

Essex Fire Authority

Internal audit strategy 2015/16

Presented at the Audit, Governance and Review
Committee meeting of: 22nd April 2015

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1 Introduction

Our approach to developing your internal audit plan is based on analysing your corporate objectives and risk profile as well as other factors affecting Essex Fire Authority in the year ahead including changes within the sector.

1.1 Background

As with all public services, the amount of money that the Authority has available to spend has been reduced. The Authority's plans aim to balance the delivery of high quality services with the need to do this with significantly less money and an additional need to identify further efficiency savings in the future.

1.2 Vision

To save and protect lives, property and the environment.

1.3 Objectives

- We will identify the risks to our communities and work in partnership with them to manage the risk, to reduce its likelihood or its impact on our communities.
- We will provide a resilient, timely, safe and effective response when risks become incidents.
- We will use our resources flexibly, efficiently and effectively, reducing the cost of the Service to match the funding available.
- We will ensure our people are involved, engaged and empowered to deliver excellence.
- We will use our assets to support sustainable communities and promote wellbeing.
- Our leaders will demonstrate trust and honesty, listening to others to support an open and inclusive culture.

2 Developing the internal audit strategy

We use your objectives as the starting point in the development of your internal audit plan.

2.1 Risk management processes

In preparing the Strategy and the annual Internal Audit Plan, we met with Finance Director and Treasurer and Deputy Director of Finance.

At this meeting on the 17th February 2015 we discussed proposals from the Finance Director and Treasurer which were accompanied by suggested further areas for consideration from our review of the Risk Register, Service Strategy and of known issues or areas we have provided assurance at other similar organisations.

Based on our understanding of the organisation, and the information provided to us by the stakeholders above, we have developed an annual internal plan for the coming year, and a high level strategic plan (**see Appendix A and B for full details**).

2.2 Working with other assurance providers

The Audit, Governance and Review Committee is reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not, seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers, such as external audit to ensure that duplication is minimised and a suitable breadth of assurance obtained.

3 Internal audit resources

Your internal audit service is provided by Baker Tilly Risk Advisory Services LLP. The team will be led by Daniel Harris supported by Suzanne Lane as your client manager.

3.1 Fees

This plan has been costed in line with the tender and subsequent contract and is based on 93 days input which equates to a fee of £34,670 for 2015/16. (2014/15 = 93 days).

3.2 Conformance with internal auditing standards

Baker Tilly affirms that our internal audit services are designed to conform to the International Standards for the Professional Practice of Internal Auditing and the International Professional Practices Framework (IPPF) as published by the Institute of Internal Auditors (IIA). Further details of our responsibilities are set out in our internal audit charter within Appendix C.

Under the Standards, internal audit services are required to have an external quality assessment every five years. Our Risk Advisory service line commissioned an external independent review of our internal audit services in 2011 to provide assurance whether our approach meets the requirements of the IPPF.

The external review concluded that “the design and implementation of systems for the delivery of internal audit provides substantial assurance that the standards established by the IIA in the IPPF will be delivered in an adequate and effective manner”.

3.3 Conflicts of Interest

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards.

4 Audit, Governance and Review Committee requirements

In approving the internal audit strategy, the committee is asked to consider the following:

- Is the Audit, Governance and Review Committee satisfied that sufficient assurances are being received within our annual plan (as set out at Appendix A) to monitor the organisation's risk profile effectively?
- Does the strategy for internal audit (as set out at Appendix B) cover the organisation's key risks as they are recognised by the Audit, Governance and Review Committee?
- Are the areas selected for coverage this coming year appropriate?
- Is the Audit, Governance and Review Committee content that the standards within the charter in Appendix C are appropriate to monitor the performance of internal audit?

It may be necessary to update our plan in year, should your risk profile change and different risks emerge that could benefit from internal audit input. We will ensure that management and the Audit, Governance and Review Committee approve such any amendments to this plan.

