

**Hampshire Fire and Rescue Authority**

**Internal Audit Strategy**

2011 – 2014

DRAFT

**CONTENTS**

1.0	INTRODUCTION	3
1.1.	Background	3
1.2.	Internal audit strategy	3
2.0	INTERNAL AUDIT TERMS OF REFERENCE	5
2.1.	Purpose	5
2.2.	Statutory framework	5
2.3.	Accountability	6
2.4.	Scope of internal audit work	6
2.5.	Responsibility	7
2.6.	Independence	7
2.7.	Strategy	7
2.8.	Internal audit resources	8
2.9.	Rights of access	8
2.10.	Due professional care	8
2.11.	Reporting to third parties	9
2.12.	Ownership of documentation	9
2.13.	Review of the internal audit terms of reference	9
3.0	INTERNAL AUDIT SERVICES	10
4.0	DEVELOPING THE AUDIT PLAN	11
4.1.	The audit universe	11
4.2.	Identifying audit needs	11
4.3.	Producing the audit plan	12
4.4.	Relationship with other assurance providers	13
5.0	DELIVERING THE AUDIT	14
5.1.	Objectives of the internal audit review	14
5.2.	Planning	14
5.3.	Documenting the audit work	14
5.4.	Audit file structure	15
5.5.	Audit supervision and review	15
6.0	INTERNAL AUDIT REPORTING	16
6.1.	Accountability for risk	16
6.2.	Assignment reporting	16
6.3.	Action tracking	17
6.4.	Reports to Governance Committee	18
6.5.	Annual audit opinion	18
7.0	RESOURCING INTERNAL AUDIT	20
7.1.	Principles	20
7.2.	Staffing	20
7.3.	Training and continuing professional development	21
8.0	QUALITY ASSURANCE	22
9.0	KEY RISKS TO DELIVERY OF THE AUDIT STRATEGY	23

## 1.0 INTRODUCTION

### 1.1. Background

1.1.1. The requirement for an internal audit function in local government is detailed in the Accounts and Audit Regulations 2003 (as amended 2006), which states that a relevant body must *“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 practices in relation to internal control”*. The standards for ‘proper practices’ in relation to internal audit are laid down in the Chartered Institute of Public Finance and Accountancy’s *Code of practice for internal audit in Local Government in the United Kingdom (2006)* [“CIPFA Code”].

1.1.2. The responsibility for maintaining an adequate and effective system of internal audit within Hampshire Fire and Rescue Authority lies with the Treasurer, as the Authority’s Chief Finance Officer.

1.1.3. The purpose of internal audit is to provide independent and objective assurance to Hampshire Fire and Rescue Authority on risk management, control and governance, by evaluating their effectiveness in achieving Hampshire Fire and Rescue Authority’s stated priorities.

### 1.2. Internal audit strategy

1.2.1. Hampshire Fire and Rescue Authority’s Internal Audit Strategy 2011 – 2014 is to be presented to the Governance Committee, in its capacity as the member body charged with governance.

1.2.2. The strategy outlines how the internal audit service will be managed, delivered and developed to facilitate:

- delivery of an internal audit opinion on Hampshire Fire and Rescue Authority’s internal control, risk management and governance arrangements, to inform the annual governance statement;
- audit of Hampshire Fire and Rescue Authority’s internal control, risk management and governance systems through the strategic audit plan, in a way which affords due consideration to Hampshire Fire and Rescue Authority’s key objectives and significant risks;
- continuous improvement of the internal control, risk management and governance framework and processes within Hampshire Fire and Rescue Authority;
- identification of the resources and skills required and method of delivery of an internal audit service that meets the CIPFA Code;
- effective cooperation with the Audit Commission and other external review bodies; and
- provision of assurance and advisory services by internal audit.

1.2.3. This strategy is based on the Risk Based Internal Auditing [“RBIA”] concept. RBIA is a methodology that clearly links internal auditing to the organisation’s overall risk management framework and therefore priorities and objectives, enabling internal audit to provide assurance that risks are being managed effectively.

1.2.4. In the Hampshire Fire and Rescue Service Plan 2011-2014, the Authority has identified the following objectives to make sure that it continues to improve and offer excellent services, as well as help to achieve its ambition of being the best fire and rescue service in the country:

- We will have community facilities at our stations
- We will respond to small fires more effectively in rural areas
- We will respond differently to automatic fire alarms which are in non-domestic properties
- We will respond to road-traffic accidents in rural areas more effectively
- We will use energy more efficiently at our buildings.
- We will improve 'Operational Diversity' to help reduce the different risks people face in the community.

