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Internal Audit:
Progress Report on 2010/11 Audit Plan; and Proposed 2011/12 Audit Plan

Report of the Treasurer

For further information about this report please contact Keith Dixon, Treasurer, on 01743 260202.

1   Purpose of Report

This report details progress on the 2010/11 Internal Audit Plan and seeks the Committee's confirmation of the 2011/12 Plan.

2   Recommendations

The Committee is recommended to:

a)   Note progress on work in the current year (2010/11);
b)   Confirm its 2011/12 Internal Audit Programme; and
c)   Note the revised approach suggested for the 2012 – 2016 Audit Needs Assessment.

3   Background

The Committee, in November 2007, agreed a four-year Audit Plan, covering 2008/09 to 2011/12. This was based on risk assessment, and could be accommodated within existing budgets, except for extra funds required in 2008/09, largely for an IT Audit. Some audits have been advanced, and others put back with the agreement of the Committee but the total programme has remained unchanged. The latest Programme is attached at Appendix A.

4 2010/11 Audit Progress

The current position is set out in Appendix B. The separate report from the Risk Management Group refers to those recommendations already received from completed audits.

5 2011/12 Audit

The 2011/12 Plan is for 49 days and is the same as originally set out in 2007/08. It is led to some extent by including those areas, which the Audit Commission has identified as key systems delivering confidence in the final accounts, which they are required to examine. Such areas are shown below as key controls.

Budget Preparation and Control – 2 days

This is an Audit Commission Key Control and is audited every two years. The audit includes a walkthrough of the process to identify compliance with Brigade Orders; a check that budgets are allocated to named budget holders; there are defined responsibilities for officers and committees; that budgets are presented to appropriate committees for discussion, consultation and final approval; and checking budget linkage with the Medium Term Corporate Plan.

Payroll System – 6 days
Plus Travel and Subsistence – 1 day

This an Audit Commission Key Control and is audited every year. The audit includes follow up of recommendations from 2010/11; testing on which the Audit Commission places reliance covering the following areas: overtime authorisation and check of completeness; input of starters and leavers into ResourceLink; establishment list verification; reconciliation of payroll to the establishment list; and budget monitoring. 2011/12 would also include key control, high level testing on travel and subsistence claims. Any remaining time would be used to look at high risk control areas. These additional tests ensure coverage of sufficient key control areas to allow Internal Audit to form its opinion.

Computer Services – 8 days

The main aim will be to follow up on the 23 recommendations made in the 2008/09 audit. This is the biggest single audit and discussion has taken place whether this could be reduced. However there have been changes since the audit was carried out, which may mean a different approach to some of the previous recommendations. On balance it was felt that the provision should be left at 8 days, which, should it give a bonus in terms of unused days, could be used as management and the Committee feel appropriate.

Capital Budgeting and Accounting – 5 days

This is another Audit Commission Key Control and would normally be audited every year. However, to take into account the level of capital activity, this is done once in every three years. The audit covers the proper segregation in respect of approval of capital schemes and day-to-day transactions, and between monitoring of schemes and control and amendment to projects; allocating finance through submission and approval of business cases; payment authorisation and monitoring against the budget; up-to-date and accurate register of assets, which reconciles the accounts; valuation of assets; treatment of disposals; depreciation policy and application; and IT/Data security.

Again discussion has taken place as to whether the time allocated could be reduced, given the current reduced size of the capital programme. It is recommended that a target for the work is set at 4 days and, if achieved, reallocating the additional day to budget preparation and control, this being a high risk area at present.

National Fraud Initiative (NFI) – 1 day

This day is used to produce data sets in order to identify if there are any NFI data matches.

