

Lancashire Combined Fire Authority
Internal Audit Service
Proposed Internal Audit Plan: 2017-18

Introduction

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 **80 audit days**, (2016-17: 80 days), which equates to an overall cost of **£26,000** (ex VAT) (2016-17: £20,800) at our daily rate of **£325** (2016-17: £260).

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.

The Audit Committee's terms of reference require it to review and approve the internal audit plan. The Committee's views on this draft plan of work will therefore be welcome.

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."

*The Institute of Internal Auditors, and
Public Sector Internal Audit Standards, 2013*

Relevant regulations

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)

Accounts and Audit Regulations 2015

Key planning principles

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;

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- 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.

Because the overall opinion covers a 12 month financial period, the evidence will relate to the controls in operation for that period.

Where it is known that assurance will be provided from another body, (for example, 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.

Deployment of audit resources

The plan is stated in terms of days input, which represents our current 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 both the specific content of individual reviews and the timing of audit activity 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.

The specific audits contained within this plan have been identified following discussions with the Director of Corporate Services and additionally have taken into consideration matters recorded in the corporate risk register maintained by the Service.

The content and outline scope of each audit within the proposed plan, as well as an estimate of the number of audit days considered appropriate, is summarised below and then further detail is provided in the table attached.

Component of the governance framework	Audit days
Governance and business effectiveness	Included below
Service delivery and support	20
Business processes	42
Follow up audit activity	6
Other components of the audit plan	12
Total audit days	80

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Title	Outline audit scope	Days	Planning principle
<i>Governance and business effectiveness</i>			
Governance and risk management arrangements	<ul style="list-style-type: none"> • The 2014/15 audit programme included a review of corporate risk management arrangements over which we provided substantial assurance. The actions resulting from the review were followed up in 2015/16. We also provided some non-assurance advice in 2014/15 on governance arrangements. • In 2015/16 we provided substantial assurance over the Corporate Programme Board arrangements. The actions resulting from this review are being followed up as part of the current 2016/17 audit programme. • Given the above, it is proposed that for 2017/18 a separate review encompassing risk management and governance is not undertaken as the systems and processes remain unchanged. • We will however continue to consider the robustness of the ongoing risk management arrangements from our involvement and attendance at the meetings of the Audit Committee. • We will additionally continue to obtain assurance regarding the adequacy of governance arrangements, through our ongoing review of the minutes of the Senior Management Team and Corporate Programme Board. • The days involved in conducting the above work are incorporated into the 'management' time shown below. • No formal assurance statements will be issued, although the review conducted will inform our annual audit opinion. 	-	Key components of the audit opinion

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Title	Outline audit scope	Days	Planning principle
<i>Service delivery and support</i>			
Training, learning and development	<ul style="list-style-type: none"> • This review will consider the adequacy and effectiveness of the controls in place to ensure that firefighters are able to demonstrate ongoing compliance with the competencies required of their individual roles. • This will incorporate a review of the processes and controls within and around the PDRPro system and the LearnPro e-learning environment. • In particular we will consider the completeness and accuracy of individual training records, the timely completion of initial training programmes and compliance thereafter with individual training renewal/ refresh periods. 	10	Audit to address an area of significant risk to the Service
Rota management	<ul style="list-style-type: none"> • The review will consider the controls in place to ensure that the retained, whole-time and flexible duty rota systems support the efficient and effective deployment of firefighter resources, and the management of absences. • In relation to the retained duty rota system we will additionally consider the adequacy and effectiveness of the controls in place to ensure that RDS firefighters are paid the correct amount based on the shifts worked and the new pay structure to be introduced from April 2017. 	10	Audit to address an area of significant risk to the Service
		20	

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Title	Outline audit scope	Days	Planning principle
<i>Business processes</i>			
Accounts payable	<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. 	10	Audit to ensure coverage of the controls that operate most broadly to mitigate the most significant risks
Accounts receivable	<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. • Debtors are actively managed so as to reduce the level of bad debts and loss of income. 	5	Audit to ensure coverage of the controls that operate most broadly to mitigate the most significant risks
General ledger	<p>The audit will consider whether there are adequate and effective controls in place to ensure:</p> <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. 	5	Audit to ensure coverage of the controls that operate most broadly to mitigate the most significant risks

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Title	Outline audit scope	Days	Planning principle
HR/ Payroll	<p>The audit will consider whether there are adequate and effective controls in place to ensure:</p> <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. • DBS checks have been undertaken where appropriate. • 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. <p>We will additionally consider the adequacy and effectiveness of the controls introduced within and around the new on-line recruitment system recently introduced.</p>	12	Audit to ensure coverage of the controls that operate most broadly to mitigate the most significant risks
Treasury management	<p>The audit will consider whether there are adequate and effective controls in place to ensure:</p> <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 and complete cash flow forecasting data. • There is effective scrutiny of Treasury management activity by those charged with governance. 	5	Audit to ensure coverage of the controls that operate most broadly to mitigate the most significant risks

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Title	Outline audit scope	Days	Planning principle
Pension administration	<p>The audit will consider whether there are adequate and effective controls in place to ensure:</p> <ul style="list-style-type: none"> • Eligible employees have been automatically enrolled into the pension scheme. • Employees who opt-out and retirees are removed correctly and promptly from the pension scheme. • Transfers in or out of the scheme are processed promptly and correctly. • Retirement payments or death grants are calculated and paid correctly. • The pension administration IT system is correctly configured. 	5	Audit to ensure coverage of the controls that operate most broadly to mitigate the most significant risks
		42	
<i>Follow up audit activity</i>			
Absence management	<ul style="list-style-type: none"> • Audit resources have been identified to ensure that actions agreed with management from the prior year operational reviews are followed up. • Each 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. 	6	Required by the Public Sector Internal Audit Standards
Tranman Stores			
Tranman Fleet			
Service Delivery Assurance Team			
<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
National Fraud Initiative	<ul style="list-style-type: none"> • Tasks associated with data preparation and submission. • Support to staff in the testing of the data matches identified. 	2	Contribution to fraud prevention
		12	
<i>Total days</i>		80	