

Lancashire Combined Fire Authority

Internal Audit Service

**Annual report of the head of internal audit for the year
ended 31 March 2017**

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1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2016/17 and the key themes arising in relation to risk management, governance and internal control.
- 1.2 In March 2016, the Audit Committee considered and approved the internal audit plan for 2016/17. This work is now complete and reported here.

The role of internal audit

- 1.3 The Internal Audit Service is an assurance function designed to evaluate and improve the effectiveness of risk management, control and governance processes. The Public Sector Internal Audit Standards require the head of internal audit to provide an opinion on the framework of governance, risk management and control of Lancashire Combined Fire Authority and a written report to those charged with governance, timed to support the annual governance statement. This report is based upon the work the Internal Audit Service performed during 2016/17 in relation to the 2016/17 audit plan.
- 1.4 The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in Annex 1 to this report. The levels of assurance the Internal Audit Service provides are set out in Annex 2.
- 1.5 An Internal Audit Service Charter is in place that establishes the framework within which Lancashire County Council's Internal Audit Service operates to best serve the Combined Fire Authority and to meet its professional obligations under applicable professional standards.

Interim reports

- 1.6 This report builds on the matters reported previously to the Audit Committee as it has been completed during the year, and as such summary findings regarding the individual reviews are only included where these have not previously been reported to the committee.

Acknowledgements

- 1.7 I am grateful for the assistance that has been provided to the Internal Audit Service by the staff of Lancashire Fire and Rescue Service in the course of our work during the year.

Ruth Lowry
Head of Internal Audit
Lancashire County Council

2 Overall opinion on governance, risk management and internal control

Overall opinion

- 2.1 On the basis of our programme of work for the year, I can provide **substantial** assurance over the framework of governance, risk management and control for 2016/17. It is my opinion that there is a generally sound system of internal control, adequately designed to meet the objectives of Lancashire Combined Fire Authority and controls were generally applied consistently.
- 2.2 This opinion is based on the individual assurance levels we have provided for each of the audit reviews undertaken in 2016/17.

Wider sources of assurance available to the Combined Fire Authority

- 2.3 Assurance is provided by Grant Thornton as the Authority's external auditor for the year. Grant Thornton issued its annual audit letter relating to 2015/16 in September 2016, and gave unqualified opinions on both the annual financial statements and the Authority's value for money arrangements.
- 2.4 The results of the interim audit work for 2016/17 completed by Grant Thornton were also reported to the Audit Committee in March 2017. This concluded that the interim work had not identified any material weaknesses in controls or errors in the early substantive testing completed.

3 Internal audit work undertaken

Key financial systems

- 3.1 Our audit of the key financial systems found that there is overall a strong control environment in place, and we provided either full or substantial assurance over the systems reviewed this year, which have included accounts receivable, accounts payable, general ledger, human resources and payroll, pension administration and treasury management.
- 3.2 A small number of actions were agreed with management to enhance the controls in operation across these financial systems, but no issues are sufficiently significant to impact on the overall internal control environment. The table below indicates the number of actions agreed.

Actions agreed	Total
Extreme risk	0
High risk	0
Medium risk	4
Low risk	2
Total	6

- 3.3 We have also confirmed that the agreed actions in our prior year reports on these systems have been appropriately addressed.

Treasury management

- 3.4 Our report was finalised in April 2017, and we were able to provide full assurance. An agreed service level agreement between LCFA and Lancashire County Council was in place covering the provision of treasury management services for the period 1 April 2016 to 31 March 2017.

- 3.5 No new borrowings or investments have taken place during 2016/17. We have confirmed that £250,000 was repaid to the Public Works Loan Board on 31 December 2016. Interest paid on borrowings and interest received on investments held during the year was consistent with expectation.

Pension administration

- 3.6 Our report was finalised in June 2017. There were no areas of major concern found during the course of our review. A small number of actions have been agreed which are noted in the table in section 6.

- 3.7 Our prior year audit raised an issue regarding the submission of aggregated data files for the period April to October 2015. Whilst monthly data files were submitted for the period November 2015 to March 2016, we found that the same pattern had occurred in this current period.

Operational reviews

Tranman stores

- 3.8 We completed our audit of the Tranman stores module in September 2016 and we were able to provide an opinion of substantial assurance. There were no significant areas of weakness to note and actions were agreed with management to address a small number of areas for improvement identified.

Tranman fleet

- 3.9 Our report was finalised in May 2017, and we were able to provide substantial assurance regarding the operation of the Tranman fleet module. There are no significant findings to report and a strong control environment is maintained by the Fleet and Engineering team at LFRS. Proposed actions have been made primarily concerning the accuracy of the information in Tranman relating to driving licences.

