

**Lancashire Combined Fire Authority**

**Internal Audit Service**

**Annual report of the head of internal audit for the year  
ended 31 March 2021**

## 1 Introduction

### **Purpose of this report**

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2020/21 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. 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 This report is based upon the work the Internal Audit Service performed during 2020/21 and 2021/22 in relation to the 2020/21 audit plan, approved by the Audit Committee in July 2020.
- 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  
June 2021

## **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 In August 2020, Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) were commissioned by the Home Secretary to inspect how Fire and Rescue Services in England were responding to the Covid-19 pandemic. In January 2021, HMICFRS wrote to the Chief Fire Officer and the Chair of the Combined Fire Authority, setting out their assessment of the effectiveness of Lancashire's response. They concluded that the service adapted and responded to the pandemic effectively and provided its staff with good wellbeing support.
- 2.6 Assurance is also provided by Grant Thornton as the Authority's external auditor. Grant Thornton issued an unqualified opinion on the 2019/20 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 2020.

## **3 Internal audit work undertaken**

### ***Overall governance, risk management and control 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 have obtained additional assurance regarding governance and risk management arrangements through our review of agenda packs prepared

for the meetings of the Combined Fire Authority, the Resources Board, the Performance Committee and the Planning Committee, held during 2020/21, and from the minutes produced following the meetings of the Executive Board, the Service Management Team, the Corporate Programme Board, the Health and Safety Advisory Group, the Prevention, Protection, Response Strategy Group and the Operational Assurance Group.

- 3.3 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***

- 3.4 Our report was issued in January 2021, and we provided substantial assurance over the controls in place surrounding treasury management. The Treasury service at the county council carries out the treasury function for Lancashire Combined Fire Authority (LCFA) in line with the agreed treasury management strategy and practices. Investments made on behalf of the LCFA comply with the prudential indicators set out within the strategy and are approved by senior officers and noted by the Resources Committee. Cash flow forecasting is carried out on a daily basis to support investment and borrowing decisions.

***Accounts payable, accounts receivable, general ledger***

- 3.5 Our report was finalised in December 2020, and substantial assurance was provided across each financial system.
- 3.6 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. These controls contribute significantly to mitigating risks and reducing errors. Segregation of duties is also maintained, and documentation is appropriately authorised.
- 3.7 Expenditure with suppliers is monitored by the Procurement Manager to ensure that tendering arrangements and contracts are in place for supplies or services exceeding the Contract Standing Order threshold.
- 3.8 Of the three low risk actions which were agreed following our 2019/20 review, we found that two have been implemented whilst the remaining action remained outstanding at the time of our review.

***Payroll and human resources (HR)***

- 3.9 Our report was issued in February 2021, with substantial assurance. A strong control environment is maintained over payroll and HR processes, to ensure that valid appointments are correctly established, and the right amount is paid to individuals at the right time. Monitoring arrangements

are in place to prevent and detect any anomalies or errors that might arise.

### ***Safeguarding***

- 3.10 Our audit was completed in January 2021 and we provided substantial assurance that the framework of control is adequately designed and effectively operated overall.
- 3.11 A comprehensive policy and procedure document is in place and accessible, which clarifies the mechanisms for making referrals, the roles and responsibilities of all staff in relation to safeguarding and the data protection rules to adhere to.
- 3.12 The designated mailbox for safeguarding referrals is administered by the Prevention Support Team who record and monitor the status of referrals made, also ensuring that they are valid and appropriately completed.
- 3.13 We identified three low residual risk actions, representing minor areas for improvement.

### ***General Data Protection Regulations (GDPR)***

- 3.14 Overall a good framework of control has been established and there is an appropriate governance structure in place to support compliance with GDPR, and we can therefore provide moderate assurance.
- 3.15 Templates for the various elements required under GDPR have been created in accordance with the guidance from the Information Commissioner's Office. Information Asset Owners are being or have been identified, and training and support is provided.
- 3.16 However, the data mapping exercise is not yet complete, and as a result there is the possibility that additional information assets will be identified from the outstanding returns and further work will be needed to be able to provide assurance that all the appropriate documentation is in place and that these have been subject to quality assurance and sign off.
- 3.17 We acknowledge that completion of the data mapping was delayed due to Covid and that work on this has since resumed. However, to demonstrate compliance with the GDPR, this exercise should be considered as a high priority task.

### ***Pension administration***

- 3.18 Independent assurance over the benefit administration processes operated by the Local Pension Partnership Administration Ltd is available from work commissioned by Lancashire County Council on behalf of the Pension Fund from PricewaterhouseCoopers, and work undertaken by Deloitte for the Local Pension Partnership Ltd group. Assurance is also provided by the county council's Internal Audit Service over the work of the Lancashire County Pension Fund Service.

***Follow-up work***

- 3.19 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.

***Business Continuity - follow up***

- 3.20 Our previous review in February 2019 provided moderate assurance that the framework of control was adequately designed overall to manage business continuity in the event of a disruptive event. A small number of areas for improvement were identified, primarily around the creation of a test record and expanding the provision of training to Station Managers.
- 3.21 Based on the information and explanations provided to us we are satisfied that all actions have been appropriately implemented.

