



# Draft Strategy for Internal Audit

2011/12 to 2013/14

Including the Periodic Audit Plan for 2011/12

WEST MIDLANDS FIRE SERVICE

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## A Quick guide to the Audit Planning process

### Step 1- Audit Universe/Auditable Areas

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 Fire Authority as having the potential to impact upon its ability to deliver its objectives.
- Mandatory areas, such as the Key Financial Systems work we do on behalf of the external auditors etc.
- Areas where we use auditors knowledge, management request and past experience etc.

### 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

### Step 3 – Three Year Strategy

List the medium and high risk auditable areas in the three year Strategy for Internal Audit. High risk areas will be audited annually, medium risks once in a three year cycle, while a watching brief will remain on the low risks.

Appendix A

### Step 4 - Next Years Plan

List the areas that will be subject to an audit review in 2011/12 in the Periodic Audit Plan.

Appendix B

## A 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**

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
- 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
- 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 and Performance Management Committee**

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

### **Internal audit**

An assurance function that provides an independent and objective opinion to the Authority on the control environment, by evaluating its effectiveness in achieving the Authority's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

### **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 Audit Services Manager 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.

## **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.

- 3.2 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 2011/12 to 2013/14 is detailed at **Appendix A**.

## 5 The Assessment of Internal Audit needs

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

5.1 The strategic objectives of the Authority are in the following areas:

1	Vulnerable People
2	Road Safety
3	Arson and anti social behaviour
4	Health and Wellbeing
5	Environment
6	Advise and Enforce
7	Innovative, creative and accountable leadership
8	Recognised, valued and engaged staff who are safe and healthy at work
9	Organisational development
10	Our people and the services we provide reflect the needs of our community
11	Value for money
12	Asset Management
13	Deal effectively with incidents

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

	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	Due to termination of the fire control project the identified risks associated with the project are no longer relevant. Therefore this risk has been removed from the risk register.
4	The Fire Authority would be unable to ensure that proper controls are established whilst working in partnership with other agencies/groups, resulting in significant impact upon its financial standing, reputation and ability to deliver key 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 operational incidents are dealt with using appropriate levels of resource and personnel, resulting in an inability to deliver a safe and 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 and 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 Regulatory Reform (Fire Safety) Order and associated legislation, resulting in a decline in non domestic fire safety standards or legal action being taken 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	Firelink - This project is complete with only a few residual elements being addressed via the Fire Control consultation. These are being managed within the business and there is nothing that would seriously affect the Authority's ability to carry out its core functions or deliver key objectives. Therefore the risk has been removed from the register.
13	The Fire Authority suffered a significant health, safety or environmental failure, resulting in legal challenge and/or litigation.

## 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 builds upon the previous Strategy for Internal Audit prepared for 2010/11.
- 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 including the Audit and Performance Management Committee.

## **7 Considerations required of the Audit and Performance Management 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. It is intended that a similar resource will be required for each of the three year's 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 2011 to 31 March 2014

Auditable Areas:	Risk	11/12	12/13	13/14
<b><u>Director – Strategic Performance, Performance and Risk Team</u></b>				
Performance Management	Medium		√	
Risk Management	High	√	√	√
<b><u>Director of Human Resources</u></b>				
Sickness/Absence Management	Medium			√
Workforce Planning	Medium		√	
<b><u>Director – Technical &amp; Operational Support Services</u></b>				
Asset Planning	Medium		√	
Business Continuity Plan	Medium		√	
Environmental Audit	Medium	√		
Asset Register/Inventory System	Medium	√		
<b><u>Director – Operations</u></b>				
Home Fire Safety Visits	Medium	√		
Fire Stations – Management of Cash	Medium			√
Fire Stations – Management of Fuel	Medium	√		
Partnerships	Medium			√
<b><u>Director – Corporate Services</u></b>				
Governance	High	√	√	√
Counter Fraud	-	√	√	√
IT	High	√	√	√
Follow up	-	√	√	√
<b><u>Director - Finance and Procurement</u></b>				
Payroll /Pensions	KFS	√	√	√
Accounts Receivable	KFS	√	√	√
Accounts Payable	KFS	√	√	√
Fixed Asset Accounting	KFS	√	√	√
Budgetary Control	KFS	√	√	√
Bank Account	Medium	√		
National Fraud Initiative	-	√	√	√
Procurement	Medium		√	
<b><u>Other</u></b>				
Contingency: Special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested.		√	√	√

## 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.

The following areas within the Audit Universe were scored as low risk and therefore do not appear in the above Strategy for Internal Audit. However, the scores will be revisited on an annual basis, and should the risk increase they will be included:

• Health and Safety
• Training
• Maintenance of Vehicles
• Insurance Claims on vehicles
• Freedom of Information
• Long Term Planning
• Treasury Management
• Purchase/Disposal of Vehicles
• Business Continuity Plan