The RBIA methodology ensures internal audit effort is aligned with Hampshire Fire and Rescue Authority's objectives in the planning and performance of its work and as new objectives are set each year, internal audit plans are kept under constant review.

1.2.5. The Chief Internal Auditor is responsible for ensuring the internal audit strategy is reviewed annually (minimum) and the Governance Committee will be required to approve any significant amendments.

## 2.0 INTERNAL AUDIT TERMS OF REFERENCE

### 2.1. Purpose

2.1.1. These *Terms of reference* set out the purpose, authority and principal responsibilities of internal audit within Hampshire Fire and Rescue Authority.

2.1.2. Internal audit is an assurance function that provides an independent and objective opinion to Hampshire Fire and Rescue Authority on the control environment, comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the Hampshire Fire and Rescue Authority's objectives.

2.1.3. Internal audit may provide independent and objective advice specifically to help management improve the control environment within Hampshire Fire and Rescue Authority.

2.1.4. Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. Internal audit's role in this respect is outlined in Hampshire Fire and Rescue Authority's Anti Theft, Fraud and Corruption Policy.

2.1.5. Internal audit aims to provide high quality services that:

- add value and contribute to the achievement of Hampshire Fire and Rescue Authority's aims and objectives;
- support elected Members and officers of Hampshire Fire and Rescue Authority in the effective discharge of their responsibilities;
- specifically support the Treasurer in the discharge of duties as proper officer;
- are innovative and challenging, shaping the values and standards of the organisation; supporting and promoting the need for sound internal controls; and, encouraging management to take ownership of processes, systems and policy; and
- maintain a level of independence and integrity which supports the proper delivery of the internal audit function.

### 2.2. Statutory framework

2.2.1. Internal audit is a statutory function within Hampshire Fire and Rescue Authority under a duty to

*"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 practices in relation to internal control"*

[Regulation 6 of the Accounts and Audit (Amendment) (England) Regulations 2006]. These standards for proper practices are laid down in the CIPFA Code.

## **2.3. Accountability**

2.3.1. The Chief Internal Auditor reports to the Treasurer who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972 for ensuring an effective system of internal financial control and proper financial administration of Hampshire Fire and Rescue Authority's affairs.

2.3.2. The Chief Internal Auditor has direct access to the Chief Officer who carries the responsibility for the proper management of Hampshire Fire and Rescue Authority and for ensuring that the principles of good governance are reflected in sound management arrangements.

2.3.3. The Chief Internal Auditor has direct access to the Monitoring Officer where matters arise relating to Chief Officer responsibility, legality and standards.

2.3.4. Where it is considered necessary to the proper discharge of internal audit functions, the Chief Internal Auditor has direct access to elected Members of Hampshire Fire and Rescue Authority and in particular those who serve on committees charged with governance (i.e. the Governance Committee).

2.3.5. Accountability for response to internal audit's advice lies with management, who either accept and implement the advice, or formally reject it. Audit advice is without prejudice to the right of internal audit to review the policies, procedures and operations at a later date.

2.3.6. The Chief Internal Auditor must be satisfied that management accepts accountability for, and provides an adequate response to, issues raised through internal audit's work. When the Chief Internal Auditor is not satisfied, the matter will be escalated to the audit sponsor, Performance Review Manager, Treasurer and/or the Governance Committee.

## **2.4. Scope of internal audit work**

2.4.1. Internal audit's remit extends to the whole of Hampshire Fire and Rescue Authority's internal control, risk management and governance environment which comprise the policy, procedures and operations in place to:

- establish and monitor the achievement of Hampshire Fire and Rescue Authority's objectives;
- identify, assess and manage the risk to achieving Hampshire Fire and Rescue Authority's objectives;
- advise on, formulate and evaluate Hampshire Fire and Rescue Authority policy;
- ensure the economical, effective and efficient use of resources;
- ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations;
- safeguard Hampshire Fire and Rescue Authority assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption;
- ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes;
- manage the risk of fraud; and

- work in partnership with other bodies, protecting Hampshire Fire and Rescue Authority interests in the delivery of shared objectives.

2.4.2. Internal audit will devote particular attention to any aspects of internal control, risk management and governance affected by material changes to Hampshire Fire and Rescue Authority's risk environment.

## **2.5. Responsibility**

2.5.1. Management are responsible for ensuring that internal control, risk management and governance arrangements are sufficient to address the risks facing the delivery of Hampshire Fire and Rescue Authority's objectives.

2.5.2. The Chief Internal Auditor is responsible for the management of a professional internal audit service, which follows the CIPFA Code and which advises management in the effective discharge of their responsibilities.

