

LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Meeting to be held on 23 June 2016

INTERNAL AUDIT ANNUAL REPORT 2015/16 (Appendix 1 refers)

Contact for further information:

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Executive Summary

The attached report summarises the work performed by the Internal Audit Service during 2015/16.

The opinion of the Chief Internal Auditor is that the Committee can take substantial assurance that the Lancashire Fire and Rescue Service operate a generally sound system of risk management, governance and internal control.

Decision Required

The Committee is asked to note and endorse the report.

Information

The Internal Audit Annual Report summarises the work that the Internal Audit Service undertook during 2015/16 and the key themes arising from it. It provides an opinion on the overall adequacy and effectiveness of the systems of governance, risk management and internal control. It is made under the Public Sector Internal Audit Standards issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA), with which the Internal Audit Service conforms.

On the basis of programme of work for the year, the Head of Internal Audit can provide substantial assurance over the framework of governance, risk management and control for 2015/16. It is their opinion that there is a generally sound system of internal control, adequately designed to meet the objectives of Lancashire Combined Fire Authority and the controls were generally applied consistently.

This opinion is based on the individual assurance levels they have provided for each of the individual audit reviews undertaken in 2015/16, as shown in the detailed report.

Financial Implications

None

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

Business Risk Implications

The work of internal auditor is one of the key control measures in place within the Authority. As such the annual report provides an assurance to Members that risks are being managed and controlled and feeds the Authority's overall assessment of the internal controls that operate within the Service.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
None		
Reason for inclusion in Part II, if appropriate:		

Lancashire Combined Fire Authority

Internal Audit Service

**Annual report of the head of internal audit for the year
ended 31 March 2016**

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1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2015/16 and the key themes arising from it. It provides my opinion on the overall adequacy and effectiveness of the systems of governance, risk management and internal control. It is made under the Public Sector Internal Audit Standards issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA), with which the Internal Audit Service conforms.

The role of internal audit

- 1.2 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 2015/16 in relation to the 2015/16 audit plan.
- 1.3 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.

Interim reports

- 1.4 This report builds on the matters reported previously to the Audit Committee as it has been completed during the year.

Acknowledgements

- 1.5 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 2015/16. 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 individual audit reviews undertaken in 2015/16. Definitions of the assurance levels used are included in Annex 2.

Wider sources of assurance available to the Combined Fire Authority

- 2.3 Assurance has been provided by Grant Thornton as the Authority's external auditor for the year. Grant Thornton issued its annual audit letter relating to 2014/15 in September 2015, and gave unqualified opinions on both the annual financial statements and the Authority's value for money arrangements.

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 overall number of actions agreed.

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

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

Operational reviews

Corporate Programme Board

- 3.4 Our work on the Corporate Programme Board (CPB) arrangements did not identify any significant areas of concern in either the sufficiency of the overall control environment or compliance with the suite of controls in place and a number of areas of good practice were identified. As a result, we provided substantial assurance over the adequacy and effectiveness of the controls in place.
- 3.5 We consider the independent reporting arrangements for CPB as well as the practical management and operation of the individual programme boards and the CPB to be effective mechanisms for ensuring that there is transparency and due consideration in the decision making process. However, given the large number of service developments currently ongoing, a review of the project governance arrangements has been conducted to ensure that the highest priority and high risk projects can be considered by the CPB, without limiting its capacity to scrutinise individual projects constructively.
- 3.6 Furthermore, management have recognised that there is scope for controls to be further enhanced to improve individual project management from development to delivery and to improve the quality of information available to manage capacity of individual project managers and staff from within support departments, and actions have been agreed in this regard.

Provision of Risk Information to Staff

- 3.7 Overall, we can provide substantial assurance that sufficient, appropriate controls are in place to ensure that LFRS is collating, assessing and deploying risk information relevant to significant hazards to staff on a timely basis.
- 3.8 The PORIS methodology has been developed and introduced over a number of years, and in our opinion, compliance with the project management framework and governance by the Corporate Programme Board has supported the identification and management of project risks and lessons learned, which we are satisfied have been taken forward and are being addressed as part of the PORIS3 project. It is clear however that the project is still in progress and therefore there are a number of areas where controls are still under development, including the quality assurance processes and a number of actions have been agreed in this regard.
- 3.9 Additionally, whilst all existing high level risks should have been transferred onto the PORIS methodology, the focus now needs to be on cataloguing the remaining properties across station areas and on strengthening the sharing of risk information between LFRS and other agencies, including cross border services.

Follow-up work

- 3.10 Work has been undertaken to ascertain progress in implementing agreed actions resulting from the 2014/15 operational reviews, which included Corporate Risk Management and IT disaster recovery arrangements. The table below indicates the current position across these reviews.

Agreed actions	Total	Implemented	Ongoing	Not to be implemented
Extreme risk	0	0	0	0
High risk	0	0	0	0
Medium risk	6	1	4	1
Low risk	4	3	1	0
Totals	10	4	5	1

- 3.11 In relation to our audit of corporate risk management arrangements, two actions were agreed to embed the profile of corporate risk management further into the culture of the Service and, based on the information and explanations provided to us, we are satisfied that progress has been made in implementing the agreed actions. Additionally, we are satisfied that the revised approach to corporate risk management, approved by the Audit Committee in June 2015 is operating effectively.
- 3.12 In relation to our follow-up of ICT disaster recovery arrangements, we found that whilst progress has been made in implementing the agreed actions, this has been slower than anticipated based on the agreed implementation dates. Additionally, the non-technical IT disaster recovery policy has not been produced as originally intended, although we understand that the ICT disaster recovery plans are being updated for incorporation into the overall LFRS Business Continuity Plan which is currently being refreshed.