Risk Management and Business Continuity – 6 days

This is an annual audit to give an opinion on the adequacy and effectiveness of Risk Management (RM) arrangements. A full audit was planned this year, following high-level audits in the previous two years. 2008/09 concentrated on Business Continuity arrangements (non-operational). The Auditors believe that this area remains robust and RM is well embedded. There is, therefore, a possibility that some of these days could to be utilised for other work, if the Audit and Performance Management Committee wishes. Having said this, pressures on the Service to make savings do present new risks, of which careful and effective control and management is key and it may be sensible to review progress on this audit before making a final decision.

Corporate Governance – 2 days

This audit confirms the accuracy of the statements given in the Annual Governance Statement (AGS), through examination of evidence to support the Statement.

Review of Annual Governance Statement – 1 day

This time is used to provide assurance that the AGS itself is accurate prior to approval.

Fraud and Corruption – 2 days

By allowing for these two days in the audit plan, we are able to demonstrate to the Audit Commission and other stakeholders that due consideration is given to areas where there is potential for fraud and corruption. A different area is identified each year for examination, following consultation with the Treasurer Risk Management Group, Chief Officers Group and the Audit and Performance Management Committee.

Planning and Reporting – 5 days

This is the time set aside for planning and supporting the audits and includes agreeing reports; attending Audit and Performance Management Committee and other meetings as required; annual reports; liaison with the External Auditors and ad-hoc advice.

Recommendation Follow Up – 2 days

For annual audits, previous recommendations are considered each year as part of the audit work. These two days allow for the consideration of audit recommendations on audits that are not performed annually. Internal Audit works closely with the Risk Management Group in reviewing action taken by officers in the implementation of recommendations. This process has been reported and monitored closely by the Audit and Performance Management Committee.

Top-Up Testing for the Audit Commission – 2 days

Where the External Auditors rely upon Internal Audit testing, certain 'key control' tests are performed at the end of the year in order that testing reflects activity across the whole financial year, not just up to the date, at which the audit was performed.

Audit Needs Assessment – 6 days

These days are used to identify the audit plan for the next four years. In interim years two days are allowed each year for review of the annual plan and discussion with management on the areas, on which audit days are concentrated. In the fourth year, the risk environment is also revisited and reassessed, based upon the level of risk in each area, and other factors, including the requirements of the Audit Commission to rely upon Internal Audit work.

6   Audit Needs Assessment 2012/13 to 2015/16

Whilst the traditional approach to the Audit Needs Assessment (ANA) process works well in times of stability, the future approach for this process could be reconsidered in order that audit resources can be directed to areas that are of higher concern and high risk in the ever-changing environment.

To meet these demands, the following approach could be adopted for the next four-year plan, commencing April 2012:

i   Review of the risk environment with the Chief Officers Group, with reference to the Risk Management Group as appropriate.

ii   Draft the four-year strategy with standard audit areas ('must do's') identified as priority audits for the year, and flexible audit areas, from which the next highest priority audits could be selected, based upon management and Member choice.

iii   Identify any de minimis areas that are at risk of being totally excluded.

iv   Perform a formal risk assessment to incorporate the risk register scores and controls.

v   Submit the plan to Audit and Performance Management Committee for agreement, with the flexibility of choice over the audit areas other than those deemed to be the highest priority. Repeat this reflection on an annual basis throughout the four-year period.

7   Financial Implications

There are no direct financial implications arising from this report.

8   Legal Comment

There are no direct legal implications arising from this report.

9   Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

10   Appendices

Appendix A
Strategic Audit Plan for Shropshire Fire and Rescue Service
2008/09 to 2011/12

Appendix B
Systems Audit Position Statement 2010/11 for
Shropshire Fire and Rescue Service

11   Background Papers

There are no background papers associated with this report.