## **2.6. Independence**

2.6.1. Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice. In practice, independence will be achieved through internal audit:

- having no executive or operational responsibilities;
- operating in a framework that allows unrestricted access to Members and senior management;
- reporting in its own name;
- rotating responsibilities for audit assignments within the internal audit team;
- completing individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements; and
- ensuring the planning process recognises and addresses potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles.

## **2.7. Strategy**

2.7.1. The Chief Internal Auditor will produce an audit strategy for Hampshire Fire and Rescue Authority, detailing how the internal audit service will be delivered and developed in accordance with these terms of reference and how it links to Hampshire Fire and Rescue Authority objectives and priorities. The strategy will be approved (but not directed) by the Governance Committee. The strategy will be reviewed annually.

2.7.2. The strategy will be implemented through the determination and delivery of a strategic risk-based audit plan, developed in consultation with the Treasurer, senior management and the Governance Committee.

2.7.3. The operational internal audit plan will be designed to enable the Chief Internal Auditor to deliver annually, an independent and objective opinion on internal control, risk management and governance, by measuring and evaluating their effectiveness in supporting or delivering Hampshire Fire and Rescue Authority's stated objectives.

2.7.4. The annual operational plan will be subject to ongoing review and adjustment during the course of the year, to ensure it remains aligned with Hampshire Fire and Rescue Authority's key objectives and risks and is responsive to the priorities and concerns of the Service Management Team.

## **2.8. Internal audit resources**

2.8.1. The Chief Internal Auditor will be professionally qualified (CPFA, CMIIA or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

2.8.2. The Treasurer will provide the Chief Internal Auditor with the resources necessary to fulfil Hampshire Fire and Rescue Authority's requirements and expectations as to the robustness and scope of the internal audit opinion.

2.8.3. The Chief Internal Auditor will appoint staff with the range of knowledge, skills, qualifications and experience required to deliver the audit strategy to the standards laid down in the CIPFA Code.

2.8.4. If the Chief Internal Auditor, Governance Committee or senior managers consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the CIPFA Code is prejudiced, they will advise the Treasurer accordingly.

## **2.9. Rights of access**

2.9.1. In carrying out their duties, internal audit (subject to production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to Hampshire Fire and Rescue Authority and key delivery partner organisations.

2.9.2. Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

## **2.10. Due professional care**

2.10.1. Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

2.10.2. Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

2.10.3. Internal auditors will appraise themselves of the CIPFA Code and will work in accordance with the standards laid down in the Code.

2.10.4. Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and

conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Chief Internal Auditor.

2.10.5. Internal auditors will treat the information they receive in carrying out their duties as confidential. The Chief Internal Auditor is responsible for determining an Access Policy to outline the parameters for authorised disclosure of audit information, files and records. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

## **2.11. Reporting to third parties**

2.11.1. Subject to the prior approval of the Treasurer, the Chief Internal Auditor may agree to provide an opinion to a third party on internal control, risk management and governance e.g. partner organisations.

## **2.12. Ownership of documentation**

2.12.1. Internal audit files and working papers, which demonstrate compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, are the property of Hampshire Fire and Rescue Authority.

2.12.2. Internal audit's data retention policy on the archiving and secure destruction of audit files requires that all audit files are retained for a period of four years (three plus the current) except for those papers used in the course of a fraud investigation which will be retained for a period of six years after legal proceedings have been completed. An annual programme is in place for the secure destruction of files once this time has elapsed.

## **2.13. Review of the internal audit terms of reference**

2.13.1. These *Terms of reference* will be reviewed annually (minimum) and the Chief Internal Auditor will advise the Governance Committee on their content and the need for any subsequent amendment.

### 3.0 INTERNAL AUDIT SERVICES

3.1. A range of internal audit services is provided. The approach will be determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to Hampshire Fire and Rescue Authority's success, the risks inherent in the achievement of those objectives and the level of confidence required that controls are well designed and operating as intended.

3.2. The range includes:

3.2.1. **Risk based audit:** in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.

3.2.2. **Developing systems audit:** in which:

- the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
- programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.

3.2.3. **Compliance audit:** in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.

3.2.4. **Quality assurance review:** in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.

3.2.5. **Advisory services:** in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.

3.2.6. **Fraud and irregularity investigations:** in which

- specialist skills and knowledge will be provided to assist in an investigation, or lead an investigation where appropriate; and
- fraud prevention controls and detection processes are assessed to ascertain their effectiveness

## **4. DEVELOPING THE AUDIT PLAN**

### **4.1. The audit universe**

4.1.1. The requirement for internal audit to provide a clear opinion on internal control, risk management and governance arrangements, flowing from Hampshire Fire and Rescue Authority's key objectives, provides a clear focus for the audit approach.

