

EAST SUSSEX FIRE AND RESCUE SERVICE

Meeting Scrutiny & Audit Panel

Date 5 June 2019

Title of Report Internal Audit Strategy and Plan

By Assistant Director Resources / Treasurer

Lead Officer *Russell Banks, Chief internal Auditor, Orbis*

Background Papers None

Appendices 1. Internal Audit Plan 2019/20

Implications

CORPORATE RISK		LEGAL	
ENVIRONMENTAL		POLICY	
FINANCIAL	✓	POLITICAL	
HEALTH & SAFETY		OTHER (please specify)	
HUMAN RESOURCES		CORE BRIEF	

PURPOSE OF REPORT To provide an Internal Audit Plan for East Sussex Fire Authority covering the period 1 April 2019 to 31 March 2020.

EXECUTIVE SUMMARY East Sussex County Council (ESCC) has provided the internal audit service to East Sussex Fire Authority (ESFA) since 1 April 1997. This service is usually delivered based on a standard annual budget of 70 audit days.

The Internal Audit Strategy and Plan for 2019/20 is set out as Appendix 1. This Strategy and Plan has been produced on a risk basis, following consultation with senior officers, the Authority's external auditor, Ernst and Young (EY LLP) and the Chairman of Scrutiny & Audit Panel. The Strategy seeks to achieve a balance between ensuring that existing controls are maintained and that assurance can be given on key projects within the Authority's transformation programme.

This draft strategy proposes a 98 day programme, which is higher than in previous years, however, officer's view is that this

is justified by the level of risk and the requirement for assurance.

The Plan includes one unplanned review which was commissioned in 2018/19 in response to a Whistleblowing Disclosure but for which the bulk of the work will be conducted in 2019/20.

80 days can be funded from within the existing budget held within the Resources / Treasurer Directorate. The additional 18 days will be funded from the 2019/20 Corporate Contingency (18 days @ £365 = £6,570).

RECOMMENDATION

The Panel is recommended to approve the proposed internal audit plan for 2019/20.



EAST SUSSEX FIRE AUTHORITY

**INTERNAL AUDIT STRATEGY AND
ANNUAL AUDIT PLAN 2019-20**



East Sussex
Fire & Rescue Service

1. Role of Internal Audit

1.1 Orbis Internal Audit provides a service to the Fire Authority in accordance with the Public Sector Internal Audit Standards (PSIAS) as defined by CIPFA and the Institute of Internal Auditors (IIA). It is the Fire Authority's responsibility to maintain an effective internal audit service and assurance of this can be obtained through confirmation that the service is delivered in conformance with PSIAS and that agreed performance indicators are being achieved, including delivery of the annual audit plan.

1.2 The mission of Internal Audit, as defined by the Chartered Institute of Internal Auditors (CIIA), is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit is defined as *"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 bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."*

1.3 Internal audit review, appraise and report upon the effectiveness of the internal control environment established by the management of the Fire Authority. It is the responsibility of management to establish and maintain appropriate systems of internal control.

1.4 The full role and scope of the internal audit service is set out within our Internal Audit Charter; a copy of which has been attached to this report as Annex A.

2. Risk Assessment and Audit Planning

2.1 The Fire Authority's Internal Audit Strategy and Plan is updated annually and is based on a number of factors, especially management's assessment of risk (including that set out with the Authority's risk registers) and our own risk assessment of the organisation's major systems and other auditable areas. This allows us to prioritise those areas to be included within the audit plan on the basis of risk.

2.2 The update of the plan for 2019/20 has involved consultation with senior officers and the Chairman of the Scrutiny and Audit Panel to ensure that their views on risks and current issues are identified and considered. The Fire Authority is subject to audit and inspection by other bodies, in addition to internal audit, including the external audit of the accounts. These additional sources of assurance have been taken into account as part of the planning process, primarily through discussion with the Assistant Director of Resources and Treasurer. As in previous years, we have also consulted with the Fire Authority's external auditor, Ernst & Young, which has included clarifying their approach to reliance on the work of internal audit.

2.3 In producing the audit plan (see below) the following key principles apply:

- A programme of key financial systems reviews is conducted annually based on a risk assessment.
- Previous reviews which resulted in 'minimal assurance' audit opinions will be subject to a specific follow up review to assess the effective implementation by management of agreed actions. This will also include any previous reviews of high risk areas which received a 'partial assurance' opinion.

