

Lancashire Combined Fire Authority

Internal Audit Service

Internal Audit Plan: 2020/21

1 Introduction

- 1.1 This paper sets out a draft plan of work to be undertaken by the Internal Audit Service for the Combined Fire Authority for the coming financial year. The plan amounts to a total resource of 70 audit days, which equates to an overall cost of £23,450 (ex VAT) [2019/20: £22,750] at our daily rate of £335 [2019/20: £325], representing a 3% increase over the prior year.

2 The purpose of the audit plan

- 2.1 Responsibility for maintaining and reviewing the system of internal control and for implementing a system of governance and risk management rests with the Combined Fire Authority. However the process by which the Annual Governance Statement is produced includes obtaining assurances on the effectiveness of key controls and internal audit provides one of the key sources of such assurance.
- 2.2 The Head of Internal Audit is required by professional standards to provide an opinion addressing governance, risk management and control and thereby to provide assurance that the risks to the objectives of Lancashire Combined Fire Authority are being adequately and effectively controlled.
- 2.3 The Audit Committee's terms of reference require it to review and approve the internal audit plan.

3 Statutory and professional requirements relating to internal audit

- 3.1 Internal audit's function is established by the Accounts and Audit Regulations 2015, which are supported by professional standards for internal audit in the public sector and an advisory note specifically for local government in the United Kingdom. The key requirements of the regulations and of the Public Sector Internal Audit Standards (PSIAS) are set out below.

Internal audit: "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance."

Regulation 5. (1)

Review of internal control system: "A relevant authority must, each financial year (a) conduct a review of the effectiveness of the system of internal control [...] and (b) prepare an annual governance statement."

Regulation 6. (1)

Definition of internal auditing

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

"The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control."

"Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes."

*Public Sector Internal Audit Standards, 2017
published by the Relevant Internal Audit Standard Setters*

- 3.2 The regulations therefore establish the requirement for an internal audit function and its provision of an opinion on governance, risk management and control processes, following public sector internal auditing standards. Professional standards likewise mandate the provision of such an opinion. They also recognise that internal audit involves the provision of both assurance and consultancy services, but assurance is its primary function and any consultancy work must inform the assurance opinion.

4 Internal audit coverage to support an annual overall opinion

- 4.1 An internal audit plan designed to provide the evidence necessary to support an opinion on governance, risk management and control needs to encompass the following:
- Coverage of the key components of each part of the opinion, namely, governance, risk management and control;
 - Sufficient coverage over operations as a whole so that a fair assessment may be made across the Service;
 - Coverage of the controls that serve to mitigate the most significant risks to an acceptable level;
 - Coverage of the controls that operate most broadly to mitigate the most significant risks in the greatest number of individual instances to an acceptable level; and
 - Follow up of the actions agreed by management to mitigate risks identified through previous audit activity.

5 Relationship to the risk management process

- 5.1 A risk-based audit plan will take into consideration the risks assessed as most significant by the organisation's managers, and should seek to provide assurance over the operation of the controls that serve to reduce the most significant risks to the greatest degree.
- 5.2 Using the corporate risk register and working with the Director of Corporate Services, we have sought to identify the areas with the greatest inherent risk, where these risks are regarded as having been effectively mitigated by strong controls. These are the controls on which the Combined Fire Authority and Lancashire Fire and Rescue Service is placing the greatest reliance and over which it therefore needs the greatest assurance.

6 The Authority's 'lines of defence' and other sources of assurance

- 6.1 The Internal Audit Service is only the Combined Fire Authority's third line of defence in a model that represents management as the first line, responsible for directly assessing, controlling and mitigating risks; and any in-service compliance activity that confirms these controls as the second. Where such 'second line' compliance functions are available, we focus our audit work on assessing the control exerted by them rather than on repeating their work.

6.2 Where it is known that assurance will be provided from another body, (for example, Her Majesty's Inspectorate of Constabulary and Fire and Rescue Service, or the external auditors), the Internal Audit Service will not duplicate work but will take it into account if it is relevant to the overall opinion on governance, risk management and control. We will ensure as far as possible that the committee is made aware of such assurance.

7 The audit approach adopted by the Internal Audit Service

7.1 The Internal Audit Service follows a risk-based audit methodology, working closely with managers to understand the risks to the service, system or process being audited and then testing the controls in place.

7.2 Whilst a service is in the process of transformation or remodelling we can support the managers in the design of a control framework that will manage the risks to service objectives. This would represent consultancy rather than assurance work.

7.3 Where assurance is required over a control system that has not previously been audited in its present form we undertake a full review including both audit phases, and we will provide an opinion on both the adequacy of design and the effectiveness in operation of the controls in place.

7.4 Finally we may undertake compliance testing annually of systems we have previously audited because they are fundamental to the overall control framework.

7.5 Where managers can confirm that action has been taken as agreed during a previous audit to mitigate any high or medium risks identified we will seek evidence to support this, but other than obtaining management assurances, we will not generally follow up actions designed to mitigate only low risks.

8 Degrees of assurance

8.1 For 2020/21 we categorise our assurance levels, using the following definitions:

Assurance categories and definitions
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.

