



Strategy for Internal Audit

2009/10 to 2011/12

Including the Periodic Audit Plan for 2009/10



Table of Contents		Page
1	Introduction	1
2	Assessing the Effectiveness of Risk Management and Governance	1
3	Assessing the Effectiveness of the System of Control	2
4	Audit Needs Assessment Methodology	3
5	The Assessment of Internal Audit Needs	4
6	Developing a Strategy for Internal Audit	6
7	Considerations Required of the Audit Committee	7
8	Information to Support the Internal Audit Strategy	7
	Appendices	
A	Proposed Strategic Internal Audit Plan	9
B	Periodic Audit Plan	11

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 2009/10 to 2011/12 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:

1	Communities & Partnerships
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 and sustainable communities
1.6	Contribute to improvements in local, social and economic well-being and the environment
2	Response
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
3	People
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
4	Value for Money
4.1	Delivering a Value for Money service
4.2	Ensure continuous improvement

The key risks to the Authority, as identified through its risk management process are as follows:

Ref	Risk
1	The Fire Authority would be unable to maintain the positive engagement of its employees, resulting in an inability to deliver its key priorities and objectives
2	The Fire Authority would be unable to maintain an effective ICT provision (excluding its mobilising and communication services) resulting in significant disruption to its ICT functionality
3	The Fire Authority would be unable to manage the transition to the Regional Fire Control, resulting in an inability to maintain a robust Command and Control function
4	The Fire Authority would be unable to ensure that proper controls are established whilst working in partnership, resulting in significant impact upon its financial standing, reputation and ability to deliver objectives
5	The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively as a result of extensive

	disruption to normal working methods
6	The Fire Authority would be unable to ensure that incidents are dealt with using appropriate levels of resource & personnel, resulting in an inability to deliver a safe & effective emergency response function
7	The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively as a result of insufficient or ineffective key assets, such as buildings & vehicles
8	The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively due to a lack of funding or the misuse of funds e.g. fraudulent activity
9	The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively as a result of insufficient or ineffective human resources
10	The Fire Authority would be unable to manage its responsibilities under the Fire Safety Order & other legislation, resulting in a decline in non domestic fire safety standards or legal action against the Authority
11	The Fire Authority would be unable to maintain its command and control function, resulting in an inability to receive, process and respond to emergency calls effectively
12	The Fire Authority would be unable to manage the implementation of the National Firelink Project, resulting in an inability to maintain a robust Command and Control function
13	The Fire Authority suffered a significant health, safety or environmental failure, resulting in legal challenge and/or litigation
14	The Fire Authority would be unable to influence Local Strategic Partnerships, Crime and Disorder Reduction Partnerships, Local Area Agreements and other key partnership groups, resulting in an inability to co-operate and support the delivery of joint outcomes for local people and communities, as well as the delivery of key fire service objectives

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 2008/09.

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 Audit Committee

- 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

Appendix B provides details of the resources required for delivery 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

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 2009 to 31 March 2012

Auditable Areas:	Risk No.	Risk	09/10	10/11	11/12
Director – Performance, Assessment & Improvement Team					
Performance Management	1,11	Medium	√		
Director of Human Resources					
Sickness/Absence Management	1	Medium		√	
Workforce Planning	1,5,6,9	Medium	√		
Director – Technical Services					
Maintenance / Insurance Claims	7	Medium		√	
Asset Planning	7,12	Medium	√		
IT	2	High	√	√	√
Director – Operations					
Home Risks	10	Low			√
Fire Stations – Management of Cash	8	Medium	√		
Fire Stations – Management of Fuel	8	Medium			√
Director – Corporate Planning and Support					
Governance	-	High	√	√	√
Risk Management	-	High	√	√	√
Risk Assurance Framework	-	-	√	√	√
Counter Fraud	8	-	√	√	√
Freedom of Information	10	Medium		√	
Follow up	-	-	√	√	√
Head of Finance and Procurement					
Payroll /Pensions (<i>Note each topic is performed in alternate years</i>)	1	KFS	√	√	√
Creditors (<i>detailed testing to be undertaken on a biennial basis</i>)	8	KFS	√	√	√
Debtors	8	KFS	√	√	√
Fixed Assets (<i>detailed testing to be undertaken on a biennial basis</i>)	7	KFS	√	√	√
Budgetary Control	3,8	KFS	√	√	√
Bank Account	8	Medium			√
National Fraud Initiative	8	-	√	√	√
Partnerships	4,14	Medium			√
Procurement	7	Medium	√		
Director of Operational Support					
Business Continuity Plan	5	Medium	√		
Health and Safety	1,13	Medium		√	
Environmental Audit	13	Medium	√		
Training	6	Medium		√	

Auditable Areas:	Risk No.	Risk	09/10	10/11	11/12
Other					
Contingency: Special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested.	-	-	√	√	√
Management: Management, quality control, client/External Audit liaison and preparation for and attendance at various meetings etc. including training of and reporting to Audit Committee	-	-	√	√	√

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.
-	Mandatory or best practice area.

Periodic Audit Plan for the period 1 April 2009 to 31 March 2010

Appendix B

Auditable Area	Purpose	Risk Category	Days
<u>Director- Performance, Assessment & Improvement Team</u>			
Performance Management	A review of to assess the degree of alignment of the performance management/monitoring process with finance/resources	Medium	15
<u>Director of Human Resources</u>			
Workforce Planning	A review of the planning process for ensuring the provision of sufficient effective human resources.	Medium	15
<u>Director – Technical Services</u>			
Asset Planning	A review of the planning process for ensuring the provision of sufficient physical resources.	Medium	15
IT - Oracle HR System	A review will be undertaken on the current state of the project including documentation relating to design, data migration, testing, issues, management reports and access controls.	High	10
<u>Director – Operations</u>			
Fire Stations – Management of cash	A programme of visits to fire stations to review the controls over cash imprests will be undertaken.	Medium	10
<u>Director – Corporate Planning and Support</u>			
Governance	An annual review of an aspect of the Service's governance arrangements.	High	10
Risk Management	A review to ensure the Service is adequately identifying, assessing and managing the risks it faces in achieving its objectives.	High	10

Auditable Area	Purpose	Risk Category	Days
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.	-	5
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 seminars etc.	-	10
Follow up	A follow up of the key audit recommendations made during the previous year.	-	10
<u>Head of Finance and Procurement</u>			
Payroll /Pensions (Note each topic is performed in alternate years)	A review of the key financial controls relating to the administration of the Payroll System.	KFS	15
Creditors	A review of the High level financial controls relating to the ordering and payment of goods and services.	KFS	10
Debtors	A review of the key financial controls relating to the invoicing and collection of debts.	KFS	15
Fixed Assets	A programme of testing on the Authority's fixed assets will be agreed with the external auditors in year.	KFS	10
Budgetary Control	A review of the key financial controls relating to Budgetary Control.	KFS	10
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.	-	10
Procurement	A review of compliance with Standing Orders will be undertaken.	Medium	15
<u>Director of Operational Support</u>			

Auditable Area	Purpose	Risk Category	Days
IT - Business Continuity Plan	A review of business continuity / disaster recovery arrangements will be undertaken including plans, technical inventory, contracts, dependencies / 3 rd party involvement and test results.	Medium	10
Environmental Audit	A review of the strategies in place for preventing major environmental failure will be undertaken.	Medium	10
<u>Other</u>			
Contingency	Special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested.	N/A	15
Management	Management, quality control, client liaison and for preparation for and attendance at various meetings including the Audit Committee.	N/A	21
Liaison with External Audit	Liaison with the Audit Commission.	-	5
Total			256