Absence management

- 3.10 Our report was finalised in April 2017, and we were able to provide substantial assurance. There is an adequate framework in operation as regards the absence management procedure and itrent as the primary recording system for absences is, with minor exceptions, up to date.
- 3.11 The revised absence management procedure requires that copies of certain documents should now be forwarded to Human Resources (HR). The review has highlighted that a number of supporting documents had not been submitted as required. Retention of these documents provides

HR with evidence that absences have been processed in accordance with the absence management procedure and staff have received appropriate support during their absence and on their return to work.

Operational Assurance Team

- 3.12 Overall, we can provide substantial assurance that sufficient and appropriate controls are in place to ensure that internal operational assurance processes are working effectively.
- 3.13 A defined review methodology is in place and standardised reporting templates are in use for consistency. It is apparent that content will be informed by learning and common findings identified.
- 3.14 In terms of follow up processes we can identify that there are mechanisms in place, but at the moment, it is too early to know whether these will be effective. Reporting arrangements have also been developed to ensure that matters are escalated and circulated as appropriate, but again, it is too early to know whether these will be effective.

Follow-up work

- 3.15 Work has been undertaken to ascertain progress in implementing agreed actions resulting from the 2015/16 operational reviews, which included reviews of the Corporate Programme Board arrangements and the Provision of Risk Information to Staff (PORIS) project. The table below indicates the position across these two reviews at the time the audit work was completed.

Agreed actions	Total	Implemented	Ongoing	Not to be implemented
Extreme risk	0	0	0	0
High risk	0	0	0	0
Medium risk	9	5	3	1
Low risk	8	6	2	0
Totals	17	11	5	1

- 3.16 Our report on the Corporate Programme Board arrangements was finalised in March 2017. Overall we were satisfied that good progress had been made to implement the agreed actions, although in some cases implementation timescales have been longer than anticipated.
- 3.17 Our report on the PORIS follow up was finalised in May 2017. Based on the information and explanations provided to us we can confirm that good progress has been made to implement the agreed actions, although it is acknowledged that the effectiveness of these and the ongoing actions will only be determined after the passage of time.
- 3.18 An updated Service Order has recently been issued. The guidance contained within it, in conjunction with the additional training that has

already been provided to Service Delivery Managers (SDMs) and which is soon to be rolled out to all operational crews should support improvements to the quality of the existing risk documents.

3.19 Whilst the immediate priority has been for SDMs to complete the process of re-reviewing all level 3 – level 5 sites within their areas, we note that going forward the SMART plans that they are required to develop should support the process of scheduling (and monitoring) the completion of future re-reviews as they fall due.

3.20 It is positive to note that good progress has been made in developing communication and technological links both within internal LFRS teams and external agencies, including cross border Fire and Rescue Services.

Fraud/ special investigations

3.21 Except for one instance whereby a scam e-mail had been notified to us, no incidences of fraud or irregularity have been brought to our attention.

National Fraud Initiative

3.22 The NFI is part of the statutory audit process for health, local government and other public sector providers managed by the Cabinet office. The NFI flags inconsistencies in data within payroll, pensions, creditors and procurement which may indicate fraud or highlight emerging fraud risks.

3.23 Following the submission of data in October 2016, the resulting matches were released by the Cabinet Office in January 2017 and these have started to be investigated by LFRS. The table below provides details of the total number of matches identified, the number of matches recommended for investigation, the number of matches reviewed and cleared to date and those currently opened and in progress.

3.24 LFRS is currently making good progress in investigating data matches against the Cabinet Office milestone dates. No savings have been identified from the cases opened and closed to date but a small number of duplicate supplier records were identified by LFRS and action taken to remove these.

Category of data	Number of matches identified	Number of matches recommended for investigation	Number of matches processed	Number of matches in progress
Pensions	55	17	52	3
Payroll	48	5	32	9
Creditors	218	41	59	0
Procurement	1	0	0	0
Individuals who appear on more than one report	1	0	0	0
Total	323	63	143	12

4 Implications for the Annual Governance Statement

- 4.1 In making its annual governance statement the Combined Fire Authority should consider this report in relation to internal control, risk management and corporate governance.
- 4.2 We have agreed actions in a number of areas to enhance the controls in place for the planned audit reviews, and no high risk areas for improvement have been identified. There are therefore no matters arising from our work that we consider should be identified in the annual governance statement as requiring improvement.

5 Internal audit inputs and performance

Internal audit plan 2016/17

- 5.1 Work carried out during 2016/17 was in accordance with the audit plan presented and approved by the Audit Committee in March 2016. Details of the assurance provided, and key issues identified for each of the areas covered is set out in the 'Summary of findings and assurance' table which forms part of Section 6. This shows that 77.5 days have been spent delivering the audit plan against a provision of 80 days. Of this, 70.5 days were undertaken during the 2016/17 financial year, with the remaining 7 days being conducted in the first quarter of 2017/18.
- 5.2 Action plans have been agreed in respect of all final audit reports. Positive action has been, or will be taken to address any areas for improvement identified. Implementation of these plans will be followed up as part of our 2017/18 audit plan.

