

PREVENTING PROTECTING RESPONDING

TYNE AND WEAR FIRE AND RESCUE AUTHORITY

MEETING: 21ST MARCH 2011

SUBJECT: INTERNAL AUDIT STRATEGY AND OPERATIONAL PLAN FOR 2011/2012

REPORT OF THE HEAD OF INTERNAL AUDIT

1. Purpose of Report

1.1 To enable the Governance Committee to consider and comment on the proposed Internal Audit Strategy, and Operational Plan for 2011/2012.

2. Background

2.1 The Terms of Reference of the Committee include *'consider and endorse the Internal Audit Strategy and Operational Plan, and monitor performance'*.

2.2 The current Internal Audit Strategy was agreed on 31st March 2008. As part of the ongoing development of the service the Strategy has been reviewed and whilst, in large part, it remains fit for purpose, the audit risk assessment process has been updated to better take account of the Authority's key risk areas and Corporate Risk Profile. Therefore, the Internal Audit Strategy has been updated and is included for agreement.

3. Recommendation

3.1 The Governance Committee is invited to consider and, if appropriate, make comment on the attached proposed Internal Audit Strategy, and Operational Plan.

4. Background Papers

4.1 None

Tyne and Wear Fire and Rescue Authority

Internal Audit Strategy

1. Regulatory Framework

- 1.1 There are legislative requirements that relate to the provision of internal audit within fire and rescue authorities, namely:

The Local Government Act 1972 (S151) requires that “*every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs*”.

The Accounts and Audit Regulations 2003 (as amended in 2006) specify certain requirements of local authorities. In order to comply with these regulations the Authority needs to maintain an adequate and effective system of internal audit of its accounting records, and of its system of internal control.

- 1.2 The responsible financial officer within the Authority is the Finance Officer and one of the ways that this responsibility is exercised is through the work of internal audit (set out in the Authority’s Financial Regulations, Para 1.3.2).

2. Professional Standards and Ethics

Chartered Institute of Public Finance and Accountancy (CIPFA)

- 2.1 CIPFA has published a Code of Practice for Internal Audit in Local Government.

Institute of Internal Auditors - UK (IIA-UK)

- 2.2 The IIA-UK has produced Standards for the Professional Practice of Internal Auditing.

Ethics

- 2.3 The CIPFA Code of Practice for Internal Audit sets out in its introduction, minimum ethical standards for the performance and conduct of internal auditors.

- 2.4 The principles that must be observed are:

- integrity;
- objectivity;
- competence; and
- confidentiality.

3. Provision of Internal Audit

- 3.1 The Finance Officer to the Authority is the Executive Director of Commercial and Corporate Services of Sunderland City Council, who also provides financial services to the Authority, including internal audit. In considering the options for the provision of internal audit the Finance Officer has decided to maintain an in-house service (Internal Audit and Counter Fraud Unit), supplemented by external resource / expertise where required. This option provides for flexibility, a local presence, the development and retention of local knowledge of the organisation whilst ensuring the optimum use of financial resources. This option will be kept under review.
- 3.2 The Authority complies with the above requirements (regulatory framework, professional standards and ethics) through the operation and work of the internal audit service.

4. Role of Internal Audit

- 4.1 The roles and responsibilities of the internal audit service are set out in its Audit Charter which is kept under review and agreed by the Committee.

5. Quality System

- 5.1 The internal audit service maintains processes for planning, implementing, checking and reviewing the way in which internal audit work is delivered in line with professional standards.

6. Planning and Resources

- 6.1 It is important that the service keeps under review the resources required in order for it to fulfil its role in the medium to longer term. As such, as part of the annual planning process, the potential coverage of internal audit activity for the following 3 years is assessed alongside the existing resources available.
- 6.2 In developing the coverage of internal audit work it is appropriate to cover the key risk areas of the business over a period of years. The frequency and scope of the work is driven by an assessment of risk in consultation with key officers and a review of key documents. In order to achieve this, an audit risk assessment and planning methodology is used, as follows:
- a. A list of key risk areas has been determined which covers the main areas of inherent risk to the Authority (set out at Appendix 1).
 - b. Each key risk area is assessed based on the strength of the control arrangements known to be in place to manage the risks in that area, the likelihood of a failure in control, and the impact that failure could have. Regard was given to the key risks set out in the Authority's Corporate

Risk Profile. This results in an assessment of the level of need for audit work in order to be able to provide an opinion on the control environment in place in relation to each key risk area for each financial year.

