



AGENDA ITEM: 7

NORTH WALES FIRE AND RESCUE AUTHORITY AUDIT COMMITTEE

7th JUNE 2010

INTERNAL AUDIT ANNUAL STATEMENT OF ASSURANCE 2009/10

**Report by Mike Halstead,
Head of Audit and Procurement Services**

Purpose of Report

- 1 Under the terms of the Accounts and Audit regulations, the Authority is required annually to conduct a review of the effectiveness of its system of Internal Control. Internal Audit is an integral part of that system, and is a significant contributor to the preparation of the Statement of Internal Control (SIC), which is required to be included in the Annual Statement of Accounts. The production of a SIC will be superseded by the requirement to produce an Annual Governance Statement in respect of 2010/11.
- 2 The CIPFA's Code of Practice for Internal Audit in Local Government in the UK 2006 requires the Head of Internal Audit to provide the Audit Committee with assurance on the whole system of internal control, including the adequacy of risk management and corporate governance arrangements. It should also be noted that assurance can never be absolute. The most that Internal Audit can provide to the Audit Committee is reasonable assurance that there are no major weaknesses in the whole system of internal control
- 3 The report contains the assurance statement based on the work of Internal Audit during the year ended March 2010. The report is supported by Appendix A, which details the audit opinions of the assignments completed during 2009/10.

Introduction

The Role of Internal Audit

- 4 The role of Internal Audit Services is to provide management with an objective assessment of whether systems and controls are working properly. It is a key part of the organisation's internal control system because it measures and evaluates the adequacy and effectiveness of other controls so that:
 - the Audit Committee and senior management are aware of the extent to which they can rely on the whole system; and
 - individual managers are aware of how reliable are the systems and controls for which they are responsible.
- 5 The internal control system comprises the whole network of systems and controls established to manage the Authority, to ensure that its objectives are met. It includes financial and other controls and also arrangements for ensuring that the Authority is achieving value for money from its activities.

Definition of Internal Audit

- 6 The definition of internal audit, as described in the Code of Practice for Internal Audit in Local Government in the U.K. 2006, is set out below:
 - Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation'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.
 - Whilst Internal Audit "primarily" provides an independent and objective opinion to the organisation on the control environment, it may also undertake other, non-assurance work at the request of the organisation subject to the availability of skills and resources. This can include consultancy work; indeed, Internal Audit intrinsically delivers consultancy services when

making recommendations for improvement arising from assurance work and fraud-related work.

Statement on Internal Control

- 7 The revised Accounts and Audit Regulations came into force from the 1st April 2005 in respect of all Welsh Local Authorities. The Regulations require each authority to conduct a review at least once a year of the effectiveness of its system of internal control and to include a statement on internal control (SIC), prepared in accordance with proper practice, in its annual accounts. Internal Audit activity contributes to the evidence content of the SIC, although other activities of the Authority will need to produce evidence in support of any statement made.
- 8 Making a SIC brings a number of important benefits to local government:
 - increased awareness of internal controls and control weaknesses and risk management among members and management;
 - greater awareness of the importance of risk identification and monitoring amongst staff at all levels;
 - better appreciation of the benefits of a strong internal audit function;
 - greater awareness of the whole range of other internal and third party assurance sources that operate within the organisation and the importance of the role that they fulfil;
 - increased and encouraged Audit Committee activity.

Factors Affecting the Extent of Internal Audit Work

- 9 It is evident from the Summary of Internal Audit Activity (Appendix A) that all work planned for 2009/10 was undertaken, with the exception of 8 days allocated on a consultancy basis to assist and advise in the project to transfer from NWF&RA's Commitment Accounting System to Conwy's AS400 System, including Accounts Payable and General Ledger. The project has not progressed as intended during 2009/10 and therefore the consultancy time has been carried forward into 2010/11.

THE STATEMENT OF ASSURANCE

Preamble

- 10 The Head of Internal Audit is required to provide the Audit Committee with assurance on the whole system of internal control, including the adequacy of risk management and corporate governance arrangements. It should be noted that assurance can never be absolute. The most that Internal Audit can provide to the Audit Committee is a reasonable assurance that there are no major weaknesses in the whole system of internal control.
- 11 The matters raised in this report are only those that came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Overall Assurance

- 12 The work of Internal Audit Services has been conducted in compliance with internal auditing standards contained in the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

Audit Opinion

- 13 I am satisfied that internal audit work undertaken, together with our maintained knowledge of the organisation and its procedures allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the NWFRA risk management, control and governance processes. In my opinion, for the 12 months ended 31st March 2010, NWFRA has satisfactory internal control and corporate governance processes to manage the achievement of the Authority's objectives.