Internal audit quality assurance and improvement

- 5.3 The head of internal audit operates a quality assurance and improvement programme that both monitors the on-going performance of internal audit activity and periodically assesses the Internal Audit Service's compliance with the PSIAS. This includes both internal and external assessments and is set out in a separate Quality Assurance and Improvement Programme which was approved by the Audit and Governance Committee of Lancashire County Council in May 2016, and which was circulated to the Audit Committee in June 2016 for information.
- 5.4 A self-assessment of the Internal Audit Service confirmed that the service substantially meets the requirements of PSIAS. A more detailed assessment will build on this in 2017/18. A full external assessment of the Internal Audit Service's self-assessment of its compliance with PSIAS will take place during November 2017, and the results will be reported to the committee. The outcome of that review will be used to inform a revised quality assurance and improvement programme if necessary.

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Summary of findings

Overall summary and assurance provided

- 6.1 The table on the following pages sets out a brief summary of each review undertaken during the year. This sets out the planned and actual days we have spent on each review, the variance between the days reported, and a summary of the assurance we have been able to provide in relation to each system or operational area of your business. This also sets out the level and number of actions agreed for each review. They reflect the findings at the time the work was carried out.
- 6.2 We have distilled the assurance into an assessment of the adequacy of each system, and its effectiveness in operation.

System adequacy: We have defined a system as adequate if its design enables it to achieve its core control objectives which, if operating as intended, serve to manage its inherent risks.

System effectiveness: We have defined a system as operating effectively if, after testing or other supporting evidence has been found, it is operating as intended.

Summary of our findings and assurance

Review area	Audit days			Assurance		Key issues/ Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Key Financial Systems						
General ledger	5	5	0	✓	✓	Our composite report covering each of these audits was finalised in October 2016, with one low residual risk action introduced to address inaccurate fees and charges.
				Full assurance		
Accounts payable	9	9	0	✓	✓	
				Full assurance		
Accounts receivable	5	5	0	✓	✓	
				Full assurance		
Treasury management	5	5	0	✓	✓	
				Full assurance		
Human resources and payroll processes	9	9	0	✓	✓	Our report was finalised in March. No areas for improvement were identified.
				Full assurance		
Pensions administration (Firefighter Schemes)	5	5	0	✓	✓	Our report was issued in June 2017 and four medium residual risk actions were raised (i) A manager with the appropriate level of seniority will control, coordinate, communicate and have oversight of all systems updates; (ii) The cause of minor inaccuracies identified in the KPI data will be identified and addressed; (iii) The delegation of function agreement between LFRS and LCC will be agreed at the earliest opportunity and procedures will be introduced to ensure that performance information is submitted to them in accordance with the terms of the agreement in order that service standards can be monitored; and (iv) LFRS will aim to resolve the data extraction issues at the earliest opportunity in order to ensure that data files are able to be submitted on a monthly basis.
				Substantial assurance		

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Review area	Audit days			Assurance		Key issues/ Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Operational reviews						
Operational Assurance Team	8	8	0	✓	✓	<p>Our report was finalised in June 2017, and five medium and one low residual risk actions were agreed to address areas for improvement identified. These include:</p> <ul style="list-style-type: none"> • The introduction of a review process prior to the issue of reports. • SDMs and CPMs ensuring that action plans are developed and returned within defined timescales and that actions are then implemented as agreed. • Providing an explanation for any proposed actions that are not to be implemented. • Station Assurance Visits to be included as a standing agenda item on meetings between the CPMs and HoSD. • The late submission of action plans will be reported in the Common Findings Report which would highlight delays in responding to the actions raised to the OAG and where appropriate would be reported to PPRSG attended by the area managers.
Tranman stores	6	6	0	✓	✓	<p>Our report was finalised in September 2016 with two medium and two low residual risk actions agreed in relation to:</p> <ul style="list-style-type: none"> • The monitoring of calls to the Civica helpdesk; • The provision of iTrent alerts to the Deputy Head of Procurement; • The completion of an interim stock-take before year end; and • The retention of records associated with mini stock-takes.
Absence management	7	7	0	✓	✓	<p>The report was finalised in April 2017, with two medium residual risk actions:</p> <ul style="list-style-type: none"> • All managers will be reminded of the need to forward supporting documentation to HR on a timely basis; and • A communication is to be sent to the area admin hubs reminding them to ensure all absences are recorded on itrent in order to correctly calculate SSP and reduced pay. Also, from April 2017 retained stations will be provided with admin support to ensure that both the itrent system and Gartan record the correct information.