2.4 The overall aim of the Internal Audit Strategy and Annual Audit Plan is to allocate the agreed level of internal audit resources so as to focus on the highest risk areas and to enable an annual

opinion to be given on the adequacy and effectiveness of the Fire Authority's framework of governance, risk management and control.

3. Audit Approach

3.1 The approach of internal audit is to use risk based reviews, supplemented in some areas by the use of regularity/compliance audits. Where considered appropriate, we may also seek to utilise external specialist resources for certain assignments. In all cases, this will be agreed in advance with the Assistant Director of Resources and Treasurer. All of our work will have regard to management's arrangements for ensuring:

- Achievement of the organisation's objectives;
- Reliability and integrity of financial and operational information;
- Efficiency and effectiveness of operations and activities;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

3.2 In addition, internal audit will continue to support management by providing informal advice and assistance throughout the year on key risk and control issues as required or as they arise.

4. Annual Internal Audit Plan 2019/20

4.1 In times of significant transformation, organisations must manage change effectively and ensure that core controls remain in place. Internal Audit must therefore be in a position to give an opinion that covers the control environment in relation to both existing systems and new developments.

4.2 As a result, and following consultation with senior management, we are proposing to deliver a programme of work in 2019/20 amounting to 98 days. Details of all the planned work is set out in the following table:

Core Audit Activity

Area	Outline Objective	Planned Days
Fundamental Accounting Systems	<p>East Sussex Fire Authority use the main financial systems of East Sussex County Council, specifically:</p> <ul style="list-style-type: none"> • HR/Payroll • Accounts Payable • Accounts Receivable • Pensions • General Ledger <p>On a cyclical basis, dependent on perceived risk and the results of previous year's internal audit activity, we review these systems to ensure that key controls remain in place and operate effectively.</p>	12
Procurement Cards (P-Cards)	<p>This review will assess the adequacy of controls within the P-Card process where there are risks associated with inappropriate use. It will include the use of analytical review in order to identify exceptions for further investigation where appropriate.</p>	8
Project Management	<p>The new Project Management Office is expected to be in place by the end of 2018/19 and with this, new processes introduced to ensure ESFRS projects are properly managed and controlled and to reduce the risk of project overspends, overruns and poor quality.</p> <p>We will review overall governance arrangements of the Project Management Office and assess the extent to which this has improved standards in relation to project management within the Authority.</p>	10
Compliance with Disciplinary, Grievance, Harassment and Bullying Procedures	<p>ESFRS has in place a suite of policies for managing human resource issues such as disciplinary, grievance, harassment and bullying. Non-compliance with these could result in inadequate management of poor performance and legal action against the Authority. This review will assess compliance with these specific policies and will also consider the effectiveness of case management, reporting arrangements and mechanisms for capturing lessons learnt.</p>	8
Management of Operational Assets	<p>A review to assess the adequacy of arrangements for managing operational assets where there are risks associated with inappropriate/non-functioning equipment, and loss. It will cover the identification of need, receipt and acceptance of assets (including risk management and sign-off prior to roll-out), recording, servicing, replacement management and disposal.</p>	10
Business Fire Safety Follow-Up	<p>An audit of Business Fire Safety was completed in 2018/19 and received an opinion of partial assurance. This review will assess the adequacy of implementation of the agreed actions arising from the audit and will also consider the effectiveness of the revised risk based approach in this area.</p>	3
RDS Pay – Follow Up	<p>An audit of RDS Pay was completed in 2018/19 and received an opinion of partial assurance. This review will assess the adequacy of implementation of the agreed actions arising from the audit.</p>	3

Area	Outline Objective	Planned Days
Supply Chain Management - Follow-Up	A review of Supply Chain Management was completed in 2018/19 and received an opinion of partial assurance. This review will assess the adequacy of implementation of the agreed actions arising from the audit.	3
IMD Budget Management	A review to assess the adequacy of arrangements over management of the Information Management Department (IMD) budget, including in relation to budget setting, monitoring and reporting.	8
Management and Advice	This includes preparation of the Internal Audit Strategy and Plan, production of the Annual Internal Audit Report and Opinion, advice and ongoing liaison with management.	8

