

**Lancashire Combined Fire Authority**

**Internal Audit Service**

**Annual report of the head of internal audit for the year  
ended 31 March 2022**

## 1 Introduction

### **Purpose of this report**

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2021/22 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 2021/22 and 2022/23 in relation to the 2021/22 audit plan, approved by the Audit Committee in March 2021.
- 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.

Andrew Dalecki  
Head of Internal Audit, Lancashire County Council  
May 2022

## **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 information available from less formal sources than planned audit engagements.
- 2.3 No significant areas of weakness in overall governance, risk management or control have been identified from our audit work, and although we have provided opinions of moderate assurance in relation to both operational service areas we reviewed this year, we are satisfied that management action is being taken to address the areas for improvement identified.

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

- 2.4 Assurance is provided by Grant Thornton as the Authority's external auditor. Grant Thornton issued an unqualified opinion on the 2020/21 financial statements on 30 September 2021, and on 30 November 2021 they confirmed their opinion that there were no significant weaknesses in the arrangements for financial sustainability, governance and economy, efficiency and effectiveness in the use of resources.

## **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 Committee, the Performance Committee and the Planning Committee, held during 2021/22, and from the minutes produced following the meetings of the Executive Board, the Service Management Team, the Corporate Programme Board, the Health, Safety and Environment 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 result 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 We assessed whether Treasury Management borrowing, and investment activity and reporting has been undertaken in accordance with the approved Treasury Management Strategy and in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities and the CIPFA Treasury Management Code of Practice.

3.5 An opinion of substantial assurance was provided, and no areas for improvement were identified.

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

3.6 The above audits considered whether there are adequate and effective controls in place to ensure:

- Compliance with financial regulations and the scheme of delegation.
- Processes employed for the ordering, receipting and payment of goods and services are appropriate and efficient.
- Inaccurate, illegitimate or duplicate orders/ invoices are not processed and paid.
- Invoices are raised on a timely basis for all goods and services provided.
- Invoices are cancelled or written off appropriately.
- Debtors are actively managed so as to reduce the level of bad debts and loss of income.
- 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.

3.7 An opinion of substantial assurance has been provided over these three key financial systems. There is a sound system of internal control, adequately designed to meet service objectives, and controls are being applied consistently.

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

3.8 We reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Operation of the payroll service
- Managing access to the payroll system and documentation
- Starters: enrolment checks and accuracy of pay
- Leavers
- Amendments to pay
- Routine payroll processing checks

- 3.9 An opinion of substantial assurance has been provided. A strong control environment exists over payroll and HR processes, to ensure that 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 any anomalies or errors that might arise, and a good working relationship continues to be maintained with Greater Manchester Fire and Rescue Service who provide a managed payroll system to LFRS.

***Training, Learning and Development***

- 3.10 We completed a review to determine the adequacy and effectiveness of the controls in place to ensure that operational personnel are able to demonstrate ongoing compliance with the competencies required for their role.
- 3.11 Overall, we can provide moderate assurance over the adequacy and effectiveness of the training, learning and development control framework. Whilst we found that the provision of training and internal assurance arrangements are appropriately structured so as to support firefighters in maintaining the competencies required for their role, we have identified some actions to improve the overall monitoring and reporting arrangements which will provide greater assurance that training is being undertaken appropriately and learning is embedded.

***Management of On Call Provision***

- 3.12 In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:
- Policy and procedure supporting operation of the On-Call service
  - Monitoring compliance with the Working Time Directive
  - Formal performance reporting arrangements
  - Managing compliance with agreed contractual hours to ensure appliance availability
- 3.13 The On-Call service is currently operating below its optimum availability target, with the main reason for this being a significant number of staff leaving the Service in a short space of time and lengthy absences due to the pandemic. Despite this, we are satisfied that overall, the framework of control is adequately designed and in the main effectively operated to mitigate the risk that stations have insufficient or inappropriate On-Call cover to provide the required operational response to an incident. In particular, there are policy and procedure documents in place and Service managers appropriately review compliance with contractual hours, with actions being raised where appropriate to address availability issues. We did however raise a high risk action for the service to introduce formal monitoring of hours worked, in order to ensure that where applicable, firefighters are asked to sign the UK Working Time Directive 'opt out' form.

***Follow-up work***

- 3.14 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.

***Safeguarding - follow up***

- 3.15 Our previous audit provided substantial assurance over the adequacy and effectiveness of the controls in place to support the safeguarding referral process and the working arrangements with partner agencies to help prevent abuse and neglect and to provide a consistent approach when responding to safeguarding concerns.
- 3.16 Three low risk actions were agreed with management to address areas identified for improvement. Two of the three actions have been implemented with one still ongoing relating to the delivery of Safeguarding Awareness talks, which are to be delivered to staff.

***General Data Protection Regulations – follow up***

- 3.17 Our previous audit provided an opinion of moderate assurance. Overall, a good framework of control is in place to support compliance with GDPR, and whilst we did not identify any significant gaps or weaknesses in the adequacy of the design of the overall control framework, we did note that as the production of the Record of Processing Activity was incomplete this created a risk that additional information assets would be identified and further work would be needed to put in place all necessary documentation required to demonstrate compliance with GDPR.
- 3.18 Of the eleven actions agreed with management to address areas for improvement, only three (all low risk/ priority) have been completed to date. Progress has been hampered due to key staff posts being vacated in the time since we completed our review, although we note that recruitment activity is being progressed.

