

Lancashire County Council

Audit Committee

Monday, 25th June, 2012 at 2.00 pm in Cabinet Room 'B' - County Hall, Preston

Agenda

Part 1 (Open to Press and Public)

No.	Item
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|------------|---|-----------------|
| 1. | Apologies for absence | |
| 2. | Appointment of Chair and Deputy Chair
To note the appointment by the County Council on the 24 May 2012 of County Councillors S Chapman and M Younis as Chair and Deputy Chair of the Committee respectively, for 2012/13. | |
| 3. | Constitution, Membership and Terms of Reference of the Committee | (Pages 1 - 6) |
| 4. | Disclosure of Personal and Prejudicial Interests
Members are asked to consider any Personal/Prejudicial Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda | |
| 5. | Minutes of the meeting held on 26 March 2012
That the Minutes of the meeting held on 26 March, 2012 be confirmed and signed by the Chair. | (Pages 7 - 10) |
| 6. | Review of Treasury Management 2011/12 | (Pages 11 - 24) |
| 7. | Management of vehicle assets - Progress report | (Pages 25 - 26) |
| 8. | Legislative Compliance | (Pages 27 - 30) |
| 9. | Annual Governance Statement 2011/12 | (Pages 31 - 40) |
| 10. | Response of the Chair of the Audit Committee to the Audit Commission's request for information to support its compliance with International Standards on Auditing | (Pages 41 - 48) |

11. **Internal Audit annual report to Lancashire County Council for 2011/12** (Pages 49 - 72)
12. **Internal Audit Service Progress Report** (Pages 73 - 86)
13. **Counter fraud and special investigations annual report 2011/12** (Pages 87 - 94)
14. **Audit Commission - Audit Committee update report June 2012** (Pages 95 - 106)
15. **ICT Update Report** (Pages 107 - 112)
16. **Urgent Business**
An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chairman of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.
17. **Date of Next Meeting**
The next meeting of the Audit Committee will be held on **Wednesday** 26 September 2012 at 2.00 p.m. in Cabinet Room B, County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Agenda Item 3

Audit Committee

Meeting to be held on 25 June 2012

Electoral Division affected: All

Audit Committee

Constitution, Membership and Terms of Reference

(Appendix 'A' refers)

Contact for further information:

Cath Rawcliffe, 01772 533380, Office of the Chief Executive

cath.rawcliffe@lancashire.gov.uk

Executive Summary and Recommendation

The committee is asked to note:

- i. the membership of the committee following the County Council's Annual Meeting;
- ii. the Terms of Reference of the committee; and
- iii. the revised title of the committee and Terms of Reference with effect from 1 July 2012.

Background and Advice

The county council at its annual meeting on 24 May 2012 approved the constitution of the committee on the basis of 6 Conservative members, 2 Labour members and 1 member from the Liberal Democrat Group. The following members were appointed by their respective groups:

County Councillor:

K Brown	J Lawrenson
S Chapman	M Parkinson
C Grunshaw	M Welsh
H Henshaw	D Westley
M Younis	

A copy of the committee's current Terms of Reference is attached at Appendix 'A'.

The council also considered a detailed report on the new arrangements in relation to

the requirements of the Localism Act 2011 for a new Code of Conduct for members and the ending of the national standards regime.

In order to comply with the requirements of the Act the Council agreed:

- to approve a new Code of Conduct for Members
- that the Standards Committee be disestablished and its functions that are to be continued under the new arrangements be re-allocated to other committees with effect from 1st July 2012.
- to establish a new Conduct Committee with new Terms of Reference relating to the consideration of complaints against members under the new Code of Conduct with effect from 1st July 2012
- Revised Terms of Reference of the Audit Committee and Employment Committee with effect from 1st July 2012, and
- with effect from 1 July 2012, the committee be renamed the 'Audit and Governance Committee' to more accurately reflect its revised role.

The revised Terms of Reference of the committee are attached at Appendix 'B' and reflect the transfer of functions from the Standards Committee such as the promotion of high standards and oversight of the Council's Counter Fraud policies, which it is felt are better placed with the revised Committee's functions and wider remit. The new Terms of Reference are otherwise substantially unchanged but have been rewritten to consolidate the various amendments to them that have been made over recent years. It is possible that these will be amended further as the Council's governance framework is reviewed over the coming year.

Consultations

N/A

Risk Management

N/A

Local Government (Access to Information) Act 1985 List of Background Papers

Paper	Date	Contact/Directorate/Ext
Full Council agenda	24 May 2012	Cath Rawcliffe Ext 33380

Reason for inclusion in Part II, if appropriate – N/A

Audit Committee - Terms of Reference

To support the council in its responsibilities for issues of risk, control and governance and associated assurance.

Membership

The members of the Audit Committee shall comprise nine councillors.

Meetings

The Audit Committee will meet at least four times a year. Meetings are open to the public but they may be excluded if information of an exempt or confidential nature is being discussed.

Responsibilities

The Audit Committee will advise the Council on:

- a) the adequacy of the Authority's strategic processes for risk, control and governance and the Statement on Internal Control;
- b) the accounting policies, accounts and annual report of the Authority and any companies controlled by it, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letters of representation to the external auditors;
- c) the planned activity and results of both internal and external audit;
- d) adequacy of management's responses to issues identified by audit activity, including external audit's management letter; and
- e) assurances relating to corporate governance requirements.

The Audit Committee will review and approve the Authority's Statement of Accounts and those of the Lancashire County Pension Fund. Following the Committee's approval, the Statements of Account shall be signed and dated by the person presiding at the Committee at which approval was given.

The Audit Committee has responsibility for the over-sight of the County Council's corporate governance arrangements, and approve the Authority's Annual Governance Statement.

The Audit Committee will receive for information the audited financial statements of the Authority's group subsidiaries and associates.

Functions

The Audit Committee will consider at each meeting:

- a) A progress report from the Head of Internal Audit summarising:
 - i. work performed (and a comparison with work planned);
 - ii. key issues emerging from Internal Audit work;
 - iii. management response to audit recommendations;
 - iv. changes to the Audit Plan for the period; and
 - v. any resourcing issues affecting the delivery of Internal Audit objectives;
- b) A progress report from the External Audit representative summarising work done and emerging findings.

The Audit Committee will, on a periodic basis consider:

- a) A report summarising any significant changes to the Authority's Risk Register and the action being taken in response;
- b) Proposals for the Terms of Reference of Internal Audit;
- c) The Internal Audit Strategy and Annual Audit Plan;
- d) The Head of Internal Audit's Annual Opinion and Report;
- e) Quality Assurance reports on the internal audit function;
- f) The draft and finalised group Statement of Account of the Authority;
- g) The final Statement of Account of the Lancashire County Pension Fund;
- h) The Statement on Internal Control;
- i) A report on any changes to accounting policies;
- j) External Audit's management letter; and
- k) A report on co-operation between Internal and External Audit.
- l) The Council's Annual Governance Statement.

Audit and Governance Committee

Purpose

- 1) The Audit and Governance Committee provides independent oversight of the adequacy of the council's governance, risk management and internal control framework, and oversees the financial reporting process.

Membership

- 2) The members of the Audit Committee shall comprise nine councillors: six Conservative; two Labour; and one Liberal Democrat.

Terms of Reference

Governance

- 3) To monitor the operation of the council's corporate governance, risk management and internal control arrangements.
- 4) To monitor the effectiveness of the council's strategies to counter fraud and corruption.
- 5) To monitor compliance with the council's local corporate governance code.
- 6) To promote and maintain high standards of conduct by councillors and co-opted members, to ensure that the highest ethical standards are maintained across all areas of the council's services.
- 7) To review and approve the council's annual governance statement.
- 8) To conduct an annual review of the effectiveness of the system of internal audit.

Audit

- 9) To approve, but not direct, the annual internal audit plan.
- 10) To consider periodic reports of internal audit activity and outcomes.
- 11) To consider the head of internal audit's annual report and opinion.
- 12) To consider the external auditor's annual plan.
- 13) To consider periodic reports on external auditor's work.
- 14) To consider the external auditor's annual audit letter.

Financial statements

- 15) To consider and approve the audited financial statements of the county council and its group subsidiaries and associates.
- 16) To consider and approve the audited financial statements of Lancashire County Pension Fund.

Treasury management

- 17) To review the council's treasury management strategy and policies.
- 18) To consider periodic reports of treasury management activity.

Meetings

- 19) The Audit Committee will meet at least four times a year.

Agenda Item 5

Lancashire County Council Audit Committee

Monday 26 March 2012

Minutes

Present:

County Councillors

S Chapman (Chair)

K Brown

M Welsh

J Lawrenson

D Westley

M Younis

Officers in attendance

George Graham – deputy county treasurer

Ruth Lowry – head of internal audit

Fiona Blatcher – senior audit manager, Audit Commission

Karen Murray - district auditor, Audit Commission

Roy Jones - assistant county secretary

Cath Rawcliffe – committee support officer

1. Apologies

Apologies were presented on behalf of County Councillor C Grunshaw.

2. Disclosure of Personal and Prejudicial Interests

County Councillor David Westley declared a personal interest in item 4 as a West Lancashire Borough Council Cabinet Member involved in the transfer of borough council ICT services to One Connect Ltd.

3. Minutes of the Meeting held on 23 January 2012

Resolved: That the minutes of the meeting held on 23 January 2012 be confirmed and signed by the chair.

4. Internal Audit Service progress report

Ruth Lowry, head of internal audit, presented a report on the work undertaken by the Internal Audit Service for the year to date and the detailed analysis of assurance assignments within the year. It was noted that the findings included

in the report had been agreed with executive directors and shared with the Management Team.

The committee noted that at their last meeting they had agreed that cabinet members should be made aware of the matters arising from internal audit reports and those in particular where limited or no assurance had been given. The committee was advised that feedback had been received that it would be more appropriate for the services' executive directors to provide these reports to the relevant cabinet members and to discuss the issues with them. However, as the committee was keen to ensure there was an element of accountability in the process, it was agreed that any views expressed by cabinet members be reported back to the Audit Committee by the Internal Audit Service.

In respect of the findings included in the report, the committee expressed concern at the 'limited assurance' awarded to the management of vehicle assets. The committee endorsed the view that there should be one point of contact within the council that administered hired and leased vehicles and requested that an interim report on the matter be presented to their next meeting in June.

The committee also expressed concern at the 'significant weaknesses' identified with regard to the information risk management processes within the council's ICT services. The committee requested that a senior manager from within the ICT Service be invited to the next meeting to explain the developments and action being taken to manage the council's information risks.

The committee noted an update on the controls in place to manage the referral of children's social care cases and that a further report would be made available to members prior to the next meeting.

Resolved: That:

- i) The internal audit progress report for the eleven months to 29 February 2012 as now presented, be noted.
- ii) The views of cabinet members on any corporate or service area where limited or no assurance has been given by the Internal Audit Service be presented to the Audit Committee.
- iii) A senior manager of the council's ICT Service to be invited to attend the next meeting to explain developments to the service.
- iv) A progress report on the findings on the management of vehicle assets be presented to the next meeting of the Audit Committee in June 2012.

5. Internal Audit Service: Audit Plan 2012/13

Ruth Lowry, head of internal audit, presented the internal audit work plan for 2012/13 which set out the plan of work to be undertaken by the county council's Internal Audit Service for the coming financial year.

The plan amounted to a total resource input to the county council of 2,800 days and was intended to provide assurance that the chief executive and leader of the council need that the risks to the council's objectives were being adequately and effectively controlled.

The committee was invited to avail themselves of the opportunity to view any of the internal audit service reports on completion of each audit.

Resolved: That the audit plan for 2012/13 be approved.

6. Audit Commission – Audit Committee update report March 2012

Karen Murray, district auditor, presented an update of the audit work undertaken by the Audit Commission against the 2011/12 Audit Plan for the Council and Pension Fund.

It was noted that progress was on track and there were no issues or new audit risks to report. The report also included an update on the future of local public audit and the externalisation of the Audit Practice.

Resolved:- That the report be noted.

7. Audit Commission – 2010-11 Certification of claims and returns annual report

Fiona Blatcher, senior audit manager presented a report on a summary of the Audit Commission's work on certifying the council's 2010/11 claims and returns. It was noted that five claims/returns had been audited with a value of over £130m and that no significant issues had been reported.

Resolved: That the report be noted.

8. Urgent Business

There were no items of urgent business.

9. Date of Next Meeting

Resolved: It was noted that the next meeting of the committee would be held on Monday 25 June 2012 at 2.00 p.m. at the County Hall, Preston.

County Hall
Preston

I M Fisher
County secretary and solicitor

Audit Committee

Meeting to be held on 25th June 2012

Electoral Division affected: N/A

Review of Treasury Management 2011/12

Appendix A refers

Contact for further information:

Mike Jensen, 01772 534742, Treasury,

Mike.jensen@lancashire.gov.uk

Executive Summary

The report set out in Appendix A is a review of the County Council's treasury management activities in 2011/12. Treasury management activities are regulated by the CIPFA Code of Practice (2011) and it is best practice to review on an annual basis treasury management activities. The review is reported to Cabinet and county council as part of the effective governance and oversight of treasury management activities.

This review outlines the treasury management activities of the county council throughout 2011/12 and includes:

- A review of the economic conditions during 2011/12 and the impact on the county council's borrowing and lending activities.
- Borrowing to finance capital expenditure.
- Investment of cash balances
- Monitoring of prudential indicators for 2011/12
- Update on progress towards the action plan following the recommendations of the Audit Commission Review of Treasury Management 2010-11
- An update on the investment frozen in Landsbanki hf.

Recommendations

The committee is recommended to note the review of treasury management for 2011/12.

Background and Advice

In accordance with requirements of the CIPFA Code of Practice on Treasury Management 2011, the county council produces an annual treasury management strategy, quarterly reports on treasury management activity to Audit Committee and an annual review of treasury management. These include the prudential indicators that regulate the operation of the borrowing and lending activity of the county council

and are also set to ensure that the county council's capital investment plans are affordable, prudent and sustainable. This report outlines a review of the borrowing and lending activity during 2011/12 and monitors this activity against the prudential indicators set in the treasury strategy for 2011/12

Consultations

Sterling Consultancy Services provides advice on treasury management.

Implications:

N/A

This item has the following implications, as indicated:

Risk management

The county council's treasury strategy and review set out a policy in respect of borrowing and lending activity and how risks associated with these activities are managed and monitored.

Local Government (Access to Information) Act 1985 List of Background Papers

Paper	Date	Contact/Directorate/Tel
Treasury Management Policy and Strategy 2011/12	Feb 2011	Andy Ormerod – TM Ext 34740
CIPFA: Treasury Management in the Public Services – Code of Practice	2011	Andy Ormerod – TM Ext 34740

Reason for inclusion in Part II, if appropriate

N/A

Review of Treasury Management 2011/12

Introduction

In February 2012 the Council adopted the 2011 edition of the *CIPFA Treasury Management in the Public Services: Code of Practice*, which requires the Council to approve a treasury management strategy before the start of each financial year, and provide both a mid-year review, and an annual report after the end of each financial year. This report is the annual report for the 2011/12 financial year.

1. Economic Summary 2011/12

The Eurozone debt crisis dominated the year's economic news, as investors positioned themselves for potential government defaults or even the breakup of the Eurozone itself. Investor confidence in struggling Eurozone nations, such as Greece, Italy and Spain, dived, prompting sharp upward movements in government borrowing rates in these countries. Greece finally defaulted in March 2012 by forcing private bondholders into a distressed debt exchange, in return for a second bailout from the European Union and the International Monetary Fund.

Exposure to the Eurozone periphery, coupled with actions making future government support less likely, placed downward pressure on the creditworthiness of many European banks, prompting a raft of credit rating downgrades and sharp rises in credit default swap spreads.

In late December, the European Central Bank cut interest rates and flooded the Eurozone banking sector with cheap three-year loans, immediately reducing the near-term risk of a liquidity crisis and moderating Eurozone wholesale interbank lending rates. Unfortunately, central bank action could not prevent the debt crisis causing a sharp decline in household and business confidence, eventually pushing the Eurozone into recession.

The UK's reliance on the Eurozone as a major trading partner was illustrated when this country followed the Eurozone into recession over the last six months of the financial year.

Weakening economic growth and signs of further deterioration in the Eurozone prompted the Bank of England to continue loose monetary policy, despite above target inflation. In October, with Bank Rate already at 0.5%, the Monetary Policy Committee voted for a further £50bn of quantitative easing, which combined with safe haven buying to push gilt yields to record lows over the following months. Policymakers justified the action because they were confident inflation would fall quickly back to target during 2012. However, although the annual Consumer Price Index rate has declined from the September peak of 5.2%, a combination of higher crude oil and food prices caused the rate to rise slightly in March to 3.5%, leaving

Bank of England policymakers in the unenviable position of setting policy to battle both weak growth and high inflation.

2. Treasury Management Strategy 2011/12

The Full Council approved the 2011/12 treasury management strategy at its meeting on 24th February 2011. The Council's stated investment priorities were:

- (a) security of capital and
- (b) liquidity of its investments.

The Council also aimed to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the Council is low in order to give priority to security of its investments.

The Council's stated borrowing strategy was to take advantage of historically low short term interest rates by borrowing short term in the money markets rather than financing capital expenditure through long term Public Works Loan Board (PWLB) loans.

The County Treasurer can report that all treasury management activity undertaken during the financial year complied with the approved strategy, the *CIPFA Code of Practice*, and the relevant legislative provisions.

3. Treasury Management Activities in 2011/12

Borrowing Activity 2011/12

The revised 2011/12 borrowing requirement was estimated at £297.433m after taking into account the updated capital programme and the refinancing of existing borrowing, including short term borrowing taken to meet the Capital Financing Requirement. The table below shows the 2011/12 revised borrowing requirement as agreed within the 2012/13 treasury management strategy report, along with the actual position as at 31st March 2012.

