



**NOTTINGHAMSHIRE**  
**Fire & Rescue Service**  
*Creating Safer Communities*

Nottinghamshire and City of Nottingham  
Fire and Rescue Authority  
Finance and Resources Committee

# **INTERNAL AUDIT STRATEGY**

## **2010-2013**

Report of the Treasurer to the Fire Authority

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**Agenda Item No:**

**Date:** 09 April 2010

**Purpose of Report:**

To inform Members of the Finance and Resources Committee (acting in their capacity as Audit Committee) of the Internal Audit Strategy for the three year period 2010 to 2013 and to present the planned work to be undertaken by the Internal Auditors.

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## **1. BACKGROUND**

In previous years the audit plan for the forthcoming year has been presented to the Fire Authority in conjunction with the annual report for the previous financial year. In recognition of changes to the corporate governance arrangements within the Fire Service, it is considered more appropriate to present the forward plan to the Finance and Resources Committee at an early stage in the financial year so that Members are informed of the proposed schedule of work and can obtain a better view of the regulatory framework in their role as audit committee.

## **2. REPORT**

- 2.1 The full Internal Audit Strategy is given as Appendix A to this report and sets out the responsibilities of the Authority to maintain an adequate internal audit function.
- 2.2 The Strategy also gives assurances to the Authority as to the standards to which the internal auditors will adhere and the ways in which they will report their findings and recommendations.
- 2.3 The internal auditors develop their plans and strategies by carrying out a risk assessment process which considers all the key systems and processes in operation as well as liaising with the Head of Finance and Resources and the External Auditors. This risk assessment which is attached as Appendix B uses a scoring matrix to determine relative levels of risk which informs the strategic plan.
- 2.4 The final part of the strategy document given as Appendix C, sets out the particular work plans which are derived from the risk assessment process. The internal auditors will be present at the meeting to discuss any areas of particular interest to Members.
- 2.5 Also attached as Appendices D and E is the detailed explanation of the risk assessment process and a worked example.

## **3. FINANCIAL IMPLICATIONS**

The agreed charges for the Internal Audit Service for 2010/2011 is £305 per day an increase of £2 per day on the 2009/2010 fee. The agreed input of 95 days will cost the service £28,975 which is already included in the 2010/2011 budget.

## **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

There are no implications for human resources or learning and development arising from this report.

## **5. EQUALITY IMPACT ASSESSMENT**

An equality impact assessment has not been undertaken for this report as it does not relate to a change of policy or procedure and will have no impact on equalities.

**6. CRIME AND DISORDER IMPLICATIONS**

There are no crime and disorder implications arising from this report.

**7. LEGAL IMPLICATIONS**

There are no legal implications arising from this report.

**8. RISK MANAGEMENT IMPLICATIONS**

As referred to above, the Strategy and annual plan are based on risk assessments undertaken by Internal Audit, while the Authority's integrated risk management approach will be reviewed within the Governance programme.

**9. RECOMMENDATIONS**

That Members approve the Audit Strategy and work proposals for 2010 to 2013.

**10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)**

None.

Peter Hurford  
**TREASURER TO THE FIRE AUTHORITY**

**INTERNAL AUDIT STRATEGY 2010 - 2013****Nottinghamshire and City of Nottingham Combined Fire Authority****1 Introduction**

- 1.1 The requirement for the Fire Authority to maintain an Internal Audit function is derived from the local government legislation including Section 151 of the Local government Act 1972 and the Accounts and Audit Regulations 2003, amended in 2006, in that a relevant body must:
- “maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”.
- 1.2 The responsibility for ensuring an effective internal audit function rests with the Authority Treasurer as part of his Section 151 obligations.
- 1.3 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Authority on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation’s objectives.
- 1.4 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.
- In particular it:
- (a) carries out a risk based review and evaluation of the Authority’s financial and other systems and procedures;
  - (b) provides management and Members with advice and assurance to assist them in the effective discharge of their responsibilities;
  - (c) plans audit work having regard to the Services Corporate plans.
- 1.5 Internal Audit’s work will also cover the local Code of Corporate Governance, which establishes the framework of the Authority’s internal control environment. Overall, the results of Audit work will allow the Treasurer to deliver an audit opinion on the Authority’s internal control environment and contribute to the annual Statement on Internal Control, as required by the Accounts and Audit Regulations 2003.
- 1.6 Responsibility for the design and correct operation of internal controls rests with departmental managers. Internal Audit is not a substitute for effective internal control. Its task is to carry out an independent review of the soundness of internal control systems to highlight weaknesses and recommend improvements where necessary. Accountability for the response to the advice and recommendations of Internal Audit lies with management, who either accept and implement the advice or formally reject it, thereby accepting the risk outlined.

