

## Lancashire County Council

### Audit Committee

Monday, 21st March, 2011 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.  | <b>Apologies for Absence</b>   |            |
| 2.  | <b>Disclosure of Personal and Prejudicial Interests</b><br>Members are asked to consider any<br>Personal/Prejudicial Interests they may have to<br>disclose to the meeting in relation to matters under<br>consideration on the Agenda |            |
| 3.  | <b>Minutes of the Meeting held on the 24 January 2011</b><br>To be confirmed, and signed by the Chair.   | ( 1 - 6)   |
| 4.  | <b>Risk Management Report</b>  | ( 7 - 24)  |
| 5.  | <b>Overview of the implementation of International<br/>Financial Reporting Standards</b><br>Oral report.   |            |
| 6.  | <b>Revision and Consolidation of the Accounts and<br/>Audit Regulations 2003</b><br>Oral report.   |            |
| 7.  | <b>Internal Audit Progress Report</b>  | ( 25 - 34) |
| 8.  | <b>Audit Plan 2011/12</b>  | ( 35 - 50) |
| 9.  | <b>Internal/external audit protocol</b>  | ( 51 - 56) |
| 10. | <b>Audit Commission - Progress report</b>  | ( 57 - 64) |
| 11. | <b>Audit Commission - Certification of claims and<br/>returns annual report</b>  | ( 65 - 76) |
| 12. | <b>Urgent Business</b>   |            |

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.

**13. Date of Next Meeting**

The next meeting of the Audit Committee will be held on Monday 27 June 2011 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

## Lancashire County Council Audit Committee

Monday 24 January 2011

### Minutes

#### Present:

#### County Councillors

S Chapman (Chair)

K Brown	M Parkinson
H Henshaw	M Welsh
J Lawrenson	D Westley
M Younis	

#### Officers in attendance

Beryl Rhodes – LCDL head of finance and HR (Item 3)  
Habib Patel, head of strategic partnerships and performance (Item 4)  
Mike Jensen – head of treasury management and the pension fund (Item 5)  
George Graham – assistant director of finance (Item 6)  
Roy Jones - assistant county secretary  
Ruth Lowry – head of internal audit (Items 7, 8 & 9)  
Ian Rushworth – principal auditor (Item 9)  
Andy Fox – principal auditor  
Rachel Tanner – principal auditor  
Clive Portman - district auditor, Audit Commission (Items 10 & 11)  
Bernard Noblett deputy director, LCCG (Item 8)  
Dawn Butterfield, head of commissioning, ACS (Item 8)  
Camilla Hardy, acting head of personal social care, ACS (Item 8)

#### Item 1 Disclosure of Personal and Prejudicial Interests

County Councillors S Chapman, M Parkinson and D Westley declared a personal interest in item 11 as members of the Lancashire County Council Pension Fund.

County Councillor Michael Welsh declared a personal interest in item 4 as Chairman of Lancashire County Developments Limited.

County Councillor M Parkinson declared a personal interest in item 9 as a governor of Mount Pleasant Primary School, Clayton-le- Moors.

County Councillor Westley declared a personal Interest in Items 4 & 5 as the finance cabinet member at West Lancashire District Council.

**Item 2            Minutes of the Meeting held on 27 September 2010**

**Resolved:** That the minutes of the meeting held on 27 September 2010 be confirmed and signed by the chair.

**Item 3            Accounts of Lancashire County Developments Limited  
2009/10**

A report was presented by Beryl Rhodes, head of finance and human resources on the 2009/10 audited Statement of Accounts for Lancashire County Developments Limited (LCDL).

It was reported that the company continued to support economic growth across Lancashire by supporting the development of new, innovative business in a number of key sectors.

It was also reported that the company had made a profit in 2009/10.

**Resolved:** That the 2009/10 Statement of Accounts for Lancashire County Developments Limited be noted.

**Item 4.           Risk Management Update Report (Item 3)**

A presentation was made to the committee by Habib Patel, head of strategic partnerships and performance, who explained that an important part of the remit of the Audit Committee was to advise the council on the adequacy of the authority's strategic processes for risk management and to consider reports in respect of the authority's risk register and the action taken in response.

The report introduced the latest version of the register. It identified the significant directorate and cross cutting risks which the council faced together with current and planned actions to mitigate the risks. It was reported orally that since the publication of the report, anomalies had been identified in the scores used to assess five potential risk areas. It was noted that these would be referred back to the directorates concerned for further consideration.

In considering whether the content of the risk register reflected the key risks facing the council, the committee commented that the proposal to transfer responsibility for public health to local authorities was a serious risk and as such should be included in the risk register:

It was also felt that the proposal to allow local communities to run their own services could pose a serious risk to council services and as such should also be included in the risk register.

**Resolved:** That:

- i) The content of the corporate risk register be noted.
- ii) The following risks be included in the risk register:
  - a. The financial risk to the council associated with its proposed role as having responsibility for public health services; and
  - b. The risk to council services arising from proposals to allow local communities to run their own services.
- iii) The actions being taken in response to identified risks and the current process for identifying risk be noted.

#### **Item 5. Update on Treasury Management Activity**

A presentation was made to the committee by Mike Jensen, head of treasury management and the pension fund who informed members of the general economic environment surrounding treasury management activities and set out the position on the borrowing and lending activities of the county council.

The committee was informed that the overall position was one where the county council was reducing credit risk whilst maintaining investment interest rates and also making plans to raise future capital financing funds in capital markets. Details of the treasury management activities were presented to the committee at appendix A.

The committee noted the recent developments in treasury management and indicated that it would welcome a further briefing session on treasury management activities in order to assist in their understanding of the subject. It was suggested that the Cabinet and the Pension Fund Committee and its trustees would also benefit from training in this area.

- Resolved:**
- i) That the update on treasury management activities as set out at appendix A to the report now presented, be noted.
  - ii) That a further briefing on treasury management activities be provided to the committee in the future in order to provide members with more specific knowledge to assist in their understanding of treasury management.

#### **Item 6 Overview of the implementation of International Financial Reporting Standards for the accounts of the county council**

A presentation was made to the committee by George Graham, assistant director of finance (accountancy and financial services) on the progress made in implementing the new International Financial Reporting Standards (IFRS).

It was noted that progress continued to be made, and the IFRS was expected to be implemented in accordance with statutory deadlines.

**Resolved:** That the report be noted.

**Item 7 CIPFA's Statement on 'The role of the head of internal audit'**

Ruth Lowry, head of internal audit presented a report on a statement issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) on 'The role of the head of internal audit'.

The committee noted that the role of the head of internal audit was to help organisations achieve their objectives by giving assurance on internal control arrangements and to play a key role in promoting good corporate governance.

**Resolved:** That the report be noted.

**Item 8 Internal Audit Progress Report**

Ruth Lowry, head of internal audit, presented an internal audit progress report for the nine months to 31 December 2010.

The report included a summary of the work performed and a comparison with work planned, and progress made in relation to cross cutting and corporate risks; corporate or common controls; and service specific controls.

Of particular interest to members was the audit service's work in relation to 'employees on the payroll and also receiving pensions'. The committee noted that revised guidance had been issued to human resource managers in this respect and requested that a further update on the subject be presented to the next meeting of the committee on 21 March 2011.

The committee also raised a concern in respect of the levels of assurance given over the controls operating in 10 out of 21 of schools audited. The committee sought further clarification on the level of control operating in the county's schools generally and agreed that a further update be presented to the next meeting of the committee on 21 March 2011.

The committee's attention was drawn to a review of the reablement service, a service commissioned by the Adult and Community Services Directorate and provided by the Lancashire County Commercial Group (LCCG). Dawn Butterfield, head of commissioning (ACS), Camilla Hardy, acting head of personal social care (ACS) and Bernard Noblett, deputy director (LCCG), attended the meeting and presented an oral update on the progress made to date in producing a service level agreement between the two directorates. The committee was pleased to note that the service level agreement was progressing well and nearing completion.

The committee noted that as a result of the council's need to make cost savings, the internal audit service staffing establishment had been reduced by

three posts and that a further team member would leave in 2011/12. Whilst it was expected that some work was likely to slip into the first quarter of 2011/12, it was anticipated that the audit service would be able to complete this year's plan appropriately. It was also reported that in future, as a consequence of the reduction in its staffing establishment, the internal audit service intended to undertake a broader review of services than at present.

**Resolved:**

- i) That the internal audit progress report for the nine months to 31 December 2010 as now presented, be noted.
- ii) That further updates on employees on the payroll and receiving pensions and the level of controls in schools be presented to the next meeting of the Audit Committee on 21 March 2011.

**Item 9 Internal Audit Report – Sure Start, Early Years Childcare Services Commissioning Arrangements**

A report was presented on the progress made by the council in addressing the issues identified in an internal audit report on Sure Start, Early Years and Childcare Services commissioning arrangements and specifically in relation to Sure Start Hyndburn.

The committee was informed that the recommendations in the report had now been implemented. In particular, commissioning agreements for the current year had been signed by each of the Sure Start providers. Action to monitor expenditure to ensure it was eligible was scheduled to begin in January 2011. A further recommendation relating to monitoring expenditure against agreed funding would be implemented only when the new commissioning agreements were issued.

With regard to Sure Start Hyndburn, the committee noted the actions agreed and an update on the current position in relation to three areas: the commissioning agreement, financial management and the use of grant funding.

**Resolved:** That the report be received.

**10. Annual Audit letter 2009-10 – Audit Commission Report**

Clive Portman, district auditor presented the Audit Commission's Annual Audit letter for 2009/10 which summarised for members the findings from the commission's 2009/10 audit.

The report audit was made up of two elements: the audit of the council's financial statements and an assessment of the council's arrangements to achieve value for money in the council's use of resources.

It was noted that the Audit Commission had concluded that the accounts gave a true and fair view of the financial position of the council and its spending and income for 2009/10. The commission also concluded that the council had adequate arrangements in place in respect of 'value for money'.

**Resolved:** That the Annual Audit letter 2009/10 be noted.

## **11. Audit Commission Lancashire County Council and Pension Fund 2010/11 Audit Plans**

The committee considered reports on the Audit Commission's Audit Plans in respect of Lancashire County Council and the Pension Fund for 2010/11.

The plans set out the audit work the Audit Commission proposed to undertake in relation to the audit of the financial statements 2010/11 and the provision of a value for money conclusion for the Lancashire County Council presented at appendix A to the report and the audit of the Pension Fund financial statements at appendix B to the report. The plan was based on the Audit Commission's risk-based approach to audit planning which assessed:

- current national risks relevant to the council's local circumstances; and
- the council's local risks and improvement priorities.

The report included a summary of the key risks for the financial statements and VFM conclusion identified through this process together with the auditor's planned response.

The District Auditor took the opportunity to provide the committee with an update on the future position of the Audit Commission.

**Resolved:** That the reports be noted.

## **12. Urgent Business**

There were no items of urgent business.

## **13. Date of Next Meeting**

**Resolved:** It was noted that the next meeting of the committee would be held on Monday 21 March 2011 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 21 March 2011**

Electoral Division affected: All
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**Risk Management Report**  
(Appendix 'A' refers)

Contact for further information:  
Habib Patel, (01772) 536099, Office of the Chief Executive  
habib.patel@lancashire.gov.uk

## **Executive Summary**

An important part of the remit of the Audit Committee is to advise the council on the adequacy of the Authority's strategic processes for risk management and to consider reports in respect of the Authority's risk register and the action taken in response.

This report introduces the latest version of the register.

## **Recommendation**

In accordance with the Audit Committee's terms of reference, members may wish to consider whether:

- the content of the corporate risk register reflects the key risks facing the council and whether there are any perceived gaps;
- the actions being taken in response to identified risks appear to be appropriate and, in the light of these considerations; and
- the current process for identifying risk is effective.

## **Background**

Risk management has been an integral feature of corporate and directorate business and financial planning over many years. The corporate risk register is a high level summary of the significant risks which the council faces. It may be regarded as a checklist to identify and track the status of key risks and how these are being managed. A copy of the risk register is attached at Appendix A.

The process for preparing the register has been further refined so that Executive Directors and their senior management teams have direct input into its development. Reference has also been made to risks identified in the areas of business continuity,

emergency planning and health and safety, to ensure that no important risks have been overlooked and all significant risks are reported in one place.

### **Updated content**

The risk register reflects recommendations from the last Committee meeting where it was agreed that anomalies identified in the scores used to assess several potential risk areas would be referred back to the directorates concerned for further consideration.

In considering whether the content of the risk register reflected the key risks facing the council, the committee commented that the proposal to transfer responsibility for public health to local authorities was a serious risk and as such should be included in the risk register. This potential risk can now be found on the second page of the register.

### **Future risk reporting**

The corporate risk register will be updated and presented quarterly, so that members of the Audit Committee are kept up to date with significant changes to the content of the risk register and will be able to scrutinise the actions being taken in response.

### **Background and Advice**

N/A

### **Consultations**

N/A

### **Implications: Risk management**

Risk management is the subject matter of the report.

