

TYNE AND WEAR FIRE AND RESCUE AUTHORITY

Item 4

GOVERNANCE COMMITTEE

MEETING: 26TH MARCH 2018

**SUBJECT: INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN FOR
2018/19**

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 Plan for 2018/19.

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 Internal Audit Strategy for the Authority has been revised and is included below. The internal audit strategy sets out how the service will be delivered and the role of Internal Audit in providing assurance to the Authority.
- 2.3 The Internal Audit Plan then sets out the proposed plan of audit work for the Authority for 2018/19 along with the service's performance targets for the year.

3. Recommendation

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

4. Background Papers

- 4.1 None.

Tyne and Wear Fire and Rescue Authority

Internal Audit Strategy

1. Provision of Internal Audit

- 1.1 Paragraph 4.1 of the Authority's Financial Regulations states that '*A continuous internal audit, under the independent control and direction of the Finance Officer, shall be arranged to carry out an examination of accounting, financial and other operations of the Authority.*'
- 1.2 Sunderland City Council's internal auditors provide the internal audit service to the Authority.

2. Professional Standards

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) is the primary public sector accountancy body in the U.K. In 2013 CIPFA issued the Public Sector Internal Audit Standards which are based on the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework. The standards were revised in 2017 to incorporate new and revised international standards and consequent amendments to the additional public sector requirements and interpretations.
- 2.2 The internal audit service maintains a quality manual which sets out the policies and procedures required to meet the standards set out above. Periodic external reviews are conducted to ensure that they are complied with.

3. Role of Internal Audit

- 3.1 The role of Internal Audit for the Authority is to provide independent assurance to the Authority on its overall system of internal control. To fulfil this role internal audit will undertake an audit risk assessment, in consultation with the Chief Fire Officer and Strategic Finance Manager to determine the priority areas for audit activity. Internal Audit activity will also cover activity in relation to anti-fraud and corruption.
- 3.2 Assurance will be provided to Senior Management and the Governance Committee on the findings of Internal Audit work and the overall assurance level for each of the key risk areas covered by the risk assessment.

4. Planning and Resources

- 4.1. In developing the coverage of internal audit work it is appropriate to cover the key risk areas of the Authority over a period of years. The frequency and scope of the work is driven by an assessment of risk in consultation with key officers within the Authority and a review of key documents. The audit risk assessment will be updated each year in consultation with the Authority. This

will ensure that the audit plan is supportive of the Authority as well as providing assurance on the key risk areas.

5. Skills and Competence

5.1. The internal audit service encourages its staff to obtain and hold professional qualifications and supports staff in this regard. The service has a pool of skills and experience, including IT auditors. The head of internal audit and the senior managers are professionally qualified and all staff are trained to deliver work to professional / quality standards which includes a senior officer review of each piece of work to ensure the standards are complied with.

5.2. The overall staffing compliment for the service includes staff with the following qualifications:

Qualified Accountants:	3
Institute of Internal Auditors - Professional Level:	3
Association of Accounting Technicians:	3
Qualification in Computer Audit:	2

** please note that some staff hold more than one qualification*

6. Performance Indicators

6.1. A range of performance indicators are maintained covering Cost and Efficiency, Quality and Customer Satisfaction. Performance in relation to the Company will be reported where appropriate. Performance indicators measured include those in relation to each audit, client satisfaction through the return of post audit questionnaires and the percentage of agreed actions which are implemented by the agreed implementation date.

7. Reporting

7.1. Reports will be provided to Senior Management and the Governance Committee covering the following:

- Internal Audit Strategy (when appropriate) and annual Audit Plan.
- Mid-year Progress Report.
- Internal Audit Annual Report following the end of each financial year.

7.2. The conclusion of each audit report will be provided within the Internal Audit Progress Report along the overall assurance level for the each key risk area and an update of the current position in relation to performance indicators.

7.3. The head of internal audit will have direct access to the Chief Fire Officer and the Chair of the Governance Committee where considered appropriate.

March 2018

Tyne and Wear Fire and Rescue Authority

Internal Audit Plan for 2018/19

1. Introduction

- 1.1 This document sets out the proposed Internal Audit Plan and key performance measures for 2018/19.