Assurance and Advisory Work

Area	Outline Objective	Planned Days
Retained Duty System (RDS) Pay	A new process for RDS Pay is being developed and the RDS Pay module of Firewatch is being implemented in 2019/20. We will assess the proposed control arrangements in relation to these prior to go-live, with specific focus on new processes, system testing, data migration, interfaces with SAP and system recovery.	5
Human Resources (HR) Business Process Review	Human Resources are currently reviewing all of their processes to ensure they remain fit-for-purpose and efficient. We will work with the HR Team to assess the proposed revised processes and control arrangements in place prior to their roll out across the Authority.	5
Counter Fraud Training	The delivery of counter fraud training to Fire Authority staff.	6
National Fraud Initiative (NFI)	To provide support in relation to the National Fraud Initiative (NFI).	2

Audit Investigations

Area	Outline Objective	Planned Days
Confidential Reporting Disclosure	The Authority has commissioned internal audit to investigate a matter reported under its Confidential Reporting (Whistleblowing) Procedure.	7
Total Planned Days		98

5. Potential Future Reviews

5.1 The following areas have been identified during the audit plan consultation process and risk assessment but have not been incorporated within the 2019/20 audit plan. These will be subject to consideration as the year progresses and when planning audit work for future years:

- National Fire Chiefs Council (NFCC) - Leadership Framework
- Procurement
- Capital

6. Quality and Performance

6.1 With effect from 1 April 2013, all of the relevant internal audit standard setting bodies, including CIPFA, have adopted a common set of Public Sector Internal Audit Standards (PSIAS). These are based on the Institute of Internal Auditors International Professional Practices Framework and replace the previous Code of Practice for Internal Audit in Local Government.

6.2 The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment. The outcomes from these assessments, including any improvement actions arising, will be reported to the Scrutiny and Audit Panel, usually as part of the annual internal audit report.

6.3 In addition, the performance of the internal audit service to the Fire Authority continues to be measured against key service targets focussing on service quality, productivity and efficiency, compliance with professional standards, influence and our staff. These are all underpinned by appropriate key performance indicators as set out in the following table:

Aspect of Service	Orbis IA Performance Indicator	Target
Quality	<ul style="list-style-type: none"> • Annual Audit Plan agreed by Scrutiny and Audit Panel • Annual Audit Report and Opinion • Satisfaction levels 	<ul style="list-style-type: none"> • June • June • 90% satisfied
Productivity and Process Efficiency	<ul style="list-style-type: none"> • Audit plan – completion to draft report stage by 31 March 2020 	<ul style="list-style-type: none"> • 90%
Compliance with Professional Standards	<ul style="list-style-type: none"> • Public Sector Internal Audit Standards • Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act 	<ul style="list-style-type: none"> • Conforms • Conforms
Outcomes and Degree of influence	<ul style="list-style-type: none"> • Agreement to audit findings 	<ul style="list-style-type: none"> • 95%
Our staff	<ul style="list-style-type: none"> • Professional Qualified/Accredited 	<ul style="list-style-type: none"> • 80%

6.4 At a detailed level, each audit assignment is monitored and subject to appropriate manager review. Customer feedback is also sought.

Russell Banks CMIIA

Orbis Chief Internal Auditor and Chief Internal Auditor for East Sussex Fire Authority



INTERNAL AUDIT CHARTER

1. Introduction

This Charter describes for the Fire Authority the purpose, authority and responsibilities of the Internal Audit function in accordance with the UK Public Sector Internal Audit Standards (PSIAS).

The PSIAS require that the Charter must be reviewed periodically and presented to “senior management” and “the board” for approval. For the purposes of this charter “senior management” will be the Senior Leadership Team (SLT) and the board will be the Scrutiny and Audit Panel (described generically in this Charter as the Audit Committee).

The Charter shall be reviewed annually and approved by SLT and the Audit Committee. The Head of Internal Audit is responsible for applying this Charter and keeping it up to date.

2. Internal Audit Purpose

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Internal Audit is defined in the PSIAS as “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 bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

Internal Audit supports the whole Authority to deliver economic, efficient and effective services and achieve its vision, priorities and values.