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

<b>Paper</b>	<b>Date</b>	<b>Contact/Directorate/Ext</b>
Risk Management update report to Audit Committee	24 January 2011	Habib Patel, OCE Policy Unit Tel. 36099

Reason for inclusion in Part II, if appropriate

N/A

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
ELT	<b>Government Spending Cuts and impact on LCC resources</b>	4	3	<p>Financial scenario taken into account as part of financial planning process.</p> <p>All budget options risk and service impact assessed on an ongoing basis.</p> <p>Regular reports to Executive Leadership Team (ELT) and cabinet on budget options, ensuring frontline services are protected.</p>	3	2	<p>On-going 'horizon scanning' of likely financial scenarios.</p> <p>Continued robust financial and performance monitoring at ELT and Cabinet.</p>	ELT	Quarterly
ELT / RES	<p><b>Strategic Partnership with British Telecommunications plc</b></p> <p>- Unprecedented partnership working with a private sector organisation.</p>	3	3	<p>Joint governance arrangements in place prior to commencement.</p> <p>Staff at a senior level from both LCC and BT have been involved to date and will continue to be involved to establish, develop and provide continuity around relationships.</p> <p>LCC Cabinet Committee on the Strategic Partnership established.</p>	2	1	<p>Joint Venture Company Board meetings to be held quarterly.</p> <p>Annual Review process to be followed, as contractually agreed.</p>	Eddie Sutton, Director of Special Projects	Quarterly
Page 9									
ELT	<p><b>Effective delivery of the corporate strategy</b></p> <p>- failure to measure stated outcomes</p> <p>- no ownership of the corporate strategy</p> <p>- no plans in place to highlight and address poor performance</p>	3	3	<p>A council-wide executive performance group chaired by a member of ELT has been established to oversee the delivery of the corporate strategy.</p> <p>A basket of indicators has been established to measure the delivery of the corporate strategy (and Corporate Scorecard).</p> <p>A performance management framework which identifies under performance and leads to recovery plans being developed and discussed by ELT and the Cabinet Committee for Performance Improvement (CCPI)</p>	2	2		ELT	Quarterly
OCE	<b>Lancashire Local Enterprise Partnership</b>	3	3	Economic Development Framework agreed.	2	2	Continue to engage positively with private sector business leaders.	Martin Kelly, Director of	Ongoing

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
	(LEP) - Need to establish a single economic voice for Lancashire  - Need to engage key business leaders in shaping and delivering agreed economic priorities			Shadow business leadership group in place.  Majority of local authorities in support of Lancashire LEP.  Draft LEP governance arrangements to be agreed.				Economic Development	
Page 10	<b>Public Health White Paper</b>  Part of fundamental NHS reforms.  Significant additional responsibilities for LCC from 2013 for public health and health improvement outcomes, ring fenced PH budget, establishing Health and Wellbeing as statutory committee, conducting joint strategic needs assessment, developing high-level strategy for health, wellbeing, social care, service integration and joint commissioning.	5	5	Influencing final proposals via robust and detailed responses to current consultations.  Identifying implications for LCC, including financial, legal and constitutional.  Working regionally and locally to ensure transition plans for systems to be completely in place by April 2013 are fit for purpose and reflect LCC position.	4	3	Develop options for Public Health Lancashire, future PH service for which LCC will be responsible with PCTs, districts etc. Consider models from other, similar counties.  Develop and deliver detailed transition plan for LCC, within an overall partnership PH transition plan.  Undertake more detailed work to identify implications, including HR.  Confirm / identify member lead for transition to new health system, including Public Health.  Work towards "early implementer" status for Health and Wellbeing Board.	ELT	Ongoing
ELT / CCG	<b>The Authority to effectively manage the consequences of an emergency, thereby impacting on the delivery of services.</b>	5	3	The Authority has established a governance mechanism through the Corporate Contingencies Group (CCG) to oversee the strategic issues relating to Business Continuity Planning (BCP).	3	3	Complete the roll-out of Business Continuity Planning to all services within the Authority and complete the establishment of Directorate Emergency Liaison Team to increase the ability of Directorates to respond to, and manage,	CCG / ELT	April 2011

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
				<p>There is a planned roll-out of BCP throughout the Authority in order to build resilience within services.</p> <p>A reporting system has been established through the Directorate structures to enable the Authority to capture the impacts from Emergencies on Service delivery and to take the appropriate actions to mitigate the effects on service users (i.e. public).</p> <p>Directorate Emergency Liaison Team established within ACS, OCE/RES &amp; ENV and currently being developed for CYP &amp; LCCG.</p>			emergencies which affect service delivery.		
OCE / PU Page 11	<p>Review of Locality Working</p> <p>Uncoordinated integrated working initiatives with District Councils</p> <p>Not capitalising on opportunities to work across tiers of local government in Lancashire to achieve efficiencies and/or improved service outcomes</p> <p>Financial, legal or reputational implications not fully considered or addressed</p> <p>Frontline county councillors feel disengaged when carrying out their role</p>	3	3	<p>Strategy Group established by Executive Director of Policy including Senior Directorate and District Council representatives; now operates as a virtual group.</p> <p>On-going liaison with Leadership and facilitation of Leader – Leader discussions.</p> <p>On-going negotiations with District Councils, including offer to hold joint discussions at Leader/Executive Member level in all 12 districts; 8 meetings held to date.</p> <p>Legal and Financial advice to the Strategy Group</p> <p>Package of measures developed to enhance the role of County Councillors, in liaison with the Member development Working Group.</p> <p>Recommendations made by Cabinet 4/11/10 on key elements of way</p>	2	2	<p>Need to successfully conclude current round of joint member meetings to agree joint working priorities in each district – by February 2011.</p> <p>Two districts have postponed until their budget discussions are concluded - we will meet with them early in the new financial year. (A further two districts do not wish to meet, but wish to focus on public realm). 8 districts have met with us.</p> <p>Arrange initial meetings of the pilot "Three Tier Forums" in Burnley, South Ribble and Wyre by February 2011. Meetings have been held in Burnley and Wyre (Feb 2011). South Ribble continue to work with us on the commissioning pilot but discussions are ongoing in relation to governance.</p> <p>Roll out of Three Tier Forums by April 2011 - This target has</p>	Deborah Ashton Executive Director of Policy	Quarterly

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
	<p>Lack of clarity around direction of travel with locality working</p> <p>The pace of this work, to a significant degree, will reflect the enthusiasm and capacity of the districts to engage with us.</p>			<p>forward, (including governance and engagement of all tiers of local government) now being implemented. Package of internal and external communications measures implemented (and ongoing).</p>			<p>changed through agreement with the leadership, and should read "roll out of three tier forums in non pilot areas once integrated joint working agreements are developed"</p>		
<p>OCE / PU</p> <p>Page 12</p>	<p><b>Voluntary Community Faith Sector</b> (VCFS) Sustainability of Third Sector Lancashire (VCFS consortium): no structure through which to facilitate strategic engagement of the sector</p> <p>Breach of compact principles leading to a challenge for breach resulting in bad reputation and time and resources responding to challenge</p> <p>Increased involvement of the sector in public service delivery: the risk is not yet clear and is dependent on the extent to which coalition expect to see evidence of more third sector commissioning</p> <p>Uncoordinated approach to funding leading to the possibility of double funding and missed opportunity for joint</p>	<b>3</b>	<b>2</b>	<p>The Principal Policy officer from Corporate Policy Team (CPT) continues to support and advise Third Sector Lancashire (TSL).</p> <p>Event held in October 2010 for representatives of commissioning, finance and procurement teams across the authority. Attendees will now form an internal network to ensure that all appropriate staff are kept informed of changes to compact agreements and other relevant VCFS issues.</p> <p>Improvements to the oracle database is an ongoing process. We continue to identify gaps in information and consult with the oracle team to find solutions.</p> <p>The directors of commissioning from across the directorates are currently considering a corporate approach to commissioning. A VCFS commissioning framework will follow and capacity and capability building will be integral to the framework.</p> <p>The criteria for gateway grant funding have been revised to reflect a new approach to core funding particularly where organisations requesting core</p>	<b>2</b>	<b>1</b>	<p>Principal Policy Officer CPT continues close relationship with Chair TSL.</p> <p>Information sharing event to be held in October 2010. Event held November 2010. Now awaiting publication of revised national compact prior to further internal review and communication.</p> <p>Information sharing event to be held in October 2010. Core network of relevant officers identified via attendance at information sharing event November 2010. Directors of commissioning across authority now agreeing a general approach to commissioning prior to developing a VCFS commissioning framework</p> <p>Process for tagging VCFS organisations is in progress, but there is still work to do in the accounts payable area. This work is continuing and will be considered as part of the review of commissioning as described above.</p> <p>Undertake a full review of investment in capacity building and</p>	Adrienne Banks	Ongoing

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
ACS Page 13	<p>commissioning and efficiency savings</p> <p>Increased involvement of the VCFS in public service delivery – risk = lack of capacity/capability within the sector to respond</p> <p>Competition aid i.e. giving core grants to organisations who are tendering for services – risk possible legal challenge from other VCFS or private sector organisation on the grounds of unfair advantage in competitive market</p>			funding are delivering multiple contracts. This new approach has now been applied by a newly introduced assessments panel.			<p>develop proposals for how capability can be developed. This review is continuing and has led to changes to the central gateway programme in relation to funding infrastructure groups. Capacity building will be an integral element of the VCFS commissioning framework.</p> <p>Undertake a critical analysis of current core funding grants and then consult across the authority on the implications of withdrawing this kind of support. This analysis has been carried out and the outcome is reflected in a new approach to core funding VCF organisations via the Central Gateway grants programme.</p>		
	<p><b>Failure of the working partnership between Adult Community Services and health:</b> strategic and operational failures and negative publicity</p>	4	4	<p>Working more closely with partner organisations in light of changes in government policy, introducing stronger Partnership agreements and looking at joint Project Governance arrangements.</p> <p>Collaborating on service delivery with, for example, joint funded posts and integrated delivery teams and the introduction of Public Health within the authority.</p> <p>Collaborating on projects with shared project plans and objectives.</p> <p>Prioritising strategic work with new working arrangements in health to maintain ongoing relationships.</p>	2	3	<p>Commissioning to prioritise areas where health funding is crucial to delivery of our priorities, secure senior management support within health for the priority areas and develop contingency plans in the event of failure.</p> <p>Reach agreement about government funding stream with regard to Reablement.</p> <p>Agree the Public Health governance and funding arrangements.</p>	Steve Gross (Tony Pounder)	May11
ACS	<b>Market failure of Adult and Older People</b>	4	3	Developing robust commissioning and procurement planning systems and	4	2	Using and evaluating an information framework to improve intelligence	Ann Mylie	May 11

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
	<b>provider services</b> – market withdrawals and take-overs leading to reduced capacity for choice.			<p>strategies which ensure the current and future market is understood and themes are identified for development.</p> <p>Working with providers in identifying their service offer and costs, changes in requirements and areas which might lead to business failure. Development of a preferred supplier list and provider engagement strategy.</p> <p>Framework agreements set up with providers providing a broad market across small, medium and large providers which mitigates some of the risks if a provider ceases business.</p>			<p>on market changes, budgetary issues and use of monitoring information.</p> <p>The development and monitoring of more flexible contracting arrangements which assist the use of individual budgets and cut out unnecessary costs from the system</p>		
ACS Page 14	<b>Recession combined with increased call on budgets on Older People and changing demographic profile (ageing population) leading to increased requirements for services.</b>	<b>4</b>	<b>5</b>	<p>Medium Term Financial planning in place.</p> <p>Robust forecasting tools. Robust and regular Budget monitoring.</p> <p>Well developed financial reporting systems.</p> <p>Careful monitoring of work programmes. Redirection of resources where necessary.</p>	<b>3</b>	<b>5</b>	<p>This risk is now an issue as the Comprehensive Spending Review significantly reduced the council's budget.</p> <p>Regular reporting and monitoring by ACS and up to SMT.</p> <p>Budget reductions proposals presented to cabinet for consideration.</p> <p>Projects and programmes started to plan and achieve each of the budget cut proposals, Each has a senior lead.</p> <p>Consultations with the public ongoing on the service cut proposals.</p>	Roger Hulme	May 11
ACS	<b>Unexpected death or serious injury of service user with Adult Community Services</b>	<b>5</b>	<b>3</b>	<p>Safeguarding Board and Governance in place, Safeguarding Project established, with an Action Plan.</p> <p>Safeguarding Procedures have been refreshed. This project has completed and a Service Improvement Plan</p>	<b>5</b>	<b>2</b>	<p>Continue roll out of Safeguarding and Awareness Training. E-Learning package available April 2011.</p> <p>Complete the Safeguarding Service</p>	Olive Carroll (Mike Banks)	May 11



Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
				<p>developed.</p> <p>Procedures in place should something happen, including Communications unit available to deal with any public information / communication issues.</p> <p>In House-Providers: comprehensive set of Risk Assessments and Health and Safety Procedures in place.</p> <p>Staff training programme in place to raise practice standards in safeguarding and familiarise with procedures.</p> <p>DoL work, like restraint etc training courses, procedures well established Arrangements to review serious cases, including domestic homicide reviews safeguarding on a multi agency basis, so that we can all learn when things go well.</p> <p>Item approved: Principals of the MCA and Dols need to be embedded for people living in their own homes or supported tenancies. The financial envelope around this work is now agreed.</p>			<p>Improvement Plan to further improve Safeguarding arrangements and responses.</p> <p>Serious case review procedure in place to learn lessons from serious incidents.</p>		
ACS	<b>Death or serious injury of staff member working within Adult Community Services</b>	<b>5</b>	<b>3</b>	<p>For work with service users: Lone Worker Policy, Risk Assessments and Health and Safety Procedures in place. Robust on call arrangements, use of mobile phones and safety alarms. Use of virtual whiteboard to track staff whereabouts and monitor returns. Handover arrangements to brief staff of potential problems.</p> <p>Personal Social Care (PSC) Quality Framework project has embedded</p>	<b>5</b>	<b>2</b>	<p>Review of framework for all Service User related risk assessments to be undertaken as part of PSC work programme: an interim review has been done, but once Self Directed Service (SDS) and the PSC restructure is complete, they will be reviewed and updated again.</p> <p>All PSC team lone-worker policies to be reviewed in the context of Agile Working and restructuring -</p>	Olive Carroll (Barbara Lewis)	May 11