Periodic Audit Plan for the period 1 April 2011 to 31 March 2012

Appendix B

Auditable Area	Purpose	Risk Category	Days
<b><u>Director – Strategic Performance, Performance and Risk Team</u></b>			
Risk Management <i>(The Head of Internal Audit is required to give an annual opinion on the adequacy and effectiveness of the Service's risk management arrangements.)</i>	A review to ensure the Service is adequately identifying, assessing and managing the risks it faces in achieving its objectives, including the continued development of a detailed assurance mapping process.	High	10
<b><u>Director – Technical &amp; Operational Support Services</u></b>			
Environmental Audit	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., including a follow up of the internal audit recommendations made in our previous review of this area.	Medium	10
Asset Register/Inventory System	Advice, assistance and a review of the move towards improving the asset recording and inventory system, in order to ensure that an accurate and up to date asset register and inventory is maintained, and that relevant standing orders are complied with.	Medium	10
<b><u>Director – Operations</u></b>			
Home Fire Safety Visits	An audit to review the controls in operation over safety visits and to consider the impact of funding reductions.	Medium	13
Fire Stations – Management of Fuel <i>(Following weaknesses in internal controls previously identified at fire stations.)</i>	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	13

Auditable Area	Purpose	Risk Category	Days
<b><u>Director – Corporate Services</u></b>			
Governance <i>(The Head of Internal Audit is required to give an annual opinion on the adequacy and effectiveness of the Service's governance arrangements.)</i>	An annual review of aspects of the Service's governance arrangements.	High	15
Counter Fraud <i>(Demonstrating a pro-active approach to countering fraud and corruption is a key element of the requirements of the External Auditors.)</i>	A series of Counter Fraud activities including maintenance of a fraud risk register, pro-active targeted testing of areas within the Service open to the potential of fraudulent activity, fraud awareness training for staff and members and benchmarking against Audit Commission and CIPFA best practise etc. Also, a review of the Authority's compliance with the new Local Data Spending Guidelines, and recent national attempts to use this data for fraudulent purposes.	-	10
IT <i>(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 on the adequacy and effectiveness of.)</i>	To carry out a continuous programme of IT auditing and providing ongoing advice and assistance on IT related controls. This will include focussing upon areas such as Procurements, Information Security Standards, IT Policies, and usage of the Internet.	High	16
Follow up <i>(Internal Audit is required to obtain assurances that previously agreed actions have been implemented.)</i>	A follow up of the key audit recommendations made during the previous year.	-	10
<b><u>Director - Finance and Procurement</u></b>			
Payroll /Pensions <i>(A key financial system reviews undertaken at the request of, and on behalf of the External Auditors in order to enable them to place reliance upon our work and reduce their workload accordingly.)</i>	A review of the key financial controls relating to the administration of the Payroll System.	KFS	20
Accounts Payable <i>(A key financial systems review undertaken at the request of, and on behalf of the External Auditors in order to enable them to place reliance upon our work and reduce their workload accordingly.)</i>	A review of the key financial controls relating to the ordering and payment of goods and services.	KFS	20
Accounts Receivable <i>(A key financial systems review undertaken at the request of, and on behalf of the External Auditors in order to enable them to place reliance upon our work</i>	A review of the key financial controls relating to invoicing and collection of debts.	KFS	10



Auditable Area	Purpose	Risk Category	Days
<i>and reduce their workload accordingly.)</i>			
Fixed Asset Accounting <i>(A key financial systems review undertaken at the request of, and on behalf of the External Auditors in order to enable them to place reliance upon our work and reduce their workload accordingly.)</i>	A review of the key financial controls relating to the accurate recording of fixed assets. Consideration will also be given to assessing the impact of potential asset sales and valuation reductions due to the economic climate. A programme of testing has been agreed with the External Auditors.	KFS	15
Budgetary Control <i>(A key financial systems review undertaken at the request of, and on behalf of the External Auditors in order to enable them to place reliance upon our work and reduce their workload accordingly.)</i>	A review of the key financial controls relating to Budgetary Control.	KFS	10
Bank Account <i>(A key financial systems review)</i>	A review of the controls over and regularity of bank reconciliations and their related adjustments.	Medium	10
National Fraud Initiative <i>(It is a statutory requirement that the Fire Service take part in this exercise.)</i>	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
<b>Other</b>			
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 preparation for and attendance at various meetings, including the Audit and Performance Management Committee, a skills audit, providing training and a self assessment workshop.	N/A	15
Liaison with External Audit	Liaison with the Audit Commission on a regular basis throughout the year, including working with them on their successor arrangements, along with the establishment of a joint working arrangement with any new external auditors.	-	5
<b>Total</b>			<b>237</b>