- c. In order to complete the risk assessment as outlined above, the following is carried out:
- consultation with the Chief Fire Officer and Senior Managers to identify key issues facing the Authority nationally, regionally and locally to ensure that key risks facing the Authority are prioritised;
 - consideration of new initiatives, plans, and legislation;
 - discussions with the external auditor, and;
 - strategic risks as identified in discussion with the Finance Officer.
- d. The available audit resources are then allocated within the annual Operational Plan in accordance with the above taking into account the necessary skills and experience to undertake the work.

7. Skills and Competence

- 7.1 As a shared service, internal audit has a wide pool of skills and experience, including IT auditors. The head of internal audit and the section's manager are professionally qualified and all staff are trained to deliver work to professional standards.
- 7.2 The staffing resource available within the shared internal audit service equates to 15 full time equivalent members of staff, with qualifications as follows:

Qualified Accountants:	5
Institute of Internal Auditors - Professional Level:	5
Association of Accounting Technicians:	4
Qualification in Computer Audit:	2

A range of staff will be used in undertaking work for the Authority.

8. Performance Indicators

- 8.1 A range of performance indicators are maintained covering Efficiency and Effectiveness, Quality and Customer Satisfaction. Performance against these areas will be reported to the Chief Fire Officer on a quarterly basis and the Governance Committee on a 6 monthly basis.

9. Reporting

- 9.1 An Interim and Annual Report will be prepared in order to give assurance or otherwise to Members that they can rely on the work of internal audit.

Key Risk Areas

Corporate Governance
Service / Business Planning, IRMP
Financial Management
Risk Management
Procurement and Contract Management
Human Resource Management
Asset Management
ICT
Fraud and Corruption
Information Governance
Business Continuity and Contingency Planning
Performance Management
Payroll
Partnership Working
Project Management

Tyne and Wear Fire and Rescue Authority

Internal Audit Operational Plan for 2011/2012

1. Introduction

- 1.1 This document sets out the proposed Internal Audit Operational Plan and key performance measures for 2011/2012.

2. Development of Internal Audit Operational Plan

- 2.1 In developing the coverage of internal audit work it is appropriate to cover the key risk areas of the business over a period of years. The frequency and scope of the work is driven by an assessment of risk in consultation with the Chief Fire Officer (as set out in the Internal Audit Strategy). The Operational Plan sets out the work scheduled for the next financial year.

- 2.2 As specific areas of concern or irregularity may require investigation as and when they arise, a contingency allowance is made for this work.

- 2.3 Where individual audits cannot be undertaken as originally planned (e.g. service no longer provided), attempts will be made to replace the audit with a suitable replacement in consultation with the Chief Fire Officer and Finance Officer. Where these changes are agreed this shall be considered a variation to this Plan for the purposes of performance reporting.

- 2.4 In addition, unforeseen work can arise due to new areas of service or increased risk which is appropriate to prompt audit work in the year. Therefore, in order to allow some flexibility, a contingency allowance is also made to enable such work to be undertaken without adversely affecting the delivery of the planned audit work.

- 2.5 Time has also been allocated for the provision of advice and guidance.

- 2.6 Within the plan, provision has also been made to carry out follow up work to monitor the implementation of previously agreed recommendations (except for low risk).

3. Planned Audit Work for 2011/2012

- 3.1 The following audits are planned.

3.1.1 PFI Contract Management (12 days)

This audit will examine the arrangements to manage and monitor the services provided by the Authority's new PFI contractor and the accuracy of the contract payments.

3.1.2 Payroll (12 days)

Detailed checks will take place to obtain assurance on the accuracy of the Authority's payroll.

3.1.3 Project Management (15 days)

This audit will examine a key project to assess the arrangements put in place to ensure that projects are managed in an efficient and effective way.

3.1.4 Data Handling Guidelines (12 days)

The Local Government Data Handling Guidelines set out guidance for the secure and effective handling of personal information. The Fire Authority started work on implementing the Guidelines in 2010/11. This audit will review progress on implementation.

3.2 In addition to the above, 15 days have been allocated for proactive counter fraud and error work in relation to:

- Payment of allowances;
- Overtime;
- Honoraria;
- Premium rate telephone calls.

3.3 Each audit is linked to the appropriate key risk area(s) to identify the audit work that will inform the opinion in relation to each key risk area. Appendix 1 to this report shows all of the key risk areas and those audits that contribute towards the opinion on each area. It should be noted that some audits contribute towards the opinion of more than one key risk area and some key risk areas rely on a number of audits.