	2011/12 Revised £m	2011/12 Actual £m	2012/13 Estimate £m
Capital Programme Expenditure	168.185	152.247	149.747
<i>Financed by:</i>			
Capital Receipts	0	2.105	7.312
Grants and Contributions	78.239	61.847	124.020
Revenue Contributions	16.023	15.748	17.415
Borrowing	73.923	72.547	1.000

<i>Add Maturing Debt to be replaced:</i>			
Long Term PWLB	10.500	0	10.000
Short Term Market Borrowing	244.260	203.09	244.224
Less Transferred Debt	2.673	2.673	2.121
Less Statutory Charge to Revenue	28.567	28.669	24.272
Total Borrowing Requirement	297.443	244.295	228.831

Slightly less borrowing was required to fund new capital programme expenditure than predicted. However, of the £72.547m that was required £51.670m was funded from borrowing previously taken in advance of need in order to secure value for money, so that overall borrowing increased by £20.877m.

Analysis of Debt Outstanding

The following table sets out the structure of the County Council's debt at 31st March 2012. For clarity the figures in this table do not include accrued interest.

	Debt at 31 March 2011		Borrowing	Repayments	Debt at 31 March 2012	
	£m	%	£m	£m	£m	%
Fixed Rate Funding						
Public Works Loan Board	213.600	26.78		0.500	213.100	26.04
LOBO (RBS)	50.442	6.32	1.222		51.664	6.31
Local Bonds	0.022	0.00			0.022	0.00
Short term Market Borrowing	285.200	35.76	1,305.835	1,286.435	304.600	37.22
	549.264		1,307.057	1,286.935	569.386	
Variable Rate Funding						
Public Works Loan Board	195.750	24.55	0	10.000	185.750	22.70
Shared Investment Scheme	52.499	6.59	425.718	414.963	63.254	7.73
	248.249		425.718	424.963	249.004	
Loan Debt Administered by the County Council	797.513	100.0	1,732.775	1,711.898	818.390	100

The total loan debt administered by the County Council at 31 March 2012 of £818.390m represents mainly borrowings over the years to finance the acquisition of

the County Council's fixed assets, which are currently valued at £2.648 billion. However, it includes £45.227m managed by the County Council on behalf of other local authorities and the Police Authority. This debt relates to assets transferred to those authorities in local government re-organisations and the financing charges are repaid to the County Council quarterly. This leaves the net debt for which the County Council is responsible at £773.163m.

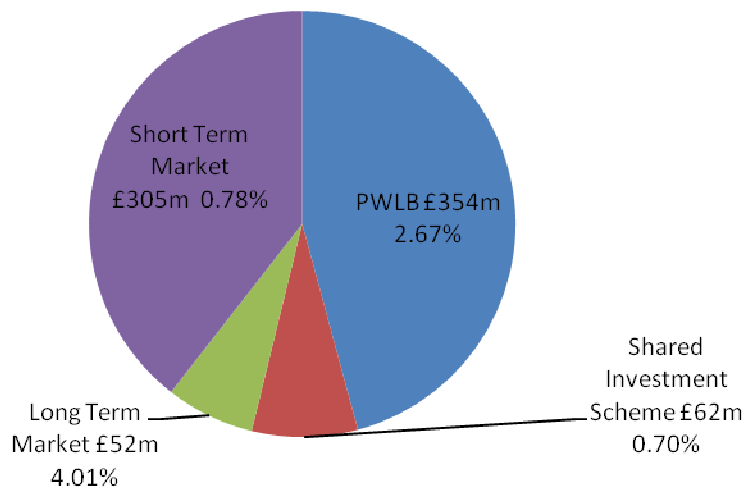
The economic background has continued to be characterised by very low short term interest rates, and market borrowing rates consistently lower than those offered by the PWLB. Consequently the County Council has continued a rolling programme of short term market borrowing to finance the current capital financing requirement as an alternative strategy of financing through long term PWLB loans

Lender Option Borrower Option (LOBO) loans are a floating rate instrument which permit the lender to nominate a revised rate at periodic dates and gives the borrower the option to accept the new rate of interest for the loan or repay the loan in full. The Council's LOBO loan has an initial 2 year fixed period (to 11th November 2012) with an interest rate of 1.65%. After the two years the rate will be calculated as 7.52% less the 10 year sterling swap rate at the time. When the loan was taken, the 10 year sterling swap rate was 3.29%, meaning the loan rate after two years would be 4.23% but if interest rates rise in the intervening period the actual rate the County Council will pay will be lower. The options built into the loan mean that after 5 years the lender has the option to amend the interest rate for the next five year period. The County Council can either accept the new rate or, if the rate is unacceptable, has the option to repay the loan in full without any penalty and end the contract. These options can be exercised every five years and overall the loan has a maturity of 50 years.

Overall the average rate of interest paid in 2011/12 on the debt administered by the County Council was 2.11% per annum compared with an average rate of 2.69% in 2010/11 and 4.37% in 2009/10.

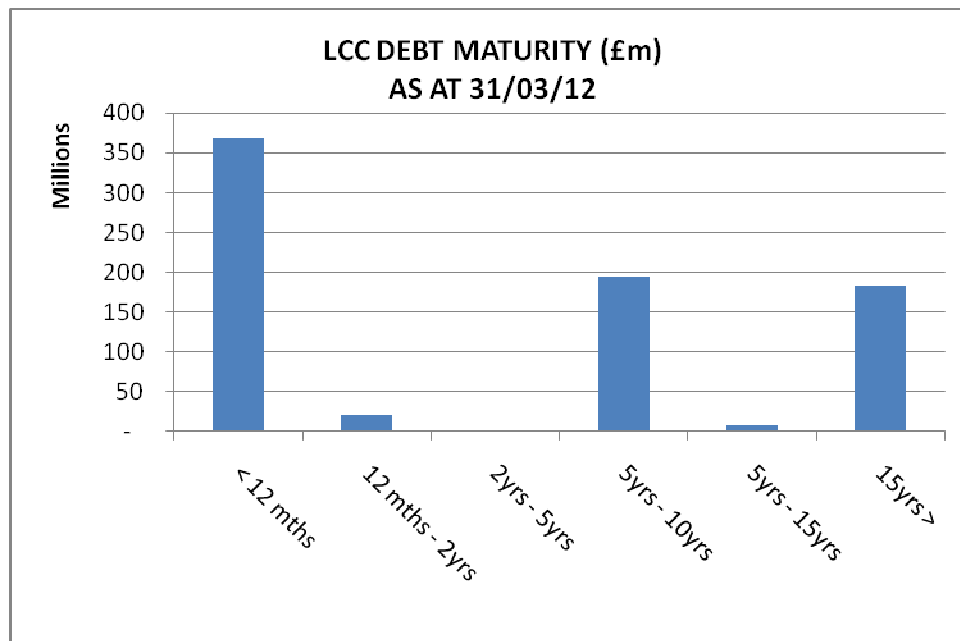
The following chart shows the breakdown of LCC Debt and the average interest rate payable. The chart excludes debt transferred to other authorities; this has been adjusted within the PWLB total.

LCC Borrowing at 31.3.12 and average 2011/12 interest rate



The current strategy of taking advantage of very low short term interest rates, whilst extremely cost effective, means that much more of the Council's debt needs to be refinanced in the short term, so exposing the portfolio to some interest rate and liquidity risk which will need to be carefully managed in the coming year.

The chart below shows the maturity profile of the County Council's debt.



There is a significant level of short term borrowing which needs to be constantly refinanced as part of the strategy to benefit from low short term rates. This gives rise to some interest rate risk, although this is mitigated by the ability of the Council to

switch from short term to long term borrowing over the period during which the interest rate environment normalises, as this will be a protracted period rather than a one off event.

As part of a balanced portfolio, the risk is further mitigated by two factors:

1. Maturing and available for sale short term investments, which could, if necessary, be used to pay down debt, should it become cost effective to do so.
2. It is also mitigated by a long term £50m loan taken on a Lender Option Borrower Option (LOBO) basis. The interest rate of this loan is fixed for 2 years at 1.65% and thereafter at 7.52% less the sterling 10 year swap rate, providing an inverse relationship with interest rates - the interest payable on the loan will fall as interest rates rise.

The County Treasurer will continue to closely monitor interest rate forecasts in order to establish when long term interest rates might be expected to rise. At some point, it will be beneficial to the County Council for the short term borrowing to be fixed for a longer period before long term rates rise, but current forecasts do not anticipate a rate rise in the near future.

Investment of Cash Balances

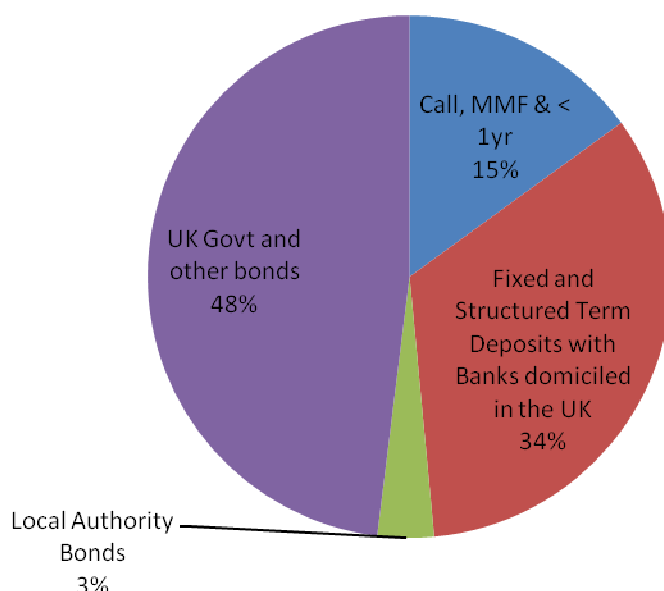
The majority of the Council's investments are now in UK Government guaranteed bonds or deposits in institutions with Government ownership/support.

Like most other councils, Lancashire has a benchmark for the average rate of interest earned on its invested cash balances. The benchmark rate is the average commercial market rate for money deposited on 7 days' notice. During 2011/12, on average, that rate was 0.48%, with Lancashire's average rate being 9.89% over the same period, reflecting the longer term deals which are still attracting a relatively high interest rate, and most significantly, the realised gains from the increase in UK Government bond prices as a result of the ongoing euro zone banking and sovereign debt crisis. Details of the way in which these exceptional gains have arisen were set out in a specific report presented to Cabinet in January 2012, available at the link below:

<http://council.lancashire.gov.uk/ieListDocuments.aspx?CId=122&MId=514&Ver=4>

The total amount of investments held by Lancashire County Council at 31st March 2012 is £593.16m. The table below shows the asset classes and the proportion of investments held in each class.

LCC INVESTMENTS ASSET CLASSES 31.3.2012



The table below shows a maturity analysis of the portfolio at 31st March 2012, alongside the average interest rate earned over the 2011-12 financial year.

Maturity Range	Amount £m	Average Rate %
Call, Money Market Funds & Under 1yr	88.90	1.60
Bank Deposit 1-2 Years	104.60	2.79
Bank Deposit 2-3 Years	20.00	2.43
Bank Deposit 3-5 Years	74.18	3.06
Bank Deposit 5 Years +	0	0
Local Authority Bonds	20.66	10.24
UK Government and Supranational Bonds	134.98	24.77
UK Government Index Linked Bonds	149.84	30.28
Total	593.16	9.89

4. Financing Charges Summary at the end of the 2011-12 Financial Year

The 2011/12 financing charges budget was set at £36.454m, against which the end of year position was -£19.266m representing an underspend of £55.720m. Further detail is set out in the table below:

Financing Charges 2011/12 – End of Year Position

	Budget	Year End Position	Variance
	£m	£m	£m
Minimum revenue provision	28.567	28.669	0.102
Interest paid	16.206	18.838	2.632
Investment interest received	-8.319	-66.773	-58.454
Total net financing charges	36.454	-19.266	-55.720

The variance above is the one reported for financial monitoring purposes. A number of further adjustments are required to the position in accordance with international financial reporting standards and these will be reported to the July meeting of the Cabinet in the report on the County Council's overall end of year financial position.

5. Treasury Management Prudential Indicators 2011/2012

The Local Government Act 2003 and supporting regulations require the County Council to have regard to the prudential code and to set prudential indicators to ensure the County Council's capital investment plans are affordable, prudent and sustainable.

A comparison of the actual position at 31 March 2012 compared to the prudential indicators set in the treasury management strategy for 2011/12 is set out below.

Treasury Management Prudential Indicators	2011/12 £M	2011/12 Actual £M
1. Adoption of CIPFA TM Code of Practice	ADOPTED	
2. Authorised limit for external debt - A prudent estimate of debt, which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.		
Borrowing	1000	773
Other long-term liabilities(PFI schemes)	400	419
TOTAL	1400	1192
3. Operational boundary for external debt - A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of		

the County Council's current plans.

Borrowing	950	773
Other long-term liabilities	390	419
TOTAL	1340	1192
4. Upper limit for fixed rate debt	90%	60%

5. Upper limit for variable rate debt 90% 40%

6. Upper Limit for Bank Deposits over 364 days

This limit does not apply to UK or AAA rated foreign Government or Supra National Bank securities. 75% 34%

7. Maturity structure of debt

	Lower Limit %	Upper Limit %	Actual %
Under 12 months		75	50
12 months and within 2 years		75	2
2 years and within 5 years		75	-
5 years and within 10 years		75	24
10 years and above	25	100	24

6. Audit Commission Report on the Review of Treasury Management

Members of the Committee were briefed during March on the action plan for addressing the recommendations contained in the Audit Commission's review of Treasury Management. Progress has been made against this action plan in a number of areas as indicated below:

- *Governance and Reporting*

The revised Treasury Management Policy Statement and Strategy approved by the County Council in March 2012 reflects the recommendations made by the district auditor with regard to improving the clarity of policy in a number of areas, particularly the cash backing of reserves. In addition, the prudential indicators set out in the strategy have been reviewed and recalculated to demonstrate more clearly the link to the County Council's underlying capital financing requirement.

Further work has also been done to improve the governance arrangements surrounding the operation of the County Treasurer's monthly Treasury Management Meeting, including the agreement of formal terms of reference, the formalisation of all items discussed, the development of an annual work plan and more robust performance management within the structure of the agenda. This will be further enhanced in the coming months by the transfer of support for the meeting to Democratic Services to provide more robust clerking and administration arrangements.

Work is ongoing, and will continue, to improve the format of reporting for members over the coming months. Future quarterly reports will seek to *set out how we intend to improve the reports*.

Skills and Experience

The level of skills and experience within the team continues to be enhanced. Two members of the team have completed the CIPFA/Association of Corporate Treasurers Certificate, which regrettably has been discontinued by CIPFA following this intake. One of these is now studying for the Chartered Financial Analyst qualification and the other continues to study through the ACT route. Following other staff changes it is likely that a further team member will begin undertaking a relevant qualification course at the next opportunity. In addition the recruitment process for a senior post working directly to the Chief Investment Officer will begin in the next few weeks following the successful process to appoint to two other senior posts supporting the Pension Fund which will also serve to reduce the level of single person risk in this area.

The latest member training session has recently taken place with a further session planned at the end of September. These sessions are part of an ongoing programme of training delivered by the specialist treasury management consultants Sterling Consultancy Services to ensure members are kept abreast of developments in treasury management.

Treasury management courses are also provided by treasury consultants, brokers, banks and other market participants which provide training and development opportunities for senior finance managers involved with Treasury Management activity.

Information Systems

The process for procuring a new Treasury Management System has begun, although this seems likely to take somewhat longer than initially anticipated. In the short term a process of daily reporting to senior management of compliance with the key borrowing limits has been introduced, to ensure effective monitoring of compliance with these limits.

7. Investment in Landsbanki Is.

Lancashire County Council had £6.436m on deposit with the Icelandic Bank Landsbanki Is when it collapsed in October 2008. The County Council was one of many UK and Dutch Local Authorities with such deposits, all of whom were granted priority creditor status by the Icelandic Supreme Court at a hearing in Reykjavik on 14th and 15th of September 2011. The Winding Up Board announced on 9 March 2012 that it anticipated recoveries in the Landsbanki Administration would exceed the book value of recognised priority claims by around ISK 121bn, taking into account the sale of its holding in Iceland Foods. Estimated recoveries are some 9% higher than the value of priority claims, and it is therefore now considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations.

The winding up board made its first distribution on 7th December 2011 and a second distribution on 25th May 2012. Approximately 42% of the total claim has now been repaid. The table below shows the combined amount of the distributions and the amount outstanding.

	£
CLAIM	
Principal	6,435,808.29
Interest	93,384.46
TOTAL CLAIM	6,529,192.75
DISTRIBUTIONS RECEIVED TO DATE:	
Principal	2,678,448.63
Interest	38,864.66
TOTAL DISTRIBUTIONS	2,717,313.29
CLAIM OUTSTANDING	3,811,879.46

The exact timing and amounts of future distributions is not known at this stage.

Audit Committee

Meeting to be held on 25 June 2012

Electoral Division affected: None

Management of vehicle assets – Progress report

Contact for further information:

Bernard Noblett, 01772 536945, Lancashire County Commercial Group,
Bernard.noblett@lancashire.gov.uk

Executive Summary

This paper provides an update on the actions taken in response to the internal audit report on the management of vehicle assets produced in February 2012.

Recommendation

The Committee is requested to consider the report and comment on the actions being taken.

Background and Advice

An internal audit report on vehicle asset management in Lancashire County Council was prepared in February 2012. A number of issues were identified, some of which related to the fleet management function in Lancashire County Commercial Group, whilst others applied throughout Lancashire County Council.

