



## **AGENDA ITEM: 7**

### **NORTH WALES FIRE AND RESCUE AUTHORITY AUDIT COMMITTEE**

**28 January 2013**

#### **INTERNAL AUDIT STRATEGY 2011 TO 2015**

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

#### **STRATEGY STATEMENT**

1 The overall strategy of Internal Audit is:

**“To deliver a risk-based audit plan in a professional, independent manner, to provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make recommendations to improve it.”**

2 The terms of reference of Internal Audit are documented in the Service Level Agreement for the provision of financial services with Conwy County Borough Council for the period 1<sup>st</sup> April 2011 to 31<sup>st</sup> March 2015. The measures in place to deliver the specification and schedule of services contained in the SLA are expanded upon and set out below.

#### **STATUTORY BASIS FOR INTERNAL AUDIT**

3 The requirement for an Internal Audit function for local authorities is implied by section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”. The Accounts and Audit Regulations (Wales) 2005 specifically requires that “a relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”.

## **DEFINITION AND OBJECTIVE**

- 4 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. The control environment includes all authority operations, resources, services, and its responsibilities to other bodies.
- 5 The Accounts and Audit Regulations require the NWFRA to produce an Annual Governance Statement each year. The Statement builds on the previous requirement to produce a Statement on Internal Control and extends in scope to how the Authority conducts its business internally and in its dealings with others.
- 6 The Head of Audit provides an annual report to those charged with governance to support the production of the Annual Governance Statement. This formal report includes an opinion on the overall adequacy and effectiveness of the risk management systems and the internal control environment; disclosure of any qualifications to that opinion together with reasons; a summary of the of the audit work upon which the opinion is based; the extent to which reliance upon the work of other assurance bodies has been placed; and any issues considered relevant to the preparation of the Annual Governance Statement.
- 7 Internal Audit operates in a consultancy role in advising managers in relation to issues within its remit, such as the implementation of appropriate controls in terms of new projects, developments and systems. The exact allocation of resources in respect of consultancy work is determined in the audit plan. Separate time allocations are allowed for consultancy activities, fraud related work and follow up audits.

## **STATUS**

- 8 Internal Audit is responsible to the Treasurer for line management purposes, and helps to discharge the statutory functions of the Chief Finance Officer as defined in Section 151 of the Local Government Act 1972. However Internal Audit is independent in its planning and operation.
- 9 The Head of Audit Services has direct access to the Chief Fire Officer, all levels of management and elected members. Internal Auditors have the authority to:
  - enter at all reasonable times any authority establishment
  - have access to all records, documents, information and correspondence relating to any financial and other transaction as considered necessary, for the purposes of audit review and/or investigations
  - evaluate the adequacy and effectiveness of internal controls designed to secure assets and data to assist management in preventing and deterring fraud
  - request explanations as considered necessary to satisfy themselves as to the correctness of any matter under examination
  - require any employee of the NWFRA to produce cash, materials or any other property belonging to the authority in their possession or under their control
  - access records belonging to third parties, such as contractors or partners, when required and appropriate.

## **DELIVERY OF THE AUDIT SERVICE**

- 10 The Head of Audit Services is responsible for delivering the audit service in accordance with the Service Level Agreement. To ensure that this can be achieved, there are appropriate arrangements for:
  - determining and planning the work to be carried out based upon a Needs Assessment and a risk based planning process, an annual operational audit plan and monthly work plans. All plans are based on an assessment of risk