Assurances

- 14 It is my opinion that NWFRA has adequate and effective control processes to manage its achievement of the Authority's objectives for the 12 month period to 31st March 2010. In reaching this opinion the following factors were taken into consideration:

- Internal Audit undertakes follow up action within six months of the issue of the final report in respect of audit assignments. The purpose of the follow up review is to determine the timeliness and effectiveness of the implementation of recommendations made to management. The follow up review process indicates that management have implemented or are in the process of implementing all of the recommendations made in our audit reports relating to 2008/09.
- A schedule giving an audit opinion of the adequacy and effectiveness of control processes in respect of all the audit assignments undertaken during the year is attached at Appendix A. All audits undertaken during the year were assessed as providing positive levels of assurance.

15 The overall audit opinion may be used in the preparation of the annual Statement on Internal Control.

ANALYSIS OF WORK UNDERTAKEN AND DEFINITION OF AUDIT RECOMMENDATIONS AND OPINIONS

16 The schedule at Appendix A details the conclusions on the assignments Internal Audit has reported upon during the year. Standard 10 of the CIPFA Code of Practice for Internal Audit in Local Government in the U.K. 2006 requires that Internal Audit recommendations are prioritised to identify clearly their respective risk. The categorisation of recommendations informs the audit opinion in respect of each audit. Subsequently, a summary of each audit opinion made during the financial year informs the process whereby the Head of Audit and Procurement Services is required under the above Code to include an opinion on the overall adequacy and effectiveness of the Authority's internal control environment, in his formal annual report to the Audit Committee.

Risk Ranking Categories

17 Recommendations are categorised on the following basis:

CATEGORY : HIGH

This category represents a fundamental weakness whereby action is considered imperative to ensure that the Authority is not exposed to high risks. Breaches of legislation or Authority procedures, including Financial Regulations and Contract Standing Orders, or fundamental systems weaknesses where there is an absence of key controls etc. If a key/important control is absent then the related recommendation is normally rated high.

CATEGORY : MEDIUM

In terms of medium risks, action is considered imperative to avoid exposure to significant risks. This categorisation is used where there is evidence of good controls in place but their application is inconsistent, or a less important expected control is absent and overall control would be improved by its presence.

CATEGORY : LOW

Action is considered desirable and should result in enhanced control or better value for money. This category applies where there is an awareness of better practice, but control objectives are still being met or where current activity/value is and likely to remain low, so the level of risk is determined as low and has little impact on the 'Audit Opinion'.

Audit Opinion

- 18 The outcome of the audit and evaluation of the adequacy of the internal control environment is based on the number of recommendations made and their risk rating. This process informs the Audit Opinion and the following definitions have been produced to enable auditors to make appropriate assessments in respect of the Audit Opinion contained at the end of each audit report.

Definitions of Audit Opinions

- 19 In this context, "risk" may be viewed as the chance, or probability, of one or more of the Authority's objectives not being met. It

refers both to unwanted outcomes that might arise and to the potential failure to realise desired outcomes.

GOOD

Controls are in place to ensure the achievement of service objectives and to protect the Authority against significant foreseeable risks. No significant or material errors or omissions were found.

SATISFACTORY

Controls exist to enable the achievement of service objectives, and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with the control process were identified and opportunities still exist to mitigate further against potential risks.

ADEQUATE

Controls are in place and to varying degrees are complied with but there are gaps in the process which leave the service exposed to risks. There is, therefore, a need to introduce additional controls and improve compliance with existing ones, to reduce the risk exposure for the Authority.

UNSATISFACTORY

Controls are considered to be insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls, and errors and omissions have been detected. Failure to improve controls leaves the Authority exposed to significant risk, which could lead to major financial loss embarrassment or failure to achieve key service objectives.

Common Weaknesses

- 20 There is no common factor that links the weaknesses identified as part of our internal work for 2009/10 and there are no particular issues or concerns relevant to the preparation of the Statement on Internal Control.

