

Lancashire Combined Fire Authority

Internal Audit Service

**Annual report of the head of internal audit for the year
ended 31 March 2018**

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2017/18 and the key themes arising in relation to risk management, governance and internal control.
- 1.2 In March 2017, the Audit Committee considered and approved the internal audit plan for 2017/18. This work is now complete and reported on 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 2017/18 and 2018/19 in relation to the 2017/18 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.

Acknowledgements

- 1.6 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 2017/18. 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 2017/18, and includes consideration of the wider sources of assurance provided to the Combined Fire Authority.

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 an unqualified opinion on the 2016/17 financial statements on the 28 September 2017. They were also satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.
- 2.4 The British Assessment Bureau were invited in February 2018 to re-certify Lancashire Fire and Rescue Service against the international Health, Safety and Environment management standards (OHSAS 18001 and ISO 14001). Following the audits continued certification has been granted for both standards, with no areas of non-conformance noted.

3 Internal audit work undertaken

Governance and risk management arrangements

- 3.1 Our overall opinion on risk management, governance and internal control has been informed by our ongoing attendance at each of the meetings of the Audit Committee at which a Risk Management update report is provided by the Director of Corporate Services, and through the work we conduct on individual audit assignments. We additionally obtain assurance regarding governance arrangements through our review of minutes of the meetings of the Executive Board, the Service Management Team and the Corporate Programme Board that have taken place during 2017/18.
- 3.2 The above procedures have not identified any significant weaknesses in governance, risk management or internal control that need to be brought to the attention of committee.

Rota management

- 3.3 The audit involved reviewing the controls in place to ensure that the retained, whole-time and flexible duty rota systems support the efficient and effective deployment of firefighter resources, and the management of

absences, and to ensure that RDS firefighters are paid the correct amount based on the shifts worked and the new pay structure introduced in 2017.

- 3.4 Our audit was completed in March 2018 and we provided substantial assurance. Other than minor exceptions, the Gartan rota system supports the deployment of firefighter resources and retained duty system firefighters were being paid in accordance with the revised pay structure.

Training, Learning and Development

- 3.5 Our audit was completed in June 2018 and the draft report is currently with senior management for consideration of the areas for improvement identified. No significant areas of concern have been identified.
- 3.6 The audit included consideration of the processes and controls within and around the PDRPro system and the LearnPro e-learning environment and we have additionally considered the completeness and accuracy of individual training records, the timely completion of initial training programmes and compliance thereafter with individual training renewal/refresh periods.

Accounts payable, Accounts receivable, General ledger

- 3.7 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.
- 3.8 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.

Human resources (HR)/ payroll

- 3.9 Our audit was completed in January 2018 and our report issued with an opinion of full assurance.
- 3.10 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.

Treasury management

- 3.11 Our audit was completed in November 2017 and we provided full assurance.
- 3.12 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.

Pension administration

- 3.13 Our audit was completed in May 2018 and we issued an opinion of substantial assurance.
- 3.14 Our review has identified no areas of major concern, and in particular we are satisfied that changes to the Altair pension administration software are satisfactorily tested prior to implementation, pension transactions are subject to appropriate review by a second officer before processing and pension payments are consistent with the underlying Altair calculations.
- 3.15 We do however note that as in previous years there has been delays in the submission of data from LFRS to Your Pension Service, which has hampered the timely establishment of starters and the issue of information to members.

