Lancashire County Council

Audit Committee

Monday, 26th March, 2012 at 2.00 pm in Cabinet Room 'B' - County Hall, Preston

Agenda

Part 1 (Open to Press and Public)

No.   Item

1.   Apologies for absence

2.   Disclosure of Personal and Prejudicial Interests

Members are asked to consider any Personal/Prejudicial Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda

3.   Minutes of the meeting held on 23 January 2012   (Pages 1 - 8)

That the Minutes of the meeting held on 23 January 2012 be confirmed and signed by the Chair.

4.   Internal Audit Service - Progress report   (Pages 9 - 22)

5.   Internal Audit Service - Audit Plan 2012/13   (Pages 23 - 38)

6.   Audit Commission - Audit Committee update report March 2012   (Pages 39 - 52)

7.   Audit Commission - 2010-11 Certification of claims and returns annual report   (Pages 53 - 62)

8.   Urgent Business

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chairman of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

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9.   Date of Next Meeting

The next meeting of the Audit Committee will be held
on Monday 25 June 2012 at 2.00 p.m. in Cabinet Room
B, County Hall, Preston.

                                        I M Fisher
                                        County Secretary and Solicitor

County Hall
Preston

Lancashire County Council
Audit Committee

Monday 23 January 2012

Minutes

Present:

County Councillors

S Chapman (Chair)

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

Officers in attendance

Beryl Rhodes - head of commercial and central finance
George Graham – deputy county treasurer
Andy Ormerod – senior accountant
Ruth Lowry – head of internal audit
Ian Rushworth – principal auditor
Fiona Blatcher – senior audit manager, Audit Commission
Karen Murray - district auditor, Audit Commission
Roy Jones - assistant county secretary

1.   Apologies

None were received.

2.   Disclosure of Personal and Prejudicial Interests

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

County Councillors Howard Henshaw and Jim Lawrenson declared a personal interest in item 4, as Directors of Lancashire County Developments Limited.

3.   Minutes of the Meeting held on 26 September 2011

Resolved: That the minutes of the meeting held on 26 September 2011 be confirmed and signed by the chair.

4.   Accounts of Lancashire County Developments Limited 2010/11

A report was presented by Beryl Rhodes, head of commercial and central finance on the 2010/11 audited Statement of Accounts for Lancashire County Developments Limited (LCDL).

The committee was informed that the LCDL group had made a loss before taxation of £1,774,564 for the period. The two major factors that caused the loss were mainly a reduction in the asset cost value of an office development in east Lancashire by £1,513,666 and a provision for £420,000 arising from the restructure and redundancy process within LCDL.

Resolved: That the 2010/11 Statement of Accounts for Lancashire County Developments Limited as set out at appendix A to the report, be noted.

5.   Update on treasury management activity

A presentation was made to the committee by George Graham, deputy county treasurer on a review of the county council's treasury management activities during the third quarter of the 2011/12 financial year and included:

- A review of the economic conditions and the impact on the county council's borrowing and lending activities.
- Summaries of borrowing and investment transactions.
- Monitoring of Prudential Indicators
- An update on the investment in Landsbanki hf.

Details of the treasury management activities were presented at appendix A.

The committee was advised of an error to the 'borrowing' figure on page 39 of appendix A to the report relating to the 'authorised limit for external debt' and 'operational boundary for external debt'. It was noted that both 'borrowing' figures in the right hand column should read £878 million as opposed to £792 million and that the totals for both should be amended accordingly.

In response to questions raised by the committee, it was reported that approximately £5m per annum would be saved if the council chose to utilise the exceptional gains achieved through the management of the bond portfolio of £47.593m to reduce capital borrowing. However, the Cabinet's judgement in making its budget proposals was that in the current climate and with exceptionally low interest rates, it would be better to invest in key priorities rather than reduce long term debt which was an increasingly expensive exercise. It was pointed out that at least £7m of these additional funds would be used to create a volatility reserve to help protect services from any adverse impact of the continuing volatility of the financial markets.

Resolved: That, subject to amendments to page 39 of appendix A to the report as now outlined, the update on treasury management activities as shown at appendix A to the report now presented, be noted.

6. **A revised approach to risk management within Lancashire County Council**

Ruth Lowry, head of internal audit, presented a report on a revised approach to risk management, which had been agreed by the council's Management Team.

The report set out the key issues highlighted during the period 1 July to 30 September 2011, which were regarded as the council's current, changing, risks.

The report also set out a preliminary schedule of the council's underlying risks associated with its on-going business and a schedule of the underlying risks associated with the council's on-going business as identified in the risk register as at 27 June 2011. This included the scores assigned at that time for information and to illustrate the outcomes of the council's former approach.