Appendix A: Internal audit plan 2015/16

Audit area	Scope for 2015/16	Audit days	Proposed timing
Risk based assurance			
ICT (Healthcheck, DPA, Security etc.)	<p>Scope to be agreed with management, this could include:</p> <ul style="list-style-type: none"> - Governance of IT - Physical and environmental - Network access - Backup and recovery - IT Disaster Recovery - Use and control of the Internet and Email, 	8	Q1
Property Maintenance	<p>This review will consider compliance against the Services:</p> <ul style="list-style-type: none"> - Asset Management Plan; - Stock Condition Survey; - Capital Plan; and - Repairs and Maintenance plans. 	7	Q3
Workforce Planning / Utilisation	A review to determine whether a suitable Workforce plan has been established to consider succession planning, utilisation and the delivery and monitoring of this plan to proposed timescales.	7	Q2
Core assurance			
Risk Management	This year we will include a deep dive review of a sample of risks to challenge the controls, assessments, assurances and actions that are recorded within the risk register to establish if these are sensible, realistic and remain relevant and up to date.	8	Q4
Governance	<p>Scope to be discussed by the Governance, Audit and Review Committee to determine specific assurance requirements.</p> <p>Coverage required to inform Baker Tilly year end opinion.</p>	7	Q4

Audit area	Scope for 2015/16	Audit days	Proposed timing
Key Financial Controls	<p>This will include key controls testing and any management concerns including previous recommendations. Areas potentially included:</p> <ul style="list-style-type: none"> • General Ledger; • Cash, Banking and Treasury Management; • Payroll; • Payments and Creditors; • Income and Debtors; • Asset Management. 	15	Q3
Other internal audit input			
Project / Contract Management	A review covering the £8m project to delivery 40 new appliances. We will incorporate input from our specialist contract risk advisory team to deliver this review.	10	Q1
PAYE / VAT Health check	An overview of how the service is dealing with its VAT or PAYE to include sample testing, policy review and questionnaires.	10	Q2
Data Retention	A review of the new policy and compliance testing at a selection of departments/sites to ensure the new policy has been communicated, is understood and is being applied across the service.	7	Q2
Follow up	To meet internal auditing standards and to provide management with on-going assurance regarding implementation of recommendations. We will agree a sample of recommendations from 2014/15 audits to be followed up.	5	Q4
Audit Strategy / Annual Report	<p>This will include:</p> <ul style="list-style-type: none"> • Internal Audit Needs Assessment / Strategic and Annual Internal Audit Plans • Preparation of the annual internal audit opinion 	2	On-going

Audit area	Scope for 2015/16	Audit days	Proposed timing
Audit management	This will include: <ul style="list-style-type: none"> • Planning • Ongoing liaison and progress reporting • Preparation for and attendance at Audit, Governance and Review Committee; 	7	On-going
TOTAL		93	

Appendix B: Internal audit strategy

Proposed area for coverage	Scope and Associated risk Area	2015/16	2016/17	2017/18
Risk based assurance				
Business Continuity including compliance with the Civil Contingencies Act	If we have a significant failure, loss or reduction of our physical infrastructure or resources (including our people) there is a risk that we will not deliver the same level of prevention, protection and response services to our communities.		✓	✓
ICT (Healthcheck, DPA, Security etc.)	Inability to deliver normal / BAU Service	✓		
Human Resources - This could cover a range of areas including: <ul style="list-style-type: none"> • Recruitment, • Training and Development, • Appraisals • Absence Management • Transactional Services • Succession Planning 	Loss of Reputation		✓	✓
Property Maintenance	Inability to deliver normal / BAU Service	✓		
Workforce Planning / Utilisation	If the Service does not have motivated and engaged people with the right skills and competencies there is a risk that the Service will be unable to innovate and deliver safe and effective services to our communities.	✓		✓
Business Planning	If we have a large or unexpected loss in our income or cash there is a risk that we will have to reduce the level of prevention, protection and response services we provide to our communities.			✓
Budgetary Control and Financial Planning	If we have a large or unexpected loss in our income or cash there is a risk that we will have to reduce the level of prevention, protection and response services we provide to our communities.		✓	
Communication and Engagement	If there is a loss of public or stakeholder confidence in the Service there is a risk that we will not be able to engage effectively with our communities, which will impact on our ability to deliver our services.			✓