**2 Internal Audit Standards**

- 2.1 Internal Audit operates in accordance with the Code of Practice for Internal Audit in Local Government issued by CIPFA. Compliance with the Code is reviewed annually both by the Head of Service for Internal Audit and the External Auditor.
- 2.2 A thorough recruitment process is applied to the appointment of Audit staff to ensure the Section has the appropriate professional skills and experience to fulfil its objectives. Internal Audit staff work in accordance with an Internal Audit Manual, incorporating an Internal Audit Protocol, which provides guidance to Internal Auditors to help them carry out their work in accordance with professional standards and the CIPFA Code of Practice.

### **3 Internal Audit Strategy**

- 3.1 Internal Audit produce an Internal Audit Strategy consisting of a three year risk-based programme, and a work plan. The programme and plans have been developed in consultation with the Treasurer and Head of Finance and Resources.
- 3.2 The Internal Audit plans include an element of contingency to allow Internal Audit to be responsive to changes in conditions and to requests for assistance from the Head of Finance and Resources.
- 3.3 Objectives are prepared for each planned Internal Audit assignment and are normally discussed with relevant line managers before the work is started. Internal Audit will usually give reasonable notice to the relevant manager of the start of an audit and will minimise any disruption to the smooth running of the area under review. However, Internal Audit reserves the right to make unannounced visits where the Treasurer or Head of Finance and Resources considers it necessary.

### **4 Strategic and Annual Plans**

- 4.1 Appendices B and C provide details of the Internal Audit risk assessment and the plan for 2010/11 to 2012/13. The plans are based on a risk analysis matrix, with high risk systems and services being audited every two years (on average), medium risk areas every three years and low risk areas every five years. The Internal Audit risk assessed work makes up approximately two thirds of the planned work, with the other third comprising 'managed audit' work, carried out on behalf of External Audit to provide a level of assurance on the operation of high level controls associated with financially significant systems. This work is carried out in the final quarter of each financial year and is not directly linked to the Internal Audit risk assessment.

### **5 Internal Audit Reporting**

- 5.1 Internal Audit reports its findings in draft to appropriate managers, who have the opportunity to discuss and influence the findings and recommendations. The formal draft report is then issued to the Head of Finance and Resources, who is responsible for responding to reports on behalf of the Chief Fire Officer. Recommendations are risk ranked and reports contain an audit opinion on the area reviewed. There are four separate audit opinions, namely sound, satisfactory, unsatisfactory and unsound. If an opinion is unsatisfactory or unsound, a follow-up audit is normally carried out six months later to ensure that the recommendations have been implemented.
  - 5.2 Final Audit reports are circulated in accordance with a list agreed with the Head of Finance and Resources and the Treasurer. In order to provide an additional level of scrutiny, and to strengthen the independence of Internal Audit, from 2006/7 the circulation list includes the Chairman of the CFA and Chair of Finance and Resources Committee, in addition to the Chief Fire Officer and Head of Performance. Reports are also passed to the Information Services Department, which carries out follow up enquiries to ensure that Audit recommendations are implemented.
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## COMBINED FIRE AUTHORITY - INTERNAL AUDIT STRATEGIC PLAN FOR 2010 to 2013

SERVICE AREA	Assessed Risk	Audit Freq Yrs	Audit Days Planned 2010-2011	Audit Days Planned 2011-2012	Audit Days Planned 2012-2013	Comments	Total Days
Corp Governance	H	2	10		10	Review compliance with Audit Commission guidance. 1) Transfer of balances to Aggresso. 2) Review of controls.	20
Financial Management	H	2	5	10			15
ICT	H	2	10		10		20
Capital	M	3	10			Management of contracts.	10
Notts FRS Trading Ltd	M	3	10			First look at the new Trading Company.	10
Partnerships	M	3			10	Review of partnership arrangements.	10
Payroll	M	3		9		Focus on the role of HR in payroll processing.	9
Pensions	M	3			10	Review of pensions records and contributions.	10
Premises	M	3			10	Premises maintenance - planned & reactive.	10
Purchasing & Cr Payments	M	3			8	Stores purchasing	8
Risk Management	M	3		10		Review of risk management arrangements.	10
Treasury Management	M	3		9		Compliance with TM policy.	9
Assets	L	5	8			Review implementation of the RedKite system.	8
Income and Debtors	L	5		10		Issuing invoices and management of Debtors	10
Transport	L	5		10		Review of travel claims.	10
Cardiff Checks		Annual	10	10	10	Examination of invoices selected by members.	30
Managed Audit		Annual	20	20	20	To be agreed with external audit.	60
Fin Regs Advice		One-off	5			As requested.	5
Client Management			7	7	7	Time spent on planning, reporting, meetings etc	21
<b>Total planned days for the year</b>			<b>95</b>	<b>95</b>	<b>95</b>		<b>285</b>



