

**Lancashire Combined Fire Authority**

**Internal Audit Service**

**Annual report of the head of internal audit for the year  
ended 31 March 2020**

## 1 Introduction

### **Purpose of this report**

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2019/20 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 (PSIAS) require the head of internal audit to provide an opinion on the frameworks 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 All the work planned for the year has been completed as far as possible and assurance over the services, systems and processes that operated during 2019/20 has been given where feasible. The report therefore addresses the range of controls that were operating before the wholesale organisational changes required to respond to the coronavirus pandemic were introduced. As a result, the scope of our audit work has been restricted in some cases as we have been unable to conduct all the procedures we would otherwise have conducted. The impact of this is recorded in the summary of work performed.
- 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  
July 2020

## **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 work 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.

### **Wider sources of assurance available to the Combined Fire Authority**

- 2.5 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. We are pleased to note that LFRS has made good progress in addressing the few minor areas for improvement identified by HMICFRS.
- 2.6 Assurance is also provided by Grant Thornton as the Authority's external auditor. Grant Thornton issued an unqualified opinion on the 2018/19 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 2019.

## **2 Internal audit work undertaken**

### ***Overall governance, risk management and control arrangements***

- 2.1 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.
- 2.2 We additionally have obtained assurance regarding governance and risk management arrangements through our review of the minutes of both internal and external meetings, including the committees of the Combined

Fire Authority, the Executive Board, the Service Management Team and additionally the Corporate Programme Board.

2.3 In addition to the above we have considered the arrangements in place to manage and monitor gifts and hospitality, complaints, related party transactions, compliance with GDPR and service order procedures.

2.4 The above review has not identified any weaknesses in governance, risk management or internal control that need to be brought to the attention of committee, and the results of the above exercise confirms that LFRS has sufficient, relevant sources of assurance to satisfactorily manage its risks in order to achieve overall Service objectives.

#### ***Treasury management***

2.5 Our work on treasury management was completed in August 2019, and we were able to provide substantial assurance over the controls in this area. 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***

2.6 Our audit on these three key financial systems was finalised in November 2019, and we were again able to provide substantial assurance across all three systems. A strong control environment continues to be maintained by the finance and procurement teams at LFRS.

2.7 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.

#### ***Human resources (HR) and payroll***

2.8 Our audit was finalised in February 2020 and we provided substantial assurance over the HR and payroll processes examined.

2.9 A strong control environment continues to exist so as to ensure that valid appointments have been correctly established and the right amount is paid to individuals at the right time. Monitoring arrangements are additionally in place to prevent and detect any anomalies or errors that might arise.

#### ***Home fire safety checks***

2.10 We completed a review of the case management arrangements operated by Lancashire Fire and Rescue Service in relation to the scheduling of home fire safety checks in April 2020. We also assessed the adequacy of the arrangements in place to manage demand.

2.11 Overall, we were able to provide moderate assurance. Home fire safety checks are appropriately managed and controlled to ensure visits are targeted at the most vulnerable members of the public. Additionally, a review of the quality of referrals coming from preferred providers is underway in order to manage demand, and a quality assurance

programme is used to ensure a standard consistent approach is in operation by all personnel undertaking these checks. We did however find that the outcomes of checks are not consistently recorded.

***Pension administration***

- 2.12 At the current time, we have not yet received confirmation from the internal auditors of Local Pension Partnership Ltd that this work has been completed.

***Follow-up work***

- 2.13 Under PSIAS, 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.
- 2.14 Our follow-up audit of actions arising from our 2018/19 assurance mapping exercise has been completed, and we can confirm that each of the minor areas for improvement have been addressed.
- 2.15 Our ability to conduct the remaining two follow-up reviews scheduled for 2019/20 has been restricted as a result of the coronavirus pandemic. We will therefore incorporate these into the 2020/21 audit programme.

**Fraud/ special investigations**

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

**National Fraud Initiative (NFI)**

- 2.17 The NFI is a statutory data matching process for health, local government and other public sector providers managed by the Cabinet Office. It flags inconsistencies in data within payroll, pensions, creditors and procurement which may indicate fraud or highlight emerging fraud risks.
- 2.18 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 identified, processed, cleared to date and the errors found.

Category of data	Number of matches identified	Number of matches processed	Number of matches in progress	Errors
Pensions	61	61	0	1
Payroll	55	55	0	0
Creditors	245	245	0	0
VAT overpaid	19	19	0	1
Procurement	1	1	0	0
<b>Total</b>	<b>381</b>	<b>381</b>	<b>0</b>	<b>2</b>

- 2.19 One discrepancy has been identified in respect of pension injury benefits payable. The value of this has been estimated at £22,000. Further work is

ongoing to confirm whether this is an overpayment and to recover any relevant amounts. The NFI system also identified one instance where VAT had been recorded incorrectly in respect of one invoice. This has since been corrected on the Oracle system.