Follow-up work

- 3.16 Under the Public Sector Internal Audit Standards, management has responsibility for ensuring that agreed actions in audit reports are implemented. Internal Audit should obtain assurances that actions have been implemented as agreed, or that senior management has accepted the risk of not taking action.
- 3.17 Our follow up audit work has involved obtaining explanations and evidence where appropriate that actions have been implemented. We have not re-performed any testing on controls which were found to be adequately designed and operating effectively at the time of our original review, and neither have we re-assessed the overall control environment.
- 3.18 The table below provides a summary of the progress made in implementing the agreed actions raised as part of the 2016/17 audit programme:

Audit	Actions raised	Implemented	Ongoing/ Superseded	Original residual risk associated with ongoing actions
Accounts receivable	1	1	-	
Treasury management	1	1	-	
Pensions administration	4	2	2	Medium (Note 1)
Absence management	2	2	-	
Tranman Stores	4	3	1	Low (Note 2)
Tranman Fleet	2	2	-	
Operational Assurance Team	6	6	-	
Totals	20	17	3	

Note 1 – The two outstanding actions relate to (i) the development of enhanced KPI data which is pending the introduction of a new case management system, and (ii) the agreement of the delegation of function associated with pension administration services, which was signed by LFRS in October 2017, but is awaiting signing and sealing by LCC.

Note 2 – The need for a separate scheduled twice yearly meeting with the software supplier has been superseded as the procurement team have been in regular contact with the provider to address ongoing issues.

- 3.19 Based on the information and explanations provided to us in conducting the above work, we are satisfied that LFRS have made excellent progress in implementing the agreed actions.

Fraud/ special investigations

- 3.20 No specific incidences of fraud or irregularity have been brought to our attention.

National Fraud Initiative

- 3.21 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.
- 3.22 Following the submission of data in October 2016, the resulting matches were released by the Cabinet Office in January 2017. 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 or opened and in progress and the errors found.
- 3.23 Other than three pension records still under review (as at the end of May), all recommended cases have been examined. No frauds or savings have been identified.

Category of data	Number of matches identified	Number of matches recommended for investigation	Number of matches processed	Number of matches in progress	Errors
Pensions	55	17	52	3	0
Payroll	48	5	48	0	0
Creditors	218	41	103	0	17 ¹
Procurement	1	0	1	0	0
Individuals who appear on more than one report	1	0	0	0	0
Total	323	63	204	3	17

¹ The errors represent duplicate creditor records by name, address or bank account detail.

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 the audit work conducted during 2017/18 that we consider should be identified in the annual governance statement as requiring improvement.
- 4.3 Additionally, as part of the 2018/19 audit programme, we have completed some work in conjunction with the Director of Corporate Services which has considered the sources of assurance available to Lancashire Fire and Rescue Service. Our conclusions from this work confirmed that LFRS has sufficient, relevant sources of assurance to satisfactorily manage its risks in order to ensure compliance with the Code of Corporate Governance and achieve overall Service objectives.

5 Internal audit inputs and performance

Internal audit plan 2017/18

- 5.1 Work carried out during 2017/18 was in accordance with the audit plan presented and approved by the Audit Committee in March 2017. 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 80 days have been spent delivering the audit plan against a provision of 80 days. Of this, 70 days were undertaken during the 2017/18 financial year, with the remaining 10 days being conducted in the first quarter of 2018/19.
- 5.2 Action plans have been agreed in respect of all final audit reports. These indicate that 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 2018/19 audit plan.

6 Internal audit quality assurance and improvement

- 6.1 The Internal Audit Service has established and regularly reviews a quality assurance and improvement programme. PSIAS requires that all aspects of internal audit activity are considered by a combination of ongoing internal monitoring, periodic self-assessments or internal assessments by others with sufficient knowledge, and independent external review at least once every five years.
- 6.2 Following this framework, the Internal Audit Service's quality assurance and improvement programme consists of internal ongoing monitoring of audit assignment quality, periodic internal assessment of the professional and operational framework, and external review.
- 6.3 An external assessment of the Internal Audit Service's self-assessment of its compliance with PSIAS was conducted in November 2017 which confirmed that the 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.