The majority of Lancashire County Council's vehicle fleet is currently managed within Lancashire County Commercial Group and procedures are in place to cover vehicle hire, insurance and driver licence checks etc for this group of vehicles and drivers. However, it was recognised that there is currently no Corporate Fleet Management Policy or guidance for employees in the rest of Lancashire County Council.

As a result a Fleet and Driver Management Policy with associated guidance is currently being developed. It is expected that this will be presented to the Management Team shortly for their consideration and endorsement.

Other issues identified in the internal audit report which related specifically to the fleet management function in Lancashire County Commercial Group now have agreed management responses and actions in place.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

N/A

**Local Government (Access to Information) Act 1985
List of Background Papers**

Paper	Date	Contact/Directorate/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A

Audit Committee

Meeting to be held on 25 June 2012

Electoral Division affected: None

Legislative Compliance

Contact for further information:

Ian Young, Deputy County Secretary & Solicitor, OCE, ext 33531

ian.young@lancashire.gov.uk

Executive Summary

This report considers the arrangements currently in place across the Council to ensure that existing and emerging legislation is identified, considered, implemented and reviewed. It also reviews the processes in place to ensure that the legal implications of decisions taken by the Council, its committees and members are appropriately considered in advance.

Recommendation

The Committee are recommended to note the report.

Background and Advice

Existing Arrangements

Local authorities are subject to the requirements of myriad pieces of legislation, either specific to local government (relating to its functions or governance - "public law" issues in the widest sense) or law of more general effect – whether civil or criminal, relevant as an employer, a property owner, a purchaser of goods and services, as a corporate body and so on.

The Council's functions are diverse – adult social care, education, waste disposal, highways, child protection to name but a few key areas of activity. The functions largely find a natural "home" within the Council's current directorate structure which therefore provide a "client" to whom the lawyer can relate. However, legal issues that are *incidental* to the function, for example the employment of staff to deliver the particular service, are more disparate as they will apply across all directorates. In relation to such generic issues, absent a specific case, the "client" is more difficult to identify.

As regards compliance with legislation focussed specifically on local government, from a governance perspective (as opposed to service specific) legislation of this nature is well-trailed by government and related organisations (for example LGA and ACSes) and is constantly monitored within Democratic Services as part of their role

in ensuring that the Council's constitution is up to date and meets legislative requirements. As the "ownership" is clear, sitting squarely within Democratic Services, there is little scope for confusion or error and a high degree of assurance can be provided.

A lesser degree of assurance can be provided in relation to legislation that is local government-specific but relates to *functions*, for example the Council's role as highways authority, its new responsibilities for public health and so on. Typically the "lead" on the implications of legislation of this nature will usually be within the directorate delivering the function and the input of legal advice in relation to any given issue will usually depend upon the significance of the legislation – major changes in planning law would certainly prompt close liaison and discussions between planning officers and lawyers, minor changes would probably not involve the same degree of involvement.

The degree of assurance in relation to "generic" legal issues such as employment, contract or personal injury is far more variable as a "client" is less readily identified although the potential problem is of a lower order where a co-ordinating role is undertaken by a central or corporate service, for example HR.

There are also a number of areas of legal activity undertaken within the Council, for example Trading Standards and Welfare Rights, where there are clearly significant aspects of their work which are "legal" but where that function is managed within the service and legal advice/support is only rarely sought from the Legal Services Team.

Whilst some legal functions are reserved to Legal Services via the Scheme of Delegation to Chief Officers, broadly speaking the extent to which legal advice is provided on any given matter is largely a matter of chance, depending primarily upon the discretion of the officer based in the directorate in question, hence possibly more work is reactive than might perhaps need be the case. It is no criticism to say that an officer who is not a lawyer will probably be unfamiliar with the potential legal implications of a decision.

The Legal Implications of Decisions

Decisions taken by the Council fall broadly into two categories, those taken by officers (essentially under the Scheme of Delegation) and those taken by members. In relation to the latter, legislation is fairly prescriptive and sets a framework of rules that local authorities must comply with – for example the Council must have a Forward Plan, Access to Information rules apply, the role of Scrutiny is statutory and so on.

As regards officer decisions, the "bureaucracy" is far less prescriptive than for member decisions and varies widely between directorates. The role of Democratic Services is therefore variable against a background of providing advice on "best practice". In this context it is important to note that at its meeting on 24 May the Full Council approved the key principles on which a revised Scheme of Delegation to Chief Officers would be based. Whilst the existing Scheme is regularly updated, it has become increasingly complex and unwieldy and it is considered that a change of approach will make decision-making more efficient.

The revised approach would in effect mean that chief officers can take all decisions (relevant to their functional area) except where decisions are specifically reserved to Full Council, a committee, the Cabinet or a Cabinet Member. However, whilst there are considered to be significant advantages to this approach, it potentially carries a greater risk that decisions will be taken by officers without proper consideration of the legal implications or based on a misunderstanding of legislation and some decisions may therefore be flawed. Work is currently in hand to identify ways in which risks of this nature can be minimised without creating a significant bureaucratic burden.

In relation to Cabinet Member decisions, the current system requires a series of "checks", including advice on the implications of a decision, including financial, legal and HR implications. The guidance issued by Democratic Services is clear, that the responsibility for identifying the implications of a decision rest in the first instance with the author of the report. However, a common problem is that authors do not recognise possible legal implications and therefore do not take advice at an early stage, instead seeking to rely on a notion of "legal clearance" at what is virtually the final stage, just before a decision is to be taken. However, at this stage it is only intended that the clearance relates to ensuring that a decision meets the procedural requirements of standing orders.

This approach can lead to problems, not least the last minute pressure to then "clear" a report by identifying the legal issues that should have been considered from the outset. Where there is a time imperative to proceed with a decision so that it must be taken this will often increase the risk of successful legal challenge.

How the Council might achieve greater assurance

It is simply not practicable, nor is there the resource, to scan all new legislation and cascade summaries and advice throughout the Council. For practical purposes the assumption is that the responsibility for seeking legal advice lies with directorates and in most cases directorates will not routinely be provided with advice on the implications of new legislation unless they ask for advice and assistance.

In relation to the proposed new Scheme of Delegation, the advantages of giving more autonomy to chief officers must be balanced against a possible increased risk. However, to reduce this risk the principles approved by Full Council explicitly reserve a range of legal functions to the County Secretary & Solicitor so that functions which clearly call for legal knowledge, for example the service of statutory notices, cannot be undertaken by a chief officer.

Revised decision-making templates and protocols, both for delegated and member/committee decisions, will also emphasise the need for officers to expressly consider whether they need to take legal advice on a proposed decision and, if so, require that they do so at an early stage.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

The risk management implications are referred to in the body of the report.

**Local Government (Access to Information) Act 1985
List of Background Papers**

Paper	Date	Contact/Directorate/Tel
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N/A		
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Reason for inclusion in Part II, if appropriate		
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N/A		
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Audit Committee

Meeting to be held on 25th June 2012

Electoral Division affected: None

Annual Governance Statement 2011/12

(Appendix A refers)

Contact for further information:

Roy Jones, 01772 533619, Office of the Chief Executive,
roy.jones@lancashire.gov.uk

Executive Summary

The Annual Governance Statement (AGS) 2011/12 is presented for approval.

Recommendation

To approve the Annual Governance Statement for 2011/12.

Background and Advice

The AGS requires a review to be conducted of the governance arrangements in the authority. It has previously been agreed that this would be achieved by means of obtaining statements of assurance from executive directors as to the effectiveness of the governance arrangements for which they are responsible, and by reference to the annual report of the Head of internal Audit which is set out at Item 11 on the Agenda.

Those statements have now been obtained. Executive Directors were asked to confirm the adequacy of the arrangements within their directorate against all the principles set out in the council's Code of Corporate Governance, by indicating whether in each case they were good, adequate or weak. In all cases, the response has been categorised as either good or adequate.

The draft statement for 2011/12 is attached at Appendix A. The Statement describes the governance arrangements in the authority and the process by which the review of those arrangements have taken place.

The Statement outlines areas where there is a programme for improvement in the coming year and the Committee is asked to note that a number of changes have already been agreed for several aspects of the governance regime for 2012/13. These include those areas outlined in the annual report of the Head of Internal Audit. It will be seen that there is reference here to information governance, continuity and contingency planning, treasury management, compliance with procurement procedures and revisions to governance structures.

The AGS will be presented to the Chief Executive and Leader for signature.

The Audit Committee are asked formally to approve the AGS.

Consultations

Executive Directors individually.

Risk management

The risk management implications are referred to in the body of the report.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Tel
Delivering Good Governance in Local Government – Guidance Note for English Authorities	2007	Roy Jones, Office of the Chief Executive, 01772 533619
Delivering Good Governance in Local Government - Framework		
Reason for inclusion in Part II, if appropriate		
N/A		

Lancashire County Council

Annual Governance Statement – Financial Year 2011/2012

This statement is prepared in compliance with the requirements of the Accounts and Audit Regulations 2011 to prepare a statement on internal control in accordance with proper practices and the guidance on those practices provided by CIPFA and SOLACE in 2007.

The council's responsibilities in relation to internal control

Lancashire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The council has adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework *'Delivering Good Governance in Local Government'*. The council also complies with CIPFA's statements on the role of the Chief Financial Officer in Local Government and on the role of the Head of Internal Audit in Public Service Organisations.

The code of corporate governance is available on the Council's website and hard copies can be obtained by contacting Roy Jones on 01772 533619. This statement explains how the council has complied with the code and identifies further actions to be taken to improve controls over corporate governance during the coming financial year.

The council's code of corporate governance has been approved by the cabinet and considered by Full Council, the Audit Committee and the Management Team.

This Annual Governance Statement will be considered for approval by the Audit Committee on 25 June 2012, and will be reported to the council on 12 July 2012.

The purpose of the governance framework

The governance framework comprises the systems and processes, culture and values by which the council is directly controlled and the activities through which it accounts to, engages with and leads the community. It enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. It is an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

This statement confirms that the governance framework has been in place at the council for the year ended 31 March 2012.

The council's governance framework

This section highlights the key elements of the systems and processes that comprise the council's governance arrangements in accordance with the six principles of corporate governance included in the code:

- ❖ The Council has a Corporate Strategy which sets out its vision for Lancashire for the period 2012-13. The strategy is refreshed annually to reflect changes in both local and national priorities.
- ❖ The council is keenly aware of the need to ensure that it delivers on its ambitions. Regular reports are considered by the Cabinet Committee on Performance Improvement which set out performance against both local and national indicators and in relation to progress against the objectives as set out in the Corporate Strategy including progress towards the achievement of the council's corporate performance priority areas. The council's Customer Access Strategy has the vision 'That everyone in Lancashire can get help and information on all the County Council's services conveniently and efficiently.' The council uses the views of the public through its 'Living in Lancashire' residents' panel and bespoke research and consultation activities to inform decision making.
- ❖ Lancashire has a leader and cabinet model of executive government and the roles and responsibilities of the different elements of the executive, leader, cabinet, and individual cabinet members, are set out in its constitution. In May 2012, the Full Council gave detailed consideration to the governance implications of the Localism Act 2011

including the retention of the Leader and cabinet model and a petition scheme.

- ❖ The Council's current scrutiny arrangements have been in place since May 2010. It comprises three scrutiny committees - the Scrutiny Committee, Education Scrutiny Committee and Health Scrutiny Committee.

The Forward Plan of executive decisions appears on the agenda of each committee, and cabinet members are regularly called to committees to be questioned about areas of policy. The committees appoint task groups to undertake scrutiny reviews which are then considered by the relevant committee for adoption. When recommendations are made to a cabinet member, a protocol requires an initial response to be provided to the committee within three months. This requirement will change to two months in 2012/13 to comply with the requirements of the Localism Act 2011. During the year scrutiny reviews through appointed task groups have considered a range of Council services and externally provided services. The functions of the Scrutiny Committee include scrutiny of the council's crime and disorder partnership, which is the Safer Lancashire Board. The committee is also responsible for the scrutiny of flood risk management

The Health Scrutiny Committee has the statutory role of scrutinising proposed substantial variations in service delivery in the health service and scrutinising the work of the NHS more generally. The committee has devoted a considerable amount of time and resource in the year to monitoring and scrutinising the impact of the proposed health service reforms on Lancashire, as well as continuing its role to monitor and scrutinise service delivery.

A standing joint health committee has been established with Blackburn with Darwen and Blackpool councils to consider substantial variations in services affecting all three areas. The principle area of work for the joint committee has been on a review of mental health provision.

A statutory Scrutiny Officer has been appointed in accordance with the terms of the Localism Act 2011.

- ❖ In advance of the statutory requirement to establish a Health and Wellbeing Board in April 2013, the Council has established a Shadow Board which is leading on the strategic co-ordination of commissioning across the NHS, social care and public health to secure better outcomes for the population, better quality of care for patients and care users and better value for the taxpayer. One of the key tasks of the Shadow Board is to develop a Health and Wellbeing Strategy for Lancashire.
- ❖ The Council has also been preparing, as Lead Authority, for the establishment during 2012/13 of a Police and Crime Panel for

Lancashire, which is required to be a joint Committee of the 15 pan-Lancashire local authorities, its purpose being to support and scrutinise the new Police and Crime Commissioner for Lancashire following his/her election in November 2012.

- ❖ The council has had a Standards Committee which complied with statutory requirements. Its views were sought during 2011/12 on the provisions in the Localism Act 2011 to abolish the national standards regime and to make new local arrangements for a Code of Conduct, registration and declaration of interests and the handling of complaints against members. Under its statutory role as the local filter for complaints, that there has been a breach of the code of member conduct, it has considered 23 complaints in total since May 2008. Of these only three have been referred for investigation, which demonstrates the high standards of conduct of members of the council. There has been a report of the committee's proceedings to each meeting of the Full Council and the committee has undertaken monitoring of compliance with both member and officer codes. - The Full Council meeting in May reviewed the standards arrangements including the disestablishment of the Committee and the introduction of new arrangements from 1st July 2012.
- ❖ The council has an Audit Committee which operates in accordance with CIPFA guidance. It provides independent oversight of the adequacy of the council's governance, risk management and internal control frameworks, and oversees the financial reporting process. It receives appropriate training for the work that it does.
- ❖ The terms of reference of the Audit Committee and other committees of the Council will be revised in 2012/13 to reflect the changing governance arrangements around standards and the code of conduct for members arising out of the Localism Act 2011.
- ❖ The council has a well regarded Internal Audit Service that provides an independent and objective opinion to the council on its control environment (comprising governance, risk management and internal control) by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. It works with officers to develop the control environment, and supports management's compliance with established policies, control procedures, laws and regulations. It also provides a counter fraud and investigatory service through its annual Counter Fraud Plan and produces an annual report on Counter Fraud and Special Investigations for the Audit Committee.
- ❖ There is an effective whistleblowing procedure in place which is well publicised to staff. Reports on the level of use and outcomes have been presented to the Standards Committee and Audit Committee.

- ❖ The scheme of delegation to officers enables decisions to be taken at the most appropriate and effective level. A fundamental review of the Scheme of Delegation to Chief Officers will be undertaken in 2012/13 to adopt the principle that chief officers will have the power to take decisions except where specifically reserved to Full Council, a Committee or the Executive. It is considered this will make decision making more efficient whilst continuing to ensure robust governance within the Council. A review will be simultaneously undertaken of the Council's Financial Regulations and Cabinet Member delegations.
- ❖ The council's Constitution includes a Protocol on County Councillor/ Officer Relations. A series of corporate political awareness training sessions for staff at all management levels of the Council, involving leading Councillors, has been underway in 2011/12 and will continue across Council Directorates in 2012/13.
- ❖ During 2012/13 the Council will launch a 'Think Councillor Guide' to embed amongst the officer structures of the Council the need to think about County Councillors in the work they undertake.
- ❖ There is a Corporate Risk Management Policy and Strategy and guidance on risk management is available to officers. Following the introduction of a new corporate approach to risk management in January 2012, this policy, strategy and guidance will be reviewed and updated during 2012/13.
- ❖ The process for ensuring legality and financial probity in relation to decisions has a number of components:
 - There are common templates for reports to committees and the cabinet, and also for decisions made by cabinet members.
 - Cabinet member decision-making is governed by statute and the Council's constitution and the Council has a decision-making protocol to manage the process, which will be reviewed in 2012/13.
 - Within that protocol, officers formulating reports are required to have regard to particular issues and in particular take legal and/ or financial advice at an early stage if that is warranted.
 - All reports leading to decisions are checked within the office of the county secretary and solicitor to ensure that governance issues are identified and statutory and financial requirements are complied with.
 - Corporate advice and guidance is provided on the implications of the public sector equality duty contained within the Equality Act 2010 and includes an Equality Impact Assessment template.
 - A full review of the process for the production of reports for decision is underway, with the intention of making the process

more efficient whilst maintaining the high standards of governance required.

- ❖ A new software system has been rolled out to support decision making and the tracking of reports. Further work is intended to take place in 2012 to develop this system further to support the decision making rules and protocols.
- ❖ There is a two-stage corporate complaints procedure in addition to statutory complaints procedures in relation to children's and adult social care. - The corporate procedure includes an Appeals and Complaints Committee comprising elected members.
- ❖ There is a cross-party member development working group in place with the remit of planning and co-ordinating member development activities to meet individual and group needs. Officer training is overseen through a new performance and development review process which was rolled out to all officers during 2011.
- ❖ The Council has fully reviewed its system for recording officer gifts, hospitality and interests. - Revised policies have been introduced and publicised to staff and an online form has been developed to make it easier for officer to record any interests or gifts and hospitality, and for that data to be collated and made available to senior managers.
- ❖ The current arrangements in relation to Information Governance are in the process of being reviewed in the context of recent advice from the Information Commissioner's Office and Department for Communities and Local Government. - The advice includes a recommendation that organisations should identify an individual at Board Level (Management Team) to act as the Senior Information Risk Owner.
- ❖ The Council is aware that for communication with the community to be effective, it needs to be approached on a number of levels. - Examples of the way in which the Council engages with its communities include:
 - High profile communication campaigns to encourage communities to take up our services or help change their attitudes and behaviours
 - Use of media relations and social media to keep residents informed of our activities
 - Encouraging members to use social media to engage with their communities
 - Council and committee meetings are web-cast.
 - There is member representation on neighbourhood management boards across Lancashire.