- providing the resources required to deliver the audit plan, the necessary skills (both in general audit and technical areas) and support facilities, such as IT facilities, equipment and management and administration processes.
- 11 The Internal Audit service will be delivered on the basis of a Needs Assessment (**Appendix A**), a risk based approach to determining the needs of the Authority at the start of each year and detailed operational plans which will be presented to the Audit Committee on an annual basis for approval. The assessment sets out the number of days required for Internal Audit to adequately review the areas involved, and a risk assessment level for each planned audit assignment. The over-riding objective of this approach is to ensure that Internal Audit is able to present an opinion on the control environment by directing adequate resources based on the relative risks of the operations, resources and services involved, using a formal risk assessment process. The risk assessment process takes account of a range of strategic, corporate, service and operational risks, including those identified through the Risk Management process and by the external auditor and the views of senior management on these issues. Where resources available are not considered by the Head of Audit Services to be adequate for such an opinion to be provided, this will be reported to the organisation through the Executive Panel.
- 12 The Plan balances the following requirements:
- the need to ensure the Audit Plan is completed to the target levels established by the section's performance indicators;
  - the need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control on which External Audit will place reliance;
  - the need to appropriately review other strategic and operational arrangements;
  - the need to have uncommitted time available to deal with unplanned issues which may need to be reviewed or investigated;
  - the relative allocation of resources between assurance, fraud related and consultancy services provided by internal audit.

- 13 Progress against the operational plan and the content of the plan, will be kept under review by the Head of Audit Services in liaison with the Treasurer and through monitoring corporate and service developments. The Audit Committee will be advised of performance against the operational plan.
- 14 Internal Audit will comply with the Auditing Practices Boards Guidance for Internal Auditors as interpreted by CIPFA's Code of Practice for Internal Audit in Local Government in the UK and all staff are expected to comply with any other appropriate professional standards. The Head of Audit Services will ensure that there is an up to date Audit Manual in place setting out expected standards for the service and will monitor compliance with these standards, including in relation to the planning, conduct and reporting of audit assignments.
- 15 Internal Audit implemented the CIPFA Audit Training Package in 2003 which was linked to the annual development and review process in respect of each staff member. CIPFA have recently updated this training package with the Excellent Auditor and this has been implemented for all staff since 2007/08. This training package is designed to ensure that relevant training is identified and provided to all auditors to enable them to acquire the level of skills necessary to undertake their roles. It supplements the authority's PDR scheme which is applied to all staff in the Internal Audit Section.
- 16 Internal Audit will aim to co-operate effectively with the external auditor and ensure that appropriate reliance can be placed on Internal Audit's activities.
- 17 The reporting approach for Internal Audit is set out in the approved Service Level Agreement and Internal Audit will comply with this approach as the most efficient method of delivering the outcomes of its work.

- 18 In the delivery of each assignment Internal Audit will look to make practical recommendations based on the findings of the work and discuss these with management, such that management commit to an appropriate action plan for implementing any necessary improvements to the control environment.

## **RECOMMENDATION**

- 19 The Internal Audit Strategy 2011–2015 be accepted by the Audit Committee.

**NORTH WALES FIRE AND RESCUE AUTHORITY**  
**Internal Audit Needs Assessment and Audit Plan for 2012/13**

	Main System and Subsystem	Potential Areas for Audit	Risk Assessment	2012/13 Days	Comments
<b>Risk Area – Strategic Management and Governance</b>					
1	Corporate Governance	Legal Compliance Arrangements; Policy and Decision Making; Scheme of Delegation; Codes of Conduct - Officers; Codes of Conduct - Members; Training and Awareness; Chief Officers Pay; Standing Orders and Financial Regulations; Anti-fraud and Whistle-blowing; Environmental Policy.	A		The Fire Authority has approved the 'Local Code of Governance' and the Annual Governance Statement 2009/10 was presented to Audit Committee in June 2011. <b>KPMG confirmed that the Authority was up to date with new legislation and appropriate processes and procedures in place.</b>
2	Service Planning	Corporate Planning; IRMP; BVPP; Service Unit Plans; CPA Improvement Plan; Modernisation; Consultation; Risk Assessment; Resourcing and Financial Approval; Improvement Co-ordinating Unit	B		WAO - Financial Audit Outline 2010 /11 – Proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Includes review of key corporate performance and financial management arrangements.
3	Performance Management	Roles and Responsibilities; Target Setting; Data Collection; Data Quality Control; Reporting; Use of Management Information to support Service Improvement.	A		WAO Regulatory Programme for Performance Audit April 2011 to March 2012 – to confirm whether Authority has in place robust and effective arrangements to prevent and detect fraud.  Audit of the Annual Action/Improvement Plan and performance indicators.

