

**Lancashire Combined Fire Authority**  
**Internal Audit Service**  
**Monitoring report for the period ended**  
**12 January 2018**

## **1 Purpose of this report**

- 1.1 The Annual Audit Plan for 2017/18 was approved by the Audit Committee in March 2017. This report details the progress to date in undertaking the agreed coverage.
- 1.2 This report covers the period 1 April 2017 to 12 January 2018.

### **Acknowledgements**

- 1.3 We are grateful for the assistance that has been provided to us by all the staff contacted in the course of our work.

## **2 Key issues and themes arising during the period**

- 2.1 No significant issues have been identified from the assurance work completed to date.

## **3 Internal audit work undertaken**

- 3.1 Work carried out during the period 1 April 2017 to 12 January 2018 was in accordance with the agreed audit plan.
- 3.2 To date, 54 days have been spent this financial year on completion of the 2017/18 plan, equating to 68% of the total planned audit activity of 80 days.

### **Governance and business effectiveness:**

#### ***(i) Governance and risk management arrangements***

- 3.3 An overall opinion on risk management and governance arrangements forms part of the annual opinion of the Head of Internal Audit, which will be provided in the Annual Report for 2017/18 which will be presented to the June 2018 meeting of the Audit Committee.

### **Service delivery and support:**

#### ***(i) Rota management***

- 3.4 Our work commenced towards the end of November; fieldwork is now complete and our results are being compiled for management.

#### ***(ii) Training, learning and development***

- 3.5 This work is scheduled for completion during quarter 4.

### **Business processes:**

#### ***(i) Treasury management***

- 3.6 Our audit was completed in November 2017 and we provided an opinion of full assurance.
- 3.7 Treasury management activity has been conducted in accordance with the approved treasury management strategy and the service level agreement in place between LCFA and LCC for the provision of treasury management services.

**(ii) Accounts payable, Accounts receivable, General ledger**

- 3.8 Our audit of each of these key financial systems was finalised in December 2017, and we were able to provide opinions of substantial, full and full assurance respectively. No significant control weaknesses were identified and a strong control environment continues to be maintained by the finance and procurement teams.
- 3.9 Financial Regulations and relevant policies are in place and up to date, and accessible for all staff to view. Access control is well maintained by the Head of Procurement and the Head of Finance. Furthermore, the monitoring of expenditure and the recovery of debts is appropriately carried out. These controls contribute significantly to mitigating risks and reducing errors.

**(iii) Human resources (HR)/ payroll**

- 3.10 Our audit has recently been completed and our report issued with an opinion of full assurance. A strong control environment continues to exist over HR and payroll processes, so as to ensure that valid appointments have been correctly established and the right amount is paid to individuals at the right time. Robust monitoring arrangements are additionally in place to prevent and detect any anomalies or errors that might arise.

**(iv) Pensions administration**

- 3.11 This work is scheduled for completion during quarter 4.

**Follow up audit activity**

- 3.12 Any agreed actions raised in 2016/17 in relation to our work on business processes have been followed up as part of this year's audit programme. In all cases we are satisfied that appropriate action has been taken by management to implement actions on a timely basis.
- 3.13 All remaining follow up audit activity is to be completed during quarter 4.

**National Fraud Initiative**

- 3.14 Good progress has been made in investigating the NFI data matches released in January 2017. No areas of concern have been identified in the cases that have been opened and closed to date.

**Overall summary and assurance provided**

- 3.15 We have set out in the table on the following pages a brief summary of the position of each review during the period. This sets out the planned and actual days we have spent on each review to date.
- 3.16 We have provided a summary of the assurance we are able to provide in relation to each system or operational area of your business where work has been finalised.

**System adequacy:** We define 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 define a system as operating effectively if, after testing or other supporting evidence has been found, it is operating as intended.

- 3.17 The assurance we provide over any area of control falls into one of four categories and these are defined at Appendix 1.

