of funds, resulting in external scrutiny, intervention and litigation.
- The Fire Authority is unable to create, grow and sustain appropriate flexible funding opportunities and meet financial targets, through the delivery of these opportunities via the Service Delivery Model. This will result in a budget shortfall impacting upon our ability to maintain the Service Delivery Model and delivery of core services.
- The Fire Authority is unable to meet contractually binding arrangements for the provision of commissioned and/or paid services resulting in litigation; reduced confidence and credibility; and increased reputational damage.

These risks are then used to drive a substantial part of the internal audit plan.

Identifying the "audit universe"
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 these objectives in section 3 above. These auditable areas include the control processes put in place to address the key risks.

Assessing the risk of auditable areas
Risk management is the process of identifying risks, evaluating their probability and potential consequences and determining the most effective methods of controlling or responding to them. The aim of risk management is to contribute to continued service improvement through improved risk taking activities, reducing the frequency of loss events occurring, and minimising the consequences if they do occur.

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:

- Risk
- Business impact
- Materiality
- Audit experience
- Potential for fraud and error

Deriving the level of risk from the risk values
In this model, the overall scores 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 an internal audit plan

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

The level of risk, and other possible sources of assurance, 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 this plan, the priority and frequency of audit work will be subject to amendment in order to recognise changes in the risk profile of the Authority.

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

The assessment of assurance need's purpose is to:

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

This approach builds upon and supersedes previous internal audit plans.

Included within the plan, 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; and
- 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 including the Audit Committee etc.

7 Considerations required of the Audit Committee and Senior Management

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 Internal Audit Plan 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 Plan

Resources required
It is envisaged that 185 audit days will be required for delivery of the first year of the strategy.

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
Where appropriate, audit staff are either professionally qualified, or sponsored to undertake relevant professional qualifications. All staff are subject to an appraisal 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
The internal audit service will adhere to the Public Sector Internal Audit Standards.

Appendix A

9 Internal Audit Plan for the period 1 April 2017 to 31 March 2018

Auditable Area	Purpose	Risk Category	Estimated Days
Strategic Enabler of Strategic Hub			
Risk Management (The Head of Internal Audit is required to give an annual opinion on the adequacy and effectiveness of the Service's risk management arrangements.)	A review to ensure the Authority is adequately identifying, assessing and managing the risks it faces in achieving its objectives.	High	10
Governance (The Head of Internal Audit is required to give an annual opinion on the adequacy and effectiveness of the Service's governance arrangements.)	An annual review of aspects of the Authority's governance arrangements, based upon the CIPFA/SOLACE model and to provide assurance that the Authority has reflected the recent changes in the principles in its Code of Corporate Governance.	High	10
Strategic Enabler Response			
Fire Stations – Management of Fuel	An audit to review compliance with established controls over ordering, receipt and dispensing of fuel at a sample of stations. In addition an assessment of compliance with previously agreed audit recommendations as a result of issues discovered in previous years will be made.	Medium	10
Strategic Enabler People Support Services			
Environmental Protection Targets	A review of the progress made towards implementing an Environmental Management System or the equivalent strategies put in place to further advance the Authority's environmental initiatives.	Medium	10

Strategic Enabler for Prevention			
Partnerships	A review of the strategic management (governance, reporting, risk management) of key partnerships, with particular emphasis on monitoring and measurement of outcomes.	Medium	10 (Carried forward from 2016.17 plan)
Strategic Enabler ICT			
IT (IT systems are a key element of the internal control environment, over which The Head of Internal Audit is required to give an annual opinion.)	A continuous programme of IT auditing and providing ongoing advice and assistance on IT related controls. This will include focussing upon areas such as information security standards, IT policies, data sharing, cyber security and use of the internet.	High	12
Data Protection	A review of the authority's monitoring of adherence to the requirements of the Data Protection Act.	Medium	15
Strategic Enabler Finance and Resources			
Key Financial System Reviews are undertaken in liaison with the Authority's external auditors where appropriate, in order to help support them in the work they do. All such reviews are deemed as high risk by their very nature.			
Payroll /Pensions	A review of the key financial controls relating to the administration of the Payroll System.	High	15
Pension Certification	A review of the entries on the annual pension statement to confirm the accuracy of the employee and employer contributions calculated in respect of contributors to the fund.	High	3
Accounts Receivable	A review of the key financial controls relating to invoicing and collection of debts.	High	10
Accounts Payable	A review of the key financial controls relating to the ordering and payment of goods and services.	High	10
Fixed Asset Accounting/Asset Planning	A review of the key financial controls relating to the accurate recording of fixed assets, including assessing the impact of potential asset sales and valuation reductions.	High	10
Budgetary Control	A review of the key financial controls relating to Budgetary Control.	High	15

Counter Fraud (Demonstrating a pro-active approach to countering fraud and corruption is a key element of the requirements of the external auditors.)	A range of pro-active fraud activities will be undertaken including maintenance of a fraud risk register, targeted pro-active testing of areas within the Authority open to the potential of fraudulent activity, money laundering, explore hosting a raising fraud awareness seminar and benchmarking against recognised best practice.	-	10
National Fraud Initiative	We will lead on the Authority's NFI requirements. The abolition of the Audit Commission now sees the NFI exercise overseen by the Cabinet Office. We will work with the Cabinet Office in order to ensure that the Authority continues to meet all its responsibilities.	-	10
Other			
Contingency	Special projects, investigations, advice and assistance and ad-hoc work as requested.	-	10
Management	An allocation of time for the management of the internal audit service. To include meeting any training requirements of the Authority or Members and for preparation for, and attendance at, various meetings including the Audit Committee (to include where appropriate, a Committee skills audit and self-assessment workshop).	-	14
Follow up (we are required to obtain assurances that previously agreed actions have been implemented.)	A follow up of the key audit recommendations made during the previous year.	-	11
Total			**185**

Indicative Future Internal Audit Plan

Appendix B

Auditable Areas:	Risk	18/19	19/20
Strategic Enabler of Strategic Hub			
Risk Management	High	✓	✓
Performance Management	Medium	✓	
Governance	High	✓	✓
Strategic Enabler People Support Services			
Workforce Planning	Medium	✓	
Absence Management	Medium		✓
Strategic Enabler Organisational Preparedness			
Business Continuity Plan	Medium	✓	
Strategic Enabler Community Risk Management			
Partnerships	Medium		✓
Strategic Enabler ICT			
IT	High	✓	
Freedom of Information	Medium	✓	
Data Transparency	Medium		✓
Strategic Enabler Finance and Resources			
Payroll/Pensions (KFS)	High	✓	✓
Pension Certification	High	✓	✓
Accounts Receivable (KFS)	High	✓	✓
Accounts Payable (KFS)	High	✓	✓
Fixed Asset Accounting/Asset Planning (KFS)	High	✓	✓
Budgetary Control (KFS)	High	✓	✓
Procurement	Medium	✓	
Counter Fraud	-	✓	✓
National Fraud Initiative	-	✓	✓
Other			
Contingency	-	✓	✓
Management	-	✓	✓
Follow Up	-	✓	✓
Total		**185**	**185**