	<b>Main System and Subsystem</b>	<b>Potential Areas for Audit</b>	<b>Risk Assessment</b>		<b>2012/13 Days</b>	<b>Comments</b>
4	Risk Management, Emergency Planning and Business Continuity	Policy and Framework; Roles and Responsibilities; Training; Corporate Risk Register; Integration with Management Processes ; Monitoring and Assurance Mechanisms; Reporting; Emergency Planning; Risk Assessment; Business Continuity; Urban Search and Rescue; Compliance with CCA 2004; Working with Partner Agencies and Local Businesses; Resilience Forums; Mobile Conference Facilities;	A			WAO Regulatory Programme for Performance Audit April 2011 to March 2012 – to confirm whether Authority has in place robust and effective arrangements to prevent and detect fraud.  Audit of the Annual Action/Improvement Plan and performance indicators.
5	Equalities and Diversity	Compliance with Legislation; Policy, Practice and Procedure; Responsibilities; Awareness and Training; Performance Management.	C			
<b>Risk Area – Operational Service Delivery</b>						
6	Control Room Operations  Incident Response and management	Compliance with Key Risk Mitigation; Mobilisation Procedures; Incident Response Prioritisation; Monitoring and Measuring Performance; Staffing and Resources; Training; Incident Command System.	C			Making Connections Agenda



	Main System and Subsystem	Potential Areas for Audit	Risk Assessment		2012/13 Days	Comments
7	Hoax Call Procedures	Policy and Procedure; Recording and Monitoring; Education; Communication.	C			
8	Community Fire Safety and Arson Task Force	Communication; Education; Resourcing Risk Profiling; Working with Business, LEAs, CYPT, YOT, other FRSS Sprinklers project; Smoke Alarms; Home Fire Safety Checks; Community Safety Events; Vehicle Recovery.	C			A review of Community Fire Safety's partnership working was undertaken during 2010/11. The Audit opinion was Adequate. <b>Follow up audit was undertaken in June 2012, which identified that the Opinion was reassessed as Satisfactory.</b>
9	Inspection & Investigations	Compliance with Policy; Inspections Programme; Online assessments; Compliance with building control; Issue of licences/certificates; Income from inspections and licences.	C			
10	Partnership Working	Partnership Governance; Risk Assessment; Crime and Disorder Reduction; Local Strategic Partnership; Local Area Agreements; LEAs and others.	B			A review was undertaken during 2010/11 of the Authority's (CFS) partnership working evaluating the governance arrangements and the adequacy of the internal controls incorporated within each system, identifying any control weaknesses and areas of potential risk. <b>The Audit opinion was Adequate. Follow up audit was undertaken in June 2012, which identified that the Opinion was reassessed as Satisfactory.</b>

	Main System and Subsystem	Potential Areas for Audit	Risk Assessment		2012/13 Days	Comments
<b>Risk Area – People Management</b>						
11	Health and Safety	Compliance with Legislation; Policy, Practice, Procedure; Responsibilities Awareness and Training Performance Management Incident Monitoring and Reporting; Insurance (Public and Employers liability)	B			
12	Managing Attendance (uniformed and non uniformed)	Compliance with Policy; Reporting and recording absence; Performance Information.	C		6	WAO National Review of Sickness Absence 2006/07.  <b>Special Investigation undertaken during 2011/12 of Time off in Lieu &amp; other HR issues.</b>
13	Staff Training and Development (uniformed and non uniformed)	Implementation of IPDS; Skills Assessment; Development Portfolios; Personal Development Reviews; Performance Appraisal; Training Facilities; Joint Training Schemes; Succession Planning; Leadership Development (Service Improvement); Value Centred Training.	C			WAO performance work planned for 2011/12 – Themed Study – HR and workforce planning
14	Recruitment and Selection	Compliance with Recruitment Policies and Procedures; Equalities and inclusion; Pre-employment checks; Performance Management.	C			Pre-employment checks eg. references, CTB checks covered as part of starters and leavers audit 2007/08.