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Review area	Audit days			Assurance		Key issues/ Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Tranman fleet	6	6	0	✓	✓	Our report was finalised in May 2017, with one medium and one low residual risk actions agreed: <ul style="list-style-type: none"> • A record of calls made to the helpdesk will be maintained to ensure calls are dealt with timely and in accordance with agreed service delivery. • A review of all driving licence details in Tranman will be undertaken and admin staff will be reminded of the importance of accurate data entry.
				Substantial assurance		
Other areas						
Follow up reviews: Corporate Programme Board Provision of Risk Information to Staff	3	3	0	N/A	N/A	Our reports were issued in March and May 2017 respectively. Overall we are satisfied that appropriate progress has been made to address the areas for improvement identified in our prior year reports.
National Fraud Initiative	2	0.5	1.5	N/A	N/A	Work relating to the monitoring of progress in relation to the processing of data matches.
Audit management	10	9	1	N/A	N/A	Compilation of the 2015/16 Annual Report; Attendance and reporting for meetings of the Audit Committee; Review of the Internal Audit Charter; Production of the 2017/18 Audit Plan; Sundry client advice.
Total Days	80	77.5	2.5			

Annex 1: Scope, responsibilities and assurance

Approach

- 1 In accordance with Public Sector Internal Audit Standards, the scope of internal audit encompasses all of the governance, risk management and control processes of the Combined Fire Authority including where they are provided by other organisations on their behalf.

Responsibilities of management and internal auditors

- 2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls.
- 3 Lancashire Combined Fire Authority has taken the decision to outsource their internal audit provision, and Lancashire County Council's Internal Audit Service was the appointed service provider for 2016/17.
- 4 It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. The PSIAS makes clear that the provision of this assurance is internal audit's primary role and that this requires the head of internal audit to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control.
- 5 This assessment will be supported by the identification, analysis, evaluation and documentation of sufficient information on each individual audit assignment, and the completion of sufficient assignments to support an overall opinion for the organisation as a whole.
- 6 Internal auditors cannot be held responsible for internal control failures, however, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to you as they have become known to us, without undue delay, and have worked with you to develop proposals for remedial action.
- 7 The requirement to be independent and objective means that the Internal Audit Service cannot assume management responsibility for risk management, control or governance processes. However the Internal Audit Service may support management by providing consultancy services. These are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and will also contribute to the overall assurance opinion.
- 8 Accountability for responses to the Internal Audit Service's advice and recommendations for action lies with the Senior Management Team, which either accepts and implements the advice or accepts the risks associated with not taking action. Audit advice, including where the Internal Audit Service has been consulted about significant changes to internal control systems, is given without prejudice to the right of the Internal Audit Service to review and recommend further action on the relevant policies, procedures, controls and operations at a later date.

- 9 The head of internal audit will provide an annual report incorporating an overall opinion, a summary of the work that supports that opinion, and a statement of conformity with the PSIAS and the results of the quality assurance and improvement programme.
- 10 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

Basis of our assessment

- 11 Our opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken and completed during the period in accordance with the plan approved by the Audit Committee. We have obtained sufficient, reliable and relevant evidence to support the improvements that we proposed and that have been accepted by management.

Limitations to the scope of our work

- 12 There have been no limitations to the scope of our audit work.

Limitations on the assurance that internal audit can provide

- 13 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.
- 14 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Access to this report and responsibility to third parties

- 15 This report has been prepared solely for the Combined Fire Authority. This report forms part of a continuing dialogue between the Internal Audit Service, senior officers within Lancashire Fire and Rescue Service and the Audit Committee. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- 16 We acknowledge that this report may be made available to other parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

Annex 2: Audit assurance levels and classification of agreed actions

Audit assurance

The assurance we can provide over any area of control falls into one of four categories as follows:

Full assurance: there is a sound system of internal control which is adequately designed to meet the service objectives and is effective in that controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, adequately designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ has resulted in failure to achieve the service objectives.

Actions proposed by the Internal Audit Service

All actions proposed by the Internal Audit Service and agreed by management are stated in terms of the residual risk they are designed to mitigate.

Extreme residual risk: Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: catastrophic loss of the county council's services, loss of life, significant environmental damage or huge financial loss, with related national press coverage and substantial damage to the council's reputation.

High residual risk: Critical in that failure to address the issue or progress the work would lead to one or more of the following occurring: failure to achieve organisational objectives, disruption to the business, financial loss, fraud, inefficient use of resources, failure to comply with law or regulations, or damage to the council's reputation.

Medium residual risk: Less critical, but failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management.

Low residual risk: Areas that individually have no major impact on achieving the service objectives or on the work programme, but where combined with others could give cause for concern.