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
				changes and improvements into PSC working practices. This project completes Jan 2011.  Risk Assessment flag in ISSIS.  For worker self harm: Use of Occupational Health Unit (OHU) assessment where medical conditions exist, return to work procedures for staff who have medical problems.			on-going.		
LCCG	<b>Public sector spending cuts leading to threats to workload within the county commercial group services</b>	3	5	Being flexible to reduce fixed costs. Good capacity mgt. Review of options.	3	4	Awareness, cost reduction and efficiency measures. Development of options.	Nigel Finnamore	Ongoing
LCCG Page 16	<b>Sustainability post Equal Pay Review within Commercial Services</b> - increased costs - disaffected employees - impact on costs and competitiveness	3	4	Sustainability and affordability for LCCG is being considered.	3	3	Identify measures to be taken and other options for service delivery where applicable.	Nigel Finnamore / Bernard Noblett	Ongoing
LCCG	<b>Serious Health and Safety Service Failure</b> (including food hygiene) potentially involving:  - employee - someone in our care - member of public  <b>Costs associated with accidents</b> (fines,	5	4	Existing Integrated Management System with areas of the organisation 3rd part registered to OHSAS 18001.  Other part of the organisation operating management systems in accordance with OHSAS 18001.  Audits by IMS team.  Competency based training in	5	3	Review of Integrated Management Systems to simplify, integrate and to reduce bureaucracy and increase accessibility via the intranet. Action By MDS (Dec 2012).  Revision of Catering procedures to determine suitability. Action By Janette Mason / IMS (Jan 2011).	Nigel Finnamore  Catering SMT	Quarterly  Quarterly

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
	litigation, insurance costs), business disruption, LCCG's reputation. Resulting in reduced profitability e.g. impact of Corporate Manslaughter and Corporate Homicide Act – Larger fines, publicity orders and impact on future business.			<p>Operations.</p> <p>Health and Safety Performance reported at all Senior Management Teams.</p> <p>Greater emphasis on incident reviews and lesson learned. IMS team's audit schedule with increased audits and non conformance close outs monitored and trends analysed. Hazard Analysis and Critical Control Point for School and Care Catering.</p>			IMS Business Plan to address main health and safety issues Action By MDS (Apr 2011).	Nigel Finnamore	Monthly
Page 17	<p><b>Adverse impacts of weaknesses in quality or security of information, information systems or information handling within the organisation, in electronic and paper forms.</b></p> <p>Adverse impacts may include</p> <ul style="list-style-type: none"> <li>• Financial cost</li> <li>• Service delivery failures</li> <li>• Damage to individuals</li> <li>• Reputation damage</li> <li>• Effect on legal proceedings</li> </ul>	4	4	<p>Corporate Information Governance Group.</p> <p>Directorate information Champions.</p> <p>Guidance, policies and procedures on Intranet and in e-Learning Course.</p> <p>Management processes in place and in business planning process.</p> <p>Security controls and encryption protection.</p> <p>Statements of conformity, spot checks and security breach procedures.</p>	3	3	<p>Annual Information Risk Review underway.</p> <p>External review of all governance documentation.</p> <p>Technical infrastructure review underway plus penetration testing.</p> <p>Data Quality Strategy Statement of Conformity returns being collected.</p> <p>Large intranet site full of guidance: <a href="http://lccintranet2/corporate/web/view.asp?siteid=4305">http://lccintranet2/corporate/web/view.asp?siteid=4305</a>.</p>	SIRO + CIGG	June 11
	<p><b>Failure to comply with Information Governance requirements</b> e.g. Freedom of Information Act, Data Protection Act</p> <p><b>Legal penalties in the event of breaches of</b></p>	4	4	<p>Management controls, including effective logging and tracking, complaints and appeals procedures</p> <p>Effective use of technology</p> <p>The Publication Scheme has been reviewed and updated, and the model publication scheme approved by the Information Commissioner adopted.</p>	3	3	<p>Some staff training and awareness sessions have taken place with many more still to take place.</p> <p>The work load of the Access to Information Team continues to increase due to the growing number of Freedom of Information requests and Data Protection enquiries/subject access requests.</p>	SIRO + CIGG	June 11

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
Page 8 CYP	<b>Data Protection Act</b> e.g. Civil Monetary Penalty, potentially up to £0.5million						Additional resources for the team are being considered Directorate IG champions to be vigilant looking for examples of data misuse in particular that data is: 1. Fairly and lawfully processed 2. Processed for limited purposes 3. Adequate, relevant and not excessive 4. Accurate 5. Not kept longer than necessary 6. Processed in accordance with the data subject's rights 7. Secure 8. Not transferred to countries without adequate protection. CIGG to review security breach records from security breach procedure and look for trends and issue action plans and guidance accordingly		
	<b>Death or serious injury of a child known to us, or who have been known to us as a result of systemic failure</b>	<b>5</b>	<b>3</b>	Multi-agency safeguarding children Board Arrangements in place and safeguarding children procedures updated.  Mechanisms in place.  Closely monitor referrals and assessments and children subject to Child Protection Plans.  Provide training and support to staff including multi-agency training Child death and Serious Case Review.  Panels in place to learn lessons and disseminate learning to practitioners and managers.  Monitor Educational Visits and policy and guidelines in place.	<b>3</b>	<b>3</b>	Continued implementation of service and post inspection action plans Multi-agency conferences disseminating lessons from Serious Case Reviews both within Lancashire, regionally and nationally. The roll out of Contact, Referral and Assessment Team to improve responses to referrals and improve assessments has been completed. Continue to improve information sharing between agencies via training and agreed procedures and protocols. Continue to explore integrated and co-located multi-agency teams to improve assessments and information sharing between agencies.	Tony Morrissey Head OF Safeguarding Inspection & Audit	Ongoing

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
							Through the Directorate Corporate Electronic Records Management System (CERMS) Lead and Data Capture Storage and Distribution Project Board, address current system issues that may prevent frontline staff from accessing information required to provide effective help to vulnerable children and young people		
CYP	<b>Failure in performance in schools and other educational settings</b>	<b>4</b>	<b>5</b>	Quality Audit Tool used by Early Years (EY) consultants with EY settings. Early warning system identifying schools/settings at risk of failure on wide range of factors. Settings where there are concerns are monitored and supported by the Directorate Special Support Group. Schools where there are concerns relating to Finance, Personnel, Governance, Standards, Quality of Education are reported to, monitored and supported by the Directorate Special Support Group. Contracts of support are provided for schools in difficulty including school to school support. Review the Early Warning systems in the light of the new Ofsted Framework for Inspection (Head of QCI March 2010).	<b>2</b>	<b>4</b>	Develop the Early Years Workforce so that all settings have an accredited Early Years Professional in post by 2015 (Head of QCI). Further develop the support/challenge/monitoring arrangements for Children's Centres (Head of QCI July 2011). Review early warning systems in the light of reduced funding and the loss of the School improvement partner role and further develop school to school support programmes through: collaborations/federations, the work of National and Local leaders in Education, Teaching Schools and consultancy support (Head of QCI/D&I September 2011).	Bob Stott Director for Universal and Prevention Services	Ongoing
CYP	<b>Workforce recruitment and retention</b> within Children's services-capacity to undertake workforce planning; shortages of key skills/workers/leaders; low levels of workforce well-being & poor retention; lack of key leadership competencies; lack of training & development	<b>3</b>	<b>3</b>	<ul style="list-style-type: none"> <li>• Children's Workforce Strategy in place. Implementation underway</li> <li>• Common workforce data collection undertaken</li> <li>• Leadership development programme underway</li> <li>• Development of career pathways across sections of the Directorate</li> <li>• Range of initiatives in place for work-based recruitment – teachers (GRTP), social workers, apprentices &amp; graduate trainees</li> </ul>	<b>2</b>	<b>1</b>	<ul style="list-style-type: none"> <li>• Continue development and implementation of Children's Workforce Strategy</li> <li>• Implement change programme projects</li> <li>• Managing budget/staffing reductions through a managed process of restructuring</li> <li>• Transition CYP Change Programme to Continuous Improvement Programme</li> </ul>	Dave Carr, Head of Efficiency and Business Support	Ongoing

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
	opportunities			<ul style="list-style-type: none"> <li>• Range of training &amp; development opportunities to support retention and progression</li> <li>• Flexible working arrangements in place</li> <li>• Range of staff well-being schemes across Directorate</li> <li>• Talent Pool programme in place.</li> </ul>					
CYP	<b>Inspection failure</b> in limiting judgement area relating to services to children, young people and families which leads to failure in performance of the County Council as a whole	<b>3</b>	<b>3</b>	<p>Post inspection action plans in place monitored by Directorate Leadership Team.</p> <p>Inspection preparation groups in place.</p> <p>Mock inspections being undertaken</p> <p>Service plan and performance management framework in place.</p> <p>Audit team established.</p>	<b>3</b>	<b>2</b>	Multi-agency partnership board now in place and consideration is being given to a peer review by C4EO (The Centre for Excellence and Outcomes in Children and Young People's Services)	Tony Morrissey Head of Safeguarding, Inspection and Audit	Ongoing
PSC Page 20	<b>Equal Pay Review</b>  leading to:  - serious industrial action;  - significant numbers of tribunal claims;  - difficulties in retaining staff;	<b>4</b>	<b>5</b>	<p>A Collective Agreement has now been signed by the main trade unions agreeing to most of the new terms and conditions introduced wef 1 August 2010.</p> <p>On-going dialogue with trade unions and continuing communication with staff.</p> <p>Ongoing communications with schools to keep them engaged and informed.</p>	<b>2</b>	<b>2</b>	<p>Continue communication with staff groups affected and trade unions.</p> <p>Continue engagement of senior managers to ensure consistent messages are given and communicated to staff.</p> <p>Continue and complete the JE appeals process.</p> <p>Complete JE for special and chief officer grades.</p> <p>Complete JE for other staff groups e.g. soulbury grades.</p>	Deputy County Secretary and Solicitor	Quarterly
ENV	<b>Surface water flooding.</b>  LAs now responsible for surface water management (Flood and Water Management Act	<b>2</b>	<b>4</b>	Ongoing development of Surface Water Management Plan for Lancashire. Development of prioritised and targeted action to reduce risk.	<b>2</b>	<b>3</b>	Re-prioritise capital funding. Develop in-house expertise.	Jo Turton, Executive Director	Six - Monthly

Dir	Potential risk areas	Score without controls		Summary of existing controls and mitigations	Score with controls		What else do we need to do? By whom and by when?	Lead officer on actions	Review date
		Impact	Likelihood		Impact	Likelihood			
	April 2010)								
ENV	<b>Loss of highway infrastructure due to flooding</b>	<b>3</b>	<b>2</b>	Regular inspections currently being undertaken on all highway bridges. "Structures at Risk Register" being developed with increased frequency of inspections on these highway structures. Special Inspections of "at-risk" highway structures being undertaken immediately following localised high rainfall events.	<b>3</b>	<b>1</b>	Close monitoring of risk via service risk register (ongoing).	Jo Turton, Executive Director	Annually
ENV	<b>Failure of Waste PFI Contract</b> - financial and reputation risk.	<b>2</b>	<b>2</b>	Weekly, Monthly, Quarterly and Annual monitoring and reconciliation of data and performance against both diversion and financial targets. Maximising throughputs and exploring commercial opportunities from various sectors will aid in the challenge to effectively manage baseline costs.	<b>2</b>	<b>1</b>	Close monitoring of risk via service risk register (ongoing).	Jo Turton, Executive Director	Six - Monthly
ENV	Corporate Manslaughter on highway	<b>2</b>	<b>1</b>	Highway safety inspections (3,6 or 12-monthly as appropriate) .Annual skid resistance surveys. Bi-annual bridge inspections. Monitoring of highway slopes and embankments.	<b>2</b>	<b>1</b>	Close monitoring of risk via service risk register (ongoing).	Jo Turton, Executive Director	Six - Monthly
ENV	Failure of Public Transport Contracts - financial and reputation risk	<b>2</b>	<b>2</b>	Public transport operators closely monitored. Where appropriate, contingency measures are put in place allow us to replace contracts quickly and efficiently should the need arise.	<b>2</b>	<b>1</b>	No further action proposed.	Jo Turton, Executive Director	Six - Monthly

