



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit 2005/2006

December 2006

Authors: Matthew Edwards and Mark Roberts

Ref: 582A2006

Internal Audit Assessment

North Wales Fire Authority

Contents

Summary	3
There remains scope for Internal Audit and the Fire Authority to further develop its arrangements to ensure that it fully complies with all 10 of the CIPFA Internal Audit standards	3
Code of Practice for Internal Audit in Local Government in the United Kingdom	4
Internal Audit has fully complied with four of the 10 Internal Audit standards	4
Organisational standards	6
Operational standards	7
Appendices	
Action Plan	9

Status of this report

This report has been prepared for the internal use of the named body. Our reports are prepared:

- In relation to audit, under the relevant enabling legislation and the responsibilities detailed in the Code of Audit and Inspection Practice, and in the context of the 'Statement of Responsibilities', issued by the Auditor General for Wales.
- In relation to inspection, following inspection work carried out under the Local Government Act 1999, as amended by the Public Audit (Wales) Act 2004, and in accordance with guidance issued by the National Assembly for Wales.

Reports are prepared by the staff of the Wales Audit Office and appointed auditors, and addressed to members or officers including those designated as accounting or accountable officers. They are prepared for the sole use of the named body, and no responsibility is taken by the Wales Audit Office or appointed auditors to any member or officer in their individual capacity, or to any third party.

Summary

There remains scope for Internal Audit and the Fire Authority to further develop its arrangements to ensure that it fully complies with all 10 of the CIPFA Internal Audit standards

1. The Code of Audit and Inspection Practice issued by the Auditor General for Wales and ISA 610 requires us to consider whether the Authority's internal financial control arrangements are adequate. Internal Audit is a key element of the system of internal control.
2. The Internal Audit service for North Wales Fire Authority is provided under a Service Level Agreement by Conwy County Borough Council's Internal Audit Department. We have assessed Internal Audit against their professional standards as set out in CIPFA's 'Code of Practice for Internal Audit in Local Government in the United Kingdom'. Where these standards are met we intend to rely on Internal Audit's work when reviewing the Fire Authority's financial systems as part of our accounts audit.
3. There remains scope for Internal Audit and the Fire Authority to further develop its arrangements to ensure that it fully complies with all 10 of the CIPFA Internal Audit standards. Our detailed report sets out our findings for each of the CIPFA standards. We have made seven recommendations as set out below.

R1	Internal Audit staff should sign an annual independence certificate in respect of their work at North Wales Fire Authority.
R2	The Fire Authority should form a properly constituted Audit Committee which satisfies the requirements of the guidance contained in CIPFA's recent publication 'Audit Committees: Practical Guidance for Local Authorities'.
R3	Extended planning discussions with management should be held on an annual basis.
R4	An Audit Protocol should be developed which formalises the working relationship between internal and external audit.
R5	Internal Audit should develop an Internal Audit strategy that satisfies the requirements of the CIPFA Code of Practice.
R6	Prior year assignments and recommendations should be followed up and reviewed.
R7	The Annual Report should satisfy all of the requirements of the Internal Audit standard on reporting.

Code of Practice for Internal Audit in Local Government in the United Kingdom

- 4.** The Welsh Assembly Government considers that CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom represents proper practices. Our assessment has been carried out against the standards specified in the CIPFA Code of Practice, which are summarised in Exhibit 1.
- 5.** We reviewed a sample of audit plans and programmes, staffing levels, working papers and reports for a range of systems to determine the extent of compliance with the Internal Audit standards.

Internal Audit has fully complied with four of the 10 Internal Audit standards

- 6.** The Internal Audit service for North Wales Fire Authority is provided under a Service Level Agreement by Conwy County Borough Council's Internal Audit Department. There remains scope for Internal Audit to further develop its arrangements to ensure that it fully complies with all 10 of the CIPFA Internal Audit standards for Local Government. Our assessment against the Internal Audit standards of authorities is summarised in Exhibit 1.
- 7.** The arrangements would be enhanced further with the establishment of a formally constituted Audit Committee and the development of a medium term Internal Audit strategy. We have made a number of recommendations to address the issues arising from our annual assessment. These are set out in the Action Plan at Appendix 1.