3.4 In addition to the above, audit work is also undertaken on the Lead Authority's key financial systems, which are used by the Authority. Systems planned to be audited during 2011/2012 include:

- Accounts Payable;
- Periodic Income;
- Payroll.

4. Reporting Protocols

4.1 At the conclusion of each individual audit a Draft Report and, if necessary, a proposed Action Plan will be forwarded to the appropriate manager. Once agreement has been reached, a Final Report (including any Action Plan) will be forwarded to the Chief Fire Officer. Where audits highlight issues which need to be brought to the attention of the Finance Officer they will be raised as and when necessary.

- 4.2 A quarterly progress report will be presented to the Chief Fire Officer indicating the level of achievement against agreed targets and any major findings arising from the audit work undertaken.
- 4.3 The Governance Committee will be updated on progress against the audit plan approximately half way through the year.
- 4.4 An Annual Report will be prepared for the Authority and the Governance Committee, in order to give assurance, or otherwise, to Members that they can rely on the internal control framework of the Authority.

5. Performance Management

- 5.1 All work undertaken will be in accordance with its policies and procedures, which are based upon the professional standards required by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA-UK).
- 5.2 The Key Performance Indicators which will be used to measure the performance of the service throughout the year, are shown in Appendix 2.

6. Variations to Audit Plan

- 6.1 As stated in paragraphs 2.3 and 2.4 above, in order to allow some flexibility in the work Internal Audit Services undertakes, a contingency allowance is made to enable unforeseen requests to be responded to without adversely affecting the delivery of the planned audit work. However, if the contingency allowance has been exhausted an assessment will be carried out to determine whether requests for additional work should be undertaken, based on the impact upon the delivery of the plan and the risks associated with the work requested.

Appendix 1

Detailed Audit Coverage

Key Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	Overall Opinion from Previous 3 years work	Audits Planned 2011/12
Corporate Governance	5%	Recent audit work in this area confirmed strong arrangements in place. No specific audit work necessary.	Good	
Service / Business Planning, IRMP	6%	Recent audit work has highlighted sound arrangements in place.	Good	
Financial Management	5%	New PFI supplier in place, contract management arrangements to be reviewed.	Satisfactory	PFI Contract Management
Risk Management	8%	Recent audit work has highlighted sound arrangements in place.	Good	
Procurement and Contract Management	14%	New PFI supplier in place, contract management arrangements to be reviewed.	Satisfactory	PFI Contract Management
Human Resource Management	5%	History of good performance therefore no specific audit work required.	Good	
Asset Management	8%	Recent audit work has highlighted sound arrangements in place.	Good	
ICT	24%	A review of the progress in implementing the Data Handling guidelines will be undertaken.	Good	Data Handling Guidelines
Fraud and Corruption	2%	Consideration of counter fraud testing as the back office go through a period of change and review.	Good	
Information Governance	25%	Information governance covered in 2010/2011, information security in relation to ICT to be covered during 2011/2012.	Good	Data Handling Guidelines
Business Continuity and Contingency Planning	24%	Arrangements were in a state of change during the previous audit, follow up work to be completed.	Satisfactory	Follow up work to be completed
Performance Management	5%	Recent audit work has highlighted sound arrangements in place.	Good	
Payroll	5%	Transaction testing in to be undertaken following move to monthly pay.	Satisfactory	Payroll Testing
Partnership Working	14%	Risks in relation to this area will be reviewed in discussion with key officers of the Authority.		
Project Management	15%	Project Management arrangements to be reviewed for a key project.		Project Management Arrangements

Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2011/2012

Efficiency and Effectiveness		
Objectives	KPI's	Targets
1) To ensure the service provided is effective and efficient.	1) Complete sufficient audit work to provide an opinion on the key risk areas identified. 2) Percentage of draft reports issued within 15 days of the end of fieldwork. 3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report).	1) All key risk areas covered over a 3 year period 2) 90% 3) 80%

Internal Audit and Counter Fraud Unit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2011/2012		
Quality		
Objectives	KPI's	Targets
1) To maintain an effective system of Quality Assurance. 2) To ensure recommendations made by the service are agreed and implemented.	1) Opinion of External Auditor 2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented.	1) Satisfactory opinion 2) 100% for high and significant. 90% for medium risk
Client Satisfaction		
Objectives	KPI's	Targets
1) To ensure that clients are satisfied with the service and consider it to be good quality.	1) Results of Post Audit Questionnaires 2) Results of other Questionnaires 3) Number of Complaints / Compliments	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor) 2) Results classed as 'Good' 3) No target – actual numbers will be reported