Proposed area for coverage	Scope and Associated risk Area	2015/16	2016/17	2017/18
Core assurance				
Risk Management	Annual Review required of the Authority's / Service's Risk Management process.	✓	✓	✓
Governance	Review required of the Authority's / Service's Governance process. The scope of this review is still to be considered.	✓	✓	✓
Key Financial Controls	To meet External Audit requirements and core controls for internal audit assurance.	✓	✓	✓
IT Coverage	Potential areas for consideration: Effectiveness of IT Systems, IT Strategy, Freedom of Information.	See risk based		✓
Other Internal Audit input				
Procurement	To review the procurement/tendering process used by the Authority to ensure integrity and compliance with legislation.		✓	✓
Project / Contract Management	To ensure that contract service delivery is effectively measured and managed through appropriate contract management and to ensure that adequate project management arrangements are in place and utilised.	✓		✓
Capital Projects	To ensure that an adequate capital programme is in place including, submission of business cases, identification of benefits, approval process, reporting and monitoring of capital projects and the benefits achieved.		✓	
Partnerships	A review of the Authority's partnership arrangements to ensure that the Authority has adequately implemented its action plan and adequately identifies and manages the partnerships they are engaged in.		✓	
PAYE / VAT Health check	A health check review of the organisations PAYE / VAT arrangements in line with HMRC guidance.	✓		✓
Insurance Pool	A review of the insurance arrangements established.		✓	

Proposed area for coverage	Scope and Associated risk Area	2015/16	2016/17	2017/18
Follow up	To meet internal auditing standards and to provide management with on-going assurance regarding implementation of recommendations.	✓	✓	✓
Audit Strategy / Annual Report	This will include: <ul style="list-style-type: none"> • Internal Audit Needs Assessment / Strategic and Annual Internal Audit Plans • Preparation of the annual internal audit opinion 	✓	✓	✓
Audit Management	This will include: <ul style="list-style-type: none"> • Planning; • Ongoing liaison and progress reporting; and • Preparation for and attendance at Audit & Standards Committee. 	✓	✓	✓

Appendix C: Internal audit charter

1.0 Need for the charter

- 1.1 This charter establishes the purpose, authority and responsibilities for the internal audit service for Essex Fire Authority. The establishment of a charter is a requirement of the International Standards for the Professional Practice of Internal Auditing as published by the global Institute of Internal Auditors (the IIA) and approval of the charter is the responsibility of the Audit, Governance and Review Committee.
- 1.2 The internal audit service is provided by Baker Tilly Risk Advisory Services LLP ("Baker Tilly"). Your key internal audit contacts are as follows:

	Partner	Client manager
Name	Daniel Harris	Suzanne Lane
Telephone	07792 948767	07720 508148
Email address	daniel.harris@bakertilly.co.uk	suzanne.lane@bakertilly.co.uk

- 1.3 We plan and perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, focusing in particular on how these arrangements help you to achieve its objectives.
- 1.4 An overview of the individual internal audit assignment approach and our client care standards are included at Appendix D and E of the audit plan issued for 2015/16.

2.0 Role and definition of internal auditing

"Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by introducing a systematic, disciplined approach in order to evaluate and improve the effectiveness of risk management, control, and governance processes".

Definition of Internal Auditing, Institute of Internal Auditors

- 2.1 Internal audit is a key part of the assurance cycle for your organisation and, if used appropriately, can assist in informing and updating the risk profile of the organisation.

3.0 Independence and ethics

3.1 To provide for the independence of Internal Audit, its personnel report directly to the Partner Daniel Harries (acting as your head of internal audit). The independence of Baker Tilly is assured by the internal audit service reporting to the Finance Director and Treasurer and the Deputy Director of Finance and the Chair of the Audit, Governance and Review Committee

3.2 The head of internal audit has unrestricted access to the Chair of Audit, Governance and Review Committee to whom all significant concerns relating to the adequacy and effectiveness of risk management activities, internal control and governance are reported.

3.3 Conflicts of interest may arise where Baker Tilly provides services other than internal audit to the Authority. Steps will be taken to avoid or manage transparently and openly such conflicts of interest so that there is no real or perceived threat or impairment to independence in providing the internal audit service. If a potential conflict arises through the provision of other services, disclosure will be reported to the Audit, Governance and Review Committee. The nature of the disclosure will depend upon the potential impairment and it is important that our role does not appear to be compromised in reporting the matter to the Audit, Governance and Review Committee. Equally we do not want the organisation to be deprived of wider Baker Tilly expertise and will therefore raise awareness without compromising our independence.