***Fraud/ special investigations***

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

***National Fraud Initiative (NFI)***

- 3.20 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.
- 3.21 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 were identified from the matches processed and no overpayment resulted from the error, which was in relation to a deferred member.

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

## 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 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 2021/22 that require specific identification in the annual governance statement.

## 5 Internal audit inputs and performance

- 5.1 Work carried out during 2021/22 was in accordance with the audit plan presented and approved by the Audit Committee in March 2021. 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 74 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 2022/23 audit plan.

## 6 Internal audit quality assurance and improvement

### Client satisfaction

- 6.1 Internal Audit invites feedback on the quality of service provided by issuing a 'satisfaction questionnaire' at the end of each audit. This is an important process in terms of identifying how the audit was received and it

is also an important means of identifying aspects of the audit process that can be improved.

- 6.2 Our auditees have told us in every case that, overall, they were satisfied with the way we conducted our work with them. We also seek more detailed feedback in relation to our audit planning, the audit process and reporting, our behaviour, and our management and service to our auditees. Our auditees have provided positive feedback across all these areas. There were no common themes in the responses received that highlighted any particular areas for improvement.

### **Ongoing and periodic assessments**

- 6.3 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.
- 6.4 The findings of the last external quality assessment undertaken by the Chartered Institute of Internal Auditors were reported to the committee in January 2018. This confirmed that the Internal Audit Service 'generally conforms' to the full range of standards set out in the International Professional Practice Framework, PSIAS and Local Government Application Note. There were no departures from these arrangements in 2021/22. Another external review is due to be completed in 2022/23 the findings of which will be reported to this committee.
- 6.5 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 manager assesses the quality of each audit concurrently as it progresses, and a post-audit file review process has been undertaken. These reviews indicate that there is good evidence of compliance with our audit methodology and input from the audit managers to support the work of the auditors.
- 6.6 In addition to these periodic file reviews, the service's methodology includes a step which requires the Head of Internal Audit to read each report as it is finalised. This does not entail an additional detailed review and the auditors' reports remain theirs, using their own style and wording, but is intended to ensure that each assignment can be adequately understood and is properly communicated.
- 6.7 This year the Internal Audit team has adopted a hybrid approach to work, with staff predominantly being home-based but undertaking client site visits as the requirements of the audit has dictated. In response to this, some revised performance management and support arrangements have been put in place for the Internal Audit team, including the agreement of



delivery timescales with clients and identifying the audits that will aim to be completed for each meeting of the Committee.

## 7 Summary of findings

### Overall summary and assurance provided

- 7.1 The table on the following pages sets out a 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	3	0	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 April 2022, and no areas of concern were noted.
<b>Service delivery and support</b>						
Training, Learning and development	12	16	(4)	✓	✓	Our audit report was finalised in August 2021 and four medium, and three low residual risk actions have been agreed to enhance the internal review and reporting arrangements in relation to compliance with mandatory training timescales and the recording of training needs, and the formal approval and distribution of the current training plan and policy documents.
				Moderate assurance		
Management of On Call provision	12	17	(5)	✓	✓	Our report was finalised in April 2022. One high and three medium risk actions have been agreed in relation to: <ul style="list-style-type: none"> <li>Monitoring and management of compliance with the Working Time Directive.</li> <li>Analysis of exit interviews.</li> <li>Undertaking regular reviews of the hours worked by On call firefighters versus contracted hours.</li> <li>Identification of responsible officers and implementation dates for actions raised in the Service On Call Key Performance Indicator report prepared for reporting to the Performance Committee.</li> </ul>
				Moderate assurance		

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Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>Business processes</b>						
Accounts payable	7	6.5	0.5	✓	✓	Our audit work across each of these three key financial systems was completed in November 2021. No areas for improvement were identified.
				Substantial assurance		
Accounts receivable	4	3.5	0.5	✓	✓	
				Substantial assurance		
General ledger	4	3	1	✓	✓	
				Substantial assurance		
HR and Payroll	10	8.5	1.5	✓	✓	Our review was completed in January 2022. Two low risk actions were agreed relating to the need to ensure all electronic documents are saved on electronic personal folders, and HR need to remind managers of the need to submit payroll amendments in advance of the date of change to avoid under or overpayments of salary arising.
				Substantial assurance		
Pension Fund Assurance	1	1	0	Moderate assurance		Our assurance on pension arrangements is derived from our own audit activity, in relation to pension overpayments, admission of employers to the fund, accounting through the council's general ledger and employers' contributions (follow up) and is additionally informed by information made available to us from other external assurance providers.
Treasury management	4	4.5	(0.5)	✓	✓	Our review was completed in October 2021. No areas for improvement were identified.
				Substantial assurance		
<b>Follow up audit activity</b>						
Safeguarding	1	1	0	N/A	N/A	Our follow up work was completed during January 2022. Refer paragraphs 3.15-3.16.

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Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
General Data Protection Regulations	1	1	0	N/A	N/A	Our follow up work was completed during February 2022. Refer paragraphs 3.17-3.18.
<b>Other components of the audit plan</b>						
National Fraud Initiative	3	1	2	N/A	N/A	All matches from the current exercise have now been investigated. One error was identified, with no financial impact.
Management activity	8	8	0	N/A	N/A	Work in the period has included: <ul style="list-style-type: none"> <li>• Production of the 2020/21 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.</li> <li>• Preparation of the 2022/23 Internal Audit Plan.</li> <li>• General management and quality assurance procedures.</li> </ul>
<b>Total days</b>	<b>70</b>	<b>74</b>	<b>(4)</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 2021/22.
- 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 2021/22 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.*