3. Statutory Requirement

The requirement for an Authority to maintain an Internal Audit function is derived from local government legislation, including Section 112 of the Local Government Finance Act 1988 and the Accounts and Audit Regulations 2015 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”

The responsibility for ensuring an effective internal audit function rests with the Authority Treasurer as part of their Section 112 obligations.





The regulations require any officer or Member of the Fire Authority to

- make available such documents and records; and
- supply such information and explanations;

as are considered necessary by those conducting the audit.

This statutory role is recognised and endorsed within the Fire Authority's Financial Regulations.

4. Internal Audit Responsibilities and Scope

Annually the Head of Internal Audit is required to provide to the Audit Committee an overall opinion on the Fire Authority's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

Internal Audit is not responsible for control systems. Responsibility for effective internal control and risk management rests with the management of the Fire Authority.

Internal Audit activity must be free from interference in determining the scope of activity, performing work and communicating results.

The scope of Internal Audit includes the entire control environment and therefore all of the Fire Authority's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessment (as set out within Fire Authority risk registers). Extensive consultation also takes place with key stakeholders and horizon scanning is undertaken to ensure audit activity is proactive and future focused.

Internal audit activity will include an evaluation of the effectiveness of the organisation's risk management arrangements and risk exposures relating to:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Efficiency and effectiveness of operations and activities;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts





5. Independence

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors should have no operational responsibilities.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Head of Internal Audit has direct access to, and freedom to report in their own name and without fear of favour to, all officers and Members and particularly those charged with governance.

All Internal Audit staff are required to make an annual declaration of interest to ensure that objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

6. Reporting Lines

Regardless of line management arrangements, the Head of Internal Audit has free and unfettered access to report to the S112 Officer; the Monitoring Officer; the Chief Executive; the Audit Committee Chairman; the Chairman of the Fire Authority and the Fire Authority's External Auditor.

The Audit Committee will receive reports on a periodic basis – as agreed with the Chairman of the Audit Committee – on the results of audit activity and details of Internal Audit performance including progress on delivering the audit plan.

7. Fraud & Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will however be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Fire Authority's Anti Fraud and Corruption Strategy.

The Head of Internal Audit should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

Internal Audit will promote an anti-fraud and corruption culture within the Fire Authority to aid the prevention and detection of fraud.





8. Consultancy Work

Internal Audit may also provide consultancy services, generally advisory in nature, at the request of the organisation. In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit and, where this work is not already included within the approved audit plan and may affect the level of assurance work undertaken; this will be reported to the Audit Committee.

9. Resources

The work of Internal Audit is driven by the annual Internal Audit Plan, which is approved each year by the Audit Committee. The Head of Internal Audit is responsible for ensuring that Internal Audit resources are sufficient to meet its responsibilities and achieve its objectives.

Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

The Head of Internal Audit is responsible for appointing Internal Audit staff and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Head of Internal Audit may engage the use of external resources where it is considered appropriate, including the use of specialist providers.



10. Due Professional Care

The work of Internal Audit will be performed with due professional care and in accordance with the UK Public Sector Internal Audit Standards (PSIAS), the Accounts and Audit Regulations (2015) and with any other relevant statutory obligations and regulations.

In carrying out their work, Internal Auditors must exercise due professional care by considering:

- The extent of work needed to achieve the required objectives;
- The relative complexity, materiality or significance of matters to which assurance procedures should be applied; and
- The adequacy and effectiveness of governance, risk management and control processes;
- The probability of significant errors, fraud or non-compliance; and
- The cost of assurance in proportion to the potential benefits.

Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership.

11. Quality Assurance

The Head of Internal Audit will control the work of Internal Audit at each level of operation to ensure that a continuously effective level of performance – compliant with the PSIAS is maintained.

A Quality Assurance Improvement Programme (QAIP) is in place which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter;
- Operates in an effective and efficient manner; and,
- Is adding value and continually improving the service that it provides.

The QAIP requires an annual review of the effectiveness of the system of Internal Audit to be conducted. Instances of non-conformance with the PSIAS, including the impact of any such non-conformance, must be disclosed to the Audit Committee. Any significant deviations must be considered for inclusion in the Fire Authority's Annual Governance Statement.

May 2019