

Lancashire Combined Fire Authority

Internal Audit Service

**Annual report of the head of internal audit for the year
ended 31 March 2019**

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2018/19 and the key themes arising in relation to risk management, governance and internal control.

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.
- 1.3 This report is based upon the work the Internal Audit Service performed during 2018/19 and 2019/20 in relation to the 2018/19 audit plan, approved by the Audit Committee in March 2018.
- 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. The current Internal Audit Charter, attached at Appendix A is submitted for Committee approval.

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 Overall, I can provide substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control.
- 2.2 In forming my opinion I have considered the work undertaken by the Internal Audit Service throughout the year as well as the work of external assurance providers and information available from less formal sources than planned audit engagements.
- 2.3 Overall a strong control environment continues to operate, overseen by a Service Management Team that is responsive to internal audit findings and committed to continuous improvement.
- 2.4 No significant areas of weakness in governance, risk management or control have been identified from our audit or consultancy services, and where areas for improvement have been identified, actions have been agreed to enhance aspects of the control framework further and to ensure that it is effectively operated throughout. Our follow up work also confirms that agreed actions are being appropriately implemented.
- 2.5 The Corporate Programme Board arrangements, through its supporting programme boards, also continued to ensure that key projects or initiatives, affecting all areas of the business, are scoped, progressed and delivered in a controlled and risk managed fashion.

Wider sources of assurance available to the Combined Fire Authority

- 2.6 The results of the July 2018 HMICFRS inspection on the effectiveness and efficiency with which LFRS prevents and protects the public, and responds to fires and other emergencies, and how well it looks after its personnel was published in December 2018. HMICFRS graded LFRS as 'Good' in all elements within the three areas noted above, with the exception of 'Outstanding' in relation to promoting the right values and cultures.
- 2.7 Assurance is also provided by Grant Thornton as the Authority's external auditor. Grant Thornton issued an unqualified opinion on the 2017/18 financial statements and 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 2018.

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.

- 3.2 We additionally have obtained 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 2018/19.
- 3.3 The above procedures have not identified any weaknesses in governance, risk management or internal control that need to be brought to the attention of committee.

Assurance map

- 3.4 During quarter 1 of 2018/19, we worked with the Director of Corporate Services on the development of an assurance map. We concluded that sufficient, relevant assurance is obtained to ensure compliance with the Code of Corporate Governance and to ensure all significant risks are appropriately managed and controlled.

Key financial systems

- 3.5 During quarter 3 we completed our key financial systems work on Treasury management, Accounts payable, Accounts receivable and the General ledger. In each case we were able to provide substantial assurance. A strong control framework continues to be maintained across all areas and no significant matters were identified.
- 3.6 Where appropriate, we additionally obtained assurance that the agreed actions (two medium and one low residual risk) from the prior year audits have been implemented.
- 3.7 We completed our work on HR/ Payroll processes during quarter 4, and again provided substantial assurance. Valid appointments have been correctly established and the right amount is paid to individuals at the right time. Monitoring arrangements are in place to prevent and detect anomalies or errors that might arise.
- 3.8 A Service Level Agreement (SLA) is in place with Greater Manchester Fire and Rescue Service (GMFRS) which has been signed by both parties. Monthly meetings are held with GMFRS to review each pay run and identify and rectify any issues on a timely basis. Additionally, annual meetings are also held to review the SLA and address any performance issues.

Business Continuity Planning

- 3.9 Our review of Business Continuity arrangements was finalised in February 2019, and we provided moderate assurance over the business continuity arrangements operated across LFRS.
- 3.10 The critical activities of the Service have been identified, and adequate business continuity plans are in place at a Strategic, Tactical and Operational (Department and Station) level. A business continuity exercise is also undertaken annually and business continuity training was last provided for members of the Service Management Team in November 2018.

- 3.11 A small number of areas for improvement have been identified primarily around the creation of a business continuity test record and expanding the provision of training to Station Managers.

Optimising Rota Management

- 3.12 Overall, Lancashire Fire and Rescue Service is able, through its rota management activity to ensure that the majority of its appliances are largely available at all times for deployment to fires and other emergencies as required across the county.

- 3.13 However, whilst the current control framework appropriately manages the risks affecting the primary system objective, the current processes and controls are inefficient and have significant resource implications for the service, which are having a detrimental impact on staff wellbeing.

- 3.14 A number of actions have been agreed to address inefficiencies in the existing control framework and to potentially reduce the future demand for detachments and overtime, in both the short and longer term.

Pension administration

- 3.15 At the current time, we have not yet received confirmation from the internal auditors of the Local Pension Partnership, that this work has been completed. The results of this work will be reported to the committee in September.

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 Based on the information and explanations provided to us in conducting our follow up work, we are satisfied that LFRS have made appropriate progress in implementing the agreed actions.

Training, Learning and Development - Follow up

- 3.19 Three medium and three low risk actions were raised in our original report, dated July 2018. Two of these actions have been fully implemented, with one (relating to the review and update of service orders) ongoing. The remaining three actions have been superceded. One of these is due to limitations in the reporting functionality of PDRpro (the system used to record firefighter training), with two no longer being required due to the direct support and guidance currently being provided to firefighters and officers, by the Training and Operational Review team.

3.20 We are satisfied that the alternative arrangements should address the initial risks our review had identified.

Rota management – Follow up

3.21 Two medium and two low residual risk actions were raised in our original report, dated March 2018. Except for one action, which has been superceded, all actions have been appropriately implemented.

Fraud/ special investigations

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

National Fraud Initiative

3.23 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.

3.24 Following the submission of data in October 2018, the resulting matches were released by the Cabinet Office in January 2019. The table below provides details of the total number of matches identified, the number of matches reviewed and processed or opened and in progress.