4.1.2. Internal audit will define the 'audit universe', from Hampshire Fire and Rescue Authority's key priorities and delivery framework (Hampshire Fire and Rescue Service Plan, Medium Term Plans, Strategic Risk Register, Financial Management Strategy) ensuring it contains the main business processes, projects, assets, performance and compliance issues significant to Hampshire Fire and Rescue Authority's strategic direction, risk environment and goals. Definition of the audit universe will enable internal audit to demonstrate support to the annual corporate governance statement and will encompass the following core principles:

- focus on Hampshire Fire and Rescue Authority's defined purpose and outcomes;
- effective performance in clearly defined functions and roles;
- promoting values that underpin good governance through upholding high standards of conduct and behaviour;
- taking informed and transparent decisions within a framework of controls and managing risk;
- developing the capacity and capability of members and officers to be effective; and
- engaging stakeholders to ensure robust public accountability.

4.1.3. The audit universe will be subject to ongoing review and adjustment, to ensure it remains aligned with significant delivery objectives and risks and is responsive to the priorities and concerns of the Service Management Team. Amendments will be identified through internal audit's ongoing contact and liaison with senior officers and those responsible for the governance of Hampshire Fire and Rescue Authority.

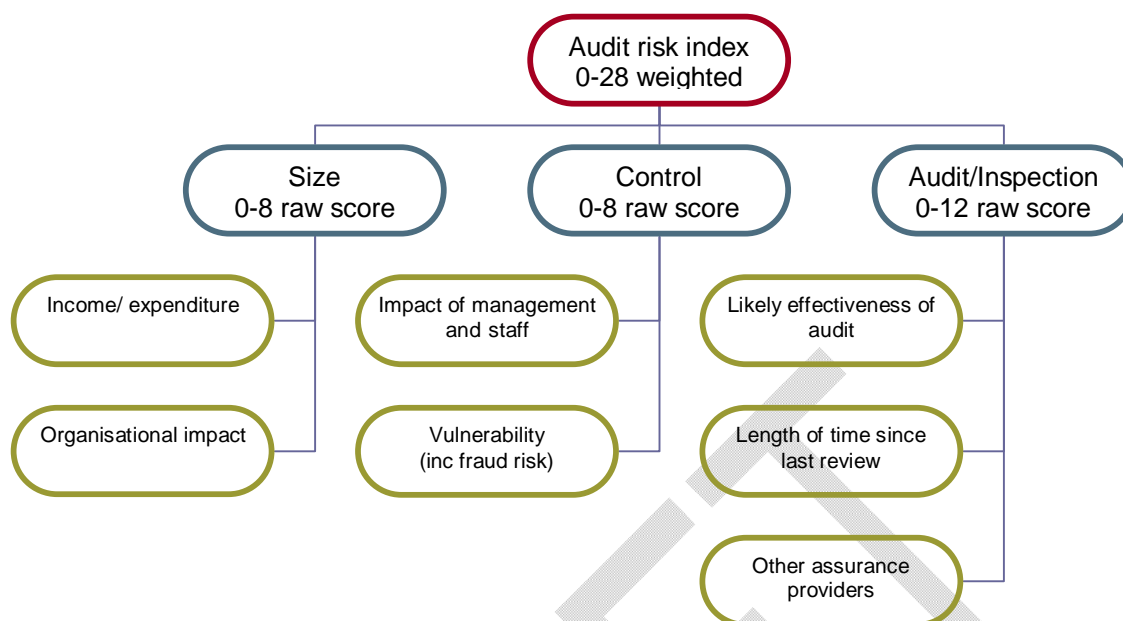
### **4.2. Identifying audit needs**

4.2.1. Internal audit will include assessments of the effectiveness of the corporate risk management and performance management frameworks within its programme of work, to support Hampshire Fire and Rescue Authority's development of risk and performance management and to identify the extent to which internal audit is able to rely on these assurance functions.

4.2.2. The Strategic Risk Register and performance framework will be used to inform the risk assessment of the audit universe, but will be supplemented with internal audit's own assessment of risk and materiality.

4.2.3. Internal audit's assessment of risk will provide for a systematic appraisal of the elements of the audit universe to enable auditable areas to be risk scored and indexed relative to all other areas.