2. Development of the 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 and the Strategic Finance Manager. 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 small contingency 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 Strategic Finance Manager. 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 internal audit work in the year. Therefore, in order to allow some flexibility, a small contingency is 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 been made to carry out follow up work to monitor the implementation of previously agreed recommendations (except for those classed as low risk).

3. Planned Audit Work for 2018/19

- 3.1 The following audits are planned.
 - 3.1.1 ICT – Cyber Security (15 days, planned for quarter 1)
This audit will review the arrangements in place to protect the Service against cyber threats and how it responds in the case of an attack.

- 3.1.2 Information Governance (10 days, planned for quarter 2)
Audit work will review the arrangements in place to ensure compliance with GDPR requirements.
- 3.1.3 Financial Management (10 days, planned for quarter 3)
Audit work will involve testing of a sample of transactions relating to Payroll and Accounts Payable. Testing will also include the new travel booking policy and recent payroll appointments.
- 3.1.4 ICT - Business Continuity/Disaster Recovery (12 days, planned for quarter 3)
This audit will review the arrangements in place to ensure that ICT services are resilient to failure and its recovery arrangements in the case of an ICT outage
- 3.1.5 Procurement and Contract Management (15 days, planned for quarter 4)
This audit will review the contract management arrangements in place for a sample of key contracts.
- 3.1.6 Fraud and Corruption (10 days, planned for quarter 4)
Audit work will involve testing a sample of financial transactions at Fire Stations.
- 3.2 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.
- 3.3 In addition to the above, audit work is also undertaken on the Lead Authority's key financial systems, which are used by the Fire and Rescue Authority. Systems planned to be audited include:
- Accounts Payable;
 - Accounts Receivable / 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 agreed action plan) will be forwarded to the Chief Fire Officer. Where audits highlight issues which need to be brought to the attention of the Strategic Finance Officer they will be raised as and when necessary.
- 4.2 The Chief Fire Officer and Governance Committee will be updated on progress against the audit plan approximately half way through the year.

- 4.3 An Annual Report will be prepared for the Governance Committee, in order to give assurance, or otherwise, to Members regarding the Authority's system of internal control.

5. Performance Management

- 5.1 All work undertaken will be in accordance with the internal audit service's policies and procedures, which are based upon the Public Sector Internal Audit Standards.
- 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 In order to allow some flexibility in the work Internal Audit undertaken, as stated earlier a contingency is made to enable unforeseen requests to be responded to without adversely affecting the delivery of the planned audit work. However, if the contingency 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.

Detailed Audit Coverage

Key Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	2015/16 Audit Opinion / Assurance	2016/17 Audit Opinion / Assurance	2017/18 Audit Opinion / Assurance	Overall Opinion from Previous 3 years work	Audits Planned 2018/19
Corporate Governance	5%	Strong framework in place and good history of general compliance.		Review of compliance with new Standing Orders - Substantial		Substantial	No audit work planned
Service / Business Planning, IRMP	8%	Sound arrangements are in place.	MTFP - Substantial		Human Resource Management - Substantial	Substantial	No audit work planned.
Financial Management	5%	Recent audit work indicates sound arrangements are in place. Any non compliance tends to be isolated and minor in nature.	Charging and Income Collection - Substantial Financial Transactions Testing - Substantial	Financial Transactions Testing on Payroll and Accounts Payable - Substantial Capital programme - Substantial Pension Arrangements – Substantial Performance and Financial Management – Substantial	Financial Transaction Testing – Payroll and Accounts Payable - Substantial	Substantial	Financial Transactions Testing on Payroll and Accounts Payable.
Risk Management	8%	Sound arrangements are in place but no recent audit work has been carried out.		Risk Management Arrangements - Substantial		Substantial	No audit work planned.

