

APPENDIX A

MFRS Internal Audit Plan for the year 1 April 2015 – 31 March 2016

1. Background

- 1.1 The Public Sector Internal Audit Standards set out the expected professional standards for Internal Audit. The definition of Internal Audit is set out in the Standards:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

- 1.2 The Standards set out the requirement for an annual internal audit plan. The plan is designed to facilitate the provision of the Chief Internal Auditor’s Annual Opinion Statement, which is used by the Accountable Officer to support the production of the organisation’s Annual Governance Statement (AGS).
- 1.3 In line with the Standards the Audit Plan has been devised following a risk based approach, we have:
- Considered the Merseyside Fire and Rescue Authority’s risk management process;
 - Reviewed the 2015-17 Integrated Risk Management Plan (Supplement);
 - Considered cumulative audit knowledge and experience;
 - Met with the Head of Finance;
 - Reviewed all External Audit & other relevant reports;
 - Used professional judgement on the risk of fraud and error.
- 1.4 These discussions and reviews enable us to provide a detailed audit plan that reflects our assessment of your current assurance requirements. This ensures that our audit resources are focused on the key risks and operational issues and that our approach meets professional auditing standards.
- 1.5 The 2015/16 audit plan amounts to a resource of 112 audit days. The audit plan reflects internal audit’s assessment of the assurance requirements for the Authority and is risk-based.

1.6 We have developed an indicative plan, taking account of the matters of greatest concern to you. Using the sources of information noted above the plan has been drafted to balance the following:

- The requirement for External Audit to place reliance on audits of the key financial systems for their annual opinion on the financial statements;
- The requirement to give an objective and evidence based opinion on all aspects of governance, risk management and internal control;
- The corporate strategic vision for Internal Audit to add value through improving controls and streamlining processes;
- The allocation of time required for responding to queries on control issues;
- The allocation of time required for responding to fraud queries;
- The resource and skill mix available to undertake the work.

2. Internal Audit Plan

2.1 The Audit Plan at this stage provides an overview of the assurance that will be obtained through each audit. It should be noted that during our planning stage of each assignment each will be scoped and reconfirmed with relevant management and the detailed resource requirements formally agreed.

2.2 The audit plan will remain flexible and will be regularly reviewed to ensure it is in line with emerging risks. The allocation of audit resources is summarised as follows:

Proposed work	2015-16 Audit days
Fundamental systems	40
Strategic Reviews / Client directed / Ad hoc reviews	55
Contingency	4
Follow up reviews	5
Audit management	8
Total audit days	112

Each of these areas is explained in more detail below:

Fundamental systems

2.3 Assurance will be provided in respect of key controls within the main financial systems, including payroll, creditors, debtors, budgetary control, general ledger, the medium term financial plan and treasury management. Discussions will be held with External Audit to confirm coverage.

- 2.4 The work is weighted towards the second half of the financial year to provide us with a greater population for testing from the current financial year. In undertaking any fundamental systems work we may make use of computer assisted audit techniques to interrogate the systems and the data they hold more effectively.

Strategic reviews / client directed / ad-hoc reviews

Proposed work	2015-16 Audit days
Ancillary Fleet & Vehicle Asset Management Plan	15
New FPS Pension Administration Arrangements	10
Strategic Mgt Review / Future workforce planning	10
FM Contract Mgt & Performance monitoring process	10
Financial Management System Phase 2	10
Total audit days	55

- 2.5 We plan to perform an audit review of the ancillary fleet management with the intention to advise service managers on the effectiveness and efficiency of the fleet use and management.
- 2.6 The service has transferred the fire-fighters' pension scheme(s) administration and pension payroll to a new provider, YPS, with effect from 1st April 2015. We therefore plan to review the arrangements for notifying YPS of new retirees and work with external parties to obtain assurance on the controls YPS have in place for validating payments to pensioners.
- 2.7 We also have time in the plan for providing support on the strategic management review planned for 2015/16 and to facilitate some assurance over future workforce succession planning (including Strategic Back Office Support).
- 2.8 The new facilities management (FM) outsourced contract is due to commence in early 2015/16. The performance and contract management arrangements to ensure the service delivery is at the level and standard expected will be assessed.
- 2.9 Time has also been included to look at the any new processes implemented for phase 2 of the integrated HR/Payroll project and the new Time Resource Management (TRM) system. The integrated HR/Payroll system and new TRM system have a number of electronic interfaces that would benefit from an independent critical review, especially given 2015/16 will see the final modules of the project coming into full operation. We therefore plan to provide advice and guidance as and when required on appropriate controls, to ensure robust systems and procedures are maintained throughout this stage of the project.