3.25 To date, no frauds, errors or savings have been identified.

Category of data	Number of matches identified	Number of matches processed	Number of matches in progress
Pensions	61	57	4
Payroll	53	35	6
Creditors	245	191	0
VAT overpaid	19	0	0
Procurement	1	1	0
Total	379	284	10

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, although no high risk areas for improvement have been identified. There are therefore no matters arising from the audit work conducted during 2018/19 that we consider should be identified in the annual governance statement as requiring specific improvement.

5 Internal audit inputs and performance

- 5.1 Work carried out during 2018/19 was in accordance with the audit plan presented and approved by the Audit Committee in March 2018. 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 7 of this report. This shows that 72 days were spent delivering the audit plan against a provision of 80 days.
- 5.2 Action plans have been agreed, where appropriate 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 2019/20 audit plan.

6 Internal audit quality assurance and improvement

- 6.1 PSIAS requires that the quality of internal audit activity is assessed through 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 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 each year a post-audit file review process is conducted by the Head of Internal Audit, with any learning points being shared with the team.
- 6.3 An external assessment of the Internal Audit Service's self-assessment of its compliance with PSIAS was last 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 Audit Committee in March 2018. Progress has continued to be made during 2018/19, and we can confirm that we have now addressed the outstanding actions with the enhancement of our performance management framework and the appointment of an ICT audit provider in June 2018.
- 6.5 A copy of the current Quality Assurance and Improvement Programme for the Internal audit Service accompanies this report at Appendix B.

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 or consultancy support completed during the year. This sets out the planned and actual days we have spent, 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 Where appropriate, 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	0.5	(0.5)	✓	✓	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.
Sources of assurance	10	6	4	Sufficient, relevant assurance is obtained to ensure compliance with the Code of Corporate Governance and to ensure all significant risks are appropriately managed and controlled.		<p>Four actions were agreed to strengthen the overall control environment in relation to:</p> <ul style="list-style-type: none"> • Ensuring all policies have an assigned owner and a scheduled review frequency. • Considering the need for tender panel members to confirm that they have no conflicts of interest to declare. • Maintaining a record of the dates and findings of the annual review of the register of gifts and hospitality. • Updating the fraud risk assessments on a bi-annual basis.
<i>Service delivery and support</i>						
Business Continuity Planning	6	9	(3)	✓	✓	<p>Our report was issued in February 2019. Two medium and two low residual risk actions were agreed in relation to:</p> <ul style="list-style-type: none"> • The further development and enhancement of the training programme; • The creation of a formal business continuity test schedule; • Updating SO690-Business Continuity for recent changes; and • Ensuring compliance with the business continuity review schedule.
				Moderate assurance		

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Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Optimising Rota Management	8	11	(3)	Whilst the current control framework is effective at ensuring appliance availability, it is inefficient to operate		Our report was finalised in June. A number of actions have been agreed to address the concerns regarding inefficiencies in the current processes regarding the arrangement of detached duty and overtime shifts.
Business processes						
Treasury management	5	4	1	✓	✓	Our report was finalised in September. No areas for improvement were identified.
				Substantial assurance		
HR and Payroll	10	9	1	✓	✓	Our report was finalised in February. No areas for improvement were identified.
				Substantial assurance		
Accounts payable	10	7	3	✓	✓	Our report covering each of these systems was finalised in November. No areas for improvement were identified. The three actions agreed following completion of our 2017/18 audits have been confirmed as satisfactorily implemented.
				Substantial assurance		
Accounts receivable	5	4	1	✓	✓	
				Substantial assurance		
General ledger	5	4	1	✓	✓	
				Substantial assurance		
Pensions administration	5	0.5	4.5	O/S	O/S	We have not yet been informed that the internal auditors of the Local Pension Partnership have completed this work.
Follow up audit activity						
Rota management Training, Learning and Development	4	5	(1)	N/A	N/A	Our work on the follow up assignments was completed in February 2019. Based on the information and explanations provided to us, we are satisfied that except for the actions that had been superseded, all remaining actions have been appropriately implemented.

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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	9	1	N/A	N/A	Work in the period has included production of the 2017/18 Annual Report, preparation of the quarterly monitoring reports, attendance at Audit Committee, and establishment of the 2019/20 Internal Audit Plan.
National Fraud Initiative	2	3	(1)	N/A	N/A	Preparation of data for submission to the Cabinet Office re the 2018/19 matching exercise, and support following the release of matches for investigation.
Total days	80	72	8			

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 2018/19.
- 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 have been amended, and for 2018/19 the assurance we can provide over any area of control has fallen into one of four categories as follows:

Substantial assurance: the framework of control is adequately designed and/ or effectively operated overall.

Moderate assurance: the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.

Limited assurance: there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.

No assurance: there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

Actions proposed by the Internal Audit Service

We categorise the issues we raise in the context of the residual risk to which the service is exposed. The agreed actions are therefore defined as 'extreme', 'high', 'medium' or 'low' in relation to the residual risk they are designed to address and fall into the following categories:

Extreme residual risk: critical and urgent in that failure to address the risk could lead to one or more of the following: catastrophic loss of the service, loss of life, significant environmental damage or significant financial loss, with related national press coverage and substantial damage to the service's reputation. *Remedial action must be taken immediately.*

High residual risk: critical in that failure to address the issue or progress the work would lead to one or more of the following: failure to achieve organisational objectives, significant disruption to the service's business or to users of its services, significant financial loss, inefficient use of resources, failure to comply with law or regulations, or damage to the service's reputation. *Remedial action must be taken urgently.*

Medium residual risk: failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. *Prompt specific action should be taken.*

Low residual risk: matters that individually have no major impact on achieving the service's objectives, but where combined with others could give cause for concern. *Specific remedial action is desirable.*