



AGENDA ITEM: 12

NORTH WALES FIRE AND RESCUE AUTHORITY EXECUTIVE PANEL

21st May 2007

INTERNAL AUDIT STRATEGY 2004 TO 2008

**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.”

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 1st April 2004 to 31st March 2008. 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

- 2.** 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

- 3.** 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.
- 4.** Regulation 4 of the Accounts and Audit Regulations (Wales) 2005 requires local authorities to conduct a review at least once a year of the effectiveness of its system of internal control and publish a statement on internal control (SIC) each year with the authority's financial statements. The first year of the requirement to produce a Statement on Internal Control related to the 2005/06 financial year, to demonstrate the robustness of its arrangements. Internal Audit forms an important part of the framework for providing this assurance. In order for Internal Audit to be able to provide the assurance required, corporate



DEFINITION AND OBJECTIVE *(continued)*

mechanisms by which the evidence is generated and collated will need to be developed and implemented with the full support of the Chief Fire Officer and Chairman, supported by the Chief Officers Advisory Team, who are ultimately responsible for ensuring that the SIC is both accurate and verifiable.

5. 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

6. 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.
7. 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.



STATUS *(continued)*

- Request explanations as considered necessary to satisfy themselves as to the correctness of any matter under examination.
- Require any employee of the NWF&RA 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

- 8.** 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.
- 9.** 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 Executive Panel 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 overriding objective of this approach is to ensure that Internal Audit



DELIVERY OF THE AUDIT SERVICE *(continued)*

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.

10. 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.



DELIVERY OF THE AUDIT SERVICE *(continued)*

- 11.** An audit protocol is in place that clarifies the working relationship between Conwy County Borough Council's Internal Audit Section and the Wales Audit Office (WAO), the authority's External Auditor. The reasons for documenting this relationship are:
 - The WAO places reliance on the authority's internal processes, in accordance with good practice guidance and the requirements of its Code of Audit Practice;
 - To formalise areas of co-operation and assistance, which have developed over time, helping to reduce any unnecessary overlap of audit effort and maximise the total audit resource.

- 12.** 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 Executive Panel will be advised of performance against the operational plan.

- 13.** 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.



DELIVERY OF THE AUDIT SERVICE *(continued)*

- 14.** Internal Audit have implemented the CIPFA Audit Training Package since 2003 which is linked to the annual Development and Review process in respect of each staff member. This ensures that relevant training is provided to enable all auditors to acquire the level of skills necessary to undertake their roles.
- 15.** 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.
- 16.** 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.
- 17.** 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

- 18.** The Internal Audit Strategy 2004–2008 be accepted by the Executive Panel.