### **3 Implications for the Annual Governance Statement**

- 3.1 In making its annual governance statement the Combined Fire Authority should consider this report in relation to internal control, risk management and corporate governance.
- 3.2 Whilst we have agreed a small number of actions to enhance the controls in place for the audit reviews we have completed, we do not consider there are any matters arising from the audit work conducted during 2019/20 that require specific identification in the annual governance statement.

### **4 Internal audit inputs and performance**

- 4.1 Work carried out during 2019/20 was in accordance with the audit plan presented and approved by the Audit Committee in March 2019. 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 50 days were spent delivering the audit plan against a provision of 70 days.
- 4.2 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 2020/21 audit plan.

### **5 Internal audit quality assurance and improvement**

- 5.1 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.
- 5.2 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.
- 5.3 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. All actions arising from the review were addressed by June 2018.

- 5.4 The Internal Audit Service requested feedback from its auditees following completion of two audit assignments. One response was received and the feedback was very positive about the conduct of our audit work.

## 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 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, where the report has been finalised. They reflect the findings at the time the work was carried out.
- 6.2 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	
<b>Governance and business effectiveness</b>						
Overall governance, risk management and internal control arrangements	10	4	6	There is a sound framework of control operating across LFRS and there are appropriate risk management and governance controls in place.		Our work was completed in April 2020. Two minor areas for improvement were identified relating to enhancements to the complaints register and the GDPR action plan.
<b>Service delivery and support</b>						
Home Fire Safety Checks (previously Contact centre)	12	11.5	0.5	✓	✓	Our work was completed in April 2020, and the report has now been finalised. Two medium and four low residual risk actions have been agreed including: <ul style="list-style-type: none"> <li>• The production of written guidance on the use of the RADAR system including maintaining a record of when hard copy documents have been issued.</li> <li>• Ensuring outcomes of HFSC visits are appropriately and accurately recorded, with missed or cancelled visits being monitored.</li> <li>• Considering the requirements surrounding the booking of HFSC visit timeslots in station calendars.</li> </ul>
				<b>Moderate assurance</b>		
<b>Business processes</b>						
HR and Payroll	10	7	3	✓	✓	Our audit review was finalised in February 2020. No areas for improvement were identified.
				<b>Substantial assurance</b>		



Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Pensions administration	1	0.5	0.5	No information has yet been received from LPPL.		Assurance will be obtained directly from the work completed by the internal auditors of the Local Pension Partnership Limited.
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"> <li>• The annotation of the Treasury Management Practice documents to confirm when last reviewed; and</li> <li>• The signing of the contract with the council's external advisors.</li> </ul> <p>Both the above actions are to be taken forward by the LCC Treasury Management and Pensions Manager.</p>
				<b>Substantial assurance</b>		
Accounts payable	7	8	(1)	✓	✓	<p>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:</p>
				<b>Substantial assurance</b>		
Accounts receivable	4	4.5	(0.5)	✓	✓	
				<b>Substantial assurance</b>		
				✓	✓	

Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
General ledger	4	4.5	(0.5)	<b>Substantial assurance</b>		<ul style="list-style-type: none"> <li>• The Head of Finance will remind the LCC procurement team to ensure supplier amendments are not processed in the absence of approval from LFRS;</li> <li>• A contract extension document will be produced for a contract subject to a rolling extension; and</li> <li>• The LCC Core Systems team will on a quarterly basis review the validity of BTLS/LCC staff access permissions to the LFRS Oracle applications.</li> </ul>
<b><i>Follow-up audit activity</i></b>						
Assurance map, Business Continuity Planning and Optimising Rota Management project	4	1	3	<b>N/A</b>	<b>N/A</b>	We have been unable to conduct our follow up work in relation to Business Continuity Planning and the Optimising Rota Management Project. These will be carried forward to the 2020/21 internal audit programme. The actions raised following our work on the Assurance map have all been satisfactorily implemented.

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Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<b><i>Other components of the audit plan</i></b>						
Management activity	10	5	5	N/A	N/A	Work in the period has included: <ul style="list-style-type: none"> <li>• Production of the 2018/19 Annual Report of the Head of Internal Audit;</li> <li>• Preparation of the quarterly monitoring reports for Audit Committee (June, September, January and March);</li> <li>• Update of the Internal Audit Charter and Engagement Letter; and</li> <li>• Production of the 2020/21 Internal Audit Plan.</li> </ul>
National Fraud Initiative	4	0.5	3.5	N/A	N/A	A minimal amount of time has been incurred in supporting LFRS regarding their participation in the NFI process.
<b>Total days</b>	<b>70</b>	<b>50</b>	<b>20</b>			

## **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 2019/20.
- 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, except that have resulted as a result of the Coronavirus pandemic and which are noted in the main body of the report.

#### **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**

For 2019/20 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.*