## CORPORATE RISK ASSESSMENT

### Impact

Score	What's the worst that could happen?
1	<ul style="list-style-type: none"> <li>• Insignificant disruption with no loss of service to citizens</li> <li>• No harm to life or limb</li> <li>• No reputation damage</li> <li>• No or insignificant environmental damage</li> <li>• Low financial loss</li> </ul>
2	<ul style="list-style-type: none"> <li>• Some disruption to non-critical citizen service</li> <li>• LCC liable for disruption to key partner but no loss of service</li> <li>• Minor injury to third parties (requiring first aid treatment)</li> <li>• Minimal reputation damage (minimal adverse coverage in local press)</li> <li>• LCC responsible for minor damage to local environment</li> <li>• Medium financial loss</li> </ul>
3	<ul style="list-style-type: none"> <li>• Noticeable disruption to critical service not exceeding 48 hours</li> <li>• LCC responsible for disruption to key partner resulting in loss of their service not exceeding 48 hours</li> <li>• Violence or threat of serious injury (medical treatment required)</li> <li>• Adverse coverage in national tabloid press and/or extensive front page coverage in local press or TV</li> <li>• LCC liable for moderate damage to local environment</li> <li>• High financial loss</li> </ul>
4	<ul style="list-style-type: none"> <li>• Serious disruption LCC's ability to provide a critical service to citizens (loss of service between 2 and 7 days)</li> <li>• LCC responsible for major disruption to key partner resulting in a loss of their service lasting between 2 and 7 days</li> <li>• Adverse coverage in national broadsheet press and/or low level national TV reporting</li> <li>• Extensive and multiple injuries</li> <li>• LCC liable for major damage to local environment</li> <li>• Major financial loss</li> </ul>
5	<ul style="list-style-type: none"> <li>• Central Government intervention in running of LCC / Directorate</li> <li>• Loss of critical citizen service for more than 7 days</li> <li>• Business failure of partner or loss of service delivery of over 7 days</li> <li>• Multiple injuries including loss of life</li> <li>• Extensive coverage in national press and broadsheet editorial and/or national TV item</li> <li>• Significant local, national or international environment damage</li> <li>• Enormous financial loss</li> </ul>



### Likelihood

Score	Descriptors
5	Almost Certain. Expected to occur in most circumstances or more than a 75% chance of occurrence.
4	Likely. Potential of occurring several times in 10 years or has occurred recently. Between 50% and 75% chance of occurrence.
3	Moderate. Could occur more than once in 10 years. History of occurrence or near miss. Less than a 50% chance of occurrence.
2	Unlikely. May occur over a 10 year period. Less than 10% chance of occurrence.
1	Rare. Has not occurred. May occur in exceptional circumstances. Less than 2% chance of occurrence.

### Impact / Likelihood matrix

		Impact				
		1	2	3	4	5
Likelihood	5	1/5	2/5	3/5	4/5	5/5
	4	1/4	2/4	3/4	4/4	5/4
	3	1/3	2/3	3/3	4/3	5/3
	2	1/2	2/2	3/2	4/2	5/2
	1	1/1	2/1	3/1	4/1	5/1

Level of Concern	Action Required
Very concerned	Urgent attention required at senior level to ensure risk is reduced to an acceptable level. Action planning should start without delay. Progress on actions should be reported to ELT.
Concerned	Minimum of robust contingency plan plus early warning indicators. Some control measures likely to be necessary. Progress on actions should be reported on at directorate senior management team.
Uneasy	Acceptable with some mitigation and contingency planning. Routine reviews should be carried out to ensure there has been no change which will make them more severe.
Content	Acceptable, but keep under review. No further action required unless risk becomes more severe.



# Agenda Item 7

## Audit Committee

Meeting to be held on 21 March 2011

Electoral Division affected: All
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## Internal Audit Progress Report

(Appendices A and B refer.)

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 Audit Service's progress report for the year to date (Appendix A) and the supporting information regarding resource inputs (Appendix B).

### Recommendation

The Audit Committee is asked to consider the internal audit progress report for the eleven months to 28 February 2011.

## Background

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 Appendices A and B to this report.
ii) key issues emerging from internal audit work;	The issues arising from the reports that have been finalised since the last progress report are reported in Appendix A.
iii) management response to audit recommendations;	We have begun to follow up the matters raised in our audit work in previous years to confirm that agreed recommendations have been implemented.

<b>Matters to be included in the progress report</b>	<b>How these matters have been addressed</b>
iv) changes to the audit plan for the period; and	We are not proposing any significant changes to our audit plan but some minor adjustments have been made where work is no longer appropriate, and where the resource inputs and timing of some assignments have altered. Appendix B to this report shows progress against the original audit plan agreed in March 2010.
v) any resourcing issues affecting the delivery of Internal Audit objectives.	As noted in January, the Audit Service establishment is being reduced to contribute to the council's cost saving targets, and a small amount of planned work will therefore slip into the first quarter of 2011/12 but, subject to any significant sickness absences, the Audit Service's objectives and annual plan will be achieved.

### **Consultations**

Not applicable.

### **Advice**

Not applicable.

### **Alternative options to be considered**

Not applicable.

**Implications:** e.g. financial, legal, personnel, human rights, crime and disorder or other.

None

### **Risk management**

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

### **Local Government (Access to Information) Act 1985**

#### **List of Background Papers**

Paper	Date	Contact
Not applicable.		

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

## **1 Introduction**

- 1.1 This report summarises the progress made by the council's internal Audit Service against the internal audit plan for 2010/11 to 28 February 2011, and some of the findings arising from this work. The findings included in this report have been agreed with executive directors and shared with the Management Team.
- 1.2 Since a considerable amount of work was reported to the Audit Committee in January this report includes only additional matters not already reported and updates where appropriate.

### **Audit assurance**

- 1.3 Audit assurance is stated in the following terms, some of which are used below:

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

**Substantial assurance:** there is a generally sound system of internal control, designed to meet the council's 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 council's objectives at risk.

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

### **Overview of progress**

- 1.4 We are in the process of completing our work on the 2010/11 audit plan and, although work remains to complete our audit programme on the county's schools, much of our other work is substantially complete. The Audit Service has maintained our focus on performance management, in particular our focus on chargeable work for our clients. For the eleven months of the year to 28 February 2011 we have more than achieved (by 351 days) the overall intended inputs to our work for the county council.

## **2 Progress in relation to cross-cutting and corporate risks**

### **Risk management and corporate governance arrangements**

- 2.1 The council has for some time been considering how best to use risk management as a tool to support its business processes. It now operates a process that provides a regular summary to the Audit Committee of the greatest risks to the organisation, which is agreed and reviewed by the Executive Management Team on a quarterly basis.

### **Safeguarding**

- 2.2 We have recently completed fieldwork assessing controls over the finances of adults in the care of the Adult and Community Services (ACS) Directorate and

## Internal Audit progress against plan 2010/11

Audit Committee meeting 21 March 2011

are drafting our report for management. We are also starting to consider the systems and controls in place to ensure that the monitoring and review functions across ACS teams are appropriately aligned and complement each other.

- 2.3 A review of the corporate arrangements relating to vetting and barring and the enforcement of Criminal Records Bureau (CRB) checks is ongoing. Further audit work is also planned within the Directorate for Children and Young People (CYP) relating to the work of the Safeguarding Board, and a review of safeguarding arrangements relating to children being transported within the county is underway.

### Health and safety of the public

- 2.4 We have recently completed fieldwork in relation to the council's highways responsibilities and are discussing our findings with the Environment Directorate's management team.

### Health and safety of council staff

- 2.5 The review is continuing of the arrangements in place to ensure the continued wellbeing of lone workers employed throughout the council and that risk exposure to both employer and employee is appropriately managed.

### Compliance with the European Working Time Directive

- 2.6 We reported in September that the council did not have arrangements in place to enable it adequately to comply with, and monitor compliance with, the European Working Time Directive and related British law, the European Working Time Regulations. In January we were informed that the corporate Human Resources team had produced guidance notes for managers addressing all of our recommendations including key areas such as working hours, young workers and night workers, and these guidance notes have now been published on the intranet.

## 3 Progress in relation to corporate or common controls

### Financial control systems

- 3.1 We remain on target to complete reviews of the council's key financial systems by the end of the financial year and the current position in relation to each is identified in the table below.

System	Position	Opinion
<ul style="list-style-type: none"><li>• Accounts payable</li><li>• Accounts receivable</li></ul>	We issued a final report in January 2011.	Substantial assurance.
<ul style="list-style-type: none"><li>• VAT</li></ul>	Our fieldwork is complete and reported in draft.	Substantial assurance.
<ul style="list-style-type: none"><li>• Payroll</li><li>• Expenses</li><li>• General ledger</li><li>• Treasury management</li><li>• Cash and banking</li></ul>	Our fieldwork is complete and we are drafting a report.	Not yet applicable.

## **Internal Audit progress against plan 2010/11**

Audit Committee meeting 21 March 2011

### **ICT controls**

- 3.2 We are currently undertaking work to review the security of the council's network and data under new operational arrangements which have come into effect over the last few years. This work is focussed on how network access is assigned, managed and terminated across the council.
- 3.3 A review of the arrangements for asset management and disposal is also ongoing.

### **Controls over the council's estate**

- 3.4 The Property Group acts as the council's corporate landlord, for example developing the asset management plan, and supports the council in the practical management of its estate. In particular this involves managing the risk of corporate manslaughter through premises management controls. The council has adopted a policy framework developed by the Property Group, where a local premises manager should be designated to provide overall control on site and make an annual statement of compliance with corporate policy requirements.
- 3.5 We have completed a review of the premises management framework operated within the council's directorates, and intend to review the arrangements for schools as part of next year's audit plan. A draft report has been issued to management for consideration.
- 3.6 We continue to provide assurance on the final accounts with contractors on a sample basis, and there are no issues to report at this time.

### **Human resources controls**

#### ***Employees on the payroll also receiving pensions***

- 3.7 Guidance has been developed for managers relating to the conditions that will be applied in future to flexible retirements. This is currently subject to consultation with the unions but will be issued shortly. An update will be provided to the Audit Committee at its meeting on 21 March 2011.

## **4 Progress in relation to service specific controls**

### **Directorate for Children and Young People (CYP)**

- 4.1 We have issued a draft report to management covering adoption allowances. Audit fieldwork has been completed for our reviews of agency placements and fostering allowances and audit reports will be issued in March.
- 4.2 We have begun our audit of the Young Person's Learning Agency (YPLA) funding provided to schools with sixth forms. We are required to provide assurance that details of the schools' attendance and qualification aims are accurate and complete. We have selected a sample of three schools with sixth forms and have completed our first visit. A number of discrepancies were identified which are being discussed with the school to identify if they will have any impact on the funding provided by the YPLA.

### **Schools**

- 4.3 We reported in January that we had completed 21 schools audit visits and that 10 of them had received limited or nil assurance. By the end of February we

## Internal Audit progress against plan 2010/11

Audit Committee meeting 21 March 2011

had completed 27 school audit visits and a summary of the assurance levels is provided in the table below.

Level of assurance	Full	Substantial	Limited	No
Number of schools	0	15	9	3

- 4.4 As noted in January, all three of the schools given no assurance, and one of those given only limited assurance, were selected for audit on the basis of concerns raised either by the headteacher or the area finance office. These have not therefore been selected on any random basis and cannot reasonably be regarded as representative of schools generally.
- 4.5 Our school audits cover the operation of controls over the following areas: management structure, policies, budget, expenditure, income, IT, catering, assets, extended services, safeguarding, and engagement with young people. The level of assurance assigned to a school is based on all of the recommendations raised. However, a school may be given 'limited' or 'no' assurance based on recommendations which relate to just one or two areas of the audit. As a general rule the following principles are followed when allocating a level of assurance to each report:

Assurance level	Distribution of recommendations
Full	No high and no medium recommendations and less than six low recommendations
Substantial	No high recommendations and less than 16 medium recommendations
Limited	One or two high recommendations and less than 24 medium recommendations OR No high recommendations and 16 or more medium recommendations
No	Three or more high recommendations OR One or two high recommendation and 24 or more medium recommendations

This information is provided as guidance only, and the audit team will apply professional judgement when deciding the level of assurance.

- 4.6 As noted in January, our audits have highlighted some common issues covering schools' income and letting arrangements which we have shared with our colleagues in the CYP Combined Finance Team who are providing additional support and guidance to schools where appropriate. The Audit Service is also providing support to the Schools Finance Team as they update schools' administrators and bursars of the control issues relating to their role. The Audit Service has facilitated workshops at the Administrators and Bursars Conference and considered with attendees how controls may be improved to address the common issues identified in our audits.



### **Environment Directorate**

- 4.7 The waste PFI scheme has entered a new phase as the new facilities have begun to receive waste, and we are in the early stages of a significant review centred upon financial forecasting and the assumptions upon which future financial liabilities are based. Our planned work around project management arrangements, specifically relating to the Heysham-M6 link (which has recently been given funding approval) and the Guild Wheel, has now commenced. Our review of the 'one-team' approach involving the directorate and LCCG is due to start shortly.
- 4.8 Several follow-up reviews have also been completed recently, including information management within the highways function, the contract monitoring system relating to transport, and concessionary travel. The directorate's management team is currently considering our work on concessionary transport, and we have provided substantial assurance for the two other follow-up reviews where action had been ongoing to implement the agreed action plans.