## **4 External quality assessment**

- 4.1 In November 2017 the Internal Audit Service was subject to an independent, objective validation by the Chartered Institute of Internal Auditors (CIIA) of its self-assessment against the Institute's International Professional Practice Framework (IPPF) and the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in collaboration with the CIIA. This external assessment included considering the Service's conformance to each of these sets of professional standards, benchmarking its activities against best practice and assessing the impact of internal audit on the county council and its external client organisations.
- 4.2 The IPPF includes the Definition of Internal Auditing, Core Principles, Code of Ethics and International Standards: there are 64 fundamental principles to achieve with 118 points of recommended practice. The PSIAS and LGAN add considerably more requirements to these.
- 4.3 The external assessment concluded that the Internal Audit Service fully meets nearly all the Standards, as well as the Definition, Core Principles and the Code of Ethics, which form the mandatory elements of the IPPF. This is described as "Generally Conforms" and means that the Internal Audit Service may state in our internal audit reports for all clients that our work "has been performed in accordance with the IPPF, PSIAS and LGAN".
- 4.4 The performance of the Internal Audit Service was benchmarked against a maturity model based on a wide range of UK and Irish internal audit functions and was assessed as 'good' in its reflection of the standards and its focus on performance, risk and adding value. It was assessed as 'satisfactory' in the efficiency of its operations and in its Quality Assurance and Improvement Programme, but 'needs improvement' in coordinating and maximising assurance with other assurance providers. A small number of actions have arisen for the Service from this review, which will be addressed over the coming months.

### ***Use of this report***

This report has been prepared solely for the use of Lancashire Combined Fire Authority and it would therefore not be appropriate for it or extracts from it to be made available to third parties other than the external auditors. We accept no responsibility to any third party who may receive this report, in whole or in part, 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.

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Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>Governance and business effectiveness</b>						
Governance and risk management arrangements	0	0	0	-	-	An overall opinion on the adequacy and effectiveness of governance and risk management arrangements will be reported as part of the 2017/18 Annual Report of the Head of Internal Audit.
<b>Service delivery and support</b>						
Training, learning and development	10	0	10	-	-	Work is scheduled for quarter 4.
Rota management	10	10	0	-	-	Fieldwork has been completed and our results are currently being compiled.
<b>Business processes</b>						
Accounts payable	10	10	0	✓	✓	Our final composite report covering each of these accounting systems was issued in December 2017.
				Substantial assurance		
Accounts receivable	5	5	0	✓	✓	Two medium and one low residual risk actions were agreed relating to: <ul style="list-style-type: none"><li>• Revision of access permissions</li><li>• Ensuring compliance with Contract Standing Orders</li><li>• Reminding staff of the correct fees and charges information</li></ul>
				Full assurance		
General ledger	5	5	0	✓	✓	
				Full assurance		
HR and Payroll	12	11	1	✓	✓	Our final report was issued in January 2018.
				Full assurance		No areas for improvement were noted.
Treasury management	5	5	0	✓	✓	Our final report was issued in November 2017.
				Full assurance		No areas for improvement were noted.

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Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Pensions administration	5	0	5	-	-	Work is scheduled for late quarter 4.
<b>Follow up audit activity</b>						
<ul style="list-style-type: none"> <li>Absence management</li> <li>Tranman stores</li> <li>Tranman fleet</li> <li>Service Delivery Assurance Team</li> </ul>	6	0	6	N/A	N/A	<p>Work is scheduled to start late quarter 4.</p> <p>We will obtain assurance from both management self-assessment and our own selective test checking, that controls have been introduced that appropriately mitigate the risks identified.</p>
<b>Other components of the audit plan</b>						
Management activity	10	7.5	2.5	N/A	N/A	Work in the period has included production of the 2016/17 Annual Report, preparation of the periodic monitoring reports, and attendance at the meetings of the Audit Committee.
National Fraud Initiative	2	0.5	1.5	N/A	N/A	Time incurred relates to administrative support provided in relation to the National Fraud Initiative exercise and investigation of certain categories of data match.
<b>Total days</b>	<b>80</b>	<b>54</b>	<b>26</b>			

## Audit assurance levels

## Appendix 1

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 designed to meet the service objectives and controls are being consistently applied.

**Substantial assurance:** there is a generally sound system of internal control, 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/ have resulted in failure to achieve the service objectives.