- 6.4 A small number of actions arose for the Service from this review, and a report explaining how these had or were to be addressed was presented to the Committee in March 2018. Progress will continue to be made during 2018/19 in addressing the remaining actions outstanding in the report associated with the completion of the ICT tender exercise and the enhancement of the existing performance management framework.
- 6.5 The review has confirmed that the Internal Audit Service can say that its work has been in accordance with the International Professional Practices Framework, PSIAS and the Local Government Application Note.
- 6.6 The Internal Audit Service has designed procedures and an audit methodology that conform to PSIAS and are regularly reviewed. Every auditor in the team is required to comply with these or document the reasons why not, and to demonstrate this compliance on every audit assignment. The audit managers assess the quality of each audit concurrently as it progresses, and during the year a post-audit file review process was also set out to test conformance with the service's working practices and the quality of work undertaken. The first post-audit file reviews were undertaken during February 2018 and they indicate that there is good evidence of compliance with our audit methodology and input from the audit managers to support the work of the auditors, although some learning points have been drawn out and shared with the team.

7 Summary of findings

Overall summary and assurance provided

- 7.1 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 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.
- 7.2 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		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<i>Governance and business effectiveness</i>						
Governance and risk management arrangements	0	0	0	Substantial assurance		The audit work performed and our review of the minutes of the Executive Board, Service Management Team and the Corporate Programme Board supports an overall opinion of substantial assurance on the adequacy and effectiveness of governance, risk management and control arrangements.
<i>Service delivery and support</i>						
Rota management	10	10	0	✓	✓	Our final report was issued in March 2018 and two medium and two low residual risk actions were agreed relating to: <ul style="list-style-type: none"> • Maintaining a version control and 'last reviewed' date on associated service orders; • Scrutinising and challenging the costs associated with additional activities which varied significantly between stations; • Correcting minor anomalies identified in the Gartan standing data; and • Verifying on a periodic basis that individuals' access permissions in Gartan are commensurate with role.
				Substantial assurance		
Training, learning and development	10	10	0	-	-	Our draft report and proposed actions are currently with senior management for consideration.
<i>Business processes</i>						
Accounts payable	10	10	0	✓	✓	Our final composite report covering each of these accounting systems was issued in December 2017.
				Substantial assurance		

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Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Accounts receivable	5	5	0	✓	✓	Two medium and one low residual risk actions were agreed relating to: <ul style="list-style-type: none"> • Revision of access permissions • Ensuring compliance with Contract Standing Orders • Reminding staff of the correct fees and charges information
				Full assurance		
General ledger	5	5	0	✓	✓	
				Full assurance		
HR and Payroll	12	12	0	✓	✓	Our final report was issued in January 2018. No areas for improvement were noted.
				Full assurance		
Treasury management	5	5	0	✓	✓	Our final report was issued in November 2017. No areas for improvement were noted.
				Full assurance		
Pensions administration	5	5	0	✓	✓	Our final report was issued in May 2018. No new areas for improvement were identified.
				Substantial assurance		
<i>Follow up audit activity</i>						
Absence management Tranman stores Tranman fleet Operational Assurance Team	6	6	0	N/A	N/A	Our work was completed as follows: Absence management – May 2018 Tranman stores – February 2018 Tranman Fleet – March 2018 Operational Assurance Team – May 2018 Except for one low residual risk action in relation to Tranman Stores, which is still outstanding, all actions have been implemented as agreed.

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Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<i>Other components of the audit plan</i>						
Management activity	10	11.5	(1.5)	N/A	N/A	Work in the period has included production of the 2016/17 Annual Report, preparation of the periodic monitoring reports, development of the 2018/19 audit plan 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.
Total days	80	80	0			

Annex 1: Scope, responsibilities and assurance

Approach

- 1 The Internal Audit Service operates in accordance with Public Sector Internal Audit Standards, 2017. 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 2017/18.
- 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

As noted in the 2018/19 audit plan, submitted to the Audit Committee in March 2018, the audit assurance levels will be amended for 2018/19. However, in 2017/18 the assurance we can provide over any area of control has fallen 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.