## Audit risk index



**Fig. 1**

4.2.4. The risk profile of the audit universe will form the basis of a three-year strategic plan of internal audit work and will be updated at least annually to take cognisance of changing priorities within Hampshire Fire and Rescue Authority. The three-year strategic plan will be presented to senior management and the Governance Committee, identifying the specific services, activities, processes or projects that present the highest inherent risks.

### 4.3. Producing the audit plan

4.3.1. An annual operational plan will be derived from the three year strategic plan using a risk based approach, whereby audits will be selected based on greatest perceived inherent risk. A timing algorithm will be included to ensure that most effort is focused on inherently high risk areas while, at the same time, not totally ignoring the potential for problems to materialise within the rest of the audit universe.

4.3.2. Other review work, based on criteria other than risk, may also be built into the plan. These may include grant certification work or other mandatory audits. They may also include audits or reviews requested by management or the Governance Committee, but will not include the direct delivery of executive responsibilities or functions.

4.3.3. The internal audit plan will remain flexible to accommodate changes to the risk environment and to respond to reactive counter fraud work and other unplanned enquiries. Any commissioned review work must be able to clearly demonstrate a contribution to the audit opinion on risk management, control and governance. Any displacement of a previously planned review by unplanned work will be clearly justified.

4.3.4. The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources. Management and the Governance Committee will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

4.3.5. The annual operational plan will be submitted to the Treasurer for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of Hampshire Fire and Rescue Authority. Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to the Treasurer and the Governance Committee.

#### **4.4. Relationship with other assurance providers**

4.4.1. The availability of objective assurance from other assurance providers will be considered in determining audit needs.

4.4.2. A formal Audit Protocol document has been agreed between Internal Audit and the Audit Commission in line with good practice. The purpose of the protocol is to clarify the respective responsibilities between the external auditors and Hampshire Fire and Rescue Authority's internal audit function to support an effective working relationship and to facilitate coordination of work. The Chief Internal Auditor will meet regularly with the Audit Commission to consult on audit plans, discuss matters of mutual interest and to seek opportunities for cooperation in the conduct of audit work. The Audit Commission will have the opportunity to rely on the work of internal audit where appropriate.

4.4.3. Where internal audit needs to work with the internal auditors of other organisations, a practice which is expanding with the development of more organisational strategic partnerships, the roles and responsibilities of each party will be clearly defined, agreed and documented.

4.4.4. Internal audit will ensure awareness of and seek to place reliance on the work of other review bodies such as HM Fire Service Inspectorate and HMRC etc.

## **5.0 DELIVERING THE AUDIT**

### **5.1. Objectives of the internal audit review**

5.1.1. Any audit work intended to provide an audit opinion will be undertaken using a risk-based approach.

5.1.2. The purpose of the internal audit review will be to provide assurance to management, in relation to the business, activity, system or processes identified in the operational audit plan, that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- risk to the achievement of Hampshire Fire and Rescue Authority's objectives is identified, assessed and managed to a defined acceptable level.

5.1.3. The Chief Internal Auditor will produce and maintain an "Internal Audit Manual" that defines the processes and procedures to be followed by the service in the conduct of its work to ensure appropriate professional standards are met.

### **5.2. Planning**

5.2.1. For each internal audit review, a written 'Audit Outline', based on the operational plan, will be discussed, prepared and agreed with management. The audit outline, prepared in standard format, will establish the scope of the review, detailing management objectives, key risks, and timing for the assignment.

5.2.2. The audit outline will identify the lead auditor and audit team member(s) conducting the review. It will identify the 'audit sponsor' i.e. senior manager with overall strategic responsibility for the management objectives under review. It will also identify the 'key audit client', i.e. the System owner or other senior officer responsible for the operational delivery of the management objectives under review.

5.2.3. The audit outline will list, as far as is practicable, the intended circulation for the final internal audit report. This may be subject to change at the discretion of the Chief Internal Auditor depending on the findings and outcomes of the review.

5.2.4. The audit outline will be approved by the Chief Internal Auditor and relevant manager as evidence they accept the objectives of the review.

### **5.3. Documenting the audit work**

5.3.1. All internal audit assignments and documentation will be documented within the MK Insight audit management system. All will be subject to review by a qualified and experienced member of the audit team. The purpose of the review is to ensure that sufficient evidence has been obtained and recorded to support the auditor's conclusions and professional judgements.

5.3.2. Assignment documentation should be sufficiently complete to enable an experienced internal auditor with no previous connection with the review to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached. Review and documentation of review points will be evidenced through the MK Insight audit management system.

5.3.3. Documentation of the work must make clear the link between key risks, controls, assurances given and work done to support those assurances.