	Main System and Subsystem	Potential Areas for Audit	Risk Assessment		2012/13 Days	Comments
<b>Risk Area – Project Management</b>						
15	Project Management	Special Projects Unit; Roles and Responsibilities; Project Prioritisation; Risk Assessment; Compliance with Prince 2; Training in Project Management; Monitoring and Delivery; Financing.	B		8	The Head of Facilities & Logistics Management Department for North Wales Police Authority proposed that the Final Account at Rhyl Community Fire Station be assessed for any irregularities. <b>As part of the 2011/12 audit plan Conwy's Internal Audit Service has recently undertaken a review of this contract. Audit Opinion - Satisfactory</b>
<b>Risk Area – Financial and Fraud Risks</b>						
16	Financial Planning & Budgetary Control	Funding Arrangements Resource Allocation Medium Term Financial Planning Budget setting and approval Financial delegations Budget Holder Training Budget Monitoring Financial Forecasting/Reporting	A			Financial Audit Outline 2010 /11. KPMG will confirm that the Authority's Financial Statements comply with the relevant statutory requirements. The Authority's arrangements for budget setting and monitoring financial performance will be reviewed.
17	Payroll	Starters, Leavers, Amendments; Payment Control; Certification; Accuracy; Monitoring; Reporting.	A		10	Payroll Starters and Leavers Audit 2007/08. Audit Opinion was Satisfactory. Payroll Amendments to Pay audit 2008/09. Audit Opinion was Satisfactory. Payroll CAATS Audit 2008/09. Audit Opinion was Good. Review of payment of retained firefighters (Denbighshire) 2010/11. Audit Opinion was adequate.  <b>Retained Pay - Review of new electronic FIN 8 procedures undertaken during 2011/12 – Audit Opinion - Satisfactory.</b>

	<b>Main System and Subsystem</b>	<b>Potential Areas for Audit</b>	<b>Risk Assessment</b>		<b>2012/13 Days</b>	<b>Comments</b>
18	Employee & Members Allowances	Claims, authorisation and Processing in respect of: Travel and Subsistence; Long Service Awards; Relocation; Residential Allowances; Medical Allowances.; Other Material Allowances.	D			Internal Audit Review of Members Allowances 2005/06. Audit Opinion was Good. Employee Allowances included in Payroll Amendments to Pay audit 2008/09.
19	Pensions	Notification to Administering Authority; Verification of Changes; Unfunded Charges.	C			Regulatory Plan 2007/08 – KPMG confirmed that the Authority’s Financial Statements comply with new Fire Service Pension Accounts requirements.
20	Procurement & Purchasing	Procurement Strategy; Efficiency and Value for Money; E Procurement; Compliance with Financial regulations and Contract Standing Orders; Purchasing and Payment Procedures; Credit Card Expenditure; Cash Expenditure.	B			WAO Annual Opinion in respect of VFM.
21	Capital Strategy and Accounting	Strategy and Programme Setting/Approval; Monitoring; Capitalisation/ Authorisation of Expenditure ; Prudential Borrowing; Fixed Asset Management and Accounting; Fixed Asset Register; Asset Valuation/Depreciation; Insurance; PFI Schemes incl VAT.	A			WAO 2010/11 Coverage – Review of Final Accounts, Fixed Asset Register etc.  2008/09 – Review of Estate Management as part of Making the Connections.

