Sandwell
Metropolitan Borough Council

Audit Services & Risk Management

Draft Strategy for Internal Audit

2010/11 to 2012/13

Including the Periodic Audit Plan for 2010/11

WEST MIDLANDS FIRE SERVICE

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 2010/11 to 2012/13 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 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	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

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 2009/10.

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 2010 to 31 March 2013

Auditable Areas:	Risk No.	Risk	10/11	11/12	12/13
Director – Strategic Performance, Performance and Risk Team					
Performance Management	1,11	Medium			√
Risk Management	4,5,6,7,9, 10	High	√	√	√
Risk Assurance Framework	-	-	√	√	√
Director of Human Resources					
Sickness/Absence Management	1,9,13	Medium	√		
Workforce Planning	1,5,6,9	Medium			√
Director – Technical & Operational Support Services					
Asset Planning	7,12	Medium			√
Business Continuity Plan	5,11	Medium			√
Health and Safety	1,13	Medium	√		
Environmental Audit	13	Medium		√	
Director – Operations					
Home Safety Visits	10	Low		√	
Fire Stations – Management of Cash	8	Medium	√		
Fire Stations – Management of Fuel	8	Medium		√	
Partnerships	4	Medium	√		
Director – Corporate Services					
Governance	-	High	√	√	√
Counter Fraud	8	-	√	√	√
IT	2	High	√	√	√
Follow up	-	-	√	√	√
Head of Finance and Procurement					
Payroll /Pensions (KFS)	1, 8	High	√	√	√
Creditors (KFS)	8	High	√	√	√
Debtors (KFS)	8	High	√	√	√
Fixed Assets (KFS)	7	High	√	√	√
Budgetary Control (KFS)	3,8	High	√	√	√
Bank Account	8	Medium		√	
National Fraud Initiative	8	-	√	√	√
Procurement	7, 8	Medium			√
Long-term Planning (KFS)	8	High	√	√	√
Treasury Management (KFS)	8	High	√	√	√
Contracts/Procurement	-	Medium	√		
Other					
Contingency: Special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested.	-	-	√	√	√

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Auditable Areas:	Risk No.	Risk	10/11	11/12	12/13
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 2010 to 31 March 2011   **Appendix B**

Auditable Area	Purpose	Risk Category	Days
Director- Strategic Performance, Performance and Risk Team			
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 Service is adequately identifying, assessing and managing the risks it faces in achieving its objectives.	High	10
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
Director of Human Resources			
Sickness/Absence Management	An audit to review the processes for managing the workforce and securing regular attendance at work including development of policies, support given to managers, consistency of policy application, absence reporting and recording, dissemination and monitoring of attendance data and steps taken to address poor attendance. In addition our review will focus on progress on implementing the recommendations from our last audit report on this area, which gave limited assurance.	Medium	10
Director – Technical & Operational Support Services			
Health and Safety	An audit to review the management of Health and Safety systems, with emphasis on organisational responsibilities, health and safety policy, planning and training for health and safety and control measures, such as risk assessments and safe working which have been embedded to mitigate risk. In addition our review will focus on progress in the implementation of recommendations by other agencies, and an overview of the assurance that the Audit Committee can obtain from these.	Medium	10

Auditable Area	Purpose	Risk Category	Days
<u>Director – Operations</u>			
Fire Stations – Management of cash *(Following recent weaknesses in internal controls identified at two fire stations)*	A programme of visits to a sample of fire stations in order to review the controls over cash imprests, and the implementation of recommendations made following the recent weaknesses in internal controls identified at two fire stations.	Medium	10
Partnerships	A review of the strategic administration of key partnerships with particular emphasis on managements' understanding of the partnership "inventory", monitoring and measurement of outcomes and their contribution towards LAAs. In addition we will review the arrangements for monitoring risk and the effectiveness of controls.	Medium	15
<u>Director – Corporate Services</u>			
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 an aspect of the Service's governance arrangements.	High	10
Counter Fraud *(Demonstrating a pro-active approach to countering fraud and corruption is a key element of the Use of Resources inspection regime.)*	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.	-	10
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 on the adequacy and effectiveness of.)*	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 following up our previous work on the use of the Internet.	High	20
Follow up *(Internal Audit 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.	-	10

Auditable Area	Purpose	Risk Category	Days
Director - Finance and Procurement			
Payroll /Pensions *(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.)*	A review of the key financial controls relating to the administration of the Payroll System.	High	20
Creditors *(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.)*	A review of the key financial controls relating to the ordering and payment of goods and services.	High	20
Debtors *(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.)*	A review of the key financial controls relating to the invoicing and collection of debts.	High	10
Fixed Assets *(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.)*	A review of the key controls over the recording of the Service's fixed assets (to be confirmed with the external auditors).	High	15
Budgetary Control *(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.)*	A review of the key financial controls relating to Budgetary Control.	High	10
National Fraud Initiative *(It is a statutory requirement of the Audit Commission that the Fire Service take part in this exercise.)*	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
Long-term Planning *(This review is being undertaken at the request of, and on behalf of the External Auditors in order to enable them to place reliance upon our work and*	A review of the processes for the preparation of long term plans (detailed scope to be confirmed with the external auditors – currently awaiting further information on this).	High	5

Auditable Area	Purpose	Risk Category	Days
reduce their workload accordingly.)			
Treasury Management *(This review is being 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.)*	A review of the robustness of the internal controls over the treasury management arrangements with Sandwell MBC (detailed scope to be confirmed with the external auditors – currently awaiting further information on this).	High	5
Contracts/Procurement	A review of the tendering practices on revenue contracts issued by the Authority to ensure compliance with internal polices (Standing Orders, Financial Regulations and the Purchasing Manual) and conformity with UK statutes such as the Public Contract Regulations 2005. Our review will also cover the issue, receipt and evaluation of tender documents, granting of contract extensions and negotiations arising from the contract.	Medium	10
Other			
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 Committee and associated pre-meetings. Facilitating an annual Audit Committee self assessment exercise. Input into the evaluation of the External Auditors. Working with the Committee on responding to requests from the External Auditors on Committee related matters. Providing training for Committee members as and when required. Ensuring Committee members are kept informed of technical updates relating to internal audit and related matters. Involvement in the Use of Resources inspection process.	N/A	21
Liaison with External Audit	Liaison with the Audit Commission, regular progress meetings, maintenance of a Protocol for liaison between Internal and External Audit, making Internal Audit files available for External Audit review etc.	-	2
Total			**253**