It was also noted that it was proposed to provide the committee with a statement of the council's key risks at its meeting in March each year and that Management Team had agreed that managers across the council would be provided with a more formal and regular plan of training on risk management.

The committee welcomed the revised approach to risk management and discussed its implications for managers and for the reports that would be received by the committee.

The committee briefly discussed the risks that had been raised by other items on this agenda including:

- fire damage to council property and its consequences given the recent large scale fire at the council's business park at Leyland; and
- the council's economic development structure given that the council has buildings which it is unable to lease.

Discussion took place on the frequency of the statement of the council's key risks.

Resolved: That:

i) The revised approach to risk management be welcomed.

ii) The recommendations of the Management Team as set out at Appendix A to the report now presented be endorsed.

7. **Internal Audit Service progress report**

Ruth Lowry, head of internal audit, presented a report on the work undertaken during the nine months of the year to 31 December 2011 by the council's Internal Audit Service under the internal audit plan for 2011/12, and the work carried forward from the previous audit plan completed during the year.

The internal audit service was not proposing any significant changes to its audit plan but some adjustments had been made where work was no longer appropriate, and where the resource inputs and timing of some assignments had altered. Appendix B to the report provided information where audit work in the plan for the year had been deferred, and conversely where additional reviews had been added to the plan.

The committee raised concern at the number of corporate and service areas that had been awarded 'limited assurance' by the Internal Audit Service. It was suggested that any corporate or service area where the Internal Audit Service had provided less than 'substantial assurance' should be drawn to the attention of the relevant Cabinet Member.

The committee was particularly concerned at the controls in place to manage the referral of children's social care cases. Although the committee was pleased to note that managers were addressing the issues raised they requested that prior to their next meeting, they receive assurance that the controls have been put in place.

The Chair congratulated the officers of the Internal Audit Service for their work in exploring the areas of concern highlighted in the report.

Resolved: i)   That the internal audit progress report for the nine months to 31 December 2011 as now presented, be noted.

ii)   That any corporate or service area where the Internal Audit Service have awarded less than substantial assurance should be drawn to the attention of the appropriate cabinet member.

iii)   That prior to their next meeting, the committee receive assurance that controls have been put in place to manage the referral of children's social care cases.

8.   Audit Commission Annual Audit Letter 2010/11

The Chair welcomed Karen Murray, the new district auditor to the committee.

Fiona Blatcher, senior audit manager, Audit Commission, presented a report setting out the Audit Commission's Annual Audit Letter 2010/11 in respect of the county council.

The report audit was made up of two elements: the audit of the council's financial statements and the Audit Commission's assessment of the council's arrangements to achieve value for money in the use of its resources. The commission provided unqualified conclusions on both elements and reference was made to this achievement in what had been a particularly challenging year for the council. In terms of value for money in the use of resources,

reference was made to how well the county council had responded to the requirement to make savings of £179m over the three year period 2011/12 – 2013/14.

Resolved: - That the Audit Commission's Annual Audit Letter for 2010/11 and recommendations for future action as set out at Appendix 'A' to the report now presented, be noted.

9. Audit Commission – Lancashire County Council and Pension Fund Audit Plans 2011/12

Karen Murray, district auditor, and Fiona Blatcher, senior audit manager, Audit Commission, presented a report setting 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 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.

It was reported that the impact of the updated assessment on the audit fees was:-

Lancashire County Council – no change to the initially proposed main audit fee which remains at £251,100, (£27,900, lower than the 2010-11 fee, (10%)).

Lancashire County Pension Fund – following an assessment of the impact of the changes in the operation of the pension fund and their impact on audit requirements an increase in the audit fee was proposed. The fee had been set at £67,000, £5,205 higher than the 2010-11 fee and £11,911 higher than the initial fee set out in the letter which went to the June Audit Committee.

Resolved: - That the Audit Commission's reports as now presented, be noted.

10. Audit Commission - Review of Treasury Management

Fiona Blatcher, senior audit manager, Audit Commission, presented a report setting out a review of the council's treasury management function by the Audit Commission.

As part of its work for 2010-11, the Audit Commission had completed a review of the council's treasury management function. This followed the implementation of the council's new treasury management strategy. The Audit Commission commented on the significant benefits achieved by the council through its adoption of its new strategy. They also made recommendations on how to improve the governance of the more complex environment which now existed. Key elements for improvement were strengthening the monitoring

and reporting of key decisions made during the year; financial risks and how they are being managed; and compliance with the regulatory framework.

The commission also emphasised the need to continue to develop the work of the treasury management function in three key areas:

- Governance and decision making;
- Skills and experience; and
- Information systems

The report included management's initial response to the recommendations.