### **Adult and Community Services Directorate (ACS)**

- 4.9 A draft report has been issued to management following our review of adult social care case management. This has focussed on the allocation of cases, the creation and closure of user records, workload management and supervision, and the use of ISSIS.
- 4.10 In addition, we have reported our findings to management on the adequacy and effectiveness of the directorate's commissioning arrangements. This review has specifically considered the decommissioning of a number of block contracts and the re-commissioning of those services through personal budgets where appropriate.
- 4.11 Our fieldwork to review the financial and administrative arrangements operated by Lancashire Adult Learning Services is complete and a draft report will be issued shortly.
- 4.12 Fieldwork is ongoing to undertake follow-up reviews of the work we completed last year, which includes the payment and monitoring system which makes payments to private residential homes, and the non-residential care system which monitors payments made to domiciliary care providers.

### **Lancashire County Commercial Group (LCCG)**

- 4.13 We have recently reviewed the procurement arrangements for the supply of raw materials required by LCCG's engineering services, and have identified some significant issues that we are currently discussing with the LCCG management team and both the corporate procurement team and LCCG's own procurement manager.
- 4.14 We have undertaken a considerable amount of work arising from whistle-blowing calls relating particularly to one of the engineering depots. We have provided a report to LCCG's director and a disciplinary hearing is continuing. Our investigation identified a number of control weaknesses which will also be addressed following the disciplinary process.

### **Economic development**

- 4.15 We have recently begun work to review income protection arrangements in relation to properties let out to tenants by LCDL.

### **Regenerate Pennine Lancashire (RPL) – the accountable body role**

- 4.16 The council remains the accountable body for the Housing Market Renewal Pathfinder partnership in the face of significant changes to the nature and amount of current and future funding. Audit work will continue to ensure that any risks to the council are robustly dealt with in this changing environment. We are currently undertaking a review of procedures relating to the treatment of capital receipts to ensure that the partnership's ongoing responsibilities continue to be met.
- 4.17 At the request of the RPL Board we are undertaking specific assurance work relating to the eligibility and accuracy of any redundancy payments the partnership will be required to make as a result of its reduced funding. The first phase of this work has been to confirm with the relevant funding bodies any eligibility criteria associated with their funding, and these details have been recently reported to the RPL Board.

### **Pension Fund**

- 4.18 We have continued to provide ongoing support and advice to management on the implementation of the new pension administration system during the year and we have recently begun a comprehensive review of this application, considering both manual and ICT controls.

### **Investigations and counter fraud work**

- 4.19 Our work supporting the council's management of the risk of fraud falls broadly into responsive work, where allegations have been made or fraud suspected, and proactive work to enhance the council's controls and to consider areas of the council's activities that may be susceptible to the risk of fraud.
- 4.20 As reported in January 2011, some investigations and related work supporting the disciplinary process have been under way for a considerable period.
- 4.21 As part of our proactive counter fraud work we have performed a series of unannounced visits to a number of the council's establishments that handle cash. All cash checked has been accounted for, but we are in the process of making some recommendations to improve controls over cash handling.
- 4.22 We have also used computer assisted audit techniques to analyse the pattern of bank deposits by schools to identify schools where money has not been banked on a regular basis. We have recently made three unannounced visits to such schools. Whilst in two of these schools there were no further problems, in one school the records were incomplete and it is not clear that all monies received by the school have been banked. We are continuing to work with the school's head teacher to resolve this.

Audit area	Planned audit days		Audit work undertaken *			
	Annual plan	11 months pro-rated	Relating to 2009/10	Relating to 2010/11	Total days	Variance to date
<b>Cross-cutting issues</b>						
Corporate governance	25	23	1	35	36	13
Information governance	30	28	-	41	41	14
Risk management	15	14	-	3	3	(11)
Issues arising from the formation of a strategic partnership	20	18	-	113	113	95
Safeguarding	105	96	-	132	132	35
Health and safety of the public	35	32	-	41	41	9
Health and safety of staff	60	55	-	107	107	52
Integrated service delivery	70	64	-	11	11	(54)
The customer service centre	80	73	-	55	55	(18)
The accountable body role	30	28	-	12	12	(16)
Procurement	25	23	-	92	92	69
Performance Reward Grant	15	14	-	15	15	1
<b>Sub-total</b>	<b>510</b>	<b>468</b>	<b>1</b>	<b>657</b>	<b>658</b>	<b>190</b>
<b>Service-specific controls</b>						
Adult and Community Services Directorate	255	234	80	175	254	21
Directorate for Children and Young People	260	238	49	192	241	3
Schools	350	321	11	170	181	(140)
Environment Directorate	240	220	77	192	269	49
Lancashire County Commercial Group	100	92	9	75	84	(8)
Economic development	35	32	3	27	30	(2)
Regenerate Pennine Lancashire - accountable body	30	28	-	16	16	(11)
Pension Fund	120	110	8	77	85	(25)
<b>Sub-total</b>	<b>1,390</b>	<b>1,274</b>	<b>237</b>	<b>924</b>	<b>1,161</b>	<b>(113)</b>

\* Note that minor rounding differences can occur as figures are summed from the underlying data.

**Internal Audit Service: progress report**  
 Audit Committee meeting 21 March 2011

Audit area	Planned audit days		Audit work undertaken *			
	Annual plan	11 months pro-rated	Relating to 2009/10	Relating to 2010/11	Total days	Variance to date
<b>Corporate or common controls</b>						
Financial controls	455	417	85	504	589	172
Human resources controls	30	28	7	73	80	52
ICT controls	175	160	7	136	143	(17)
Property management controls	100	92	12	70	82	(10)
<b>Sub-total</b>	<b>760</b>	<b>697</b>	<b>111</b>	<b>782</b>	<b>894</b>	<b>197</b>
<b>Response to the risk of fraud</b>						
Management and proactive work	210	193	-	83	83	(110)
Responsive work/ whistle-blowing	290	266	-	472	472	206
<b>Sub-total</b>	<b>500</b>	<b>458</b>	<b>-</b>	<b>554</b>	<b>554</b>	<b>96</b>
<b>Management of the audit service</b>						
Audit and Standards Committees reporting and attendance	6	6	-	9	9	3
Audit planning processes	15	14	-	29	29	15
Audit reporting processes	15	14	14	9	23	10
Audit Commission liaison	4	4	-	5	5	1
Support to management	10	9	-	7	7	(2)
<b>Sub-total</b>	<b>50</b>	<b>46</b>	<b>14</b>	<b>59</b>	<b>73</b>	<b>27</b>
Contingency	50	46	-	-	-	(46)
<b>Total audit days</b>	<b>3,260</b>	<b>2,988</b>	<b>363</b>	<b>2,976</b>	<b>3,339</b>	<b>351</b>

\* Note that minor rounding differences can occur as figures are summed from the underlying data.

## Audit Committee

Meeting to be held on 21 March 2011

Electoral Division affected: None
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## Audit Plan 2011/12

(Appendix 'A' refers)

Contact for further information:  
Ruth Lowry, (01772) 534898

### Executive Summary

This paper sets out the plan of work to be undertaken by the county council's internal audit service for the coming financial year. The plan amounts to a total planned resource of **2,780 audit days**.

Appendix 'A' sets out the audit plan in more detail and explains the audit resources available to the audit service.

### Recommendation

The committee is requested to consider and approve the audit plan for 2011/12.

### Background

The council is required by regulations to conduct a review at least once in a year of the effectiveness of its system of internal control and to prepare a statement on internal control in accordance with proper practices. The Society of Local Authority Chief Executives and Chartered Institute of Public Finance and Accountancy have jointly determined that the preparation and publication of an annual governance statement, published with the financial statements, is necessary to meet this statutory requirement (although the scope of the governance statement is wide, incorporating consideration of internal control and risk management as well as other aspects of governance).

The same regulations require the findings of this review to be considered by a committee of the council – the Audit Committee – or else by the council as a whole.

The responsibility for implementing, maintaining and reviewing the system of internal control rests with the council, but the process by which the effectiveness of its system of internal control is reviewed, and the governance statement is made, includes obtaining assurances on the effectiveness of key controls. In practice, these assurances will be substantially drawn from the work of internal audit.

The audit plan is therefore focussed on providing these assurances to the chief executive and leader of the council who are jointly required to sign the annual governance statement.

### Consultations

In deriving this plan the internal audit team has:

- Considered the county council's corporate and individual directorate/ service risk registers;
- Met the senior management teams of the county council's directorates to discuss their risks and related controls; and
- Made its own assessment of the risks facing the county council.

The information derived from these consultations has been incorporated into the audit plan.

The basis on which the plan has been prepared, and specifically the risk-based approach and our approach to the audit of corporate systems, has been discussed and agreed with the Audit Commission.

**Advice**

Not applicable.

**Alternative options to be considered**

Not applicable.

**Implications:** e.g. Financial, Legal, Personnel, Human Rights, Crime and Disorder or Other

The cost of the audit service has been incorporated into the Authority's budget and is managed by the head of internal audit through the devolved financial management scheme.

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

<b>Paper</b>	<b>Date</b>	<b>Contact/ Directorate/ Ext</b>
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**Reason for inclusion in Part II, if appropriate**

Not applicable

### Audit Committee meeting 21 March 2011

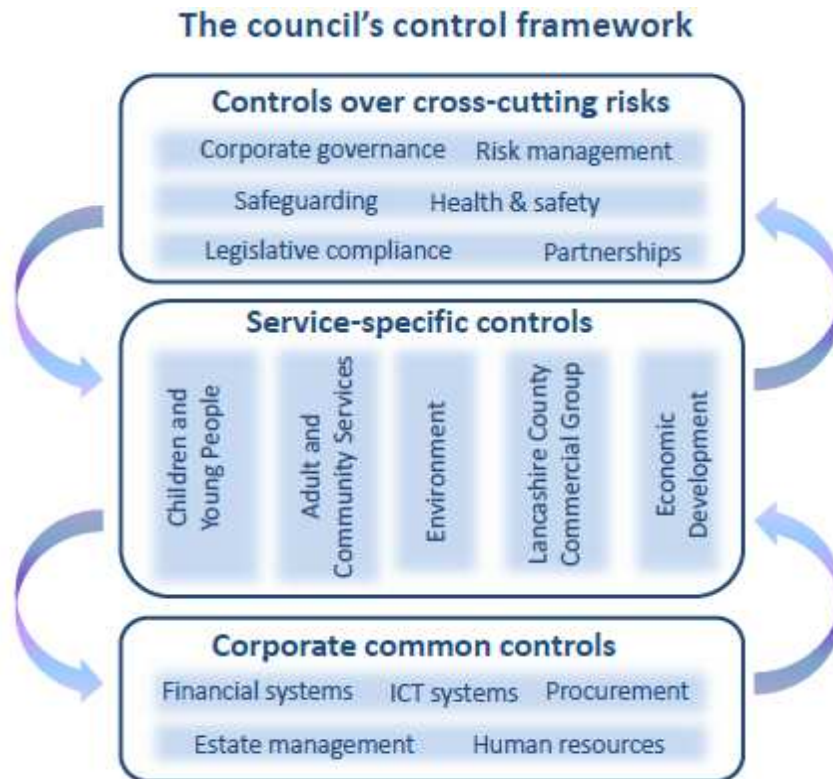
### Internal audit plan for the year 1 April 2011 to 31 March 2012

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#### 1. Executive summary

- 1.1 The Audit Committee is invited to consider the annual internal audit plan for Lancashire County Council for 2011/12. It is intended to provide the assurance that the chief executive and leader of the council need that the risks to the council's objectives are being adequately and effectively controlled.
- 1.2 The plan amounts to a total resource input to the county council of **2,780 audit days** (2010/11: 3,260 days). This represents a reduction in audit input of 14%, arising from the reduction in Audit staffing as part of the county council's drive to reduce its costs. However this level of input is still considered acceptable to provide the assurance the council needs. Provisions have been made for sickness and unanticipated staff turnover on the basis of previous experience, and it is assumed that 1,100 audit days will also be provided to external organisations within Lancashire including the pension fund, the police authority and a number of the district councils.
- 1.3 The council provides a wide range of services across the county and its senior management teams will be aware both of the risks to achieving their service objectives and the risks inherent in their work. Each of these risks should be managed by controls designed to reduce the risk to a corporately acceptable level and which operates effectively and consistently in practice.
- 1.4 The chief executive, Audit Committee, and ultimately the Council, need assurance that these controls have been adequately designed and are operating effectively. In due course the chief executive and the leader of the council will jointly sign an annual governance statement incorporating a statement on internal control, which will refer to the effectiveness of the system of internal control.
- 1.5 The assurance needed to make this statement is available from a variety of sources including external regulators, but also from the council's internal Audit Service. To avoid duplication with other assurance providers and ensure that we maximise resources, we need to understand this framework of assurance; where assurance is required but not otherwise available, the Audit Service may provide it, and this forms our annual audit plan.
- 1.6 The plan recognises and aims to provide assurance over the following controls:
  - Cross-cutting controls: These controls manage the risks arising from the council's over-arching business objectives that cut across all service areas.
  - Corporate 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.

- 1.7 These form the building blocks of our audit plan, and can be illustrated as shown below.



## 2. The planning process

- 2.1 Management Team and the council's senior management teams have documented the key risks to the council in the corporate risk register, and the Audit Service has discussed these risks and those identified by individual services with directors and executive directors. We have sought to identify the areas with the greatest inherent risk, and where there is the greatest need for effective mitigation by strong controls. These are the controls over which the council needs greatest assurance.
- 2.2 Elements of the plan directed at specific services have been discussed with executive directors and their senior management teams, and corporate systems have been discussed with individual system owners as well as with the county treasurer.
- 2.3 On this basis, we have made an assessment of the assurance we need to provide to the council during 2011/12. Since audit resources are limited they must be prioritised to maximise their value in the council's now fast-changing environment. Input from the Management Team has been sought specifically to ensure that we prioritise our resources most effectively.