## Fire Audit strategy 2010/11 – 2012/13

In January 2010, the main business areas and activities to be audited were agreed with the Head of Finance & Resources.

These areas have each been risk assessed to determine the level of audit needed and the results of this process have been used to produce the audit strategy for 2010/11 to 2012/13

### Risk Assessment:

The risk assessment model used considers nine different risk factors to provide a consistent and objective methodology for ranking each business area assessed. The risk factors used are:-

- 1. Annual Value:** This takes account of the materiality of the area being assessed.
- 2. Transaction volumes:** This takes into account the number of transactions processed per year and recognises that the greater the number of transactions involved, the greater the risk of error through inaccuracy, omission, duplication or late processing.
- 3. Effectiveness of Internal Controls:** This takes into account the known quality of the current controls operating within the area of activity. Normally this is obtained from the most recent audit report for this area.
- 4. Cash & Bank Risk:** This takes into account the value and quantity of cash and cheques being processed. The presence of cash and cheques increases the opportunity and the temptation for theft and fraud.
- 5. System Complexity:** This recognises that, as the complexity of the processes increases, the greater the risk of errors being made and, perhaps, remaining undetected.
- 6. System Stability:** This recognises that instability within systems, e.g. the number and frequency of changes, increases the risk of confusion and error.
- 7. System Sensitivity:** This takes account of the political and reputational factors involved with an activity and the potential impact of error or failure.
- 8. Number of Sites involved:** This recognises that where processes take place at more than one location, the risk of inconsistency, communication failure and variations in procedure increases.
- 9. Number of year since the last audit:** This recognises that, the longer the period since the last audit, the greater the risk that controls have reduced in effectiveness.

Each risk factor is scored – see appendix A and once scores have been assigned to each risk factor, an overall risk total is obtained for the area or activity. This score is then categorised into one of three risk levels – High, Medium and Low.

High risk areas are subject to audit every two years, medium risk areas every three years and low risk areas every five years.

The number of days assigned to each audit is based on knowledge of the size and complexity of the area to be reviewed and is largely a matter of judgement based on experience of audit carried out in similar areas.

**Risk scores for each risk factor.**

**Annual Value:**

Up to £10k	1
£10k - £100k	2
£100k - £1m	3
£1m - £10m	4
Over £10m	5

**Volume of Transactions:**

Up to 1,000	1
1,000 to 10,000	2
10,000 to 100,000	3
100,000 to 1 million	4
Over 1 million	5

**Internal Controls:**

Good	1
Average/ Unknown	2
Poor	3

**Cash & Bank Risk:**

Low	1
Medium	2
High	3

**Complexity:**

Simple	1
Average	2
Complex	3

**Stability:**

Stable	1
Average	2
Unstable	3

**Sensitivity:**

Low	1
Medium	2
High	3

**No. of Sites:**

1 site	1
2 – 5 sites	2
over 5 sites	3

**No. of Yrs since Last Audit:**

1 year	1
2 years	2
3 years	3
Over 3 years	4

## Appendix E

### Worked example of an audit risk assessment of the NFRS Payroll system

<b>Risk Factor</b>	<b>Basis of score</b>	<b>Score</b>
Annual Value:	Over £10 million	5
Number of Transaction:	1,000 to 10,000	2
Internal Controls:	Good	1
Cash & Bank Risk	Low	1
System Complexity	Complex	3
System Stability	Stable	1
Sensitivity	High	3
Number of Sites:	One	1
Number of Yrs since last audit	One	1
Weighted risk score		66
Overall risk category		Medium
Audit frequency		Every 3 years
No of days assigned for each audit review		10 days