Review of effectiveness

The council conducts an annual review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of the council's Management Team within the council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectors. The council is also required to review the effectiveness of its internal audit and this is undertaken by the county treasurer.

Statements of assurance have been completed and signed by members of the Management Team as to the effectiveness of the governance arrangements for which they are responsible, including the system of internal control. These statements of assurance cover all the principles set out in the council's Code of Corporate Governance. They reveal no significant areas of weakness in the council's corporate governance arrangements; all arrangements have been categorised as either good or adequate. However, more than one service area has noted the need to support the council's plans to improve information governance arrangements, and has also raised the need to refresh their service contingency plans.

In her annual report, the head of internal audit reports her concern that the procurement processes followed across the council have not in all cases followed corporate procedures and has also highlighted the need to improve the council's arrangements to ensure good information governance.

Programme of improvement on governance issues

The council has recognised the need to review its information governance arrangements. It has recently reconvened its cross-service Corporate Information Governance Group and is reviewing its framework of control and guidance that will better secure the information it holds.

There is an ongoing programme to refresh service continuity and contingency plans, supported by the business continuity manager and principal emergency planning officer.

The transfer of the council's procurement activity to management by its strategic partner, One Connect Limited, is intended (amongst other things) to ensure robust compliance with the council's procurement procedures. The work of the partnership is subject to close scrutiny both by the Chief Executive and his Management Team, and by members including the Leader.

The council will, in the coming year, review its governance arrangements as the current national standards regime is abolished and additional responsibilities are placed upon the Audit Committee, and as CIPFA and SOLACE revise their guidance on good governance in local government. The roles and terms of reference of a number of committees are already under review and this work will continue into 2012/13. In addition, the council has a

project plan in place to respond to the potential governance structures to emerge from the proposed significant changes to the health service and the duties this will place on local authorities.

We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and we will monitor their implementation and operation as part of our next annual review.

Signed:

.....
Leader of Lancashire County Council	Chief Executive of Lancashire County Council

Date	Date
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Audit Committee

Meeting to be held on 25 June 2012

Electoral Division affected: All

Response of the Chair of the Audit Committee to the Audit Commission's request for information to support its compliance with International Standards on Auditing

(Appendices 'A' and 'B' refer)

Contact for further information: Gill Kilpatrick, County Treasurer (01772) 534701

Executive Summary

The Audit Commission is obliged to comply with International Auditing Standards and, although it has a good understanding of how the Audit Committee, together with the Standards Committee, gains assurance over management processes and arrangements, it is required formally to update this understanding annually.

The Chair of the Audit Committee has been asked to provide information in respect of both Lancashire County Council and the Lancashire Pension Fund relating to:

- fraud and internal control;
- laws and regulations;
- litigation and claims; and
- going concern.

A response has been prepared for consideration by the committee and is attached at Appendix A. The letter from the Audit Commission is attached at Appendix B.

Recommendation

It is recommended that:

- a) the response attached at Appendix A is considered and approved.
- b) the Chair of the Audit Committee be authorised to sign the response on behalf of the committee.

Background and advice

The letter from Fiona Blatcher of the Audit Commission is attached at Appendix B.

Implications

This letter will provide supporting evidence to the Audit Commission in determining its opinion on the financial statements of the County Council and the Pension Fund for 2011/12.

Risk management

Not applicable.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/ Directorate/ Ext
Letter from Fiona Blatcher of the Audit Commission to Councillor S. Chapman	4 April 2012	

Reason for inclusion in Part II, if appropriate:

Not appropriate.

25 June 2012

Dear Mrs Blatcher

Response of the Chair of the Audit Committee to the Audit Commission's request for information to support its compliance with International Standards on Auditing

The Audit Committee and I have considered your request for information to enable you to comply with International Standards on Auditing and the Committee has approved the following response.

1. Your requirements

1.1 The Audit Commission is obliged to comply with International Standards on Auditing. In particular it is required to gain an understanding of how the Audit Committee exercises oversight of management's processes in respect of both Lancashire County Council and the Lancashire Pension Fund in relation to:

- fraud and internal control;
- laws and regulations;
- litigation and claims; and
- going concern.

2. The role of the Audit Committee

2.1 Under its terms of reference the Audit Committee advises the council on risk, control and governance, oversees the planned activity and results of both internal and external audit, and considers the adequacy of management's responses to issues identified by audit activity. It therefore oversees the work of the council's Internal Audit Service, which provides assurance to the council on the adequacy and effectiveness of its internal controls, including financial controls, and also supports the council in its management of the risk of fraud by providing a counter fraud and investigatory service.

2.2 Since fraud represents a lapse in financial control, the Audit Committee is also charged with responsibility for overseeing management's arrangements in response to the risk of fraud. However, during 2011/12 the Standards Committee has been charged with governance in this area and its work too is considered in this response.

2.3 In an organisation of Lancashire County Council's size, a proportional approach must be taken to an assessment of risk and to the assurance required over the controls implemented to manage it. It is impractical to expect that either a committee of elected members or the Internal Audit Service, having adopted a risk-based approach, will be able to oversee and assess all management processes. Nor can absolute assurance be gained that compliance with all applicable laws and regulations is achieved.

3. The Audit Committee's oversight of internal audit work

- 3.1 The Audit Committee approves the annual internal audit plan, which is based on an assessment of the council's risks and the operational and financial controls that mitigate these. The annual audit plan also refers to the Internal Audit Service's work to support management in managing the risk of fraud and sets aside audit resources for the investigation of suspected or alleged instances of fraud. It too is built upon an assessment of risk that includes the risk of non-compliance with relevant laws and regulations.
- 3.2 The Audit Committee receives regular progress reports from the head of internal audit, and the Standards Committee has received regular reports on the council's counter fraud arrangements, including reports on breaches of internal control and fraud risks. The deputy county treasurer briefs the Audit Committee on financial matters, and other officers attend to brief the Audit Committee on control issues as necessary to respond to audit reports and inform the committee of progress where remedial action has been agreed.
- 3.3 The council's Internal Audit Service operates a proactive programme to identify and pursue indications of fraudulent activity in particular within the council's key financial systems, regularly testing both the corporate controls and controls operated within individual services. Computer assisted techniques and additional testing of areas susceptible to fraud have been developed to enable the Internal Audit Service proactively to assess whether there are indications of malpractice in key areas.
- 3.4 As the Audit Commission will be aware, the council actively participates in its National Fraud Initiative which serves as a regular extension of the work done by the Internal Audit Service throughout the year. Checks are carried out on the reports raised by this initiative and support is also given to the Lancashire districts.
- 3.5 The Internal Audit Service services the financial whistle-blowing helpline and regularly responds both to formal whistle-blowing calls and to less formal concerns raised with individual auditors by staff across the council. Investigations are undertaken promptly and pursued vigorously and, where appropriate, there is good liaison with the police.
- 3.6 The Audit Committee and the Pension Fund Committee have been provided with the head of internal audit's annual plans and reports to Lancashire County Council and the Lancashire Pension Fund respectively, and these reports have also been shared with the Audit Commission.
- 3.7 Both management and the Audit Committee are aware of the Audit Commission's assessment of the level at which misstatements of Lancashire County Council's and Lancashire Pension Fund's financial statements are deemed to be material, and are briefed on the Commission's assessment of the risks of material misstatement of the financial statements, including the risk of fraud. Any risk of misstatement due to fraud with a potential impact of this magnitude would be highlighted immediately by the Internal Audit Service to both management and the Audit Committee.

4. The Audit Committee's oversight of management processes

- 4.1 The Audit Committee takes seriously its role in reviewing Lancashire County Council's internal control effectiveness, including financial control arrangements

and compliance with the law. It values its independence of both the executive and scrutiny functions and its direct reporting line to the council. The Pension Fund Committee, rather than the Audit Committee, considers the Internal Audit Service's annual plan and annual report relating to controls over the Lancashire Pension Fund. The council's Standards Committee is charged with oversight of the overall arrangements by which the risk of fraud is managed.

- 4.2 A key element of the assurance available to the Audit Committee and to the Council is the suite of assurance statements made by each of the executive directors annually that support the annual governance statement and require each executive director to take personal responsibility for the operation of an adequate and effective control system, which includes compliance with applicable laws and regulations.
- 4.3 The Audit Committee receives information about instances of financial impropriety and fraud as well as breaches of control within the head of internal audit's regular progress reports and annual report.
- 4.4 The Standards Committee has considered the council's counter fraud arrangements and has approved a counter fraud policy statement, strategy and work-plan, and a whistle-blowing policy which have been periodically communicated to the council's staff. It receives periodic reports from the Internal Audit Service of issues being investigated as potential impropriety or fraud, and management's responses to these.

5. Fraud and internal control

- 5.1 Other than the issues noted in the head of internal audit's annual report, progress reports to each of its meetings, and the year-end report on counter fraud and special investigations, the Audit Committee is unaware of any breaches of internal control within Lancashire County Council during 2011/12. The Committee has considered the existence and operation of internal controls (including, implicitly, segregation of duties) and where it has concerns, these have been minuted during the year. It has been informed that no breaches of internal control relating to Lancashire Pension Fund have been reported to the Pension Fund Committee during 2011/12.
- 5.2 Similarly, other than as reported in the Internal Audit Service's annual Counter fraud and special investigations annual report 2011/12, the Audit Committee is unaware of any actual, suspected or alleged frauds affecting either the Council or Pension Fund. Nor is the committee aware of any related party relationships or transactions that could give rise to instances of fraud in either entity.
- 5.3 The Audit Committee is not aware of any entries in the accounting records of either the Council or Pension Fund that it believes or suspects are false or intentionally misleading.

6. Laws and regulations

- 6.1 As stated above in paragraph 2.3, in an organisation of the size and complexity of Lancashire County Council, absolute assurance cannot be gained that compliance with all applicable laws and regulations is achieved. The Audit Committee is not aware of any significant areas of non-compliance during 2011/12, although it has specifically considered the council's compliance with legislation relating to children educated at home.

7. Litigation and claims

- 7.1 The Audit Committee is unaware of any actual or potential litigation or claims against the council that would have a material impact on the financial statements.

8. Going concern

- 8.1 The Audit Committee has received assurance from the County Treasurer that it is appropriate to adopt the going concern basis in preparing the council's financial statements. It is not aware of any events or circumstances that cast doubt on the council's ability to continue as a going concern.

Yours sincerely

Chair of the Audit Committee

Lancashire County Council

4 April 2012

Sam Chapman
Chair of the Audit Committee
Lancashire County Council

Dear Sam

**Audit of Lancashire County Council and Lancashire County Pension Fund Financial Statements
for the year end 31 March 2012**
Understanding how the Audit Committee gains assurance from management

I have a good understanding of how the Audit Committee together with the standards committee gain assurance over management processes and arrangements. However, auditing standards require me to formally update my understanding annually. Therefore, I am writing to ask that you please provide a response to the following questions. Where your response to questions 2 to 5 is 'yes', please provide details.

Fraud and Internal Control

1) How do you exercise oversight of management's processes in relation to:

- undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
- identifying and responding to risks of fraud in the Authority and Pension Fund, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
- communicating to employees its view on business practice and ethical behavior; and
- communicating to you the processes for identifying and responding to fraud or error.

2) How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control? Are you aware of any breaches of internal control during 2011-12?

3) In addition to overseeing management processes and controls, I would like your views on fraud to inform my assessment of the risk of fraud and error in the financial statements.

- Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 to 31 March 2012?
- Do you have any concerns over whether internal controls, including segregation of duties, exist and work effectively?
- Are you aware of any related party relationships or transactions that could give rise to instances of fraud?

Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ
T 0844 798 1212 F 0844 798 2945 www.audit-commission.gov.uk

- Are you aware of any entries in the accounting records that you believe or suspect are false or intentionally mis-leading?

Laws and Regulations

4) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2011-12?

Litigation and Claims

5) Are you aware of any actual or potential litigation or claims that would affect the financial statements?

Going Concern

6) How does the Audit Committee satisfy itself as to whether it is appropriate to adopt the going concern basis in preparing financial statements? Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Authority's ability to continue as a going concern?

Please provide a response by 30 June 2012 and please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Fiona Blatcher
Audit Manager

Audit Committee

Meeting to be held on 25 June 2012

Electoral Division affected: All

Internal Audit annual report to Lancashire County Council for 2011/12 (Appendix A refers)

Contact for further information:

Ruth Lowry, (01772) 534898, County Treasurer's department

Ruth.lowry@lancashire.gov.uk

Executive Summary

The annual report to Lancashire County Council is included at Appendix A to this report.

The opinion given in the report states that "I can provide substantial assurance that there is generally a sound system of internal control, adequately designed to meet the council's objectives, and controls are generally being applied consistently."

However there are matters that put the achievement of the council's objectives at risk and these have been discussed with members of the Management Team.

Recommendation

The Committee is asked to consider the internal audit annual report for 2011/12.

Background

The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 states that the head of internal audit's formal annual report to the organisation must:

- (a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment;
- (b) disclose any qualifications to that opinion, together with the reasons for the qualification;
- (c) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- (d) draw attention to any issues the head of internal audit judges particularly relevant to the preparation of the statement on internal control (now the annual governance statement);
- (e) compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets;
- (f) comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The Internal Audit Service also complies with the professional standards of the Institute of Internal Auditors, whose International Professional Practices Framework requires compliance with its International Standards for the Professional Practice of Internal Auditing, 2011.

Background and advice

The work on which this report is based is in accordance with the annual internal audit plan agreed by the Audit Committee on 21 March 2011, and has been reported in progress reports to each meeting of the Audit Committee during 2011/12/

Consultations

Not applicable.

Implications

Not applicable.

Risk management

This report supports the Audit Committee in undertaking its role, which includes advising the Council on the adequacy of the Authority's risk management processes.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Ext
CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom	2006	Ruth Lowry X 34898
Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing	2011	

Reason for inclusion in Part II, if appropriate:

Not appropriate.

**Lancashire County Council
Internal Audit Service**

**Annual report of the head of internal audit
for the year ended 31 March 2012**



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Annex B: Audit assurance levels and classification of audit recommendations

Annex C: Detailed analysis of internal audit assurance assignments 2011/12

Annex D: Audit resources expended against the audit plan

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the county council's Internal Audit Service has undertaken during 2011/12 and the key themes arising in relation to internal control, governance and risk management across the council.

The role of internal audit

- 1.2 The Internal Audit Service is an assurance function that provides an independent and objective opinion on the adequacy and effectiveness of the council's control environment. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom requires the head of internal audit to provide an opinion on the council's control environment and a written report to those charged with governance, timed to support the annual governance statement. This report presents my opinion based upon the work the Internal Audit Service has performed during 2011/12.
- 1.3 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 A to this report.

Interim reports

- 1.4 This report builds on the matters reported in previous years which remain relevant and matters that have been the subject of discussions throughout the year with members of the Management Team and their senior management teams.
- 1.5 I have also reported summaries of key areas of audit work to the Audit Committee as they have been completed during the year, including a report for the final quarter of the year.

Ruth Lowry
Head of Internal Audit
Lancashire County Council

2 Summary assessment of internal control

Overall opinion

- 2.1 On the basis of our programme of work for the year, I can provide **substantial** assurance overall that there is generally sound system of internal control, adequately designed to meet the council's objectives, and controls are generally being applied consistently. However some weaknesses in the design and inconsistent application of controls put the achievement of particular objectives at risk.
- 2.2 In forming my opinion on the council's internal control environment, risk management process and corporate governance, I have considered the work undertaken by the Internal Audit Service throughout the year as well as, to a more limited extent, the work of external assurance providers. Although the results of individual audit assignments are evenly spread between limited assurance and substantial/ full assurance it is clear that real improvements are being made in some common areas of control across the council and that the council's risks are adequately controlled and, in overall terms, there is generally a sound system of internal control. There are a number of other areas where controls are either inadequately designed for their current purpose or ineffectively operated in practice and the follow up of action plans agreed with management to remedy this will be a focus of audit work in the coming year.
- 2.3 I have provided more detailed summaries of individual pieces of audit work throughout the course of the year in my progress reports to each meeting of the Audit Committee.
- 2.4 Explanations of the work we have done are set out below and an explanation of the levels of assurance the Internal Audit Service provides are set out in Annexes A and B. Annex C provides a table of each assurance assignment the team has undertaken during the year and the level of assurance we have provided for each, and Annex D sets out the audit resources we have expended to fulfil the audit plan.

The council's control framework

- 2.5 Our work has been organised in accordance with the Internal Audit Service's understanding of the council's controls as follows:
- **Cross-cutting controls:** These controls manage the risks arising from the council's over-arching business objectives that cut across all service areas.
 - **Cross-service controls:** These are the controls that support the council's work across some or all of its service areas, either where two or more teams provide a single service, or where risks are common to a number of (or all) service teams.
 - **Common controls:** These are the controls that under-pin the council's work whatever service is being provided and in whatever service or directorate. They manage the risks of its day to day operations that are operated in common across the whole organisation.

- Service-specific controls: The controls designed to manage the risks arising in individual service areas.