	Main System and Subsystem	Potential Areas for Audit	Risk Assessment		2012/13 Days	Comments
22	Fleet Management and Fuel	Procurement/Leasing; Management and Strategic Alignment; Maintenance and Inspection; Fuel Issues and Usage; Disposal; Insurance.	C		10	Internal Audit review of Fuel 2007/08. Audit Opinion was Satisfactory. Regulatory Plan 2007/08 – KPMG review of Fleet and Vehicle Asset Management. A review of Fleet Management's procedures in relation to vehicle insurance, licensing, inventories, stocks of spares, purchasing orders, maintenance programme & MOTs, job sheets, disposals, purchases and drivers/mechanics. <b>Fleet Management audit review undertaken during 2011/12 – Audit Opinion - Good.</b>
23	Income Collection & Banking	Receipt of Funds; Grant Income; Precept Income: Collection and Accounting Procedures; Miscellaneous Income; Compliance with Charging Policy; Inspection Certificate Income; Cash Security and Banking; Insurance.	C			Internal Audit of the collection, receipt and banking procedures in respect of all income generated by NWF&RA was undertaken during 2009/10. <b>Audit Opinion - Satisfactory.</b>  <b>Follow up audit undertaken in August 2010 reassessed audit opinion as Good.</b>
24	Stores	Stock Control, Valuation and Recording; Purchasing and Receipt; Security of Stores; Security of IT System; Issue and Returns Procedures; Insurance.	D			Internal Audit Review 2003/04. <b>Audit Opinion - Good.</b>  <b>Stores internal audit scheduled for 2012/13.</b>
25	Equipment Security and Inventory	Inventory Level; Recording and Reviewing; Marking of Equipment; Loan of Equipment; Physical Security of Location; Insurance.	C			Internal Audit Review 2007/08. Included in Retained Stations (Denbighshire) audit 2011/12. <b>Reviewed as part of Retained Stations - Ynys Mon &amp; North Gwynedd 2011/12 (Satisfactory) &amp; Wrexham &amp; Flintshire 2012/13 (Good).</b>

	<b>Main System and Subsystem</b>	<b>Potential Areas for Audit</b>	<b>Risk Assessment</b>		<b>2012/13 Days</b>	<b>Comments</b>
26	Utility Costs and Service Contracts	Tendering and Value for Money; Monitoring Energy Costs; Compliance with Financial Regulations.	C			
27	National Fraud Initiative	Payroll Download; Creditors Download; Investigation of Output from National Matching Exercise.	A		4	NFI data matching of payroll and creditors data to be conducted every 2 years. NFI audit 2009/10. Audit Opinion – Good.  <b>NFI work undertaken during 2011/12. Audit Opinion - Good</b>
28	Main Financial Systems <ul style="list-style-type: none"> <li>• Payroll</li> <li>• Creditors</li> <li>• Debtors</li> <li>• Treasury Management</li> <li>• Accounting System</li> <li>• Anti Fraud</li> </ul>	Completeness, Accuracy and Validity of Transactions; Correct Accounting; Monitoring and Reporting; Efficiency; Value for Money; Documentation of Systems; Compliance with Financial Regulations and Procedures.	A		8	Covered by Audit of CCBC Systems on an annual basis. Review of NWF&RA Creditors System 2008/09. Audit Opinion was Adequate. <b>Audit scheduled for 2012/13 to review the transfer from the Authority's Commitment A/C System to Conwy's Accounts Payable and General Ledger Systems.</b> Financial Audit Strategy 2010/11 includes review of Treasury Management Strategy.
<b>Risk Area – Reputation and Public Confidence</b>						
29	Complaints Procedures	Policy, Procedure, Best Practice; Compliance; Monitoring and Reporting; Service Improvement; Compensation.	C			
30	Corporate Communications	Communications Strategy; Marketing and Media; Responsibilities; Incident monitoring.	C			