Exhibit 1: Assessment against the CIPFA Code of Practice

Standard	Standard Met Yes/No	Comment	
Organisational standards			
1	Scope of Internal Audit – Is the scope of Internal Audit clearly set out in agreed terms of reference which have been communicated across the Fire Authority?	Yes	Internal Audit has met the requirements of the standard in respect of scope of Internal Audit work.
2	Independence – Does Internal Audit have sufficient organisational status to be able to undertake its work effectively?	Partial	Internal Audit has sufficient organisational status to be able to undertake its work. Internal Audit staff should complete an annual certificate of independence in respect of the work at the Fire Authority.
3	Audit Committee – Has the Fire Authority established a body whose aim is to contribute to the process for ensuring that an effective internal control environment is maintained?	Partial	The Fire Authority has the function of dealing with audit matters and receives the Annual Internal Audit Report. The Fire Authority does not have a committee that is fully constituted to fulfil the role of an Audit Committee.
4	Relationships – Has internal Audit established effective relationships with managers?	Partial	Internal Audit has established effective relationships with the Wales Audit Office. There remains scope for the Head of Internal Audit to develop relationships with senior Fire Authority managers.
5	Staffing, training and development – Is Internal Audit adequately staffed and resourced?	Yes	Internal Audit is adequately staffed and resourced.
Operational standards			
6	Audit strategy – Does Internal Audit have an audit strategy setting out how its work will be delivered and developed?	No	Internal Audit does not have an audit strategy setting out how its work will be delivered and developed.
7	Managing audit assignments – Are assignment briefs prepared in accordance with the CIPFA Code of Practice?	Partial	Individual assignments are well managed and individual working paper files were produced to a good standard. Internal Audit has not followed up the implementation of recommendations previously agreed by management in the past year.
8	Due professional care – Does Internal Audit apply due professional care when performing their duties?	Yes	Procedures are in place to ensure high professional standards are followed and adhered to.
9	Reporting – Has Internal Audit determined the way in which findings will be reported subject to the requirements of the CIPFA Code of Practice?	Partial	The Annual Internal Audit Report does not fully comply with the guidance contained in the CIPFA Code of Practice.
10	Quality assurance – Is the work of Internal Audit controlled at each level of the operation to ensure it complies with the requirements of the CIPFA Code of Practice?	Yes	Internal Audit work is controlled at each level of operation with all audit assignments being subject to review by a supervising officer.

Organisational standards

The scope of Internal Audit is clearly set out in agreed terms of reference

8. The overall scope of Internal Audit is set out in the Fire Authority Financial Regulations and covered in the Service Level Agreement signed in April 2004. The Service Level Agreement covers those elements that would be expected and does not provide any limitation on the scope of Internal Audit work.

Internal Audit is sufficiently independent

9. Internal Audit has the independence in terms of organisational status and personal objectivity to enable it to undertake its work effectively.
10. The Internal Audit service is provided by Conwy Internal Audit Services and as such none of its staff have Fire Authority operational duties.
11. Our review revealed that Internal Audit staff do not complete annual declarations of independence in respect of their work at North Wales Fire Authority.

R1 Internal Audit staff should sign an annual independence certificate in respect of their work at North Wales Fire Authority.

The Fire Authority has not established an Audit Committee

12. The Fire Authority has the function of dealing with audit matters and receives the Annual Internal Audit Report. The Fire Authority does not have a committee that is fully constituted to fulfil the role of an Audit Committee. As a consequence the Fire Authority does not satisfy the guidance contained in the recent CIPFA publication 'Audit Committees: Practical Guidance for Local Authorities'.

R2 The Fire Authority should form a properly constituted Audit Committee which satisfies the requirements of the guidance contained in CIPFA's recent publication 'Audit Committees: Practical Guidance for Local Authorities'.

Internal Audit has established effective relationships with managers

13. Internal Audit continues to develop its relationships with management. There is scope to develop relationships further with senior managers to enhance the Internal Audit planning process.
14. A constructive relationship continues to be developed between internal and external audit (Wales Audit Office). This relationship could be strengthened with the development of an agreed Audit Protocol.

R3	Formal planning discussions with management, involving the Head of Internal Audit, should be held on an annual basis.
R4	An Audit Protocol should be developed which formalises the working relationship between internal and external audit.

Internal Audit is adequately staffed and resourced

15. Internal Audit is appropriately staffed and resourced to fulfil its responsibilities. Adequate arrangements have been established to ensure that Internal Audit staff have the appropriate skills.

Operational standards

Internal Audit does not produce an audit strategy which sets out how its work will be delivered and developed over the medium term

16. Internal Audit has not produced an Internal Audit strategy which sets out the scope of Internal Audit work and specifies how and when the work will be delivered. The CIPFA code specifies that the audit strategy should refer to:
- How the service will be provided.
 - How the assurance for the annual Statement on Internal Control will be demonstrated. This will include how the Head of Internal Audit will contribute to the review of the organisation's corporate governance arrangements, risk management processes and key internal control systems.
 - The resources and skills required for its delivery.
 - The relative allocation of audit resources between assurance work and any fraud-related or consultancy work. The exact allocation will be determined in the Audit Plan.

R5	Internal Audit should develop an Internal Audit strategy that satisfies the requirements of the CIPFA Code of Practice.
----	---

Assignment briefs are prepared and managed in accordance with the CIPFA Code of Practice

17. Internal Audit assignments are well managed and individual working paper files are of a good standard.
18. Our review revealed that follow-up of 2004/2005 assignments was not undertaken and Internal Audit has not reviewed the implementation of recommendations previously agreed by management.