Management's responses to our findings

- 2.6 Each of the issues I have raised during the year has been discussed with the relevant service management teams as well as with members of the council's Management Team. Action plans have been agreed and actions are already being implemented; the Internal Audit Service will follow up our findings during the course of 2012/13 and provide support to managers to develop and implement pragmatic solutions to the control issues identified.

Follow-up of our previous work

- 2.7 We have undertaken work to ascertain progress in implementing agreed recommendations resulting from earlier years' reviews. Whilst progress is generally being made to implement the action plans as agreed, restructuring and the work associated with making significant cost savings, and the loss of some management capacity, has meant that some management teams have not acted within the timescales they intended. However most of the recommendations we have agreed with management have been or are being implemented and revised action plans have been agreed where necessary.

Summary of assurance provided by the Internal Audit Service

- 2.8 A summary of all the assurance we have provided during the year is provided in the table below. This includes each internal audit assignment directed to providing controls assurance, but it excludes work for example on the certification of grant funding claims and participation in working groups, as well as, for example, our work supporting management in considering the budgets being transferred between the NHS and county council, which has not been directed at providing controls assurance.

Assignments relating to:	Assurance			
	Full	Substantial	Limited	None
Cross-cutting controls	0	4	7	0
Common corporate controls	1	13	6	0
Service-specific controls	0	8	9	0
Total assignments = 48	1 (2%)	25 (52%)	22 (46%)	0 (0%)

Wider sources of assurance available to the county council

- 2.9 Assurance has also been provided to the council by external bodies, including the Audit Commission, Ofsted, and the Care Quality Commission.
- 2.10 The Audit Commission issued its annual audit letter relating to 2010/11 in January 2012, and gave unqualified opinions on both the annual financial statements and the council's value for money arrangements.

- 2.11 A team brought together by the Local Government Improvement arm of the Local Government Group conducted a peer review of the council's safeguarding arrangements and its arrangements for children looked after by the council and gave a positive conclusion in readiness for the Ofsted inspection that followed closely afterwards.
- 2.12 Ofsted inspected arrangements for safeguarding and looked after children services in January 2012, and reported that the council's services which protect children, including children looked after, are rated as 'good with outstanding features'. During the year Ofsted also separately inspected both the adoption and the fostering services and determined that they were 'good' and 'outstanding' respectively. Ofsted also provides an annual assessment of children's services within the county including schools, and other settings and institutions: it concluded that children's services in the council perform well and the large majority of services, settings and institutions they inspected are good or better.
- 2.13 The Care Quality Commission, the independent regulator and inspectorate for health and social care in England, was part of the same inspection alongside Ofsted and issued a separate and more detailed report on health services for children and young people. It has previously reported that the council was 'doing well' in relation to adult social care, addressing both safeguarding and improving health and wellbeing for older people, and has concluded that the council's capacity to improve was 'excellent'. Its previous assessment of adult social services' performance was that, overall, the council's performance in delivering outcomes was 'excellent'.

3 Key issues and themes

- 3.1 The council is continuing to follow a clear trajectory of continuous improvement in the common controls that underpin the work of all its services, specifically through developments in the use of e-enabled systems and the county's financial software, which are being streamlined and increasingly demand consistency in their operation. Improvements are still ongoing to strengthen these common controls, particularly the corporate financial systems where controls are already good. The implementation of the upgrade to the financial software has been subject to close management attention and associated with this has been considerable change to the related manual systems and controls over finance and procurement, which should result in much more consistent and efficient control across the whole of the council. The systems have been designed around the principles of standardisation, automation, consolidation and simplification.
 - 3.2 However although controls supporting the council's ICT framework, its human resources and payroll systems, and its procurement process are currently subject to further development as they are taken under One Connect Limited's management, weaknesses within the control framework have been clear in each of these areas during the year. In particular we again found a lack of compliance with the council's procurement rules.
 - 3.3 Although the council is working to develop a greater degree of coordination of some of its common risks and controls, there are operational risks that are common to a number of services, but which are still addressed locally within
-

services rather than corporately. For example a variety of controls solutions have been designed to manage the risks associated with lone workers, and could be implemented effectively across a number of services, but each service has designed its own controls framework, not all of which are adequate or effective.

- 3.4 The control frameworks around certain corporate risks remain in place but have not been well maintained in recent years. The risks around information governance in particular are not currently proactively managed, although work has recently begun to strengthen controls in this area and to reinvigorate the control processes in place. Where processes have been established, they continue to be used by the officers who are aware of them, but little action has been taken for some time to ensure that there is any general awareness of the need for information security, how to guard this effectively, how to recognise that security has been breached and what action to take if it has. Likewise the risks of working in partnership with other organisations were the subject of close attention some years ago and although an awareness of these risk remains, the formal control framework has not been maintained. Support for controls in both of these areas has not, until recently, been reconsidered as organisational structures have been altered and posts reconfigured or lost.
- 3.5 Some long-standing operational systems within services also continue to exhibit control weaknesses. Risks are, again, more likely to be inadequately mitigated where controls have been in place for a long time and have not been fully reconsidered as organisational structures have been altered. We were, for example able to provide only limited assurance in relation to service-specific controls over some aspects of children's social care case management.
- 3.6 The council is demonstrating considerable ambition in developing its services, at the same time as cost savings necessitate service reductions and redesign. Where services and systems are subject to such considerable change it is unsurprising that the related controls also require further development. The implementation of the council's new treasury management strategy is an excellent example of this. The new strategy has resulted in considerable financial benefit to the council (approximately £47 million in an exceptional one-off benefit) but, as the Audit Commission noted in January 2012, improvements are required to the control framework that supports this strategy, and an action plan is in place to achieve this.

Risk management

- 3.7 From 1 July 2011 the Internal Audit Service was given a more proactive role in establishing the council's risk management arrangements and in January 2012 the Management Team and Audit Committee considered revised arrangements for risk management within the council.
- 3.8 The council manages its risks well in practice, and although it has not in the past always documented risks in the ways demanded by the external regulator, action taken by management teams across the council amounts to an effective ongoing process of risk identification, assessment and management.

Corporate governance

- 3.9 The Internal Audit Service continues to be involved in the development of the council's corporate governance arrangements. The coming year will provide opportunities for the council to reconsider its long-standing governance arrangements as the standards regime is revised nationally and the role of the Audit Committee is amended to encompass oversight of the council's counter fraud and whistle-blowing arrangements.
- 3.10 The introduction of the Bribery Act 2010, with effect from 1 July 2011, required the council to demonstrate that we have adequate procedures in place to counter the risk of bribery and corruption. Our work in earlier years showed that the council's arrangements to counter the risks arising from employees' conflicts of interest in particular were inadequate but all officers have now clearly been informed of the importance of declaring personal interests and the receipt of gifts and hospitality.

4 Implications for the annual governance statement

- 4.1 In making its annual governance statement the council considers the head of internal audit's opinion in relation to its internal control environment, risk management processes and corporate governance. The annual governance statement should therefore refer to the need to improve the council's arrangements to ensure good information governance, and controls over its procurement processes.

5 Counter fraud and investigatory work

- 5.1 The Internal Audit Service provides a counter fraud and investigatory service to management, which is distinct from audit but is related in considering the council's controls and in the skill sets required.

Special investigations

- 5.2 We have worked closely with the Human Resources team during the year and have revised our approach to performing financial investigations to ensure our approach to investigations is as effective and efficient as possible.

Counter fraud activity

- 5.3 We have re-drafted the council's Whistleblowing Policy and this has been publicised to staff via the intranet. The communications team is ensuring that the policy is also communicated to staff without access to the intranet. Similarly, we have aligned the schools' Whistleblowing Policy with the council's and this has now been issued on the schools' portal.
- 5.4 We continue to use data analysis and proactively pursue anomalies in the amounts and regularity of cash banked by schools. We have issued a number of newsletters to schools via the portal setting out common control issues and specifically issues relating to our counter fraud work.
- 5.5 We are also continuing to work with the Your Pension Service (YPS) to identify overpayments relating to deceased pensioners arising from the Audit Commission's National Fraud Initiative (NFI). This exercise will be available on

an annual basis in the future, in order to ensure that any overpayments are identified and recovered at the earliest opportunity.

6 Internal audit inputs and performance

- 6.1 The outputs of our audit work have been reported in detail to the senior management teams of individual service areas, and the key themes arising for them and for the council as a whole are set out above. However in fulfilling its duty to consider the performance of the council's internal audit service, the Audit Committee will be interested, on behalf of the council, to understand the way that the Internal Audit Service has deployed its resources against the audit plan for the year.

Internal audit plan 2011/12

- 6.2 Taking account of expected staff vacancies we planned to provide 2,780 days during 2011/12 and achieved 3,326 (20% more than planned), an increase of 545 days. This additional time was largely made available because time was set aside to work on shared services with an external organisation that was not eventually required during the year.
- 6.3 Overall, we have provided the assurance the council requires and in particular we have completed our work on the council's corporate financial and ICT systems. We will be able to satisfy the Audit Commission that our work is sufficient for them to take assurance from it in undertaking their external audit. We have completed 48 individual audit assignments and these are set out in Annex C, as well as following up the action plans agreed during the previous year and undertaking a number of other projects that have not resulted in controls assurance, or which result in certification of grant funding claims.
- 6.4 The days spent on each area of our audit plan, by service, are set out in the table included at Annex D. This does not include time spent during April and early May 2012 to complete work relating to 2011/12.

Internal audit performance

- 6.5 During the summer the Internal Audit Service normally issues a client satisfaction survey using the CIPFA benchmarking service. This year client feedback has been requested using an internal questionnaire available to all officers via the Internal Audit Service's page on the council's intranet and a similar survey to obtain feedback on each individual audit assignment has been established.
- 6.6 The results of the survey undertaken during 2011/12 showed that clients again recognised real improvements in our service to them. There is evidence of a clearly measurable continuous improvement in the work of the internal audit service that has been sustained over a number of years.
- 6.7 Like the previous year the service's overall score was 'good', and this is consistently supported within every section of the survey's detailed questions. Overall scores on every area were 'good' or 'excellent' and with very few exceptions average scores improved across every question in the survey. For the first time 'excellent' scores were achieved on two individual questions: the professionalism and positive attitude of staff.

- 6.8 As part of the performance management framework for the service, an annual self assessment against the CIPFA Code of Practice for Internal Audit in Local Government in the UK to assess compliance with this Code is undertaken. The results show a high degree of compliance with no significant actions required. However in accordance with good practice, the Audit Commission has been asked to review the Internal Audit Service and this work is currently ongoing.

A Scope, responsibilities and assurance

Approach

- A.1 In accordance with the CIPFA Code of Audit Practice, 2006, the scope of internal audit encompasses all of the council's operations, resources and services including where they are provided by other organisations on their behalf.

Responsibilities of management and internal auditors

- A.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. Internal auditors cannot therefore be held responsible for internal control failures.
- A.3 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 management as they have become known to us, without undue delay, and have worked with management to develop proposals for remedial action.
- A.4 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.
- A.5 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

Basis of our assessment

- A.6 My 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. Sufficient, reliable and relevant evidence has been obtained to support the recommendations made.

Limitations to the scope of our work

- A.7 There have been no limitations to the scope of the audit work.

Limitations on the assurance that internal audit can provide

- A.8 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. Further, 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.

- A.9 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

- A.10 This report has been prepared solely for Lancashire County Council. It forms part of a continuing dialogue between the Internal Audit Service, the chief executive, Audit Committee and management of the council. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- A.11 This report may be made available to other parties, such as the external auditors and One Connect Limited. No responsibility is accepted to any third party who may receive this report for any reliance that may be placed on it and, in particular, the external auditors must determine the reliance placed on the work of the Internal Audit Service.

B Audit assurance levels and classification of audit recommendations

Audit assurance

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/ has resulted in failure to achieve the service objectives.

Audit recommendations

All recommendations are stated in terms of the residual risk they are designed to mitigate.

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 county council's services, loss of life, significant environmental damage or huge financial loss, with related national press coverage and substantial damage to the council'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 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 council's reputation. *Remedial action must be taken urgently.*

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. *Prompt specific action should be taken.*

Low residual risk: Areas that individually have no major impact on achieving the service objectives or on the work programme, but where combined with others could give cause for concern. *Specific remedial action is desirable.*

Detailed analysis of internal audit assurance assignments 2011/12

Audit areas	Assurance				Recommendations (residual risk)					
	Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total	
Cross-cutting issues										
Risk management										
The council's risk management arrangements		✓			-	-	-	-		
Corporate governance										
Declarations of interest and hospitality by officers and members – follow-up	Action has been taken to implement recommendations in both areas.									
Members' expenses and allowances – follow-up										
Information governance										
Overall corporate arrangements – follow-up	This area is under review.									
Information sharing arrangements					0	0	1	0	1	
Legislative compliance										
The council's response to new legislation, and compliance with legislation	A report has been drafted by the deputy county secretary and solicitor Work will continue into 2012/13.									
Sample testing of service's compliance with legislation										
Safeguarding										
CRB checks: corporate arrangements		✓			0	0	6	4	10	
CRB checks: corporate arrangements – follow-up	The action plan has been mostly implemented.									
Safeguarding children's transport (CRB checks): Environment					0	1	5	1	7	
Safeguarding children's transport (CRB checks): LCCG			✓		0	1	6	4	11	
Children's Safeguarding Board			✓		0	0	4	2	6	
Public health and safety										
Petroleum safety – follow-up	The action plan has been mostly implemented.									
Health and safety of staff										
Corporate arrangements – follow-up	The action plan has been mostly implemented.									

Audit areas	Assurance				Recommendations (residual risk)				
	Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
Lone workers: Environment			✓		0	3	5	0	8
LCCG' engineering and catering services' health and safety arrangements: follow-up	A number of recommendations remain outstanding.								
Asset management									
ICT asset management and disposal		✓			0	0	5	0	5
ICT asset management and disposal – follow-up	The action plan has been largely implemented.								
Property assets		✓			0	0	6	2	8
Vehicle assets			✓		0	2	7	7	16
Partnership working									
The council's role as accountable body			✓		-	-	-	-	-
Transfer of services to the council's strategic partner									
Funds flow between the council and BT plc	This work has only recently begun.								
Common corporate controls									
Commissioning and procurement									
Compliance testing of procurement procedures			✓		-	-	-	-	-
Financial controls									
Implementation of Oracle Release 12		✓			-	-	-	-	-
Accounts payable		✓			0	0	1	0	1
Accounts receivable		✓			-	-	-	-	-
Cash and banking		✓			-	-	-	-	-
General ledger		✓			0	0	0	0	0
Payroll – for the county council		✓			0	0	6	0	6
Payroll – for the county's schools		✓			0	0	1	1	2
VAT		✓			0	0	2	4	6
ICT controls									
Controls over staff leaving the council			✓		-	-	-	-	-
Data centre			✓		0	0	8	1	9
Email usage		✓			0	0	2	0	2
Incident and problem management – non-ICT			✓		0	1	4	0	5
Incident and problem management – ICT	✓				0	0	0	0	0

Audit areas	Assurance				Recommendations (residual risk)				
	Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
Vulnerability management			✓		0	0	4	0	4
Web/ internet use			✓		0	1	0	0	1
Change management	The action plan has been fully implemented.								
Network management	Actions have been substantially implemented but are subject to resolution of overall information governance arrangements.								
User access management									
Controls over management of the council's estate									
Premises management (excluding schools)		✓			0	0	5	3	8
Final accounts		✓			-	-	-	-	-
Carbon reduction commitment annual return process		✓			-	-	-	-	-
HR controls									
Redeployment process		✓			-	-	-	-	-
Absence management – follow-up	The key action is being implemented.								
Service-specific controls									
Adult and Community Services									
Fair access to care criteria		✓			0	0	5	0	5
Payments to preferred providers: non-residential care	Work is continuing into 2012/13.								
Payment and monitoring system (PAMS) and Non-Residential Care system (NRCS) – compliance testing		✓			0	0	1	0	1
Prepayment card pilot		✓			0	0	3	2	5
Vulnerable adults: domiciliary services and day centres		✓			0	0	8	7	15
Adult Learning – follow-up	Reasonable progress has been made in addressing the action plans.								
Commissioning – follow-up									
Safeguarding vulnerable adults' finances – follow-up									
Children and Young People									
Early support and intervention funding			✓		0	1	9	3	13
Emergency payments to families			✓		0	0	11	2	13

Audit areas	Assurance				Recommendations (residual risk)				
	Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
Financial and performance monitoring of schools		✓			0	0	3	0	3
Management of children's social care referrals			✓		0	2	6	1	9
Performance monitoring of Sure Start Children's Centres			✓		0	1	2	2	5
Children educated other than at school – follow-up	Reasonable progress has been made in addressing the action plans.								
Fostering payments – follow-up									
Schools and sixth form colleges									
School audit visits and follow-up		✓			-	-	-	-	-
Thematic school review: data protection			✓		-	-	-	-	-
Thematic school review: procurement			✓		-	-	-	-	-
Thematic school review: unofficial schools funds			✓		-	-	-	-	-
Environment									
Concessionary travel follow-up	Good progress has been made.								
Final accounts for contractors		✓			-	-	-	-	-
Project management		✓					10	2	12
Waste PFI: budget forecasting			✓		0	0	1	1	2
Waste PFI: risk management – follow-up	Further work is required.								
Partnership arrangements – follow-up	Action has been taken to address the action plan.								
Trading Standards' risk assessment tool – follow-up	Reasonable progress has been made to address the action plan.								
Transport contract monitoring – follow-up	The low priority action has become obsolete since the original review.								
Winter maintenance system – follow-up	A number of recommendations remain outstanding due to restructuring.								
Information management (former Highways and Environmental Management Group) – follow-up	The single recommendation has been superseded.								
Lancashire County Commercial Group									
Schools catering IT system (Saffron) – follow-up	Good progress has been made to implement the action plans.								
Residential homes: medication and care planning – follow-up									
Income and budgeting/ handheld devices – follow-up									