5.3.4. Significant controls will be verified for evidence that the actions are working as intended through adoption of an appropriate testing strategy. Testing will be sufficiently detailed to enable re-performance to deliver the same conclusions.

5.3.5. Exceptions arising from control evaluation and testing will be recorded and appropriately cross-referenced within MK Insight.

#### **5.4. Audit file structure**

5.4.1. A standard audit file structure has been adopted within MK Insight and will be used in the conduct of all audit reviews.

5.4.2. MK Insight records key target dates and achievements. MK Insight policies require the Chief Internal Auditor to sign off the file at the end of each assignment.

#### **5.5. Audit supervision and review**

5.5.1. The Chief Internal Auditor is ultimately responsible for delivery of the audit work to the defined standard. In practice, responsibility for supervising specific assignments will be delegated through the Audit Manager(s); this will include:

- detailed planning of the exercise;
- managing each assignment on time, within budget and to the appropriate quality standard;
- discussing and agreeing the scope and operation of the exercise with the auditor(s);
- actively liaising with the auditor(s) to monitor progress on the exercise;
- ensuring adequate audit work has been performed to deliver an audit opinion;
- managing client expectations;
- reviewing audit work, action plans and reports produced by the auditor(s) at appropriate stages during the progress of the assignment; and
- a quality review of the conduct of the audit and an assessment of the performance of the auditor(s).

## 6.0 INTERNAL AUDIT REPORTING

### 6.1. Accountability for risk

6.1.1. Internal audit will consider their evaluation of the framework of internal control, risk management and governance and will advise management where they consider that risk is not appropriately controlled. Management may either accept the advice and implement actions to address weaknesses or deficiencies in controls; or formally reject it.

6.1.2. Where internal audit believes that the risk falls outside usually accepted parameters or that the rejection of their advice and the absence of satisfactory mitigating action leave Hampshire Fire and Rescue Authority exposed to significant risk, they will bring the matter to the attention of the relevant senior manager. If management elect to accept the risk, the Chief Internal Auditor will ensure the Treasurer and Chief Fire Officer are appropriately informed.

### 6.2. Assignment reporting

6.2.1. All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to Hampshire Fire and Rescue Authority on the framework of internal control, risk management and governance in operation and to stimulate improvement.

6.2.2. Any key (serious) issues arising during the course of the audit review will be promptly reported to the Chief Internal Auditor to determine the impact on the scope of the review. Key issues will also be promptly brought to management's attention during the course of the review to enable appropriate remedial action to be taken prior to being formally published in the audit report.

6.2.3. Internal audit reports will be used to record:

- the overall level of assurance opinion, based on the auditor's professional judgement of the effectiveness of the framework of internal control, risk management and governance:

Opinion	Framework of governance, risk management and management control
Substantial assurance	A sound framework in place that is operating effectively. Some immaterial evidence of inconsistent application.
Adequate assurance	Basically a sound framework in place and / or recurring evidence of inconsistent application
Limited assurance	Critical weakness (es) identified within the framework and / or significant evidence of inconsistent application.
No assurance	Fundamental weaknesses have been identified or the framework is ineffective or absent.

- An executive summary of assurance in respect of each key risk identified, to include:
  - areas of good practice identified;
  - any opportunities for efficiency gains identified including any examples of “over management” of risk; and
  - a summary of findings/observations, to include an explanation of the risk, its potential impact and the identified control weaknesses.
- audit’s observations or findings that led it to its conclusion on the effectiveness of risk management, control and governance;
- the actions management propose to bring the risks within acceptable parameters, the officer(s) responsible for those actions and the dates for completion; and
- a prioritisation of the actions using the following categories:

Priority Ratings	Current Risk
High	A significant risk of: failure to achieve objectives; fraud or impropriety; system breakdown; loss; or qualification of the accounts by Audit Commission. Such risk could lead to adverse impact or expose Hampshire Fire and Rescue Authority to criticism
Medium	A serious, but not immediate risk of: failure to achieve objectives; system breakdown; or loss.
Low	Areas that individually have no major impact, but where management would benefit from improved risk management and/or have the opportunity to achieve greater efficiency and/or effectiveness.

6.2.4. The final report will be issued in the names of the auditor conducting the review. Final reports will be copied to:

- the audit sponsor;
- the audit client;
- the Performance Review Manager
- the Treasurer, as proper officer; and
- copies may also be provided to the External Auditor as requested.

### 6.3. Action tracking

6.3.1. Management are accountable for any actions agreed within the action plans and responsible for ensuring actions are properly implemented within the agreed timescales.