Fraud/ special investigations

- 3.13 Except for a couple of instances whereby scam e-mails sent to the Chief Fire Officer have been notified to us, no incidences of fraud or irregularity have been brought to our attention.

National Fraud Initiative

- 3.14 The NFI is part of the statutory audit process for health, local government and other public sector providers. The NFI flags inconsistencies in data within payroll, pensions and creditors which may indicate fraud or highlight emerging fraud risks. The Director of Corporate Services presented a report to the Audit Committee in March 2016 in respect of the data matches released in 2015 for investigation, and the results of those investigations.

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 should be identified in the annual governance statement as requiring improvement.

5 Internal audit inputs and performance

Internal audit plan 2015/16

- 5.1 Work carried out during 2015/16 was in accordance with the audit plan presented and approved by the Audit Committee in March 2015. 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 days have been spent delivering the audit plan against a provision of 80 days. Of this, 69 days were undertaken during the 2015/16 financial year, with the remaining 8 days being conducted in the first quarter of 2016/17.
- 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 2016/17 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 has recently been approved by the Audit and Governance Committee of Lancashire County Council, and which has been circulated to the Audit Committee for information.
- 5.4 The results of the quality assurance and improvement programme including any areas of non-conformance with PSIAS will be reported annually to the Audit Committee.
- 5.5 There are no areas of non-conformance with PSIAS to report.

6 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 – 2015/16 Audit programme

Review area	Audit days			Assurance		Key issues/ Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Key Financial Systems						
General ledger	5	5	0	✓	✓	<p>Our composite audit report was issued in September 2015.</p> <p>One action (low risk/ priority) was agreed relating to the need for regular reminders to be issued to LCC in relation to the appropriate procedure to follow for the set-up of LFRS suppliers.</p>
				Full assurance		
Accounts payable	10	10	0	✓	✓	
				Full assurance		
Accounts receivable	5	5	0	✓	✓	
				Full assurance		
Human resources and payroll processes	10	10	0	✓	✓	<p>Our report was issued in January 2016 and three actions (low risk/ priority) have been agreed relating to :</p> <p>(i) The review and agreement of the updated service level agreement with GMFRS regarding the provision of payroll services;</p> <p>(ii) The recording of meetings with GMFRS, with a log of issues to be maintained; and</p> <p>(iii) A formal record of the review of payroll access rights being maintained.</p>
				Substantial assurance		

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Review area	Audit days			Assurance		Key issues/ Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Pensions administration	5	5	0	✓	✓	Our report was issued in March 2016 and no actions were raised. We did however report that the employer monthly files for the first six months of 2015/16 were only submitted by LFRS to Your Pensions Service in October 2015, with the remaining files only recently having been submitted. The data verification and processing of these files has been delayed at Your Pension Service but is being undertaken as a matter of priority.
				Substantial assurance		
Treasury management	5	5	0	✓	✓	Our report was issued in May 2016 with no actions raised.
				Substantial assurance		

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Review area	Audit days			Assurance		Key issues/ Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Operational reviews						
Corporate Programme Board	10	11	(1)	✓	✓	<p>Our final report was issued in June 2016 with 4 medium and 4 low actions agreed, which included:</p> <ul style="list-style-type: none"> (i) Re-visiting the governance arrangements applied to individual projects within the CPB; (ii) Developing an over - arching resource and project delivery timetable and central log of lessons learned; (iii) Delivering additional project management training; (iv) Introducing additional review stages into the existing project governance arrangements; and (v) Making minor changes to some of the project management framework documentation.

Review area	Audit days			Assurance		Key issues/ Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Provision of Risk Information to Staff	15	14	1	✓	✓	<p>Our report was agreed in June 2016, and 5 medium and 4 low actions have been agreed which include:</p> <ul style="list-style-type: none"> (i) The development of formal guidelines to support Service Delivery Managers through the QA process currently being established; (ii) The alignment of the QA, operational debrief and the station review processes to ensure they each complement and inform each other; (iii) The strengthening of the arrangements for the receipt and transfer of cross border information, and for the sharing of risk information between different internal teams and other external agencies; and (iv) Conducting a review of the appropriateness of the review periods.
				Substantial assurance		

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Review area	Audit days			Assurance		Key issues/ Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Other areas						
Follow up reviews: Corporate Risk Management ICT disaster recovery	2	2	0	-	-	Our reports were issued in March 2016 and April 2016 respectively. In both cases, we were satisfied that progress has been made in implementing the agreed actions, although progress had been slower than originally envisaged.
National Fraud Initiative	2	1	1	-	-	Work relating to the monitoring of progress in relation to the processing of data matches.
Ad hoc advice and support	2	0	2	-	-	None utilised during the year.
Audit management	9	9	0	-	-	Compilation of the 2014/15 Annual Report; Attendance and reporting for meetings of the Audit Committee; Development of the Internal Audit Charter; and Production of the 2016/17 Audit Plan.
Total Days	80	77	3			

Summary of time spent during 2015/16

Work performed	Days spent
Completion of outstanding audit work from the 2014/15 audit plan	8
Time spent during 2015/16 on completing items from the 2015/16 audit plan	69
Total time spent during 2015/16	77
Completion of 2015/16 audit plan during 2016/17	8

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 2015/16.
- 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.