Audit areas	Assurance				Recommendations (residual risk)				
	Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
Schools catering income procedures			✓		0	1	5	2	8
Compliance testing: payroll controls	Work will continue into 2012/13.								
Economic development, LCDL and Regenerate									
Income protection – follow-up	The action plans for both reviews have been fully implemented.								
Rosebud – follow-up									
Total of all assurance assignments	1	25	22	0	0	14	142	51	207
	2%	47%	51%	0%	0%	7%	69%	25%	100%

Audit resources expended against the audit plan

Audit area	Planned audit days	Actual audit days			Variance
		Relating to		Total	
		2010/11	2011/12		
Cross-cutting controls					
Risk management	0		20	20	20
Corporate governance	45	13	10	23	(22)
Information governance	42		44	44	2
Working in partnership with BT plc	60		4	4	(56)
Working in partnership with other organisations	45		6	6	(39)
Safeguarding	26	33	23	56	30
Health and safety of the public	15	10	22	32	17
Health and safety of staff	26	18	19	36	10
Asset management	80		66	66	(14)
Accountable body role	3	9	1	10	7
Commissioning and procurement					
Legislative compliance	57		16	16	(41)
Sub-total	399	83	231	314	(86)
Cross-service controls					
Customer Service Centre	25		2	2	(23)
Integrated service delivery (highways)	35		18	18	(17)
Reablement	16		1	1	(15)
Transport	5	8	1	9	4
Sub-total	81	8	22	30	(51)
Service-specific controls					
Adult and Community Services	260	12	216	229	(31)
Children and Young People	272	66	356	422	150
Schools	350	35	394	429	79
Environment Directorate	165	64	178	242	77
Lancashire County Commercial Group	120	41	96	137	17
Economic Development	33	8	25	34	1
Sub-total	1,200	226	1,266	1,492	292
Corporate controls					
Financial control systems	287	24	383	407	120
Human resources controls	32		19	19	(13)
ICT systems	200	35	281	316	116
Property management	66	1	83	84	18
Procurement controls	50	4	51	55	5
Sub-total	635	64	817	881	246
Response to the risk of fraud					
Proactive work	145		101	101	(44)
Responsive work/ whistle-blowing	270		423	423	153
Sub-total	415		524	524	109
Management of the service					
Audit and Standards Committees	4		12	12	8
Audit planning and reporting	23	24	36	60	37
Support to senior management	20		8	8	(12)
Audit Commission liaison	3		5	5	2
Sub-total	50	24	61	85	35
Total audit days	2,780	406	2,919	3,325	545

Audit Committee

Meeting to be held on 25 June 2012

Electoral Division affected: All

Internal Audit Service Progress Report

(Appendix A refers.)

Contact for further information:

Ruth Lowry, (01772) 534898, Resources Directorate

Executive Summary

In the context of fulfilling its responsibility to monitor the adequacy and effectiveness of the Internal Audit Service, the committee is asked to consider the progress report for the year to date (Appendix A).

Recommendation

The Audit Committee is asked to consider the Internal Audit Service progress report for the year to 31 March 2012 and work relating to that year completed during April and May 2012.

Background and advice

The Audit Committee's terms of reference state that the head of internal audit will provide a progress report summarising the following, and this has been achieved as follows:

Matters to be included in the progress report	How these matters have been addressed
i) work performed (and a comparison with work planned);	Please see Appendix A to this report.
ii) key issues emerging from internal audit work;	The issues arising from the work for the year are reported in the annual internal audit report for 2011/12, reported separately to this committee, and individual reports finalised since the last progress report are reported in Appendix A.
iii) management response to audit recommendations;	We have followed up the matters raised previous years' audit work and have in most cases confirmed that agreed actions are being progressed.

Matters to be included in the progress report	How these matters have been addressed
iv) changes to the audit plan for the period; and	The outturn against the original plan is reported in this progress report, and a summary of all the work undertaken during the year 2011/12 has been reported in the internal audit annual report.
v) any resourcing issues affecting the delivery of Internal Audit objectives.	Fluctuations in the resources of the Internal Audit Service are being managed and have not adversely affected implementation of the audit plan for the County Council.

Consultations

Not applicable.

Implications

Not applicable.

Risk management

This report supports the Audit Committee in undertaking its role, which includes advising the Council on the adequacy of the Authority's risk management processes.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
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Not applicable.

Reason for inclusion in Part II, if appropriate: Not applicable.

1 Introduction

- 1.1 This report summarises the work undertaken by the council's Internal Audit Service under the internal audit plan for 2011/12 and the work carried forward from the previous audit plan completed during the year. It completes the suite of progress reports for 2011/12, in which summaries of our audit reviews are provided to the Management Team and Audit Committee. The findings included in this report have been agreed with executive directors and shared with the Management Team. It does not repeat the work already reported to the Audit Committee at its meetings earlier during 2011/12.
- 1.2 This report supplements the internal audit annual report also presented to the Audit Committee at this meeting.

Internal audit assurance

- 1.3 Internal audit assurance is stated in the following terms:

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.

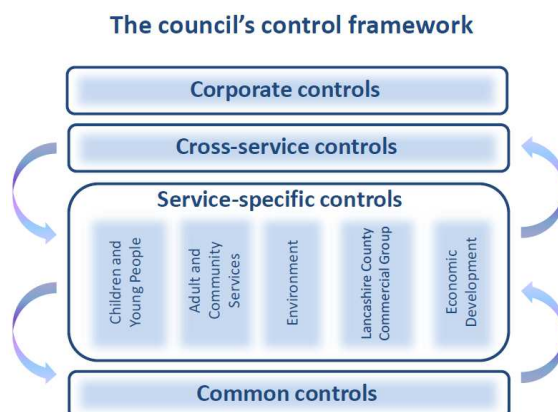
Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

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

- 1.4 The report below refers to the council's services as follows:

Adult and Community Services Directorate:	ACS
Children and Young People's Directorate:	CYP
Environment Directorate:	Environment
Lancashire County Commercial Group:	LCCG

- 1.1 Our work for 2011/12 reflected our understanding of the council's controls framework as consisting of cross-cutting, cross-service, service-based and common controls operated corporately.



Appendix A:

2 Cross-cutting and corporate risks

Risk management

- 2.1 A revised approach to risk management was agreed by Management Team and discussed by the Audit Committee in January 2012. The council manages its risks well in practice, and although it has not in the past always documented risks in the ways previously demanded by the external regulator, action taken by management teams across the council amounts to an effective ongoing process of risk identification, assessment and management.

Corporate governance

- 2.2 We have already reported our findings in relation to the council's corporate governance arrangements, and specifically the improvements that have been made in relation to members' allowances, and members' and officers' declarations of interests and hospitality where a revised Code of Conduct for Employees and a Statement of Ethics have now been issued for staff, and publicised by the chief executive.

Information governance

- 2.3 We reported in March 2012 that the council's information governance arrangements are being reconsidered, and that those arrangements need to be reinforced before any assurance can be given that the council's information governance arrangements are robust. This area is currently subject to further development as the County Secretary and Solicitor takes on the role of senior information risk owner and a group of senior officers, representative of all services, has been formed to support this work. A number of ICT reviews support the need for enhanced control over information governance and are reported below.

Legislative compliance

- 2.4 A separate report to this Committee from the Deputy County Secretary and Solicitor sets out an overview of the assurance available in relation to the council's response to new legislation and its compliance with current legislation. Our sample testing of individual service areas' compliance with legislation has begun but is still on-going at this point.

Safeguarding

- 2.5 We reported our work on the corporate arrangements for Criminal Records Bureau (CRB) checks in September 2011, providing substantial assurance over these controls. We have subsequently followed-up the agreed action plan and this has been largely implemented.
- 2.6 In September 2011 we also reported our work on the CRB checks undertaken to safeguard children's transport in both Environment and LCCG. We provided only limited assurance over the controls in place and since the work was undertaken the Integrated Transport Unit has been formed within LCCG. An action plan to address this was agreed with management, and this will be followed up at the same time as full re-reviews of these areas during 2012/13. Our work on the Children's Safeguarding Board budget, resulting in limited

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Audit Committee meeting 25 June 2012

assurance, was reported to the Audit Committee in January 2012 and this work will also be followed up during 2012/13.

- 2.7 We planned to review the work of the CYP compliance auditors but this has been superseded by the peer review of safeguarding and children looked after that took place in July 2011 and by Ofsted's inspection of safeguarding and looked after children services in January 2012, which concluded that the service was 'good with outstanding features'.

Public health and safety

- 2.8 We reported our follow-up of controls over petroleum safety in March 2012, and good progress is being made to implement management's action plan.

Health and safety of staff

- 2.9 We reported in January 2012 that the majority of the actions agreed to improve corporate controls over health and safety had been implemented. We also reported then that we could provide only limited assurance over arrangements for lone workers in Environment. Management agreed an action plan and we will re-review controls over lone workers across the council in 2012/13.
- 2.10 We have followed up the work we did during 2010/11, which gave substantial assurance over the health and safety arrangements in LCCG's engineering and catering services. Although much of the action plan has been implemented some issues remain, in particular the high number of 'non conformances' that have been raised but remain outstanding (which are not significant issues in themselves but nonetheless require action).

Asset management

- 2.11 In September 2011 we reported that we had provided substantial assurance over the management and disposal of ICT assets. We have since also followed up the action plan and all recommendations have been implemented either partly or in full.
- 2.12 In March 2012 we reported limited assurance over the management of the council's vehicle assets. As a result, LCCG has taken greater control over the whole of the council's vehicle fleet and a separate report has been provided to this meeting by LCCG's deputy director (strategic and business support).
- 2.13 We have also now provided substantial assurance over the management of the council's property assets. The county council holds a substantial portfolio of property assets including schools, youth centres, children's centres, highways depots, residential homes, day centres, libraries, museums, smallholdings, household waste recycling centres and administrative buildings valued at over £1,714 million as at 31 March 2012. The former Property Group was restructured during the year and this is therefore an ideal time to review and update the Corporate Asset Management Framework and the procedures and structures relating to asset management at both the directorate and corporate level. In particular, there is a need for a new corporate asset management plan and a related disposal plan.
- 2.14 Our work on capital accounting for assets has been deferred to 2012/13 since the Audit Commission undertook work on this during the year.

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Customer Service Centre

- 2.15 Both the Customer Service Centre and the front-end of the council's social care services are still undergoing substantial change. Our work on the Care Connect service operated within the Customer Service Centre has been deferred to 2012/13.

Partnership working

- 2.16 Our work on the council's role as accountable body was reported in January 2012 when we provided limited assurance over the council's compliance with the arrangements in place.
- 2.17 We have done no additional detailed testing during the year to assess compliance with the council's partnership arrangements but, although guidance remains available on the intranet, it is no longer supported with any corporate resource and is becoming outdated; the on-going value of this level of corporate control will be re-evaluated.

Transfer of services to the council's strategic partner

- 2.18 Work is continuing on the funds flow between the council and BT plc as the charging process has been developing and has been operating in full only towards the year end.

3 Cross-service issues

- 3.1 We have worked with management to understand the developments ongoing in areas we have previously audited: the reablement service commissioned by ACS and operated by LCCG; accessible transport (specifically transport for children with special educational needs provided by LCCG); and the integration of highways services into Environment. However each of these areas is still under further development by senior management and although we have discussed these developments with management it has not been appropriate to provide controls assurance. Further work is planned during 2012/13.

4 Corporate controls

Commissioning and procurement

- 4.1 We reported last year that procurement was a common issue across the council, and it was noted in the annual governance statement as an area of development. We sample-tested practice and supporting documentary evidence against the Procurement Rules during the year and it is clear that there is still considerable non-compliance. We also undertook a specific additional piece of work on purchasing within the Highways team and the results are in line with our other findings across the rest of the council.
- 4.2 We were in some cases unable to obtain any documentation as systems have changed and some officers have left the council. Where evidence is available the basic requirements to obtain quotations or tenders were not always met; numerous purchases that should reasonably have been amalgamated have not been, and a tender exercise has not therefore been undertaken as it should have been for goods of considerable total value; specialist services have been procured and normal procurement rules waived, but without any formal

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approval; and in one case an item that could and should have been procured through a corporate contract was not.

- 4.3 However there is already evidence that, towards the end of the year, procurement is being more tightly controlled through the Oracle and i-procurement systems and through the establishment of the Procurement Centre of Excellence within One Connect Limited (OCL), and that the control framework for procurement across the Council is being made increasingly robust.

Financial controls

- 4.4 The Internal Audit Service has been closely involved in the implementation of the latest release of the Oracle financial system and has undertaken considerable testing of the implementation process, including testing the work done on the detailed development and testing of the system elements, the integration of these elements, user acceptance testing and data migration. We were able to provide substantial assurance.
- 4.5 This has been a large project and the system implementation will have a fundamental effect on all of the council's financial procedures. In conjunction with the related changes to manual controls around the system and the way the organisation provides financial support to managers, it has already and will increasingly enable the council's systems to be made consistent across all service areas.
- 4.6 We have tested the operation of key controls over the council's financial systems, and have provided substantial assurance on all of the key financial systems.
- 4.7 Following the Audit Commission's detailed work on treasury management, reported to the Audit Committee in January 2012, no further internal audit work has been undertaken. An update on the actions being taken by the council to respond to the Audit Commission's report has been separately provided to this meeting. At the county treasurer's request we will be following-up the Audit Commission's findings and the action taken by the Council in response.

ICT controls

- 4.8 Much of our work during the year has been focussed on areas that relate to technical ICT systems, but which more broadly support the council's information governance arrangements which, as noted in paragraph 2.3 above are subject to ongoing development.
- 4.9 We have investigated data relating to the removal of staff who have left the council's employment from its ICT systems and, on that basis, have provided limited assurance that the council has adequate systems in place to ensure that former employees are unable to access its data and information systems. Control over the ICT risks related to the council's employees will be addressed in the long term by an identity management system, but action is required in the short term to mitigate the immediate risks to the council's data and network security.
- 4.10 Our testing of email traffic from the council provides substantial assurance over the security of email usage by council officers. In the majority of cases proper consideration is given to protecting data and officers are using encryption and

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basic security measures, but breaches of the council's Internet and Email Acceptable Use Policy, in the use of social media sites and online shopping and auction sites, suggest that there is a lack of detailed awareness of the policy. This work is closely related to issues of information governance where, as noted above, further work is now being planned.

- 4.11 We have now also completed our work on incident management. We have provided full assurance over the new arrangements introduced by OCL to record and manage technical ICT incidents but we have given limited assurance over the wider organisational issues surrounding non-ICT incident management. Although the council's processes remain in place, action to ensure staff awareness of this aspect of information governance and to guard against breaches of data security is being agreed with management.
- 4.12 Our work on the data centre, vulnerability management and internet use was reported in March 2012 and we were able to give only limited assurance to each of these areas. Action plans are in place to address these issues and the ICT head of enterprise and architecture will attend the Committee meeting on 25 June to explain to members in more detail the work that is being done by OCL to develop the council's ICT services.
- 4.13 We have followed up the action plans agreed as a result of our work on network user management and security, and change management. Good progress has been made overall but recommendations remain outstanding which would previously have been addressed corporately through the former Corporate Information Governance Group. The renewed focus on information governance will enable the council to address these actions more effectively in future and the renewed Group will be in a strong position to ensure that appropriate action plans are developed and implemented

Controls over management of the council's estate

- 4.14 Our work on the management of the council's property assets, and the changes to the former Property Group, are reported in paragraph 2.13 above. In January 2012 we reported that these changes have impacted the council's ability to demonstrate the efficiencies gained from strategic partnering.
- 4.15 In addition, we have undertaken work on a sample of the final accounts submitted by contractors on specific projects, and reported during the year that there were no significant issues arising from this. In September 2011 we reported that we had provided substantial assurance over the council's submission of its annual return relating to the Carbon Reduction Scheme.

Human resources controls

- 4.16 Work on redeployment was reported to the Committee in January 2012 and we provided substantial assurance that an effective system is operating. The key recommendation we made in relation to absence management is currently being addressed as the staff structures across the council are resolved within the new Oracle HR/ payroll system.

5 Service-specific controls

- 5.1 This year has again been one of considerable change within the council's directorates and service teams as we have widely restructured and reduced staff numbers. The need to make cost savings across the council has affected many of the council's services.
- 5.2 A number of officers have been seconded to One Connect Limited during the course of the year as OCL has taken on the provision of the council's payroll, human resources, procurement, Customer Service Centre and ICT services. Others have transferred between services, for example as the new Highways Service has been formed, and as the former Property Group and Policy Unit have been dispersed and joined services within other directorates.

Adult and Community Services

- 5.3 Implementation of changes to the fair access to care criteria was a key area for the directorate during 2011/12, and we have provided substantial assurance over the management of this project. Although the project timetable has slipped and not all of the efficiency savings estimated at the outset of the project are likely to be achieved, the project has been well managed and controlled. In particular, there have been justifiable reasons for the delay in its completion and the project team has proactively managed any issues arising throughout the project. Our examination of a sample of new assessments and of cases being reviewed has confirmed that the revised criteria have been properly applied.
- 5.4 We have for a long time reported issues with the security of the integrated social services information system (ISSIS) and access to confidential data, and until the system is changed these issues will remain. The replacement of ISSIS is key to case management and to resource allocations to individual service-users' budgets but, whilst a replacement system is still being specified and procured, audit work on these areas has necessarily been deferred. A system to replace ISSIS is scheduled for implementation in the directorate in April 2013.
- 5.5 We have recently completed our audit work on the pilot scheme for the administration of prepayment cards by the directorate and their use by adult social care users. Although take-up of the cards has been slower than anticipated, we have provided substantial assurance over the arrangements in place.
- 5.6 We provided substantial assurance in relation to the medication and financial records held for adults receiving domiciliary care services, and also over our compliance testing of the key controls over the payments and monitoring system (PAMS) for residential care, and the non-residential care system (NRCS). Our work on the domiciliary care services' preferred provider schemes, which were introduced to help raise the standards of care available within the county, was initially delayed and work is ongoing.
- 5.7 We have also supported management in considering the budgets being transferred between the NHS (Lancashire Care Foundation Trust) and county council, but this work has not been directed at providing controls assurance.
- 5.8 We followed up the action plans agreed with the Adult Learning Service and in relation to safeguarding vulnerable adults' finances and the commissioning of

Appendix A:

Internal Audit Service progress against plan 2011/12

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adult social care services, and reported that good progress had been made on all of these areas.