Appendix 1

Detailed Audit Coverage

Key Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	2015/16 Audit Opinion / Assurance	2016/17 Audit Opinion / Assurance	2017/18 Audit Opinion / Assurance	Overall Opinion from Previous 3 years work	Audits Planned 2018/19
Procurement and Contract Management	27%	Previous audits of procurement arrangements provided substantial assurance.			Partnership Working Arrangements - Moderate	Moderate	Review of the contract management arrangements for a sample of keys contracts
Human Resource Management	17%	Good arrangements in place generally. No history of problems in this area. However, the Service has just been through an organisational management review which has resulted in a number of posts being removed from the structure which could increase the risk of capacity issues.			Human Resource Management - Substantial	Substantial	No audit work planned.
Asset Management	8%	No history of problems in this area		Capital Programme - Substantial		Substantial	No audit work planned
ICT	24%	Sound ICT Strategy in place.	Review of Information Governance Arrangements - Substantial		General Data Protection Regulations	Substantial	Review of the cyber security arrangements in place for the Service. Review of the business continuity/disaster recovery arrangements in place for the Service.

Appendix 1

Detailed Audit Coverage

Key Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	2015/16 Audit Opinion / Assurance	2016/17 Audit Opinion / Assurance	2017/18 Audit Opinion / Assurance	Overall Opinion from Previous 3 years work	Audits Planned 2018/19
Fraud and Corruption	2%	Low levels of fraud/irregularity historically. Small organisation means setting the right culture is more effective.	Financial Transactions Testing - Substantial	Payroll transaction testing – Substantial Financial Transaction Testing on Payroll and Accounts Payable - Substantial	Financial Transaction Testing – Payroll and Accounts Payable - Substantial	Substantial	Financial Transactions Testing on Payroll and Accounts Payable. Testing on financial transactions at a sample of fire stations.
Information Governance	25%	Some outstanding issues remain from previous audit work in this area but an audit is currently on-going in this area.	Review of Information Governance Arrangements - Substantial		General Data Protection Regulations	Substantial	Review the arrangements in place to ensure compliance with GDPR requirements
Business Continuity & Contingency Planning	12%	Sound arrangements are in place.	Review of response to strike action. Review of external assessment - Substantial			Substantial	Review of the business continuity/disaster recovery arrangements in place for the Service.
Performance Management	5%	No history of issues in this area.		Performance and Financial Management - Substantial	Performance Management Arrangements	Substantial	No audit work planned
Payroll	5%	Recent audit work indicates mainly sound arrangements are in place.	Financial Transactions Testing - Substantial	Payroll transaction testing – Substantial Financial Transaction	Transaction Testing – Payroll - Substantial	Substantial	Financial Transactions Testing on Payroll

Appendix 1

Detailed Audit Coverage

Key Risk Area	Internal Audit Risk Assessment (Residual Risk)	Implication for the Audit Plan	2015/16 Audit Opinion / Assurance	2016/17 Audit Opinion / Assurance	2017/18 Audit Opinion / Assurance	Overall Opinion from Previous 3 years work	Audits Planned 2018/19
				Testing on Payroll - Substantial			
Partnership Working	27%	A strong framework is in place to govern partnership working.	Review of partnership working arrangements - Substantial		Partnership Working Arrangements - Moderate	Substantial	No audit work planned.
Project Management	15%	Sound project management arrangements are in place			Project Management Arrangements	Substantial	No audit work planned.

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2018/19		
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.	1) All key risk areas covered over a 3 year period
	2) Percentage of draft reports issued within 15 days of the end of fieldwork.	2) 90%
	3) Percentage of audits completed by the target date (from scoping meeting to issue of draft report).	3) 82%
	4) Cost per £m Turnover	4) Lower than average within CIPFA Benchmarking Club

Internal Audit - Overall Objectives, Key Performance Indicators (KPI's) and Targets for 2018/19		
Quality		
Objectives	KPI's	Targets
1) To maintain an effective system of Quality Assurance.	1) Opinion of External Auditor	1) Satisfactory opinion
2) To ensure recommendations made by the service are agreed and implemented.	2) Percentage of agreed high, significant and medium risk internal audit recommendations which are implemented.	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	1) Overall average score of better than 1.5 (where 1=Good and 4=Poor)
	2) Results of other Questionnaires	2) Results classed as 'Good'
	3) Number of Complaints / Compliments	3) No target – actual numbers will be reported