4.0 Responsibilities

- 4.1 In providing your outsourced internal audit service, Baker Tilly has a responsibility to:
- Develop a flexible and risk based internal audit strategy with more detailed annual audit plans which align to the corporate objectives. The plan will be submitted to the Audit, Governance and Review Committee for review and approval each year before work commences on delivery of that plan.
 - Implement the audit plan as approved, including any additional reviews requested by management and the Audit, Governance and Review Committee.
 - Ensure the internal audit team consists of professional internal audit staff with sufficient knowledge, skills, and experience.
 - Establish a quality assurance and improvement program to ensure the quality and effective operation of internal audit activities.

- Perform advisory activities where appropriate, beyond internal audit's assurance services, to assist management in meeting its objectives.
- Bring a systematic disciplined approach to evaluate and report on the effectiveness of risk management, internal control and governance processes.
- Highlight control weaknesses and required associated improvements and agree corrective action with management based on an acceptable and practicable timeframe.
- Undertake action tracking reviews to ensure management has implemented agreed internal control improvements within specified and agreed timeframes.
- Provide a list of significant performance indicators and results to the Audit, Governance and Review Committee to demonstrate the performance of the internal audit service.
- Liaise with the external auditor and other relevant assurance providers for the purpose of providing optimal assurance to the organisation.

5.0 Authority

5.1 The internal audit team is authorised to:

- Have unrestricted access to all functions, records, property and personnel which it considers necessary to fulfil its function.
- Have full and free access to the Audit, Governance and Review Committee.
- Allocate resources, set timeframes, define review areas, develop scopes of work and apply techniques to accomplish the overall internal audit objectives.
- Obtain the required assistance from personnel within the organisation where audits will be performed, including other specialised services from within or outside the organisation.

5.2 The head of internal audit and internal audit staff are not authorised to:

- Perform any operational duties associated with the organisation.
- Initiate or approve accounting transactions on behalf of the organisation.
- Direct the activities of any employee not employed by Baker Tilly unless specifically seconded to internal audit.

6.0 Reporting

- 6.1 An assignment report will be issued following each internal audit assignment. The report will be issued in draft for comment by management, and then issued as a final report to management, with the executive summary being provided to the Audit, Governance and Review Committee. The final report will contain an action plan agreed with management to address any weaknesses identified by internal audit. Audit, Governance and Review Committee
- 6.2 The Head of Internal Audit will issue progress reports to the and management summarising outcomes of audit activities, including follow up reviews.
- 6.3 As your internal audit provider, the assignment opinions that Baker Tilly provides the organisation during the year are part of the framework of assurances that assist the board in taking decisions and managing its risks.
- 6.4 As the provider of the internal audit service we are required to provide an annual opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the board is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The annual opinion will be provided to the organisation by Baker Tilly Risk Advisory Services LLP at the financial year end. The results of internal audit reviews, and the annual opinion, should be used by management and the Board to inform the organisation's annual governance statement.

7.0 Data Protection

- Internal audit files need to include sufficient, reliable, relevant and useful evidence in order to support our findings and conclusions. Personal data is not shared with unauthorised persons unless there is a valid and lawful requirement to do so. We are authorised as providers of internal audit services to our clients (through the firm's Terms of Business and our engagement letter) to have access to all necessary documentation from our clients needed to carry out our duties.
- Personal data is not shared outside of Baker Tilly. The only exception would be where there is information on an internal audit file that external auditors have access to as part of their review of internal audit work or where the firm has a legal or ethical obligation to do so (such as providing information to support a fraud investigation based on internal audit findings).
- Baker Tilly has a Data Protection Policy in place that requires compliance by all of our employees. Non-compliance will be treated as gross misconduct.

8.0 Fraud

- 8.1 The Audit, Governance and Review Committee recognises that management is responsible for controls to reasonably prevent and detect fraud. Furthermore, the Audit, Governance and Review Committee recognises that internal audit is not responsible for identifying fraud; however internal audit will assess the risk of fraud and be aware of the risk of fraud when planning and undertaking any internal audit work.