	Main System and Subsystem	Potential Areas for Audit	Risk Assessment		2012/13 Days	Comments
<b>Risk Area – Information Management and Technology</b>						
31	IT Strategy and Management	Strategy Development and Resourcing; Policies and Management Framework; Internet and Email Control; Responsibilities; ICT Procurement and Development; Insurance.	C			<p>The audit assessed the degree of control over the key risks for accessing information on the organisation's IT systems and will specifically review the following areas for compliance with ISO 27000 information security standards.</p> <ul style="list-style-type: none"> <li>• User access control</li> <li>• Computer access control</li> <li>• Application access control</li> <li>• Monitoring system access and use</li> <li>• Access control over personal information</li> </ul> <p>WAO performance work planned for 2011/12 – Themed studies of Information Governance &amp; ICT Technology</p>
32	Network Management	Security and Control; Physical and Logical Security; Back Up and Disaster Recovery; Performance; Hardware, Media, Topolgy: Security and Control: Management Support: Communications Software; Wireless Connections.	C			<p>Network Management audit undertaken 2008/09. <b>Audit Opinion - Satisfactory.</b></p> <p>Audit of IT Security undertaken during 2010/11. <b>Audit Opinion - Satisfactory.</b></p>
33	Telecomms (non control room)	Security and Control; Physical and Logical Security; Back Up and Disaster Recovery.	C			

	Main System and Subsystem	Potential Areas for Audit	Risk Assessment		2012/13 Days	Comments
34	E Government	Strategy; Resourcing; Initiatives; Performance.	C			Internal Audit undertaken 2009/10 - the aim of the audit was to determine the degree of control over risks for the following: <ul style="list-style-type: none"> <li>• e-Government vision</li> <li>• Collaborative working, e.g. between authorities</li> <li>• Customer requirements</li> <li>• Funding</li> <li>• Technical solutions</li> <li>• Capacity – people and skills</li> <li>• Business processes</li> <li>• Focus is on strategic controls over the key risks threatening the e-Government vision/programme.</li> </ul> <b>Audit Opinion - Good</b>
35	Control Room IT	Cell Phones; Radio System; Call Out System; Physical Security; Back Up and Disaster Recovery; Performance Monitoring.	C			
36	Data Protection / Freedom of Information	Compliance with Legislation; Staff Awareness; Information requests; Monitoring and Performance.	C			Audit undertaken during 2009/10 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. Audit Opinion – Satisfactory. Freedom of Information audit undertaken during 2010/11 to ensure compliance with the statutory requirements of the Freedom of Information (Fol) Act 2000. <b>Audit Opinion – Satisfactory. Follow up undertaken in September 2011 reassessed the Audit Opinion as Good.</b>



Risk Area – Other Systems					
37	Canteen Operation	Agreement and Monitoring; Food Hygiene and cleanliness; Staff Training; Income Collection and Banking; Ordering Procedures.	C		
38	Welfare Funds	Written Procedures; Welfare Fund Records; Bank Reconciliation; Independent Audits.	D		Welfare Funds audit undertaken 2008/09. Audit Opinion was Unsatisfactory. Follow up undertaken 2009/10 – <b>Audit Opinion – Adequate.</b>
<p><b>Risk Assessments – The Needs Assessment documents each project and allocates a risk rating in respect of each auditable area, based on the completion of a risk matrix held on the Internal Audit Section’s Apace Audit Planning and Control System. The risk assessment dictates the degree of risk and the subsequent frequency of each audit. Where an area has not been recently reviewed by either Internal Audit or WAO a ‘C’ risk rating is allocated until such time as an audit review is performed and an informed opinion can be made. The current risk ratings are as follows:</b></p> <ul style="list-style-type: none"> <li>• Risk Rating A - High Risk Requiring an Annual Review</li> <li>• Risk Rating B - High Risk Requiring a review every 2 years</li> <li>• Risk Rating C - Medium Risk Requiring a review every 3 years</li> <li>• Risk Rating D - Low Risk Requiring a review every 4 years</li> </ul>					