## 3. The county council context

- 3.1 Even more so than in any other recent year, the council is facing unprecedented challenges and change. The need to make savings of £71.6 million in 2011/12 and £179.1 million over the next three years will have a



fundamental impact on the council and this must be reflected in the work of the Audit Service.

- 3.2 Necessary reductions are already being made to the council's establishment, members of staff are taking voluntary redundancy and being redeployed, and services are being reconfigured: this will have a considerable impact on the council's services and their related risks, and must alter the way corresponding controls are operated. It will be necessary to redesign control frameworks as resources are reduced and services change, and the need for assurance over the council's underlying controls will rarely have been greater.
- 3.3 The council's strategic partnership with BT plc is expected to begin formally in early April 2011 and this will catalyse change specifically in key corporate control areas – ICT, payroll, procurement and accounts payable – as well as in the way the council interacts with citizens and service users through its Customer Service Centre. The Audit Service will continue to provide controls assurance over these areas in the coming year, through access to the partnership joint venture company.
- 3.4 At the same time there is a strong drive to change our organisational culture and to become an organisation more closely founded on trust. This too will fundamentally alter the way controls are designed and operated, and brings with it an implicit acceptance of greater risk. It is likely that there will be a greater reliance on the monitoring controls operated by management and on detective controls, but fewer directly preventative controls: the council's managers must be aware of and manage this change, and the Audit Service must be alive to these changes as we undertake our work.

#### **4. The Audit response**

- 4.1 In a time of such fundamental change the Audit Service must be prepared to be flexible in our planning and our approach to the council's assurance needs. We must be prepared to provide whatever other support, as well as assurance, is required.
- 4.2 All our work will continue to consider value for money and the value of the council's controls and we will, where appropriate, identify superfluous controls or controls of limited value. We will also support management in specific pieces of work to assess areas where costs may be reduced.
- 4.3 We have for some time now aimed to provide integrated assurance across the whole council, recognising the relationships between its different services and support functions to provide assurance to individual executive directors and to the council as a whole. This audit plan builds on that experience, and on our use of computer assisted audit techniques and compliance testing, to provide the assurance the council needs across its key controls and its service areas.
- 4.4 The Audit Service also provides management with a counter fraud service and our audit plan integrates our assurance work (specifically our compliance testing) with our proactive counter fraud testing, particularly in areas susceptible to fraud and misappropriation of assets.

- 4.5 We therefore intend to ensure that we continue to use our resources as effectively as possible, providing the council with the assurance it needs as well as additional consultancy and counter fraud support.

## **5. Deployment of audit resources**

- 5.1 This audit plan is stated in terms of estimated days input. However neither the resources available nor the exact time that will be taken for any single piece of audit work is capable of exact estimation. The plan therefore represents only a best estimate of the audit resources and the ways in which they will be deployed.

### **A reduced but flexible audit plan**

- 5.2 The resources available to the Audit Service have been reduced over recent years but the balance has shifted slightly towards more highly qualified staff, to ensure that we can focus more effectively on the council's risks and deliver a higher quality of advice to the council. As part of the continuous drive to secure value for money and in response to the current budget constraints, Audit resources will be reduced by 14% in 2011/12.
- 5.3 At this point reduced resources do not prejudice our ability to deliver a service consistent with CIPFA's definition of internal audit in its Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006. However it is vital that our resources are deployed as effectively as possible, and the audit plan is therefore focussed on the key areas of risk to ensure maximum benefit from the level of audit resource.
- 5.4 We have considered each of the risks on the corporate risk register in constructing our audit plan and to some degree it reflects each of the council's greatest risks and their related controls. However although the Management Team has assigned the Equal Pay Review one of the highest risk scores on the risk register as at January 2011, we do not propose to undertake any further work on this project. Nor have we allocated any time to the audit of controls over the council's emergency management procedures, which have also been scored amongst the council's highest risk areas but which are still subject to the roll-out of business continuity planning.
- 5.5 Although the annual plan enables both managers and members to see the overall scope and value of the audit work, work is ongoing throughout the year. A small number of audit reviews therefore inevitably straddle the year end as work continues to complete them, and some time will be spent on this work.
- 5.6 We have not included any allocation for contingencies and any additional work will be undertaken at the expense of other planned areas of work. However, since the plan is at best an estimate it will be sufficiently flexible to change during the year. We will continually reassess our resources against the council's priorities, including the shared services agenda, and we will amend the plan throughout the year as required.

### **The corporate and service-specific perspectives**

- 5.7 The council's cross-cutting risks and its corporate common controls are managed both corporately and through service-specific controls. Our work on

cross-cutting and common controls therefore provides assurance both to the council as a whole and to individual executive directors, and our audit plan can be viewed from both a corporate and a service perspective.

From the corporate perspective the planned overall deployment of audit resources on the council's controls can be shown as follows:

<b>CONTROLS ASSURANCE</b>		<b>Estimated audit days</b>
<b>Controls over cross-cutting risks</b>		
See the separate table on page 7 below		480
<b>Service-specific controls</b>		
Adult and Community Services	260	1,200
Children and Young People	272	
Environment	165	
Lancashire County Commercial Group	120	
Economic development and Regenerate	33	
Schools	350	
<b>Corporate common controls</b>		
Financial controls	287	635
ICT controls	200	
Human resource controls	32	
Property management controls	66	
Procurement controls	50	
Management of the Audit Service		50
<b>Total audit plan</b>		<b>2,365</b>
Counter fraud and investigatory service		415
<b>Total resource for the county council</b>		<b>2,780</b>

- 5.8 Our detailed compliance testing of corporate common controls will provide individual executive directors with assurance from audit days deployed not only on service-specific audit work but also from our work on the cross-cutting and corporate controls that are operated within individual services. The same plan can therefore be re-cast for individual service areas as follows:

CONTROLS ASSURANCE	Estimated audit days				
	Service-specific	Cross-cutting	Common controls	Counter fraud	Total days
Adult and Community Services	260	50	57	-	367
Children and Young People	272	48	57	-	377
Environment	165	63	57	15	300
Lancashire County Commercial Group	120	65	82	-	267
Schools	350	20	-	-	370
Economic development & Regenerate	33	-	-	-	33
Other cross-cutting work	-	254	-	-	254
Other corporate common controls	-	-	362	-	362
Other counter fraud work	-	-	-	400	400
Management of the Audit Service					50
<b>Total</b>	<b>1,200</b>	<b>500</b>	<b>615</b>	<b>415</b>	<b>2,780</b>

## 6. Controls over cross-cutting risks

- 6.1 There are a number of areas of control that are applicable across all or most of the council's work. They are generally corporately owned areas of policy and strategy rather than transactional processes, for example our corporate governance arrangements and the frameworks we operate to safeguard our vulnerable service users.
- 6.2 These are not generally areas where a single audit review can address each of the risks and related controls in a single year. The work will be broken down and some elements of it will be included in audit plans each year. We intend to allocate approximately 480 days to these audits during 2011/12 as follows, and a brief explanation of the proposed scope of our work is also provided below:

<b>CONTROLS ASSURANCE</b>		<b>Estimated audit days</b>	
<b>Area of cross-cutting control</b>	<b>Follow-up</b>	<b>New control areas</b>	<b>Total</b>
Risk management and corporate governance	3	42	45
Asset management	-	80	80
Customer Service Centre	5	20	25
Health and safety of staff	26	-	26
Information governance	5	37	42
Integration of services	-	35	35
Legislative compliance	2	55	57
Public health and safety	15	-	15
Reablement	16	-	16
Safeguarding	26	-	26
The accountable body role	3	-	3
Transfer of services to the strategic partner	-	60	60
Transport	5	-	5
Working with partners	-	45	45
<b>Total chargeable days available</b>	<b>106</b>	<b>374</b>	<b>480</b>

**Risk management and corporate governance**

- 6.3 We will continue our on-going involvement and support to the development of risk management and good governance across the council.
- 6.4 It is possible that a new scheme of delegation to officers will be proposed during the year to support the council's new ways of working. It is unlikely that it will be implemented in time for an audit review to be appropriate during the year but we will work with management as necessary as this new scheme is developed. We will also follow up our prior years' work on members' allowances and staff declarations of interest and of offers of gifts and hospitality.
- 6.5 In conjunction with our counter fraud work we will review and map the council's capacity to respond to allegations of fraud or other misconduct (including allegations relating to non-financial matters).

### **Asset management**

- 6.6 The council controls a considerable number and value of assets, and we propose to assess and test the way in which inventories of ICT assets, property and vehicles are accounted for and controlled across key areas of the council, including detailed compliance testing within individual service areas.

### **Customer Service Centre**

- 6.7 The Customer Service Centre is fundamental to the way in which a growing number of the council's services are provided, and is increasingly integral to a number of diverse operational systems, for example emergency social care, street lighting and NOW cards. It has been transformed in recent years, as services, staff and budgets have been transferred under its management, and as it has relocated from one location to two.

- 6.8 Early in 2011/12 it will transfer into the strategic partnership and discussions with the director of customer access indicate that audit plans will need to be flexible, but it is likely that work will be beneficial to assess the controls over at least one of the services now managed within the Customer Service Centre. For example there will be significant reputational risk associated with the introduction of the council's new telephony system, and we will also follow up the work undertaken in 2010/11 on the Acorn customer relationship management system.

### **Information governance**

- 6.9 We will follow up the work we completed in 2010/11 on the overall governance arrangements relating to information management, and intend to build upon this work firstly by assessing the extent to which the action plan agreed by management has been implemented. We then intend to assess how the requirements of the information governance framework are being implemented, by reviewing the directorates' information risk registers and testing compliance with policy and procedures for key risks areas, and we will undertake additional work with the directorates to understand controls over the way that data is shared with our partners.

### **Integration of services**

- 6.10 We undertook work during 2010/11 on the ways that LCCG and the Environment Directorate are beginning to more closely integrate their services into a 'one team' approach. We intend to continue this as the process of redesigning services on a combined basis continues.

### **Legislative compliance**

- 6.11 As a major employer of staff pursuing a wide variety of activities with implications that are addressed by a range of legislation, the council must ensure that it is fully aware of changes and additions to this legislation. We will follow up our work on the council's compliance with the European Working Time Directive and related Regulations in British law, but will also consider the controls in place by which the council identifies new legislation applicable to the council's services, and ensures that all services comply as appropriate.

### **Transfer of services to the strategic partner**

- 6.12 Discussions are on-going with the county treasurer and the director of special projects to ensure that appropriate audit input is available as services transfer to the council's strategic partner but it is not yet clear what input will be required during 2011/12. We have allocated time for on-going support to the project and to facilitate whatever assurance may be required in relation to the services transferring into the partnership.

### **Working with partners**

- 6.13 We plan to consider how a sample of services and systems operate that rely on cross-organisational working with, for example, the NHS, Police, and Probation Service. This work will be focussed on the Directorates for Adult and Community Services and Children and Young People.

### **Other follow-up work**

- 6.14 We will not undertake additional work on all of the areas we audited last year, but will follow up our findings and assess whether management's action plans have been implemented in relation to:
- The health and safety of staff (particularly in relation to lone workers, and specific health and safety issues arising within catering and engineering services);
  - The health and safety of the public (specifically petroleum safety, and the council's responsibilities in relation to highways safety);
  - The reablement service;
  - Safeguarding controls (relating to Criminal Record Bureau checks, the Safeguarding Board, transportation arrangements, the work of the Children and Young People's compliance team, vulnerable adults and their finances);
  - Transportation charges; and
  - The council's role as accountable body.

## **7. Controls over service-specific risks**

### **Adult and Community Services Directorate**

- 7.1 We will continue to focus on the directorate's drive to deliver positive outcomes for service users in an innovative, efficient and effective manner within increasingly constrained resources. Given the difficult budget position, the directorate is seeking to work differently and supporting a clear policy of prevention, early intervention and personalisation. We propose to provide assurance over a number of initiatives already underway within the directorate to achieve these objectives.
- 7.2 We intend to build upon the work we have undertaken over the last two years to review the arrangements to introduce self directed support. In particular the

development of ISSIS to facilitate the individual budget process and the operation of the resource allocation model.

- 7.3 We also propose to review the effectiveness of the newly introduced Intake Teams in screening service users appropriately and referring them to support services either within the directorate or provided by external agencies.
- 7.4 In December 2010 the council opened public consultation about the future of adult social care in light of the budget savings which must be made. As part of this process raising the 'fair access to care services' criteria currently used by the council forms a key element of the proposals and we will review the effectiveness of any potential changes to these criteria.
- 7.5 Additional areas we propose to review include the preferred provider payment scheme and the adequacy and effectiveness of the partnership arrangements in place with the NHS for mental health service provision. We also intend to extend our previous work on domiciliary services and day care services to provide assurance that financial and operational procedures are being adhered to and, where appropriate, that regulatory requirements are being met.