- 5.9 Good progress has also been made by the directorate in relation to the commissioning and procurement of adult social care. We reported in June 2011 that in moving away from block contracting for adult social care services to personal care arrangements and self-directed support the directorate was operating in a new and uncertain legal and policy environment. Based on the controls in place at that time we were able to provide only limited assurance, as there is a conflict between the ability to open up social care contracts to rigorous and regular competition and delivery of the personalisation agenda. However good progress has been made in implementing the action plan arising from this review.
- 5.10 A comprehensive guidance note, supported by a series of workshops was developed by the Quality and Contracting team and distributed to commissioning and procurement teams to disseminate the learning points identified during the audit and to ensure that best practice principles are employed in future commissioning activity. Additionally, work is underway to develop a contractual framework document for use with providers who are now providing a greater range of services and are managing individual service funds on behalf of service users. Managers are continuing to develop and improve commissioning arrangements, and working to ensure that social care contracts are procured appropriately.

Directorate for Children and Young People

- 5.11 In January 2012 we provided limited assurance in relation to the management of children's social care case referrals. We have followed up the action plan agreed by management, focussing on the key issues and performing some limited testing on the other agreed actions. Although the Children's Social Care Senior Management Team is progressing with its action plan, the recommendations have not yet been implemented as intended by February and March 2012. We understand that preparing for and supporting the Ofsted inspection in February 2012 took up a considerable amount of time and deflected attention from this work, but we have scheduled a full follow-up review of case referral management arrangements for later in 2012/13.
- 5.12 At the time of our follow-up work, we found that cases were still allocated to ceased social workers and managers and that caseloads for ceased workers are not being reviewed on a regular basis. No regular reconciliations have yet taken place between the numbers of cases assessed by the Care Connect team to the number of cases referred to individual service teams. However we have been informed that a leavers' checklist has now been developed and is starting to be used.
- 5.13 We reported in January 2012 that we could provide limited assurance over emergency payments made to families ('section 17' payments) because controls were not operating effectively and have been applied inconsistently, and local judgement of appropriate expenditure was inconsistent across the county. Management have agreed an action plan and we have scheduled follow-up work for later in the year.
- 5.14 We have completed our work on early support and intervention funding and have provided limited assurance over the systems and procedures that were in

Internal Audit Service progress against plan 2011/12

Audit Committee meeting 25 June 2012

place in 2011/12, although the head of service is now proactively reviewing the controls in place. Lancashire's twelve district children's trust boards all play a major part in delivering services to children and young people in the county and each trust has identified its own specific local priorities to meet the local and more tailored needs of children, young people and their families in their local community. The early support and intervention development officers were appointed in 2011/12 but district priorities were set prior to this, and we were unable to obtain adequate evidence to support how these priorities were set.

- 5.15 We have provided substantial assurance over the systems and procedures that are in place to identify and monitor poorly performing schools. The Schools Improvement Challenge Board meets regularly to discuss financial, educational and human resource issues arising in schools to ensure that they are identified, monitored and reported in a timely manner and we have suggested that the directorate should obtain and monitor reports for all schools which are in financial difficulty each term. The Department for Education is currently consulting on the assurance system for financial management in local authority maintained schools, and the Schools Financial Service is likely to need to reconsider how schools' finances are monitored and reported in light of the Department's decisions.
- 5.16 Although the directorate monitors the county's schools' financial and operational performance closely, it is less effective in monitoring the Sure Start Centres and we have provided limited assurance over these controls, in particular the financial monitoring arrangements. In response to our recommendations the Combined Finance Team (CFT) has advised us that the process for chasing outstanding financial information has since been strengthened. The CFT will also ensure, as previously agreed during our last audit of this area, that having received this information it sample checks the centres' expenditure regularly, in particular its eligibility for funding.
- 5.17 We also assessed the key controls within a sample of three Sure Start centres, and whilst we provided substantial assurance over one centre, the other two received only limited assurance. However we undertook some due diligence work on the Oaktree Children's Centre revenue and expenditure before the centre transferred to the council and were able to provide substantial assurance over this.
- 5.18 We are currently following up our recommendations regarding fostering payments, and we reported in September 2011 that we have followed up our work on children educated other than at school.
- 5.19 We have also undertaken work associated with the directorate where it has either not been appropriate to provide assurance, or the assurance relates to the county's schools and children's centres rather than specifically to the directorate. We undertook a very specific compliance audit of the documentation held on social care workers' personnel files, which demonstrated a lack of adequate compliance with the directorate's policy and national requirements with documents such as social work qualifications not held as required. We also investigated the circumstances in which six primary schools in Fleetwood had entered into arrangements with an ICT consultancy firm in relation to capital investment in their ICT facilities.

Schools

Internal Audit Service progress against plan 2011/12

Audit Committee meeting 25 June 2012

- 5.20 We provide assurance to the council and its schools through audit visits to assess a range of key controls at individual schools, and thematic reviews of specific issues across a sample of schools. We share our findings with the directorate and also with all the county's schools through a newsletter, 'Audit Matters', published on the schools portal. We issued our first Audit Matters newsletter in July 2011 and covered a number of common issues identified from our audit work, including procurement, income, lettings, IT controls, assets and governance arrangements.

School audits

- 5.21 We have completed 39 visits to schools and, whilst we were able to provide substantial assurance over the majority of schools, two schools (one primary and one secondary) received limited assurance and one primary school received no assurance. All schools that receive limited or no assurance will receive a follow-up audit within approximately six months, and the Internal Audit Service also provides support where appropriate. We have also reported our concerns to the council's Schools Improvement Challenge Board and the Schools Financial Services team for information.

School type	Number of audits	Level of assurance			
		Full	Substantial	Limited	None
High school	5	0	4	1	0
Primary school	34	1	31	1	1
Total	39	1	35	2	1

- 5.22 We have followed up the recommendations we have made in previous years where schools received limited or no assurance, and found that the majority of recommendations had been implemented, and there were no significant outstanding recommendations.

Thematic audits

- 5.23 We have undertaken work across a sample of schools on data protection, procurement, unofficial school funds and data submitted to the Young People's Learning Agency (YPLA).
- 5.24 All schools gather and store personal information on pupils and teaching and non-teaching employees and must comply with the Data Protection Act 1998. There are some key issues common to many schools, including the need to retain data only for the purpose it was obtained for and to hold it securely on encrypted devices. We also found that 36 schools in Lancashire were not registered with the Information Commissioner, although failure to register is a criminal offence. We have contacted each of these schools to advise them of this legal requirement and will follow this up in the near future, and in February 2012 we issued a newsletter on schools' compliance with data protection requirements.
- 5.25 We have recently completed our thematic reviews of procurement and unofficial school funds and are in the process of drafting a newsletter for schools. The procurement issues arising relate in part to the small scale of some schools, where segregation of duties is difficult, but there are also a number of instances where schools have not complied with standing orders, and excessive use of 'confirmation orders' raised after the invoice has been received. It is clear from

Appendix A:

Internal Audit Service progress against plan 2011/12

Audit Committee meeting 25 June 2012

our work that there is a lack of clarity within some schools about how to handle unofficial school funds and the need to maintain a clear distinction between these funds and the official school budget. We have discussed this with the Combined Finance Team and are working with the team to strengthen the guidance available to schools.

- 5.26 We reported problems with the data submitted to the YPLA by two schools with sixth forms and were therefore able to provide only limited assurance to the county treasurer in relation to the annual return she is obliged to make to the YPLA. We have also issued a newsletter to schools with sixth forms to highlight the issues relating to the census data provided to the YPLA.

Environment Directorate

- 5.27 Earlier in the year we provided limited assurance in respect of the system to enable realistic strategic forecasting and monitoring of the previous year's PFI waste project budget. We have also followed up our earlier work on payments under this contract, and the actions agreed have been completed satisfactorily. We also followed up our work on the PFI risk register, and provided limited assurance over this as it had not been maintained or updated. However the use of the risk register to manage the PFI's risks on an ongoing basis was considered by the directorate to be too onerous and impractical and, as a result, the directorate has put in place alternative management arrangements to identify and address the project's major financial and operational risks, alongside revised budgeting and monitoring processes.
- 5.28 We have followed up our earlier work on both concessionary travel and Trading Standards' risk assessment tool, and satisfactory progress is being made in implementing both of the agreed action plans.
- 5.29 We have assessed the directorate's project management arrangements in relation to the Guild Wheel and Heysham M6 projects and have provided substantial assurance over these.
- 5.30 We have worked throughout the year to test a sample of contractors' final accounts for capital works, including works relating to the A59 at Samlesbury and the A6068 at Colne, both of which involved 'section 278' development agreements. We found no significant issues.
- 5.31 We have provided limited assurance in relation to 'section 106' development control agreements. Whilst there are several changes that could be made to improve the existing system more significant, possibly structural, changes to the design of the process throughout the council may be more appropriate; the recent restructuring of the former Property Group and the integration of elements of it into the Environment Directorate will provide this opportunity and an action plan is currently being developed.
- 5.32 We are also undertaking an increasing amount of work to certify grant claims for external funding providers. During the year we have certified the directorate's claims for two streams of EU funding in relation to Accrington railway station: SusStations (intended to support the application of sustainable and low carbon technologies in the rail industry), and Envireo (sustainable energy promotion and management in construction). In the coming year we will also be required to certify claims in relation to the Citizens' Rail EU funding stream (to develop regional railways) to support investment in Burnley Manchester Road railway station. We have also certified a claim for EU funding relating to safer mobility

Appendix A:

Internal Audit Service progress against plan 2011/12

Audit Committee meeting 25 June 2012

for elderly road users and a claim to the Homes and Communities Agency for government funding relating to the Growth Fund.

Lancashire County Commercial Group

- 5.33 During 2009/10 we reported concerns relating to the administration of medication and preparation of care plans for residents in care establishments. We followed these up during 2010/11 and in January 2011 reported that management were working on the issues but many remained unresolved. However after further follow-up work this year, we can report that good progress has now clearly been made. A single medication supplier and a new medication policy have been introduced, and the quality of care plans has improved significantly at the three care homes we have visited. We identified relatively few, ad hoc, issues: certain aspects of the service's medication policy were not yet consistently applied, and at one care home the medication records were not always clear.
- 5.34 In March 2012 we reported limited assurance over the controls in place over income from the catering services provided to fully managed schools, arising chiefly from a lack of compliance with documented procedures.
- 5.35 We have also followed up our work on the schools catering IT system and found that, with the exception of arrangements in relation to business continuity planning following changes in the way the system is hosted, the agreed action plan had been implemented. We also found that the action plans relating to income and budgeting and handheld devices had been substantially implemented as agreed.

Economic development

- 5.36 We have followed up our work on income protection arrangements over the property portfolio managed by Lancashire County Developments Limited and action has been taken to address all of the matters identified in the work we reported in June 2011.
- 5.37 We have also followed up our work on LCDL's management of the Rosebud Fund and again appropriate action has been taken on all of the matters identified.

6 Investigations and counter fraud work

- 6.1 Work on special investigations, and the proactive counter fraud activity undertaken during the year, has been reported during the year and a separate annual report has been prepared for the Committee and for the County Treasurer.

Audit Committee

Meeting to be held on Monday 25 June 2012

Electoral Division affected: None

Counter fraud and special investigations annual report 2011/12

(Appendix 'A' refers)

Contact for further information:

Ian Rushworth, principal auditor, (01772 534779), County Treasurer's Department.

Executive summary and recommendation

The Audit Committee is asked to consider the 2011/12 counter fraud and special investigations annual report.

Background and advice

This report brings together in one document a summary of the outcomes of our work to prevent and detect fraud and corruption during 2011/12. The report has been produced in accordance with best practice recommended by The Chartered Institute of Public Finance and Accountancy (CIPFA).

This report, together with additional details of each of the cases investigated, has been provided to the county treasurer.

Consultations

Not applicable.

Implications

None.

Risk management

This report supports the Council in assessing and overseeing the management arrangements by which the risk of fraud is controlled.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Tel
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Nil		
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Reason for inclusion in Part II, if appropriate		
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N/A		
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1. Introduction

- 1.1. This annual report details the work performed by Lancashire County Council ('the council') to prevent and detect fraud and corruption. Our previous annual reports have also been presented to both the Standards Committee and the Audit Committee. However, following changes to the standards regime the Standards Committee has been disbanded and the Audit Committee's remit will be extended to include oversight of the council's counter fraud and whistleblowing arrangements.
- 1.2. The National Fraud Authority has estimated that the annual cost of fraud to the UK economy has increased from £38 billion in 2010/11 to £73 billion in 2011/12. The council continues to have a clear commitment to minimising its exposure to fraud and corruption which is set out in the council's Anti Fraud Policy as follows:
- "Lancashire County Council values its reputation for financial probity and reliability. We recognise that over and above any financial damage suffered, fraud may also reflect adversely on its image and reputation. Our aim therefore is to limit the Authority's exposure to fraud by:
- Instituting and maintaining cost effective measures and procedures to deter fraud;
 - Taking firm and vigorous action against any individual or group perpetrating fraud against the county council;
 - Encouraging our employees to be vigilant and to report any suspicion of fraud, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately;
 - Rigorously investigating instances of alleged fraud and pursuing perpetrators to seek restitution of any asset fraudulently obtained together with the recovery of costs; and
 - Assisting the police and all other appropriate authorities in the investigation and prosecution of those suspected of fraud."
- 1.3. The council's Internal Audit Service plays a key role in helping the council to prevent and detect fraud, and is responsible for investigating suspected frauds at the direction of the County Treasurer, Management Team and in response to whistleblowing.
- 1.4. This report is based upon the work we have performed on special investigations and counter fraud during 2011/12. As investigations may cross over more than one financial year we have included investigations which were either ongoing or completed by 31 March 2012. Due to the sensitive nature of our investigations we are unable to provide specific details for cases which are ongoing.
-

2. Impact on the control environment

Overall opinion

- 2.1. We have identified no single issue that has a material impact on the council's overall control environment. Therefore, in our opinion the issues we have identified are not sufficiently significant to impact on the annual governance statement.
- 2.2. All our investigations are reported separately to the relevant directorate to allow appropriate action to be taken. Additionally, where our investigations identify weaknesses in control a separate report is issued to strengthen the control environment.
- 2.3. We are required by the Audit Commission to report any individual frauds exceeding £10,000 but no individual fraud has exceeded this level.

3. Fraud work undertaken

Special Investigations

- 3.1. During 2011/12 we undertook a total of 24 special investigations, 18 of which were completed during the year.
- 3.2. A wide range of allegations were investigated, including: inappropriate expenditure; breaches of funding terms and conditions; income not being banked and income shortfalls; inappropriate use of ICT equipment; misuse of service users' bank accounts; data breaches; failure to declare business interests and theft of county council property.
- 3.3. A summary of the outcomes for the closed investigations is provided below:
 - 5 employees were dismissed;
 - 4 employees were not dismissed but received disciplinary warnings;
 - 2 employees resigned and further action was not warranted;
 - 2 cases were referred to the police as disciplinary action was not appropriate;
 - 1 former employee received a conditional registration order from the General Teaching Council and their claim for unfair dismissal was rejected by the Employment Tribunal;
 - 4 of the investigations did not result in disciplinary action; and
 - 6 of the investigations are ongoing.
- 3.4. A number of the investigations above, including those where no disciplinary action was taken, have identified weaknesses in control. Where this is the case reports have been provided to management with recommendations to improve the control environment. These will be followed up during the 2012/13 financial year.

Counter fraud arrangements

- 3.5. A total of 125 days has been spent during 2011/12 on proactive fraud work in accordance with the counter fraud plan. Details of our counter fraud work are set out within Appendix B. We have re-drafted the council's Whistleblowing Policy and this has been publicised to staff via the intranet. The communications team will also ensure that the policy is also communicated to staff without access to the intranet. Similarly, we have aligned the schools' Whistleblowing Policy with the council's and the schools' policy will also be re-issued early in 2012.
- 3.6. The Bribery Act came into force during 2011/12 and as a result we have worked with colleagues to update the council's Code of Conduct and the Statement of Ethical Standards for Employees to ensure that staff are aware of their requirements. We are currently performing an audit of street work inspections as this was identified as a key bribery risk area and we will be conducting more anti-bribery audits during 2012/13.
- 3.7. We continue to attend the Greater Manchester Fraud Group, which has representation from 13 local authorities, to enable us to share best practice and information, for example relating to potential frauds and bogus suppliers. We have recently joined a subgroup of this to share expertise in relation the use of Idea, a software package used to analyse data. This will enable us to examine and interrogate large data populations more efficiently and effectively. As part of our 2012/13 plan we are conducting a review of mileage claims submitted by all staff.
- 3.8. Where we have received information about potentially fraudulent suppliers we have notified the Accounts Payable team so that payments to these suppliers can be prevented. We also regularly raise awareness of fraud scams through the intranet and the Schools Portal.
- 3.9. We have continued to monitor the banking of school meal income and undertake visits to schools where banking is irregular. Based on our findings we are currently drafting an 'Audit Matters' newsletter which will be issued to all schools detailing this specific issue and other cash management issues.