6.3.2. Internal audit will request progress reports in respect of management actions from management, including evidence of actions taken where appropriate, within a timeframe that reflects delivery dates for agreed actions. The auditor will consider

management's response and evidence submitted, and exercise judgment as to whether any further action (e.g. a follow up visit) is required by internal audit.

6.3.3. Any responses judged to be inadequate will be escalated by the Chief Internal Auditor to the audit sponsor, Performance Review Manager, the Treasurer and finally, the Governance Committee, as deemed appropriate.

6.3.4. Management actions will be tracked by internal audit to implementation or, as occasionally happens in times of rapid change, to obsolescence. The audit sponsor will be notified through the quarterly report (see below) that an audit has been closed.

#### **6.4. Reports to Governance Committee**

6.4.1. A status report on internal audit work will be presented to senior managers and the Governance Committee on a quarterly basis (approximately). This report will include a summary of:

- audit opinion and current status of 'live' internal audit reports where fundamental weaknesses have been identified or the framework is ineffective or absent, i.e. those where internal audit work is completed and actions are planned to improve the framework of governance, risk management and control;
- executive summaries of all internal audit reports published since the last report where fundamental weaknesses have been identified or the framework is ineffective or absent;
- latest position statements from management in addressing issues raised in reports where fundamental weaknesses have been identified or the framework is ineffective or absent, including high priority actions where implementation is overdue;
- a summary of internal audit performance, planning and resourcing issues; and
- an update on progress of the annual audit plan.

#### **6.5. Annual audit opinion**

6.6.1. A formal annual report to the Governance Committee, senior managers and Treasurer (as proper officer), presenting the Chief Internal Auditor's opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control, will be published to enable it to be taken into account within the annual review of the effectiveness of the system of internal audit and in preparing the Annual Governance Statement.

6.6.2. The format of the Chief Internal Auditor's report will follow that set out by the CIPFA Code and will include:

- an opinion on the overall adequacy and effectiveness of Hampshire Fire and Rescue Authority's framework of internal control, risk management and governance;
- disclose any qualifications to that opinion, together with the reasons for qualification;
- a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- any issues considered by the Chief Internal Auditor to be particularly relevant to the Annual Governance Statement;

- a comparison of work undertaken with that planned, with a summary of internal audit performance for the year; and
- comment on compliance with the CIPFA Code and internal audit's quality assurance programme.

DRAFT

## **7.0 RESOURCING INTERNAL AUDIT**

### **7.1. Principles**

7.1.1. The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.

7.1.2. If the Chief Internal Auditor, Governance Committee or senior managers consider that the terms of reference or level of internal audit resources in any way limit the scope of internal audit, or prejudice the ability of internal audit to deliver a service consistent with CIPFA's Code, they should advise the Treasurer accordingly.

7.1.3. To support the achievement of the audit strategy and operational plan, the Chief Internal Auditor will consider:

- Hampshire Fire and Rescue Authority's broad arrangements for controls assurance, corporate governance, risk management, partnership working and change management;
- the approach to staffing, including flexible working arrangements and the use of other sources of professional advice and support;
- job descriptions and person specifications for each established post;
- the structure of the Internal Audit service team.

### **7.2. Staffing**

7.2.1. Internal audit will adopt a matrix-style delivery structure. By using a resource pool of multi-disciplinary auditors, capable of forming into teams as audit projects demand, the service will be able to ensure:

- efficient use of audit resources in delivery of the audit plan;
- ability to respond quickly to service demands, particularly for unplanned work;
- opportunities for skills transfer, staff development and breadth of experience for all team members;
- sharing of the knowledge base; and
- rotation of ongoing audit responsibilities within the team to maintain objectivity and independence.

7.2.2. The structure hierarchy will support a clear career progression pathway within the service, aligning roles and grades with professional qualifications and experience. All senior members of the team will be required to hold a relevant professional qualification.

7.2.3. Collaborative working with Southampton City Council provides a significant opportunity to further share areas of expertise and generate economies of scale through joint training and development.

### **7.3. Training and continuing professional development**

7.3.1. The Chief Internal Auditor will ensure that appropriate provision is made for maintaining and developing competence of audit staff.

7.3.2. Professional competence is dependent on development of a range of skills, behaviours and attitudes. A Learning and Development Plan will be produced annually, as part of the service plan. The plan will be aimed at supporting the provision of formal and effective training, backed up by opportunities for relevant work-based experience, to enable staff to carry out their work in accordance with the required professional and operational standards. The plan will be reviewed quarterly by the Chief Internal Auditor.