9 Deployment of audit resources

- 9.1 The plan is stated in terms of days input, which represents our best estimate of the way in which the audit resources will be deployed. The plan itself should however be viewed as a fluid document, with the specific content of individual reviews being subject to revision if required following the more detailed scoping meetings held with client management teams prior to formal commencement of individual audit reviews.
- 9.2 The content and outline scope of each audit within the plan, as well as an estimate of the number of audit days considered appropriate, is provided in the table below:

Audit review and anticipated timing	Outline audit scope	Days	Planning principle
<i>Governance and business effectiveness</i>			
Overall governance, risk management and control arrangements <i>Quarter 4</i>	In addition to the direct assurance gained from the individual audit assignments listed below, we will additionally gain assurance as follows: <ul style="list-style-type: none"> • We will consider the robustness of the risk management arrangements from our involvement and attendance at the meetings of the Audit Committee. • We will obtain assurance regarding the adequacy of governance arrangements, through our review of the minutes of the Executive Board, the Service Management Team and the Corporate Programme Board. 	3	Phase two (Obtaining assurance that key controls previously examined in detail are still operating effectively)
<i>Service delivery and support</i>			
Safeguarding	<ul style="list-style-type: none"> • We will assess the adequacy and effectiveness of the processes and controls in place to ensure LFRS works effectively with partner agencies to help prevent abuse and neglect and to provide a consistent approach when responding to safeguarding concerns. • We will additionally consider whether there are appropriate 	10	Phase one and two - we will both document the control framework and then assess the effectiveness

Audit review and anticipated timing	Outline audit scope	Days	Planning principle
	controls in place to ensure that firefighters and staff are able to recognise a person at risk of abuse or neglect in order that appropriate action is taken to protect them from harm should an emergency arise or to focus prevention activity towards them.		in operation of controls
Compliance with GDPR/ data Protection standards	<ul style="list-style-type: none"> We will assess the adequacy and effectiveness of the processes and controls in place to ensure compliance with the General Data Protection Regulations and the Data Protection Act, regarding the storage, location and delivery of the right information to the right people at the right time. 	10	Phase one and two - we will document the control framework and then assess the effectiveness in operation of controls
Business processes			
Accounts payable <i>Quarter 3</i>	<p>The audit will consider whether there are adequate and effective controls in place to ensure:</p> <ul style="list-style-type: none"> Compliance with financial regulations and the scheme of delegation. Processes employed for the ordering, receipting and payment of goods and services is appropriate and efficient. Inaccurate, illegitimate or duplicate orders/ invoices are not processed and paid. 	7	Phase two (compliance testing of existing controls)
Accounts receivable <i>Quarter 3</i>	<p>The audit will consider whether there are adequate and effective controls in place to ensure:</p> <ul style="list-style-type: none"> Invoices are raised on a timely basis for all goods and services provided. Invoices are cancelled or written off appropriately. Income is correctly accounted for. 	4	Phase two (compliance testing of existing controls)

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Audit review and anticipated timing	Outline audit scope	Days	Planning principle
	<ul style="list-style-type: none"> Debtors are actively managed so as to reduce the level of bad debts and loss of income. 		
General ledger <i>Quarter 3</i>	The audit will consider whether there are adequate and effective controls in place to ensure: <ul style="list-style-type: none"> Access to the accounting systems is appropriately managed and controlled. There are no unauthorised changes to the accounting records. Financial data is complete, timely and accurate. Misappropriations or errors are detected. 	4	Phase two (compliance testing of existing controls)
HR/ Payroll <i>Quarter 3</i>	The audit will consider whether there are adequate and effective controls in place to ensure: <ul style="list-style-type: none"> Access to the HR and payroll systems is appropriately managed and controlled. Key HR and payroll data and information is securely retained. No unauthorised or invalid appointments have been made and valid appointments have been correctly established. No unauthorised or inaccurate payments or adjustments to pay have been processed. Staff are paid in a timely manner. Payroll costs and deductions are correctly accounted for. 	10	Phase two (compliance testing of existing controls)
Treasury management <i>Quarter 3</i>	The audit will consider whether there are adequate and effective controls in place to ensure: <ul style="list-style-type: none"> The regulatory framework/ internal treasury management strategy/ policy is followed. Treasury management reports to members are accurate and clear. Investment and borrowing decisions are based on accurate 	4	Phase two (compliance testing of existing controls)

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	and complete cash flow forecasting data. <ul style="list-style-type: none"> • There is effective scrutiny of Treasury management activity by those charged with governance. 		
Pension administration <i>Quarter 4</i>	<ul style="list-style-type: none"> • Assurance will be obtained directly from the work completed by the internal auditors of the Local Pension Partnership Limited. • Additional ad hoc work may be conducted as required. 	1	Assurance from external sources
<i>Follow up audit activity</i>			
Home Fire Safety Check	<ul style="list-style-type: none"> • The review will incorporate a self-assessment by management of the progress made in implementing agreed actions; and • Selective test checking of controls introduced to address identified unmitigated risk. 	2	Required by the Public Sector Internal Audit Standards
Business Continuity Planning and Optimising Rota Management project	<ul style="list-style-type: none"> • We were unable to conduct our follow up work in relation to Business Continuity Planning and the Optimising Rota Management Project due to restrictions imposed as a result of the Coronavirus pandemic. As a result, this follow up activity has been carried forward from the 2019/20 internal audit programme. 	2	Required by the Public Sector Internal Audit Standards
<i>Other components of the audit plan</i>			
Management activity	<ul style="list-style-type: none"> • Attendance at meetings of the Audit Committee. • Production of the annual audit plan. • Preparation of the monitoring reports. • Preparation of the annual report of the Head of Internal Audit. • Liaison with external audit. 	10	Compliance with the terms of the Internal Audit Charter

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Audit review and anticipated timing	Outline audit scope	Days	Planning principle
National Fraud Initiative	<ul style="list-style-type: none">Support to LCFA with the NFI data matching process. For 2020/21 activity will focus on the data submissions required as part of the two year audit cycle.	3	Contribution to fraud prevention
Approved days		70	