R6 Prior year assignments and recommendations should be followed up and reviewed.

Internal Audit apply due professional care when performing their duties

19. Internal Audit has procedures in place to ensure high professional standards are followed and adhered to, when performing its duties. Appropriate arrangements are in place to ensure that all Internal Audit staff are aware of, and adhere to, the behaviours expected of them by this standard.

The Annual Internal Audit Report does not fully comply with the guidance contained in the CIPFA Code of Practice

20. Review of the Annual Internal Audit Report revealed that it does not fully comply with the guidance contained in the CIPFA Code of Practice. The Head of Internal Audit's formal Annual Report to the organisation should include:
- an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
 - disclose any qualifications to that opinion, together with the reasons for the qualification;
 - present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
 - draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control;
 - compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria; and
 - comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme.
21. Individual Internal Audit assignment reports follow a standard layout which satisfies the requirements of the CIPFA Code of Practice. All assignment reports are clear, concise and constructive.

R7 The Annual Report should satisfy all of the requirements of the Internal Audit standard on reporting.

Internal Audit work is controlled at each level

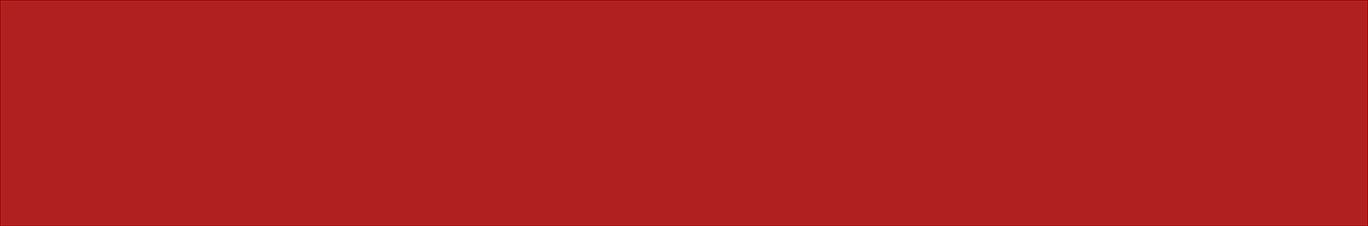
22. The Internal Audit manual sets out the policies and procedures that Internal Audit follows in carrying out its work. All audit assignments are subject to review by a suitably qualified and experienced member of Internal Audit staff.
23. Work performed was produced to a good standard and results obtained and conclusions drawn are properly recorded.

Appendix 1

Action Plan

Page	Issue	Recommendation	Intended outcome/ benefit	Agreed	AIB responsibility and actions	Completion date
7	Independence	R1 Internal Audit staff should sign an annual independence certificate in respect of their work at North Wales Fire Authority.	Demonstrate auditor independence.	Yes	Head of Internal Audit	Completed April 2006
7	Audit Committee	R2 The Fire Authority should form a properly constituted Audit Committee which satisfies the requirements of the guidance contained in CIPFA's recent publication 'Audit Committees: Practical Guidance for Local Authorities'.	Provide a focus for the receipt of reports and monitoring of progress on implementation.	Yes	Head of Finance and Procurement to promote Executive Committee as interim Audit Committee.	31 March 2007
8	Relationships	R3 Extended planning discussions with management should be held on an annual basis.	Enhance audit planning process.	Yes	Head of Internal Audit	31 March 2007
8	Relationships	R4 An Audit Protocol should be developed which formalises the working relationship between internal and external audit.	Update existing protocol to reflect current best practice.	Yes	Head of Internal Audit/Wales Audit Office	31 October 2006
8	Strategy	R5 Internal Audit should develop an Internal Audit strategy that satisfies the requirements of the CIPFA Code of Practice.	Focus audit approach and reflect emerging risks.	Yes	Head of Internal Audit	31 March 2007

Page	Issue	Recommendation	Intended outcome/ benefit	Agreed	AIB responsibility and actions	Completion date
9	Managing Audit Assignments	R6 Prior year assignments and recommendations should be followed up and reviewed.	Ensure effective implementation of audit recommendations	Yes	Head of Internal Audit	Completed
10	Reporting	R7 The Annual Report should satisfy all of the requirements of the Internal Audit standard on reporting.	Compliance with Internal Auditing standards on reporting.	Yes	Head of Internal Audit	31 March 2007



Wales Audit Office
2-4 Park Grove
Cardiff CF10 3PA
Tel: 029 2026 0260
Fax: 029 2026 0026
Textphone: 029 2026 2646
E-mail: info@wao.gov.uk
Website: www.wao.gov.uk