7.3.3. The approach to learning and development, applicable to all internal audit staff, aims to support:

- achievement of relevant professional qualifications, e.g. CCAB, CMIIA, MAAT;
- continuing professional development;
- technical, personal and professional updates;
- IT skills development; and
- management development.

Other generic training will be provided as required to meet operational needs.

7.3.4. Managers, supervisors and individuals all share responsibility for the identification of learning and development needs and for developing and implementing learning and development plans to meet the needs of the internal audit service and individual staff members.

## 8.0 QUALITY ASSURANCE

8.1. The internal audit team will work to the CIPFA Code to maintain consistency and “seamless” service provision. This requirement will be enforced through appropriate supervision, and supervisory/management review of all audit working papers, action plans and audit reports.

8.2. All internal audit reviews will be conducted using a standard audit methodology and suite of working papers, to ensure consistency of approach and documentation.

8.3. Members of the team required to conduct supervisory reviews will be members of a relevant professional body and will be bound by that body’s Code of ethics and professional guidance.

8.4. The Chief Internal Auditor will put in place a performance management framework that enables internal audit to demonstrate it is:

- meeting its aims and objectives
- compliant with the CIPFA Code;
- efficient and effective; and
- continuously improving.

8.5. A suite of performance indicators has been developed and performance against those indicators will be reported in the Chief Internal Auditor’s Annual Report.

8.6. Feedback forms will be distributed to key contacts at the end of each audit assignment to assess the value of the assignment to management and to seek suggestions for improvement. All completed forms will be reviewed by Audit Manager(s) / the Chief Internal Auditor and the auditor conducting the assignment and responded to appropriately.

8.7. The Accounts and Audit (Amendment) (England) Regulations 2006 require that an annual review of the effectiveness of internal audit is carried out and that the Governance Committee considers the results of the review. At appropriate intervals, the Chief Internal Auditor will delegate one of the professionally qualified internal auditors to perform an internal quality review or will commission an external quality review of the internal audit service. In each case the remit will be to assess the standards achieved by internal audit as measured against the CIPFA Code. The Chief Internal Auditor will:

- provide the reviewer with written terms of reference making clear their expectation that the review will be performed with scrupulous rigour;
- address the findings of the review objectively and without prejudice; and
- make the report, their response to it and any action plans arising from it available to the Governance Committee and the Treasurer.

8.8. The Audit Commission will review internal audit fully against the CIPFA Code every three years, with a short revisit in other years. The conclusions of these reviews will be made available to the Governance Committee and the Treasurer.

## **9.0 KEY RISKS TO DELIVERY OF THE AUDIT STRATEGY**

**9.1.** Failure to align internal audit effort to key risks to the achievement of Hampshire Fire and Rescue Authority's objectives – resulting in inappropriate or inadequate audit coverage. This will be mitigated through alignment of the audit plan with the corporate business planning framework and ongoing communication with those responsible for the governance of the organisation.

**9.2.** Failure to attract or retain adequately skilled resources - impacting on the Chief Internal Auditor's ability to deliver an overall opinion each year on Hampshire Fire and Rescue Authority's risk management, control and governance, to support the Annual Governance Statement. This risk will be addressed through ongoing training and development of internal audit staff and ongoing review of the need to engage external service providers. Cost is clearly a constraining factor and the Chief Internal Auditor will refer any concerns regarding the service's ability to deliver to the Treasurer at an early stage.

**9.3.** Inefficient use of assurance resources – resulting in wasted cost and effort. Internal audit will continue to strive to develop cooperative relationships with other assurance providers to ensure effort is not duplicated and that management does not receive conflicting messages on the effectiveness of the framework of governance, risk management and management control.

**9.4.** Internal audit conclusions are inaccurate – resulting in provision of inappropriate evaluation and/or opinion to management. All internal audit assignments will be undertaken in accordance with the CIPFA Code. Internal auditors will obtain and record sufficient relevant evidence to support their conclusions and professional judgements. Observations and conclusions will be discussed with management prior to publication of the audit opinion. All audit assignments will be subject to supervisor review to ensure that the quality of work meets the defined standards.

**9.5.** Actions arising from internal audit, reviews are not implemented – resulting in Hampshire Fire and Rescue Authority's exposure to unacceptable levels of risk. The responsibility for implementing actions agreed in response to unacceptable levels of risk identified from internal audit work lies with management. Internal audit will follow-up agreed actions to ensure management has responded adequately to the risk. Any responses judged to be inadequate will be escalated by the Chief Internal Auditor to the audit sponsor, Performance Review Manager, the Treasurer, and finally, the Governance Committee, as deemed appropriate.

Karen Shaw  
Chief Internal Auditor  
Date: February 2011