

Appendix A

Lancashire Combined Fire Authority

Internal Audit Service

Monitoring report for the period ended

17 January 2020

1 Purpose of this report

- 1.1 The Internal Audit Plan for 2019/20 was approved by the Audit Committee in March 2019. This report details the progress to date in undertaking the agreed coverage and the planned schedule of audit dates for the remainder of the financial year.

2 Internal audit work undertaken

- 2.1 Work carried out during the period 1 April 2019 to 17 January 2020 was in accordance with the agreed audit plan. To date, 26.5 days have been spent this financial year on completion of the 2019/20 plan, equating to 38% of the total planned audit activity of 70 days. Consistent with previous years, the audit programme is scheduled for completion during the second half of the financial year.
- 2.2 An outline of the scope and findings from the work completed to date is included in the following paragraphs.

Treasury management

- 2.3 Our work on Treasury management was completed in August 2019, and we were able to provide *substantial* assurance over the controls operating in relation to the treasury management function. A treasury management strategy is approved by the Combined Fire Authority on an annual basis, and our testing confirmed that treasury management activities are consistent with it.

Accounts payable, Accounts receivable, General ledger

- 2.4 Our audit on these three key financial systems was finalised in November 2019, and we were again able to provide an opinion of substantial assurance across all three systems. A strong control environment continues to be maintained by the finance and procurement teams at LFRS.
- 2.5 Financial Regulations and relevant policies are in place and up to date, and accessible for all staff to view. Furthermore, the monitoring of expenditure and the recovery of debts is appropriately carried out and segregation of duties is maintained and documentation is appropriately authorised.

3 Overall summary and assurance provided

- 3.1 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.
- 3.2 We also provide a summary of the assurance we are able to provide in relation to each system or operational area of 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.

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

Use of this report

- 3.4 This report has been prepared solely for the use of Lancashire Combined Fire Authority. 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	
<i>Governance and business effectiveness</i>						
Governance and risk management arrangements	10	0	10	O/S	O/S	This work will be completed during quarter 4 in order to provide an overall opinion on the adequacy and effectiveness of governance and risk management arrangements for inclusion in the 2019/20 Annual Report of the Head of Internal Audit.
<i>Service delivery and support</i>						
Home Fire Safety Checks (previously Contact centre)	12	2.5	9.5	O/S	O/S	This audit has been scoped, and we have started on-site fieldwork.
<i>Business processes</i>						
HR and Payroll	10	0	10	O/S	O/S	The audit has been scoped and on-site fieldwork will commence on the 3 February.
Pensions administration	1	0	1	O/S	O/S	Assurance will be obtained directly from the work completed by the internal auditors of the Local Pension Partnership Limited.
Accounts payable	7	8	(1)	✓	✓	Our audit report, covering each of these reviews was finalised in November 2019. Three low residual risk actions were agreed in relation to the Accounts payable system:
				Substantial assurance		
Accounts receivable	4	4.5	(0.5)	✓	✓	
				Substantial assurance		

Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
General ledger	4	4.5	(0.5)	✓	✓	<ul style="list-style-type: none"> The Head of Finance will remind the LCC procurement team to ensure supplier amendments are not processed in the absence of approval from LFRS; A contract extension document will be produced for a contract subject to a rolling extension; and The LCC Core Systems team will on a quarterly basis review the validity of BTLS/LCC staff access permissions to the LFRS Oracle applications.
Treasury management	4	3.5	0.5	✓	✓	<p>Our audit report was finalised in August 2019 with two low residual risk actions agreed in relation to:</p> <ul style="list-style-type: none"> The annotation of the Treasury Management Practice documents to confirm when last reviewed; and The signing of the contract with the council's external advisors. <p>Both the above actions are to be taken forward by the LCC Treasury Management and Pensions Manager.</p>

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Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<i>Follow up audit activity</i>						
Assurance map, Business Continuity Planning and Optimising Rota Management project	4	0	4	N/A	N/A	Our follow up activity will be completed during quarter 4.
<i>Other components of the audit plan</i>						
Management activity	10	3.5	6.5	N/A	N/A	Work in the period has included: <ul style="list-style-type: none"> • Production of the 2018/19 Annual Report of the Head of Internal Audit; • Preparation of the quarterly monitoring reports for Audit Committee (June, September and January); and • Update of the Internal Audit Charter and Engagement Letter.
National Fraud Initiative	4	0	4	N/A	N/A	To date, a minimal amount of time has been incurred in supporting LFRS regarding their participation in the NFI process.
Total days	70	26.5	43.5			

Audit assurance levels and residual risks

Appendix 1

The assurance we can provide over any area of control falls 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.

We categorise the issues we raise in the context of the residual risk to which the service is exposed. The 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 services, loss of life, significant environmental damage or significant financial loss, with related national press coverage and substantial damage to 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 business or to service users, significant financial loss, inefficient use of resources, failure to comply with law or regulations, or damage to 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.*