Contingency

- 2.10 A number of days have been allocated to contingency, including responsive work and advice and assistance. The budget has been increased from previous years to reflect actual days spent.

Follow up reviews

- 2.11 Audit resources have been be allocated to ensure that all two star and three star recommendations are followed up within one month for three star recommendations, and within three months for two star recommendations of the agreed implementation date.

Audit management

- 2.12 An allocation of 8 days has also been made to cover other management and tasks in support of the internal audit service to the Authority:

- Strategic Planning;
- Central reporting (annual and periodic progress).
- Liaison with Senior Management; and
- Liaison with External Audit.

- 2.13 After each assignment we will produce a report which will be sent in draft to the managers who have a direct responsibility for the function being audited and who have the authority to take action on our recommendations and to those others necessary to check factual accuracy. Each report will be discussed with relevant management and their comments and action plan for addressing recommendations will be included in the final version. Comments on our draft report are required before we can issue the final report.

- 2.14 Our reports on each audit will:

- State our overall opinion;
- State the conclusions reached;
- Make recommendations which are appropriate and relevant; and
- Acknowledge the action taken, or proposed, by management.

- 2.15 Opinions are formed in respect of each individual audit and previously were graded both as to the level of assurance over the area audited and also the corporate impact. The audit opinion is now separated between control environment (the controls in place) and compliance (whether or not the controls have been adhered to) so it is easier to identify where corrective action is needed. We have retained the corporate impact opinion which is a measure of the significance of the findings to the organisation as a whole. An explanation of the level of assurance and corporate impact ratings are detailed at Appendix B.

DRAFT STRATEGIC AUDIT PLAN

	15/16	16/17	17/18
	Audit Days	Audit Days	Audit Days
Fundamental Systems	40	40	40
<u>Strategic Reviews / Client directed / Ad hoc reviews</u>			
Ancillary Fleet & Vehicle Asset Management Plan	15		
New FPS Pension Administration Arrangements	10		5
Strategic Mgt Review / Future workforce Planning	10		
FM Contract Mgt & Performance Monitoring Process	10	10	
Financial Management System Phase 2	10		5
Risk Management		10	
Youth Engagement		15	
Financial management & Integrated HR system		5	
New Electronic Expenses System		10	
Statement of Assurance		5	
Interoperability Arrangements			20
IT reviews			10
Counter Fraud			5
Strategic Reviews / Client directed / Ad hoc reviews	55	55	45
Contingency - Investigations/Responsive / Advice & Assistance	4	4	14
Follow up	5	5	5
Audit Management	8	8	8
Total	112	112	112

APPENDIX B

Definitions of audit assurance

Control Environment Assurance – Opinion on the design and suitability of the current internal controls.	
Level	Definition
Substantial	There are minimal control weaknesses that present very low risk to the control environment
Good	There are minor control weaknesses that present low risk to the control environment
Acceptable	There are some control weaknesses that present a medium risk to the control environment
Limited	There are significant control weaknesses that present a high risk to the control environment
None	There are fundamental control weaknesses that present unacceptable level of risk to the control environment

Definitions of audit assurance

Compliance Assurance – Opinion on the level of compliance with current internal controls.	
Level	Definition
Substantial	The control environment has substantially operated as intended.
Good	The control environment has largely operated as intended although some minor errors have been detected
Acceptable	The control environment has mainly operated as intended although errors have been detected
Limited	The control environment has not operated as intended. Significant errors have been detected
None	The control environment has fundamentally broken down and is open to significant error or abuse

Definitions of audit assurance

Organisational impact – The potential impact on the organisation if the recommendations are not implemented.	
Level	Definition
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate	The weaknesses identified during the review have left the Council open to moderate risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor	The weaknesses identified during the review have left the Council open to a low level of risk. If the risk materialises it would have a minor impact on the organisation as a whole.