***Home Fire Safety Checks – follow up***

- 3.22 Our initial review in July 2020 examined the effectiveness of the case management arrangements operated by Lancashire Fire and Rescue Service in relation to the scheduling of Home Fire Safety Checks and assessed the adequacy of the arrangements in place to manage demand.
- 3.23 Overall, we provided moderate assurance that the framework of control was adequately designed and effectively operated, although some actions were required, primarily around the recording of outcomes to enhance aspects of it and ensure it is operated effectively throughout.
- 3.24 We are pleased to note that each of the actions raised have been satisfactorily implemented.

***Optimising rota management – follow up***

- 3.25 Our previous review confirmed that whilst the control framework appropriately managed the risks affecting the primary objective of ensuring appliance availability is maximised, the processes and controls were inefficient, and had significant resource implications for the service.
- 3.26 Our follow up work, completed in May 2021, has confirmed that despite delays caused by the Covid-19 pandemic, progress has been made in introducing some of the enhancements identified by the Optimising Rota Management Project Team in June 2019, although further efficiencies are unlikely to be generated pending further IT developments which are still being debated.

***Fraud/ special investigations***

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

### National Fraud Initiative (NFI)

3.28 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.

3.29 Following the submission of data in October 2020, the resulting matches were released by the Cabinet Office in January 2021. The table below provides details of the total number of matches identified, processed, cleared to date and the errors found. No incidences of fraud have been identified from the matches processed to date.

Category of data	Number of matches identified	Number of matches processed	Number of matches in progress	Errors
Pensions	16	16	0	1
Payroll	15	8	3	0
Creditors	269	99	0	0
<b>Total</b>	<b>300</b>	<b>123</b>	<b>3</b>	<b>1</b>

3.30 The error arose in relation to a deferred member. No overpayment occurred as no benefits were in payment.

## 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 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 2020/21 that require specific identification in the annual governance statement.

## 5 Internal audit inputs and performance

5.1 Work carried out during 2020/21 was in accordance with the audit plan presented and approved by the Audit Committee in July 2020. 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 70 days were spent delivering the audit plan in accordance with the agreed provision.

- 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 2021/22 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. All actions arising from the review were addressed by June 2018.

## **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 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.
- 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	
<b>Governance and business effectiveness</b>						
Governance, risk management and control arrangements	3	2.5	0.5	There is a sound framework of control operating across LFRS and there are appropriate risk management and governance controls in place.		Our high-level review was completed in June 2021, and no areas of concern were noted. The two actions agreed following our prior year review have additionally been implemented. No specific areas of concern were noted from the updated fraud risk assessments, provided to us as at May 2021.
<b>Service delivery and support</b>						
Safeguarding	10	14	(4)	✓	✓	Our report was issued in February 2021 and raised three low residual risk actions.
				Substantial assurance		
General Data Protection Regulations	10	16	(6)	✓	✓	Our report was issued in June 2021. One high, one medium and nine low risk/ priority actions have been agreed in relation to completion of the data mapping exercise, the implementation of an annual review process and other minor areas for improvement.
				Moderate assurance		
<b>Business processes</b>						
Accounts payable	7	7	0	✓	✓	Our composite report covering each of these systems was issued in December 2020. No areas for improvement were identified.
				Substantial assurance		
Accounts receivable	4	3.5	0.5	✓	✓	
				Substantial assurance		
General ledger	4	3.5	0.5	✓	✓	
				Substantial assurance		
HR and Payroll	10	7	3	✓	✓	Our report was issued in February 2021. No areas for improvement were identified.
				Substantial assurance		

Lancashire Combined Fire Authority  
Annual report for the year ended 31 March 2021

Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Pensions administration	1	0	1	Not yet available		See paragraph 3.18.
Treasury management	4	6	(2)	✓	✓	Our report was issued in January 2021. No areas for improvement were identified.
				Substantial assurance		
<b>Follow up audit activity</b>						
Business Continuity Planning	1	0.5	0.5	N/A	N/A	Our audit report was issued in October 2020. The two medium and two low risk actions raised in our audit report dated February 2019 have been implemented.
Home Fire Safety Checks	2	0.5	1.5	N/A	N/A	Our audit report was issued in November 2020. The two medium and four low risk actions raised in our audit report dated July 2020 have been implemented.
Optimising rota management project	1	0.5	0.5	N/A	N/A	Our report was issued in May 2021. Of the 15 actions that were agreed following the issue of our report in July 2019, nine have been implemented and six are currently in progress.
<b>Other components of the audit plan</b>						
Management activity	10	9	1	N/A	N/A	Work in the period has included: <ul style="list-style-type: none"> <li>• Production of the 2019/20 Annual Report of the Head of Internal Audit.</li> <li>• Preparation of the Audit Committee monitoring reports.</li> <li>• Reissue of the Internal Audit Charter and Engagement Letter.</li> <li>• Preparation of the 2021/22 Internal Audit Plan.</li> <li>• General management and quality assurance.</li> </ul>

Lancashire Combined Fire Authority  
 Annual report for the year ended 31 March 2021

Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
National Fraud Initiative	3	0	3	N/A	N/A	Work during the period has involved support with the data collection process.
<b>Total days</b>	<b>70</b>	<b>70</b>	<b>0</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 2020/21.
- 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**

For 2020/21 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.*