Appendix A to report 7 on
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Shropshire and Wrekin Fire and Rescue Authority
Audit and Performance Management Committee
10 March 2011

Audit and Consultancy Services Strategic Audit Plan for Shropshire Fire and Rescue Service 2008/09 to 2011/12

Audit Area		Risk Score	Audit Priority	Audit Frequency 2008/09	2009/10	2010/11	2011/12	Totals
General Ledger Maintenance and Accounts		DA		AC	DA	DA	DA	DA	
Budget Preparation & Control		123	High	Judgmental	0	2	0	2	4
Data Quality		129	High	One off	5	0	0	0	5
Payroll System - to include enhanced coverage for personnel in one year		127	High	Annual	6	6	8	6	26
Banking Arrangements **(b/f)**		120	High	AC/Annual	AC	4	AC	AC	4
Health and Safety		96	Medium Low	1/3	5	0	0	0	5
Creditors System	*	95	Medium Low	1/3	0	0	6	0	6
Computer Services		0			20	0	0	8	28
Purchasing / Procurement **(slipped)**	*	94	Medium Low	1/3	0	0	3	0	3
Capital Budgeting and Accounting	*	93	Medium Low	1/3	5	0	0	5	10
Partnerships		93	Medium Low	1/3	0	0	5	0	5
Asset Management **(slipped**)	*	90	Medium Low	1/3	0	0	3	0	3
Income Collection and Sundry Debtors	*	84	Medium Low	1/3	0	6	0	0	6
Vehicle Fleet **(slipped)**		83	Medium Low	1/3	0	0	3	0	3
					41	**18**	**28**	**21**	**108**

Misc - firefighters pension account		83	Medium Low	One off	3	0	0	0	3
Insurance **(b/f)**		78	Medium Low	1/3	0	1	0	0	1
Estates Management		70	Medium Low	1/3	0	0	2	0	2
Misc - travel and subsistence (to include in payroll audit)		62	Low	1/4	0	0	0	1	1
Fire SSA and Statistics		60	De Minimis	0					0
Members' Allowances		56	De Minimis	0					0
DP/FOI		53	De Minimis	0	0	0	0	0	0
NFI				Annual	0	1	0	1	2
Risk Management and Business Continuity Arrangements			High		2	2	2	6	12
Corporate Governance (to inform AGS)			High		2	2	2	2	8
Review of Annual Governance Statement			High		1	1	1	1	4
"Fraud and Corruption" determined each year)			High		2	2	2	2	8
Planning and Reporting					5	5	5	5	20
-Audit Needs Assessment					2	2	2	6	12
Recommendation follow up					2	2	2	2	8
Top up testing for DA			High		2	2	2	2	8
					62	**38**	**48**	**49**	**197**

* Fundamental systems (Audit Commission managed audits) not scheduled for annual audits according to the risk scores and audit priorities resulting from the audit needs assessment process.

Putting Shropshire's Safety First

Appendix B to report 7 on
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Audit and Performance Management Committee
10 March 2011

Systems Audit Position Statement 2010/11
Shropshire Fire and Rescue Service

As at 7 January 2011

Area	Planned Days	Status
Payroll and Personnel	8	Rescheduled to February at SWFA officers' request. In progress
Fraud and Corruption	2	Report issued 17.8.10
Corporate Governance (to inform Annual Governance Statement)	2	Report Issued 1.9.10
Review of Annual Governance Statement	1	Completed 28.5.10
Risk Management and Business Continuity	2	Draft report issued 10.2.11
Asset Management	3	Report issued 27.9.10
Partnerships	5	In progress. Nearing completion and awaiting issue of the relevant Brigade Order
Creditors	6	Report issued 29.9.10
Purchasing and Procurement (incorporating Estates Management)	5	In progress. Work is concentrated on Purchasing and Procurement throughout the Service. Estates Management, which is undertaken through a service agreement with Shropshire Council, is being covered by a Letter of Comfort to be issued once the function has been audited at the Council.
Vehicle Fleet	3	Report issued 27.9.10
Audit needs assessment plus planning/reporting /briefings	7	As required
Top-up Testing for District Audit	2	Completed
Recommendation follow-up	2	In progress. Meeting arranged for 14.3.11
Total	**48**	

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