National Fraud Initiative

- 3.10. As part of the county council's duty to protect public funds, the Audit Commission requires all local authorities to participate in the National Fraud Initiative (NFI). This is a two-yearly exercise that matches electronic data held by public sector organisations to highlight potentially fraudulent activity. Nationally, the last exercise identified £139 million of errors and overpayments with the county council identifying 32 cases, totalling £92,000 of pension payments made to deceased pensioners, which is double the amount identified in 2008/09 (£46,000). The overpayments are being pursued by the Your Pensions Service and £9,475 has been retrieved to date.

- 3.11. The Audit Commission is considering introducing a number of real time NFI matches and we have expressed an interest in participating in a pilot review which would enable deceased pensioners to be identified much sooner.
- 3.12. An NFI match also identified that a community support worker with the council had been on sick leave whilst also working as a relief support worker for Cumbria County Council ('CCC'). As the individual left the council's employment during our investigation for a permanent job with CCC we are unable to take disciplinary action. Our findings have been reported to both the police and CCC. Depending on the action taken by the police we will commence proceedings to recover the payments made.
- 3.13. The 2010/11 data was submitted in October 2010 and the matches were released in January 2011. The number of matches for the 2010/11 exercise is 27,842 an increase of 17,162 from the 10,680 identified as part of the 2008/09 exercise. The data matches do not necessarily represent fraud but are indicators that need further investigation.
- 3.14. The matches cover a number of areas and some examples of the type and number of matches identified are provided below:

Area	Number of matches			Examples of data matches
	2008/09	2010/11	Variance	
Pension	1,849	2,256	407	Claimants that may have died or may have additional employment affecting their pension.
Payroll	1,091	4,169	3,078	Employees with additional employment, claimants of housing benefit, right to work within the UK.
Creditors	4,259	18,520	14,261	Potential duplicate payments, addresses, overpayment of VAT, employees with a business interest.
Insurance	298	164	(134)	Potential duplicate insurance claims.
Blue badges	2,618	2,212	(406)	Badge holder may have died and the badge used by someone else.
Residential care homes	565	521	(44)	Payments made to a care home for a resident who may have died.
Total	10,680	27,842	17,162	

- 3.15. The majority of the investigation work is normally performed by the relevant department within the council and was performed during the 2011/12 financial year. We provide advice and support; discussing with them the data match reports and what is required of them.
- 3.16. The 2010/11 exercise however, reported two new matches which matched employee's payroll details to creditor's details to identify those with the same bank account and/ or address. We investigated these matches due to the

sensitivity of these matches. There were 3,612 matches identified and we investigated the top 260 matches based on the value of the payments made. We identified that for some of the matches a declaration of business interests should have been made but the employee could not have had any influence over the purchasing decision. A separate review of business interests has been undertaken and recommendations made to improve the level of control.

- 3.17. We also worked closely with the Your Pension Service and undertook a number of home visits to confirm the identity of individuals claiming pensions.
- 3.18. The data for the 2012/13 exercise is to be submitted in October 2012 and the matches released in January 2013. We will continue to work closely with the relevant teams within the council to ensure the matches are appropriately investigated in accordance with the Audit Commission's and internal protocols.

2011/12 Counter Fraud Plan

Planned activity	Detail
National Fraud Initiative (NFI)	The Audit Commission NFI is run every two years. In 2010/11 we submitted data which the Audit Commission then matched against other public authority databases. Matches were released in January 2011 and were investigated.
Counter Fraud Activity	
Schools Income	Cash paid by parents for pupils' school lunches is a key risk area. Throughout the year we monitor the income received to ensure schools are banking on a regular basis. We performed seven unannounced visits during the year. For six of these visits, we confirmed that no monies were missing but identified some general system weaknesses. Recommendations to improve the level of control were reported to each head teacher. Monies to the value of £3,800 were identified as missing at one of the visits and an investigation was undertaken.
Bribery Act	The implementation of the Bribery Act was delayed until 1 July 2011 to allow additional guidance to be provided. This was provided in March 2011 to allow organisations to put processes in place before the implementation of the Act. We have worked with colleagues to update the council's Code of Conduct and the Statement of Ethical Standards for Employees which sets out the council's position.
Cash handling establishments	We completed a number of unannounced visits at county council establishments handling cash, including libraries, museums and registrars' offices. We identified some specific issues and common themes across establishments that need to be addressed. The final report and recommendations to improve the level of control were agreed with management in December 2011.
Raising Fraud Awareness	During the year we have become aware of a number of fraud scams either through our work at the council or from our fraud networks. Where appropriate we have advised council staff of the risks; and has included messages being posted on the intranet, school portal and advising accounts payable to put a hold on certain suppliers.
Bribery Act – Street Works	<p>An allegation of bribery was received in July 2010, which alleged that a street work inspector was receiving bribes from a contractor to amend street work test results so a defect notification was not issued. The allegation was investigated but not substantiated. The system for defect notifications was documented and indicated that street work inspections were a bribery risk area. We are therefore performing an audit of this process to ensure the controls in place minimise the risk of bribery.</p> <p>The work to examine procedures in this area will continue in 2012/13</p>

Audit Committee

Meeting to be held on 25 June 2012

Electoral Division affected: All

Audit Commission – Audit Committee update report June 2012

Appendix A refers

Contact for further information:

Fiona Blatcher, 0844 798 7056, Audit Commission,
f-blatcher@audit-commission.gov.uk

Executive Summary

This report provides an update on the audit work undertaken by the Audit Commission against the 2011/12 Audit Plan for the Council and Pension Fund. Progress is on track and there are no issues or new audit risks to report. The report highlights the agreement of an additional piece of work with the Council's external auditors to complete a detailed review of the Council's internal audit. An additional fee of £9,400 has been agreed for this work. It also includes an update on the Audit Commission's work programme and scale of fees for 2012/13.

Recommendation

The committee is asked to note the Audit Commission report.

Background and Advice

Karen Murray, District Auditor, will attend the meeting to present the reports and respond to questions.

Consultations

None

Implications:

N/A

Risk management

N/A

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Tel
Lancashire County Council 2011/12 external audit plan	January 2012	Fiona Blatcher Audit Commission 0844 798 7056
Lancashire County Pension Fund 2011/12 external audit plan	January 2012	
Audit Commission Work Programme and scale of fees 2012/13	April 2012	

Reason for inclusion in Part II, if appropriate

N/A

Audit Committee update

Lancashire County Council

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Introduction

1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the Audit Commission's work programme and scale of fees for 2012/13.

2 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Senior Audit Manager using the contact details at the end of this update.

3 Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Karen Murray

District Auditor / Engagement Lead

11 June 2012

Progress report

Financial statements

4 My team has completed its work on updating our understanding of key financial systems. They are currently completing any controls and early substantive testing they can at this stage. This includes:

- substantive testing of the year end pension fund investments which we expect to complete by the end of June; and.
- substantive testing of the pro-forma statements produced in preparation for the completion of the Council's group account statements. This work is expected to be completed in early June to inform the final production of the council's group accounts by the end of June.

5 My team is maintaining close liaison with the Council's finance team around technical issues, closedown timetable and audit requirements. These activities minimise the likelihood of any unexpected significant accounting issues arising later on in the closedown or audit process.

6 There are no issues or new audit risks which I wish to bring to your attention.

VFM conclusion

7 Through meetings with key officers and review of relevant reports, my team and I are currently reviewing the Council's arrangements and progress across those areas which I highlighted in my audit plan. Namely:

- Financial planning and delivery
- Waste Management financial pressures
- BT Partnership/One Connect Contract performance
- Treasury management.

8 There are no issues or new audit risks which I wish to bring to your attention.

Other areas of work

9 At the request of the Head of Internal Audit I have agreed to complete a detailed review of the work of internal audit. Under the Accounts and Audit regulations 2011, the Council is required to undertake an annual review of its internal audit. Our input was requested this year to provide some external independent assurance over the effectiveness of the internal audit function. The review is being undertaken as an additional service under our advice and assistance powers covering work outside our Code responsibilities. The scope of my work and the additional fee of £9,400 has been agreed with the Treasurer.

10 The review is being undertaken against established criteria laid down by CIPFA. I expect the final report to be agreed in July 2012 and the results will be reported to the audit committee at its September meeting.

Audit Commission work programme and scales of fees 2012/13

11 In April 2012 the Audit Commission published its “work programme and scale of fees for 2012/13”. This document sets out the work the Audit Commission and its auditor’s plan to undertake during 2012/13 and the associated scale of fees.

12 There are no changes in the work programme auditors are expected to undertake at each body, namely:

- complete a Code audit taking into account the auditor’s local assessment of risk
- audit of the Council’s Whole of Government Accounts return
- the value for money conclusion criteria remain “securing financial resilience” and “prioritising resources”
- certification work on a reducing number of claims and returns.

13 The Commission expects to publish a small number of national reports on the results of the audits at local government, fire and rescue authorities and police bodies.

14 The fees to cover the above work and the wider work of the Audit Commission have now been set and published. These are known as the scale fees. The fees set represent a 40% reduction on previous years and have been set for the next five years. Additionally for certification work, the Audit Commission has replaced the previous schedule of maximum hourly rates with a composite indicative fee. This fee is based on actual certification fees for 2010/11 adjusted to reflect the fact that a number of schemes will no longer require certification.

15 The reductions in fee result from the significant reductions in the Audit Commission’s costs following internal efficiencies and the savings achieved from the outsourcing of its in-house audit practice. The impact for Lancashire County Council is shown below:

Table 1: **Fee scales**

Table header	2011/12	2012/13 and next four years	Difference	
	£	£	£	%
Main audit scale fee	251,100	150,660	100,440	40
Certification work	7,200 (estimate)	3,700	3,500	49
Pension Fund*	67,000	34,169	32,831	49
Total	325,300	188,529	-136,771	42

**Note the scale fee for the pension fund is still based on a formula linked to the fund's net assets rather than on the fee set by the auditor in the previous year.*

16 It is a matter for the auditor to decide the work necessary to complete the audit, and subject to approval by the Audit Commission, to seek to agree a variation to the scale fee with the audited body. As the 2012/13 main audit and certification scale fees for individual bodies are based on the fee for 2011/12, they already reflect the auditor's assessment of audit risk and complexity. Therefore the Audit Commission expects variations from scale fee to occur only where these factors are significantly different from those identified and reflected in the 2011/12 fees.

17 The Audit Commission is consulting all audited bodies about the appointment of their auditor for the start of the 2012/13 and future years' accounts. The appointments will start on 1 September 2012. Following this appointment, the Council's auditor will complete their risk assessment for the purposes of completing the audit and will provide their audit plan for agreement with the Council.

Further information is available at: <http://www.audit-commission.gov.uk/audit-regime/audit-fees/201213fees/Pages/201213feesandworkprogramme.aspx>

Contact details

18 If you would like further information on any items in this briefing, please feel free to contact either me or your Senior Audit Manager.

19 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

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- any third party.



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June 2012

Audit Committee

Meeting to be held on 25th June 2012

Electoral Division affected: None

ICT Update Report

Appendix A refers

Contact for further information:

Andy Yates, 01772 534011, One Connect Limited (ICT),

Andy.Yates@oneconnectlimited.co.uk

Executive Summary

This report provides an update on the actions taken in response to the internal audit report on ICT services.

Recommendation

The Audit Committee is asked to consider the progress report and feedback any questions or concerns.

Background and Advice

At their meeting held on the 26 March 2012, the audit committee considered the internal audit progress report which identified issues in relation to information risk management processes within the council's ICT services. It was agreed that a senior member of the ICT management team would attend the next meeting of the committee to present an update with respect to ICT and explain developments to the service. Appendix A provides this progress report and includes:

- work performed and work planned in relation to ICT security and Vulnerability Management ;
- work performed and work planned in relation to the current Data Centre facility;
- work performed and work planned in relation to the Information Governance and Acceptable Use Policies (AUP's);
- An update in relation to other specific Audit issues raised on the 26th March 2012; and
- What is next in relation to major ICT changes.

Consultations

Not applicable.

Implications:**Risk management**

This report is provided for information and consideration as part of the Audit Committee's role, which includes advising the Council on the adequacy of its strategic risk management processes. There are no specific risk management or other implications.

**Local Government (Access to Information) Act 1985
List of Background Papers**

Paper	Date	Contact/Directorate/Tel
ICT presentation to wider Cabinet members	April 2012	Mark Orford ICT Director

Reason for inclusion in Part II, if appropriate

N/A

1 Introduction

- 1.1 This report summarises the applicable elements of the ICT activity that are relevant in terms of a progress update that needs to be shared with the Audit Committee.

2 Progress Summary

Work performed and work planned in relation to ICT security and Vulnerability Management

- 2.1 Prior to the formation of One Connect Limited the county council's ICT services had taken an approach which selected security and vulnerability management products from multiple software vendors. Whilst this was seen as a good approach to get specific 'best in class' products, it did give a fragmented view of incidents and security. A holistic view of all threats and management of threats was difficult and in many cases not possible to deliver.
- 2.2 In addition, it was identified very early in the delivery of the service by One Connect Limited that this area needed significant focus and attention. Specifically gaps were identified with respect to intrusion detection and security of laptops when they leave the corporate network and come back onto the network in support of an increased need for staff to be more mobile.
- 2.3 One Connect Limited have signed an enterprise agreement with a BT preferred supplier that is deemed as one of the market leaders in security protection and vulnerability management. This security product set is in the process of being implemented over the next 3 – 6 months. Through this work it will enable a single console view to be implemented that will allow the correlation of all vulnerabilities, events and threats across the organisation. With ability to drill down into the detail on individual incidents.
- 2.4 It is envisaged that after this has been implemented an audit will be performed to demonstrate the improvements that this has achieved against the previous concerns that were raised.

Work performed and work planned in relation to the current Data Centre facility

- 2.5 In the Audit progress report dated March 26th 2012 it was identified that the current data centre can meet current requirements, but an increasing number of services are being offered to other organisations and the council itself is increasing its reliance upon ICT solutions for the delivery of its own services. In addition, further demand for ICT services will exceed the data centre's current capacity,
- 2.6 In response to this One Connect Limited have been working with the council's property group over the last 6 months evaluating locations in County Hall to solve the highlighted issues. After numerous investigations One Connect Limited with the property group have agreed that no suitable location is available in the County Hall building that can meet the required standards for a modern data centre facility in the existing building.
- 2.7 It is deemed that the correct location is still County Hall and One Connect Limited have submitted a work package that has been approved by the County

ICT progress update

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Council to undertake with Property Group a feasibility study for a new data centre build on site at County Hall in the vicinity of the Portakabin 4 location. This exploratory work has just begun and it is expected to conclude in approximately 6 weeks. This will result in an agreement that subject to planning approval and acceptance of a proposal from the county council, a new data centre facility can be built that will be seen as a flagship data centre for the county council.

- 2.8 Realistically even with agreed planning permission, county council approval and accelerated building work and technical implementation, it is unlikely that the new data centre will be operationally live before the end of 2012, however all parties will ensure the timescales are realistic but optimised.
- 2.9 In parallel to this activity One Connect Limited has started to work on reviewing business continuity and is also considering options to provide a second data centre to create increased business continuity with respect to providing resilience should any major disaster occur that would mean a loss of the current data centre. This work is being pursued in parallel to the new data centre activity.

Work performed and work planned in relation to the Information Governance and Acceptable Use Policies (AUP's);

- 2.10 One Connect Limited have been reviewing all of the Acceptable Use Policies and Information Governance Policies. In relation to this the ICT governance team are working making these easier to understand and ensure that staff are fully aware of their obligations. This is work in progress and will be completed over the next 6 months.
- 2.11 This activity is work in progress and will be led by the ICT Governance team, it will be reviewed and approved through the reformation of the Corporate Information Governance Group (CIGG) and the transfer of the Senior Information Risk Officer (SIRO) role and responsibility for information governance back to the council as this is wider than just ICT governance.
- 2.12 The vision is to make the content more readily available as clear concise, up to date online material that staff would access via mandatory e-learning and regular compliance checks and acceptance of obligations.

Update in relation to other specific Audit issues relevant to ICT raised on the 26th March 2012 report

ICT vulnerability management

- 2.13 See section 2.1 – 2.4 above

Web/ internet use

- 2.14 See section 2.1 – 2.4 above

Management of children's social care referrals

- 2.15 With respect to the ICT element around ceased workers, a work package and requirements definition are in the process of being agreed with the county council with respect to processes and technology that will allow a "joiners,

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leavers, movers” process to be implemented alongside the implementation of an Identity Management System.

- 2.16 This will deliver single sign on and authentication and avoid multiple passwords being held. In addition this will also enable ‘role based’ authentication to be implemented for work groups and specific jobs such as social workers. This will ensure that access and control can be easily managed and controlled centrally to ensure individuals have the correct and appropriate authentication and access control that can easily be revoked where required.

3 What next in relation to major ICT changes

- 3.1 The above project activities are all key priorities and these subject to approval by the county council, will form the priority of ICT’s work alongside any other transformation Service Improvements Plans.
- 3.2 The work packages that will allow a more mobile workforce will be key moving forward and whilst these will be challenging, the security product sets and Identity management solutions will be essential to ensure that security and compliance is key.
- 3.3 In addition over the coming months an increased engagement with all directorates by ICT led by Andy Yates (Head of Enterprise Architecture and Design) will ensure that One Connect Limited ICT are delivering ICT solutions that align to the business requirements of each directorate.
- 3.4 This summary is a snapshot of activities on-going in ICT, for further information do not hesitate to contact :

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