#### **Directorate for Children and Young People**

- 7.6 A number of budget reductions have been announced by the directorate for 2011/12 onwards. One proposal involves reducing the number of children's residential homes from 15 to 10, and reducing the overnight break services, and the Residential Services team is currently undergoing a restructure to ensure that the remaining service is delivered effectively. We therefore plan to review the control environment operated by the central Residential Services team and by individual homes. We will also act as a critical friend to challenge areas of the greatest expenditure, and have allocated additional time to assist the directorate's management with similar value for money audits where appropriate.
- 7.7 During 2010/11 we have performed audit of agency placements and special educational needs transport charges both of which will contribute to the directorate's budget savings. We will follow-up the agreed action plan agreed by management and will continue to provide advice and support to management.
- 7.8 The Early Years team are developing a new commissioning agreement for the county's Children's Centres, which will cover a three year period commencing on 1 April 2011. We will review the monitoring arrangements in place over all Children's Centres and in particular those Children's Centres operated by third parties.
- 7.9 In previous years the directorate has made a significant number of grant payments to third parties. During our work in 2010/11 we identified some control weaknesses surrounding such grant payments and, whilst the number of grants is expected to drop dramatically in 2011/12, we will audit payments made to third parties to ensure that these have been processed and approved correctly. We will also review the controls in place to ensure that the council is receiving the services that the payments are intended to provide.
- 7.10 Our audit plan includes a review of how the council monitors both the quality of education provided by the county's schools and their financial position. Our



audit will review the processes in place to ensure failing schools are identified and the appropriate support is provided.

### **Environment Directorate**

- 7.11 As the waste PFI project moves towards full service commencement, risks around the quality of data being received from the contractor must be properly managed by the council as part of robust contract management. Various senior managers who were closely involved have moved to other posts or will be leaving the council shortly and will no longer be closely involved with the project. We intend to examine ongoing contract management arrangements, and in particular data quality management and use of the payment mechanism.
- 7.12 From April 2011 the administration of concessionary travel will move to upper-tier authorities and the county council will be wholly responsible for the scheme directly receiving government funding within its general formula grant as part of the local government settlement. We will review the new arrangements to assess their fitness for purpose.
- 7.13 Arising from previous concerns in this area, we will undertake a review of the system for dealing with street-works notices issued to utility companies in respect of their work on the public highway (with specific reference to the risk of bribery). In addition to reviewing the Exor computer application we intend to examine the supervisory arrangements and measures in place to protect the county council from fraud, and its staff from false allegations.
- 7.14 We continue to work with the directorate in relation to the Accrington Eco Station project and wider European Interreg programme for which the county council is the lead partner.
- 7.15 As in previous years, we will review a sample of final accounts during the year relating to significant capital schemes to provide assurance that valuation certificates have been paid correctly, and project managers have supporting evidence for the amounts paid.

### **Lancashire County Commercial Group**

- 7.16 Our audit plan has been designed to provide assurance over the key risk areas for each of the three service groups within LCCG.
- 7.17 Within the Operational Services Group we intend to audit the key controls at each of the three Highways Area Offices. Our audit will focus on how individual jobs are managed and also how the service manages workloads.
- 7.18 During 2010/11 we identified some concerns regarding the use of sub-contractors and we therefore plan to audit this area. We will focus on the controls surrounding the selection and overall use of sub-contractors and will also ensure that the council's Standing Orders are being applied.
- 7.19 Within Care Services we have previously audited the care planning and medication processes within residential homes for the elderly. The service is about to implement new processes covering both of these areas to allow greater control and improve management information. We will review these new processes to ensure that the control environment is adequate and that the new controls have been successfully embedded.

- 7.20 During 2010/11 we performed investigations relating to catering income and in 2011/12 we will audit both the controls operated centrally by Catering Services and also the controls operated by the catering establishments. This may include some unannounced visits.
- 7.21 As in previous years we will continue to review and certify the six monthly Bus Service Operators Grant (BSOG) claims.

### **Schools**

- 7.22 The Management Team gave 'failure in performance in schools and other educational settings' one of the highest risk scores. We have therefore included a short specific review of the way the council monitors the financial and operational performance of the county's schools. We again plan to spend 350 days overall on schools in the coming year, of which 250 days will be on new visits to schools and a further 30 days following up our prior year's work. We will also spend approximately 50 days on thematic reviews of schools, and there will be a strong linkage this year between our focus on schools and on proactive counter fraud work.
- 7.23 We will meet the Schools Sounding Board in March and will use this feedback together with discussions with directors to guide and prioritise the schools audit work. We are also awaiting the Department for Education's proposals for the replacement for the Financial Management Standard in Schools (FMSiS) which may affect the scope and approach of our audit work.

## **8. Corporate common controls**

- 8.1 The council's work is underpinned by controls that manage the risks of its day to day operations that are operated in common across the whole organisation. These controls fall into a number of key areas: financial and ICT controls, controls over the council's estate, human resources controls, and procurement.

### **Financial control systems**

- 8.2 Financial control is a key element of the council's overall control environment and the core financial systems under-pinning the operations of the council must therefore be considered in our risk-based audit plan. We have identified the core financial systems and agreed them with the county treasurer and the Audit Commission. They include the payroll system, accounts payable, accounts receivable, treasury management, VAT, expenses, controls over the general ledger, budgetary control and monitoring and cash and banking (which we will link to our proactive work on managing the risk of fraud).
- 8.3 We have gained a thorough understanding of these systems and have previously documented them. During 2011/12 we intend to concentrate predominantly on compliance testing the key controls, using both traditional systems-based testing and work using computer assisted audit techniques. We will ensure that our testing includes transactions relating to all of the council's services (as well as to the accountancy service's external clients).
- 8.4 Whilst the focus of our work will be more heavily weighted towards a programme of controls testing, we still intend to provide the resources to consider any new systems and system developments as they are brought into

operation. In 2011/12 this will involve particularly the move to the Oracle HR/ payroll system.

### **ICT systems and controls**

- 8.5 In addition to the planned review of various aspects of the council's information governance arrangements, we also intend to provide assurance over the effective operation of the newly introduced acceptable use policy for internet and e-mail use. We will analyse usage of the internet and e-mail by staff to identify trends that may be indicative of poor control and management, or potential incidents of policy or legislative breaches.
- 8.6 With the transfer of ICT Services into the strategic partnership, we plan to consider areas that under-pin the operation of this service, focussing on the management of risks which potentially impact on the day to day operations of the council. The areas we propose to review this year include a review of the physical and environmental controls of the council's data centre, a review to consider the management and security applied to key databases used by the council, together with reviews of vulnerability management and the council's current incident management arrangements.
- 8.7 Further discussions with the outgoing and new interim director of ICT are required to fully scope and agree the work we will undertake this year.

### **Management of the council's estate**

- 8.8 The assurance over the management of the council's estate this year will be provided by a combination of our cross-cutting work on asset management, which includes the council's estate, together with service specific reviews within the Property Group.
- 8.9 We propose to continue the two year plan we started last year to provide assurance over the premises management framework developed by the Property Group. This review will focus on the operation of the framework for both delegated and non-delegated budgets, specifically considering the basis on which the annual statements of compliance with corporate policy requirements will be made by the designated premises managers.
- 8.10 We will continue to review contractor's final accounts on a sample basis to provide assurance that both contractors and the staff within the Property Group are compliant with the Group's control requirements.

### **Human resources controls**

- 8.11 During 2011/12 as the council's workforce reduces, the redeployment and voluntary redundancy processes will become increasingly important. We propose to undertake compliance testing on both of these processes to ensure there is an adequate control environment.

### **Procurement**

- 8.12 Our work in 2010/11 raised a number of issues relating to expenditure both under contractual arrangements and expenditure not addressed by contracts. In addition, an investigation identified related control weaknesses at a highways depot. We therefore plan to examine compliance with the council's procurement

rules and wider controls to avoid improper practice, financial risk, and general inefficiency.

## **9. Other areas within the audit plan**

9.1 An allocation of 50 days has been set aside to cover other management and tasks in support of the internal audit service to the Authority:

- Liaison with the senior management teams, chief executive and Management Team;
- Liaison with the Audit Commission; and
- Attendance, support, and reporting to the Audit Committee and Standards Committee as required.

### **Controls to manage the risk of fraud**

9.2 In addition to our audit work, the Audit Service provides support to the council's management team in managing the risk of fraud. It has for many years provided an investigatory service to support management in responding to instances of suspected fraud or impropriety. In recent years we have undertaken more proactive work to identify and pursue indications of potentially fraudulent activity, both through the corporate systems testing referred to above, and through additional testing of other areas particularly susceptible to fraud. Three members of staff hold CIPFA's investigative practices qualification, and we have developed a programme of preventive activity, including plans for enhanced publicity across the council of its whistle-blowing procedures.

9.3 This work will account for approximately 415 days of the Audit Service's resources during 2011/12. This is a reduction on previous years' allocations and it is likely that we will take a more supportive role, working increasingly with managers across the council as they undertake investigative work themselves rather than transferring this work to the Audit Service.

9.4 Our proactive work during 2011/12 will include coordinating the council's investigations of data identified by the Audit Commission's National Fraud Initiative. Due to the nature of the data, internal audit will lead some of these investigations, whilst others can be undertaken by individual services.

## **Audit Committee**

Meeting to be held on 21 March 2011

Electoral Division affected: None
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## **Internal/ external audit protocol**

(Appendix 'A' refers)

Contacts for further information:

Ruth Lowry, head of internal audit, 01772 534 898

Fiona Blatcher, senior audit manager, Audit Commission, 0844 798 7056

### **Executive Summary**

This protocol sets out how Lancashire County Council's internal Audit Service and the Audit Commission as its external auditor work together, and establishes a framework for coordination, cooperation and exchange of information

The full protocol is included as Appendix A to this paper.

### **Recommendation**

The committee is requested to note this information.

### **Background**

In the interests of value for money it is important that the council's internal and audit auditor operate together efficiently and effectively. This protocol sets out the relationship between the two sets of auditors for the Audit Committee's information.

### **Consultations**

Not applicable.

### **Advice**

Not applicable.

### **Alternative options to be considered**

Not applicable.

**Implications:** e.g. Financial, Legal, Personnel, Human Rights, Crime and Disorder or Other

## **Local Government (Access to Information) Act 1985**

### **List of Background Papers**

<b>Paper</b>	<b>Date</b>	<b>Contact/ Directorate/ Ext</b>
CIPFA: Code of Practice for Internal Audit in Local Government in the United Kingdom	2006	Ruth Lowry, 01772 5 34898
Audit Commission: Code of Audit Practice – Local Government	2010	Fiona Blatcher, 0844 798 7056
<b>Reason for inclusion in Part II, if appropriate</b>		
Not applicable		

# Protocol for the relationship between the Audit Commission and Lancashire County Council's internal Audit Service

March 2011

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## Introduction

- 1 This protocol sets out how Lancashire County Council's internal Audit Service and the Audit Commission, as its external auditor, work together, and it establishes a framework for coordination, cooperation and exchange of information.

## External audit responsibilities

- 2 External audit responsibilities are set out in the Code of Audit Practice, as developed by the Audit Commission and approved by the Houses of Parliament. Under this code the external auditors are responsible for:
  - Expressing an opinion on the council's financial statements; and
  - Reviewing whether the council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 3 In addition under section 28 of the Audit Commission Act 1998, the external auditor is required to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Lancashire County Council.
- 4 When completing its work on the financial statements the external auditor is required to comply with International Standards on Auditing (ISA), as adapted for application in the UK and Ireland. The external auditor is required by these ISAs, amongst other things, to:
  - Gain an understanding of the information systems that are relevant to producing material figures in the accounts;
  - Gain an understanding of the way transactions in these systems are initiated, recorded, processed and reported;
  - Identify the risks of material misstatement in the financial statements whether arising from fraud or error; and
  - Plan and carry out tests of controls and/ or detailed transactions to address those specific risks as well as the underlying inherent risks.

## Internal audit responsibilities

- 5 CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006 defines internal audit as:

'An assurance function that provides an independent and objective opinion to the organisation on the 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.'

- 6 The internal Audit Service is therefore required to formulate an annual risk-based plan of work which is directed to providing assurance over, amongst other internal controls, the systems that produce material figures in the council's financial statements: these systems control areas of significant financial risk to the council. The internal Audit Service is similarly obliged to provide an annual opinion to the council on its governance and risk management arrangements, which will inform the external auditor's work.
- 7 There is therefore a natural alignment of internal audit work with external audit.
- 8 This Code of Practice also sets out the professional standards the council's internal Audit Service is required to meet in relation to, amongst other things, independence and ethics, due professional care, and planning, undertaking and reporting internal audit work.

### **The external and internal audit relationship**

- 9 In the interests of overall efficiency and effectiveness, the Audit Commission seeks to maximize its reliance on the work of the council's Audit Service, most commonly in relation to the council's core financial systems, but also in other areas where this is possible. The internal Audit Service seeks to provide whatever support is necessary and appropriate to the Audit Commission.
- 10 ISA 610 refers specifically to 'considering the work of internal audit' and requires external auditors to:
  - Review the Audit Service to confirm that it meets, as a minimum, the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006. This will provide assurance that work is to a standard and can be relied on to inform external audit conclusions;
  - Review whether the Audit Service is effective;
  - Review (and seek to place reliance on) specific pieces of internal audit work, where that work covers areas relevant to their external audit objectives; and
  - Evaluate the work of the Audit Service, where external auditors intend to use internal audit work to inform their conclusions. This may involve re-performance of a sample of work, testing similar items or observing internal audit work in progress.
- 11 When the Audit Commission has undertaken a formal review of the Audit Service, it will discuss its findings with the head of internal audit and provide an agreed report to the council.
- 12 The Audit Service will take account of the work undertaken by the external auditor in assessing the framework of assurance available to the council.
- 13 Both sets of auditors share with each other their risk assessments of the council and their related work programmes. This informs each others' risk assessments and helps to identify opportunities for reliance on work planned to be carried out by the internal Audit Service.
- 14 Regular liaison meetings are programmed to facilitate this and both sets of auditors share working papers and reports as needed.