9.0 Approval of the internal audit charter

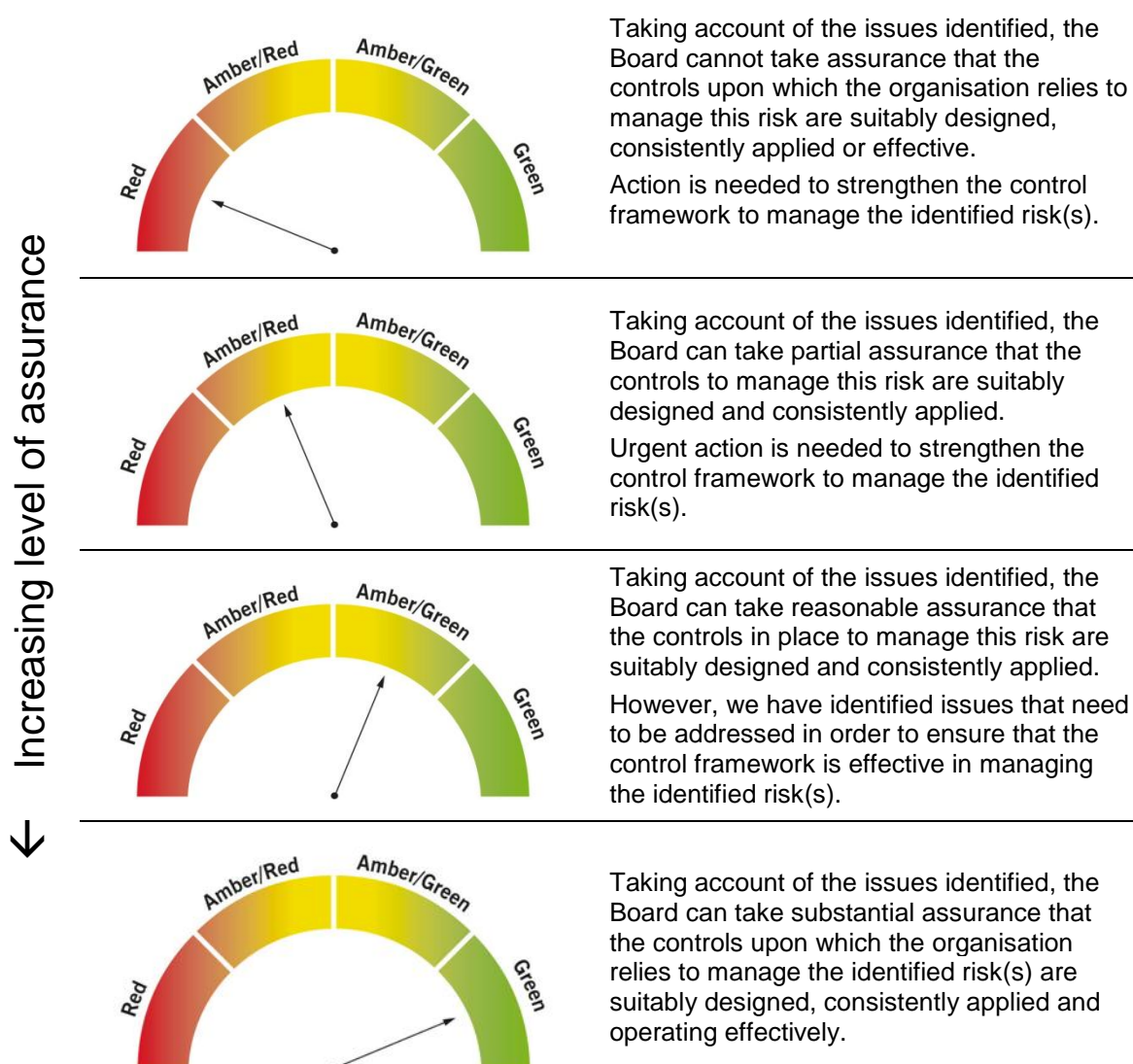
- 9.1 By approving this document, the annual plan, the Audit, Governance and Review Committee is also approving the internal audit charter.

Appendix D: Our approach to an internal audit assignment



Appendix E: Overview of internal audit assignment opinions

For internal audits classed as “risk based assurance” reviews (compared with advisory input), we use four opinion levels as shown below. Each assignment report will explain the scope of the review, and therefore the context and scope of the opinion.



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