OTHER MATTERS

Qualifications to the Audit Opinion

- 21 In giving an audit opinion, it should be noted that assurance can never be absolute. The most that the Internal Audit Service can provide to the Audit Committee is a reasonable assurance based upon the work undertaken in that year, that there are no major weaknesses other than those identified.
- 22 Qualifications to the Audit Opinion are set out in paragraphs 11, 12 and 13. In addition, in arriving at our opinion, we have taken into account:
- the results of all audits undertaken during the year ended 31st March 2010;
 - the results of follow-up action taken in respect of audits from previous years;
 - whether any High or Medium category of recommendations have not been accepted by management and the consequent risks;
 - the affects of any material changes in the Authority's objectives or activities;
 - matters arising from previous reports to the Executive Panel or Audit Committee;
 - whether or not any limitations have been placed on the scope of internal audit;
 - the resource constraints placed upon Internal Audit that have impinged on the Service's ability to meet the full internal audit needs of the Authority;
 - what proportion of the Authority's internal audit needs have been covered to date.

Acceptance of Recommendations

- 23 Management have accepted 100% of the recommendations made by the Internal Audit Service during the year. There are no High or Medium category recommendations that we consider are not receiving adequate management attention.

Reliance Placed Upon Work by Other Assurance Bodies

- 24 Internal Audit places some reliance on work undertaken by KPMG, the Authority's external auditors, particularly in relation to risk management and corporate governance arrangements in drafting the annual reports and forming our annual opinion of the period.

Issues Judged Relevant to the Statement on Internal Control

- 25 Based on the work of the Internal Audit Section during 2009/10 there are no significant areas of weakness that warrant attention in the Statement on Internal Control for 2009/10.

Compliance with Internal Audit Standards

- 26 Internal Audit employ a risk-based approach to determining the audit needs of the authority at the start of the year and use a risk based methodology in planning and conducting our audit assignments. The work of Internal Audit Services has been performed in compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
- 27 Internal Audit is subject to annual review by External Audit to determine compliance with the auditing standards contained in the Code of Practice.
- 28 The Head of Internal Audit has made provision for internal quality reviews to be undertaken periodically by experienced members of the internal audit function to appraise:
- compliance with the organisational and operational standards referred to in paragraph 26,
 - the quality of audit work,
 - the quality of supervision,
 - compliance with the local audit manual,
 - the achievement of performance indicators.
- 29 The review conducted in respect of the work performed during 2009/10 has demonstrated compliance with both internal and external standards.

Internal Quality Assurance Programmes

- 30 In order to ensure the quality of the work performed by Internal Audit, a range of quality measures are in place which include:
- Supervision of staff conducting audit work;
 - Documented review of all files of working papers and reports by managers;
 - An annual appraisal of audit staff resulting in personal development and training action plans. The Section utilises CIPFA's Excellent Auditor Training Package to determine individual training needs;
 - The maintenance of the Section's Internal Audit Manual.

RECOMMENDATION

- 31 The Internal Audit Annual Statement of Assurance be accepted and utilised to contribute to the evidence content of the 2009/10 Statement on Internal Control (SIC).

APPENDIX A

NORTH WALES FIRE AND RESCUE AUTHORITY
Internal Audit Section – 2009/10 Annual Summary of Recommendations and Audit Opinions

	Auditable Area	Audit Coverage	High	Medium	Low	Total	Agreed by Mgmt	Audit Opinion
1	Income Collection & Banking.	A review of the systems of internal control operating in respect of the collection, receipt & banking of the Authority's income.	2	1	4	7	7	Satisfactory
2	National Fraud Initiative	NFI is a comprehensive & thorough 'data matching' exercise organized by the Audit Commission in partnership with the Wales Audit Office (WAO).	0	0	0	0	0	Good
3	Data Protection	To determine whether activities involving the processing of personal data are carried out in accordance with the Authority's data protection policies and procedures, and whether this processing meets the requirements of the Data Protection Act 1998.	0	2	2	4	4	Satisfactory
4	E-Government	To determine the degree of control over risks for the following: <ul style="list-style-type: none"> • e-Government vision • Collaborative working, e.g. between authorities • Customer requirements • Funding • Technical solutions • Capacity – people and skills • Business processes Focus was on strategic controls over the key risks threatening the e-Government vision/programme.	0	1	0	1	1	Good
		Totals						
							Good	2
							Satisfactory	2
							Adequate	0
							Unsatisfactory	0