- 15 In undertaking work that the Audit Commission will wish to use to support its external audit opinion on the council's financial statements, the internal Audit Service will:
- Ensure that the sample methodology and sample sizes are sufficient for the external auditor's purpose and cover as much of the financial period as possible (whilst recognising that the work should be completed within the financial period); and
  - Provide access to the working papers and supporting documentation necessary for the external auditor to assess this work in detail.
- 16 Both internal and external audit will ensure that whenever documentation is obtained from the other auditor, it will be returned promptly and, if used in any published document, will be appropriately cited.



## **Audit Committee**

Meeting to be held on 21 March 2011

Electoral Division affected: None
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## **Audit Commission – Progress report**

(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 2010/11 Audit Plan.

### **Recommendation**

The Committee is asked to note the Audit Commission's progress report as at 7 March 2011.

### **Background and Advice**

Attached at Appendix 'A' is a summary of the work agreed with the County Council and an update on the work undertaken by the Audit Commission as at 7 March 2011.

Audit progress is as expected.

Clive Portman, District Auditor and Fiona Blatcher, Senior Audit Manager, will attend the meeting to present the report and respond to questions.

### **Consultations**

N/A

### **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 and Lancashire Pension fund audit fee letters	June 2010	Fiona Blatcher, Audit Commission, 0844 798 7056
Lancashire County Council and Lancashire Pension fund audit fee letters	January 2011	Fiona Blatcher, Audit Commission, 0844 798 7056

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

# Progress report - March 2011

Lancashire County Council

Audit 2010/11

Date March 2011

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# Contents

<b>Summary</b>	<b>3</b>
<b>Appendix 1 – Progress against the 2010/11 Audit Plan</b>	<b>4</b>

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

# Summary

- 1 The objective of this report is to provide a position statement as at 10th June 2010 setting out the progress of our audit for the period covered by our 2010/11 audit plans for the Council and Lancashire County Pension Fund.
- 2 We comply with the statutory requirements governing our audit work, in particular:
  - the Audit Commission Act 1998;
  - the Local Government Act 1999 (best value inspection and audit); and
  - the Code of Audit Practice (the Code).
- 3 The Code defines auditors' responsibilities in relation to:
  - the financial statements of audited bodies; and
  - audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources.
- 4 The current position of our work as set out in our audit plans is detailed at Appendix 1. Progress on the audit is as expected.

# Appendix 1 – Progress against the 2010/11 Audit Plan

Task/Code of practice requirement	Field work	Expected issue of report/opinion	Progress/comments
<b>Financial statements including the Pension Fund</b>			
Identify, document and testing of the Authority's material financial systems that support the financial statements.	Ongoing with expected completion June 2011	June 2011 if required	Work is ongoing. Detailed discussions held with Internal Audit, (IA) to enable reliance to be placed on their work where possible. IA work currently being reviewed.
We will carry out our audit of the financial statements for 2010/11 in accordance with International Standards on Auditing. Prior to and during our final accounts audit we will provide informal advice to your accountants on working paper preparation and accounting treatment.	Ongoing, primarily July- September 2011	30 September 2011.	On going. Workshops held for all local government bodies on key accounting issues for 2010/11 in January/February attended by a number of accountants from Lancashire CC. Ongoing liaison on technical issues, closedown timetable and accounts/audit requirements. This includes more detailed discussions on the implementation of International Financial Reporting Standards (IFRS) in 2010/11. Audit of re-stated IFRS 2009/10 balance sheet planned to be completed during April 2011.



Appendix 1 – Progress against the 2010/11 Audit Plan

Task/Code of practice requirement	Field work	Expected issue of report/opinion	Progress/comments
<p><b>Value for money</b></p> <p>I am required to give a statutory VFM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.</p> <p>This is based on two criteria, specified by the Commission, related to your arrangements for:</p> <ul style="list-style-type: none"> <li>• securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and</li> <li>• challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.</li> </ul>	<p>January - August 2011</p>	<p>September 2011</p>	<p>Initial VFM risk assessment completed. Further work to focus on a more detailed review of:</p> <ul style="list-style-type: none"> <li>• Waste PFI contract - actions taken to ensure the contract delivers value for money</li> <li>• Strategic partnership - expected costs and benefits and arrangements to manage performance and ensure effective governance of the partnership</li> <li>• Savings plans - realism and robustness of planned savings over the next three years. Impact assessments by the Council linked to its priorities</li> <li>• Treasury management - risk management arrangements for implementation of the new Treasury Management Strategy.</li> </ul>

Task/Code of practice requirement	Field work	Expected issue of report/opinion	Progress/comments
<b>Reporting</b>			
Annual Audit Letter	On-going	November 2011	Not yet started
Whole of Government Accounts	September 2011	September 2011	Not yet started
<b>Grant Claims</b>			
Certification of Grant Claims	August - December 2011	As required where appropriate.	Not yet started
<b>Other issues</b>			
Dealing with correspondence relating to LCC arrangements as and when received.	Not in audit plan	Not in audit plan	There are no issues to report at this stage.

## **Audit Committee**

Meeting to be held on 21 March 2011

Electoral Division affected: None
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## **Audit Commission – Certification of claims and returns annual report** (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 a summary of the Audit Commission's work on certifying the Council's 2009/10 claims and returns.

### **Recommendation**

The Committee is asked to note the Audit Commission's report.

### **Background and Advice**

The attached report provides a summary of our work on certifying the Council's 2009/10 claims and returns. Four of the Council's claims/returns, with a total value of £120m, have been subject to certification work for 2009/10.

Fiona Blatcher, Senior Audit Manager, will attend the meeting to present the report and respond to questions.

### **Consultations**

This report has been shared with relevant officers including internal audit and has been agreed with the County Treasurer.

### **Implications:**

N/A

### **Risk management**

N/A

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

Paper  
None

Date

Contact/Directorate/Tel

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

# Certification of claims and returns - annual report

Lancashire County Council

Audit 2009/10

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

# Contents

<b>Summary</b> .....	<b>2</b>
Certification of claims.....	2
Significant findings.....	3
Certification fees.....	3
<b>Background</b> .....	<b>4</b>
<b>Findings</b> .....	<b>5</b>
Control environment.....	5
Specific claims.....	5
<b>Appendix 1 Summary of 2009/10 certified claims</b> .....	<b>7</b>

# Summary

**Funding from government grant-paying departments is an important income stream for the Council. The Council needs to manage claiming this income carefully. It needs to demonstrate to the auditors that it has met the conditions which attach to these grants. This report summarises the findings from the certification of 2009/10 claims. It includes the messages arising from my assessment of your arrangements for preparing claims and returns and information on claims that we amended or qualified.**

## **Certification of claims**

**1** Lancashire County Council receives more than £45 million funding from various grant paying departments which is subject to external audit certification. The grant paying departments attach conditions to these grants. The Council must show that it has met these conditions. If the Council cannot evidence this, the funding can be at risk. The Council is also responsible for collecting teachers' pension's contributions of over £75 million which are paid over to the teachers' pension scheme and an audited return is required. It is therefore important that the Council manages certification work properly and can demonstrate to us, as auditors, that the relevant conditions have been met.

**2** In 2009/10, my audit team certified four claims/returns with a total value of over £120 million. Of these, we carried out a limited review of one claim and a full review of three claims. (Paragraph 7 explains the difference.) We amended two claims for errors. The errors were formatting errors and the corrections did not impact on the total grant funding available to the Council. For one claim, we were unable to fully certify the claim and issued a qualification letter to the grant-paying body. This was because of differences between the certification instructions to auditors agreed by the grant paying body and the guidance provided by that body to Lancashire County Council.



## Significant findings

**3** Last year amendments were made to two single programme claims which did not impact on the amount payable to Lancashire but related to compilation errors in the completion of the forms. Similar issues occurred again in 2009/10 resulting in the amendments noted above.

**4** The most significant issues raised last year were about the poor control environment and management and administration of the Sure Start, early years and childcare grant. This resulted in the audit taking much longer than is usual. I also had to issue a qualification letter because of the lack of evidence to support specific items. For 2009/10 several improvements have been made including much tighter monitoring of expenditure claimed by Sure Start centres. The return was properly supported by working papers and we did not meet any difficulties in gaining evidence to support individual items of expenditure claimed.

## Certification fees

**5** The fees I charged for grants certification work in 2009/10 were £24,515.50 (plus VAT). This compares favourably with last years' fee of £32,458.50 and reflects the improvements I have noted in the management and administration of the Sure Start, early years and childcare grant.

# Background

**6** The Council completes claims and returns to government departments with a total value of over £120 million. As this is significant to the Council's income it is important that this process is properly managed. In particular this means:

- an adequate control environment over each claim and return; and
- ensuring that the Council can evidence that it has met the conditions attached to each claim and return.

**7** I am required by section 28 of the Audit Commission Act 1998 to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Lancashire County Council. I charge a fee to cover the full cost of certifying claims. The fee depends on the amount of work required to certify each claim or return.

**8** The Council is responsible for compiling grant claims and returns in accordance with the requirements and timescale set by the grant paying departments.

**9** The key features of the current arrangements are as follows.

- For claims and returns below £125,000 the Commission does not make certification arrangements.
- For claims and returns between £125,000 and £500,000, auditors undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure.
- For claims and returns over £500,000 auditors assess the control environment for the preparation of the claim or return to decide whether or not they can place reliance on it. Where reliance is placed on the control environment, auditors undertake limited tests to agree from entries to underlying records but do not undertake any testing of the eligibility of expenditure or data. Where reliance cannot be placed on the control environment, auditors undertake all of the tests in the certification instruction and use their assessment of the control environment to inform decisions on the level of testing required. This means that the audit fees for certification work are reduced if the control environment is strong.
- For claims spanning over more than one year, the financial limits above relate to the amount claimed over the entire life of the claim and testing is applied accordingly. The approach impacts on the amount of grants work we carry out, placing more emphasis on the high value claims.

# Findings

## Control environment

**10** The adequacy of the control environment for individual claims is variable. The teacher's pension's return is an example of where reliance can be placed upon the control environment. Working papers are of a high standard; the key contact has good knowledge about the claim and undertakes various checks to ensure only eligible amounts are included on the return.

**11** We were unable to rely on the control environment for the other three claims and we completed more detailed testing as a result. Improvements have been made to the monitoring and management of expenditure claimed for the Sure Start, early years and childcare grant during 2009/10 but most of this work was towards the end of 2009/10. We were therefore unable to rely on the improved control environment for this return for our audit of 2009/10. Errors on the face of the two single programme claims claim forms indicated the control environment could not be relied upon.

## Specific claims

**12** The four claims subject to certification in 2009/10 were:

- Teachers Pension Return;
- Single Programme Remade in Lancashire;
- Single Programme M6 Junction 31 Improvements; and
- Sure Start, early years and childcare grant.

**13** We gave an unqualified report for the teachers pension return, which was the largest return certified in 2009/10 with a value of £75 million. We found working papers to support the figures in the claim/return were of an excellent standard, timely responses were received from key officers and no issues were identified.

**14** For the single programme claims both were amended to correct mistakes in the completion of the claim form where figures had been omitted from the form or incorrectly entered. These amendments did not impact on the grant funding provided.

**15** Audit of the Sure Start, early years and childcare grant claim was easier this year because of improved supporting working papers and evidence. The claim did not require amendment and the relevant audit fee was much lower as a result. The claim was certified with a qualification letter.

**16** The letter was issued because of unclear guidance about the eligibility of expenditure for Sure Start funding. The issue related to £62,850 claimed by Sure Start Hyndburn Limited used to support two nurseries managed by the company. Guidance to auditors suggested that this grant is only available to support Sure Start centres. However emails to the County Council from the Department for Children, Schools and Families (DCSF), suggested the grant could be used for wider child care provision, as long as there were plans in place to make the nurseries sustainable over time. (This issue was originally identified by Internal Audit and reported to members of the Council's Audit Committee in March 2010).

**17** I understand there is no present intention by SSH to use children's centre revenue grant to meet the costs of day care provision from 1 April 2011 onwards. I issued the qualification letter to bring this matter to the attention of DCSF. I did not seek an amendment to the claim since, based on the advice the Council had received, there is no issue of ineligible expenditure.

## Appendix 1 Summary of 2009/10 certified claims

Table 1: **Claims and returns for schemes above £500,000**

Claim	Value £	Adequate control environment	Amended	Qualification letter
Teachers Pension	75,117,439	Yes	No	No
Sure Start, early years and childcare grant	41,888,103	No	No	Yes
Single Programme – Remade in Lancashire	2,877,402	No	Yes	No
Single Programme – M6 J31 Improvements	419,426	No	Yes	No

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