

**Lancashire Combined Fire Authority  
Internal Audit Service  
Monitoring report for the period ended  
13 January 2017**

## **1 Purpose of this report**

- 1.1 The Annual Audit Plan for 2016/17 was approved by the Audit Committee in March 2016. This report details the progress to date in undertaking the agreed coverage, and highlights any significant issues identified from the audit work performed in this period.
- 1.2 This report covers the period 1 April 2016 to 13 January 2017.

### ***Acknowledgements***

- 1.3 We are grateful for the assistance that has been provided to us by all the staff contacted in the course of our work.

## **2 Key issues and themes arising during the period**

- 2.1 From the work undertaken to date no issues have been identified that would have implications for the overall control environment.

## **3 Internal audit work undertaken**

- 3.1 Work carried out during the period 1 April 2016 to 13 January 2017 was in accordance with the agreed audit plan. To date, 35 days have been spent this financial year on completion of the 2016/17 plan, equating to 44% of the total planned audit activity of 80 days.
- 3.2 Additionally, we spent a further 8 days during the first quarter of this financial year in completing and finalising reviews outstanding from the 2015/16 audit plan. The findings from these reviews were reported in our 2015/16 Annual Report presented to the Audit Committee in June.

### ***2016/17 plan***

#### ***Key Financial Systems***

- 3.3 Our audit of the Accounts Payable, Accounts Receivable and General Ledger systems was finalised in October and full assurance was provided across each system. There were no significant matters arising from the audit work undertaken and a strong control environment continues to operate.
- 3.4 Our work included confirming that action had been taken as agreed in relation to the single action raised in our prior year report on Accounts Payable.
- 3.5 Scoping has now been completed for our audit of HR and Payroll and is due to commence shortly for Pensions administration and Treasury management, with fieldwork on each of these audits intended for completion during January and February.

#### ***Operational reviews***

- 3.6 We completed our audit of the operation of the Tranman stores module in September 2016 and we were able to provide an opinion of substantial assurance.
- 3.7 Our audit confirmed that staff have been trained in the use of the system and have access to additional guidance and support if needed; access permissions are appropriately managed and were found to be relevant to a user's needs; there is

satisfactory separation of duties between the ordering and receipt of goods and the issue of stock, and controls are in place to ensure that only allowable items can be ordered. There are no significant areas of weakness to note and actions have been agreed with management to address a small number of areas for improvement identified.

- 3.8 Scoping has recently been completed for our review of the Tranman fleet system and the activities of the Service Delivery Assurance Team (which comprises the scheduled use of the contingency provision within the audit plan). In both cases, audit fieldwork is scheduled for March to allow the new systems to become embedded.
- 3.9 Our scoping of the absence management review is similarly complete with audit fieldwork commencing on the 23 January alongside our work on HR/ payroll.
- 3.10 The follow up audits of the two operational reviews conducted in 2015/16 relating to the Corporate Programme Board and the Provision of Risk Information to Staff have now started with completion anticipated during February.

***Overall summary and assurance provided***

- 3.11 We have set out in the table on the following pages a brief summary of the position of each review during the period. This sets out the planned and actual days we have spent on each review, the variance between the days reported, and a summary of the assurance we are able to provide in relation to each system or operational area of your business when work has been finalised. 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.

- 3.12 The assurance we can provide over any area of control falls into one of four categories and these are defined at Appendix 1.
- 3.13 In completing our audits, 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. The definitions of our residual risk categories are also shown in Appendix 1.

***Use of this report***

- 3.14 This report has been prepared solely for the use of Lancashire Combined Fire Authority and it would therefore not be appropriate for it or extracts from it to be made available to third parties other than the external auditors. We accept no responsibility to any third party who may receive this report, in whole or in part, for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

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Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>2016/17 Internal audit plan</b>						
<b>Key Financial Systems</b>						
General ledger	5	5	0	✓	✓	Our composite report covering each of these audits was finalised in October 2016, with one low residual risk action introduced to address inaccurate fees and charges.
				Full assurance		
Accounts payable	9	9	0	✓	✓	
				Full assurance		
Accounts receivable	5	5	0	✓	✓	Audit scoping is complete and the fieldwork is scheduled to start on the 23 January.
				Full assurance		
HR and Payroll	9	1	8	-	-	
Pensions administration	5	0	5	-	-	Audit scoping is due to start within the next couple of weeks with fieldwork anticipated for completion during February.
Treasury management	5	0	5	-	-	Audit scoping is due to start within the next couple of weeks with fieldwork anticipated for completion during February.
<b>Operational reviews</b>						
Tranman - Fleet	6	1	5	-	-	The audit scoping has been completed and the fieldwork is scheduled to start on the 13 March.

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Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Absence management	7	0.5	6.5	-	-	Audit scoping is complete and the fieldwork is scheduled to start on the 23 January.
Service Delivery Assurance Team	8	1	7	-	-	The audit scoping has been completed and the fieldwork is scheduled to start on the 6 March.
Tranman - Stores	6	6	0	✓	✓	<p>Our report was finalised in September with two medium and two low residual risk actions agreed in relation to:</p> <ul style="list-style-type: none"> <li>• The monitoring of calls to the Civica helpdesk;</li> <li>• The provision of i-Trent alerts to the Deputy Head of Procurement;</li> <li>• The completion of an interim stock-take before year end; and</li> <li>• The retention of records associated with mini stock-takes.</li> </ul>
				Substantial assurance		
<b>Other areas</b>						
Follow up reviews: Corporate Programme Board PORIS	3	1.5	1.5	-	-	The fieldwork for the Corporate Programme Board audit has now been completed and our draft report is being produced. Fieldwork has also commenced on the PORIS follow up review.

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Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
National Fraud Initiative	2	0.5	1.5	-	-	Work has been undertaken on data preparation and submission.
Audit management	10	4.5	5.5	-	-	Time to date includes: <ul style="list-style-type: none"> <li>• Compilation of the 2015/16 Annual Report;</li> <li>• Attendance at meetings of the Audit Committee;</li> <li>• Production of the Internal Audit Monitoring Reports; and</li> <li>• Update of the Internal Audit Charter.</li> </ul>
<b>2016/17 days</b>	<b>80</b>	<b>35</b>	<b>45</b>			

## Appendix 1

### Audit assurance levels

The assurance we can provide over any area of control falls into one of four categories as follows:

**Full assurance:** there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.

**Substantial assurance:** there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

**Limited assurance:** weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

**No assurance:** weaknesses in control and/ or consistent non-compliance with controls could result/ have resulted in failure to achieve the service objectives.

### Risks

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 occurring: catastrophic loss of the service, loss of life, significant environmental damage or huge financial loss, with related national press coverage and substantial damage to the service's reputation.

**High residual risk:** Critical in that failure to address the issue or progress the work could lead to one or more of the following occurring: failure to achieve organisational objectives, disruption to the business, financial loss, fraud, inefficient use of resources, failure to comply with law or regulations, or damage to the service's reputation.

**Medium residual risk:** Less critical, but failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management.

**Low residual risk:** Areas that individually have no major impact on achieving the service's objectives or on the work programme, but where combined with others could have an effect at the process level, which could give cause for concern.