Discussion took place regarding the recommendation on 'skills and experience' as referred to above. It was acknowledged that the treasury management function was regarded as a complex and specialist area. The committee therefore questioned whether there was a contingency plan in place to reduce the risk to the council in the event of the long term absence of key personnel from within the Treasury Management and Pension Fund Team. The deputy county treasurer assured the committee that staff training was being undertaken which would ensure a strong knowledge base and support structure within the team and that further contingency arrangements were in place with the Council's external advisers as part of business continuity planning.

The committee was also assured that the enhancement of officer skills would be supported by continuing the programme of training for elected members in treasury management issues.

The committee noted that one of the commission's priority recommendations was that further improvement was required to provide clear and concise reports to members and had advised that the authority should therefore restructure the form and content of the reports to members.

The committee requested sight of the action plan that had been drawn up to address the areas of concern outlined by the commission. They also asked for a briefing for committee members from the county treasurer to discuss the commission's recommendations and the council's action plan prior to the next meeting in March.

The Chair thanked the Audit Commission for their very detailed and comprehensive report.

Resolved: - That:

      i)   the Audit Commission's report and management response to it be noted;

     ii)   the committee receive further more detailed training on treasury management issues; and

      iii)   the committee receive a briefing session on the issues raised by the commission and action planned prior to their next meeting in March.

11.   Urgent Business

There were no items of urgent business.

12.   Date of Next Meeting

Resolved: It was noted that the next meeting of the committee would be held on Monday 26 March 2012 at 2.00 p.m. at the County Hall, Preston.

     I M Fisher
     County secretary and solicitor

County Hall
Preston

Audit Committee
Meeting to be held on 26 March 2012

| Electoral Division affected: |
| none |

Internal Audit Service progress report
Appendices A and B refer.

Contact for further information:
Ruth Lowry, 01772 5 34898. County Treasurer's Department,
ruth.lowry@lancashire.gov.uk

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 Internal Audit Service's progress report for the year to date (Appendix A) and the detailed analysis of assurance assignments for the year to date (Appendix B).

Recommendation

The Audit Committee is asked to consider the internal audit progress report for the eleven months to 29 February 2012.

Background and Advice

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

Matters to be included in the progress report	How these matters have been addressed
i) work performed (and a comparison with work planned);	See Appendices A and B to this report.
ii) key issues emerging from internal audit work;	The issues arising from our work are reported in Appendix A.
iii) management response to audit recommendations;	We have followed up the matters raised in our audit work in previous years and our findings are referred to in Appendix A.

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Matters to be included in the progress report	How these matters have been addressed
iv) changes to the audit plan for the period; and	Some adjustments have been made to the plan agreed in March 2011 where work is no longer appropriate, and where the resource inputs and timing of some assignments have altered. Appendix B to this report provides information where audit work in the plan for the year has been deferred, and where additional reviews have been undertaken.
v) any resourcing issues affecting the delivery of internal audit objectives.	Fluctuations in internal audit resources are being managed and will not affect the audit plan for the County Council.

Consultations

Not applicable.

Implications:

Risk management

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

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

Paper   Date   Contact/Directorate/Tel

Reason for inclusion in Part II, if appropriate

1 Introduction

1.1 This report summarises the work undertaken during the eleven months of the year to 29 February 2012 by the council's Internal Audit Service under the internal audit plan for 2011/12, and the work carried forward from the previous audit plan completed during the year. The findings included in this report have been agreed with executive directors and shared with the Management Team.

Internal audit assurance

1.2 Internal audit assurance is stated in the following terms:

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

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

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

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

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

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

1.4 A full table of all the audit work planned for 2011/12 is included at Appendix B, setting out brief notes of the progress made on each project and the outcomes where work has been completed. It also clarifies where planned assignments have either been deferred into 2012/13, or removed from the plan, and where additional work has been included in the programme for the year.

1.5 Where work has been completed since the last report to the Audit Committee at its meeting on 23 January 2012 a brief summary of our findings is provided in section 2 below. Section 3 addresses special investigations and counter fraud work.

1.6 The Audit Committee raised a concern on 23 January that executive members should be made aware of the matters arising from internal audit reports and those in particular where limited or no assurance is given. However it may be more appropriate for the services' executive directors to provide these reports to the relevant Cabinet members and to discuss the issues with them, since it is expected that the executive directors communicate openly with Cabinet members about the services within their portfolios.

1.7 The county treasurer and Management Team are currently considering this, and practice elsewhere is mixed. Of 18 members of the County Chief Auditors'

Network who responded to an enquiry, only three routinely share internal audit reports with executive members; of 13 unitary authorities around the Greater Manchester area and beyond, just four routinely share internal audit reports with executive members.

External sources of assurance

1.8 At its last meeting the Audit Committee noted that CYP had been subject to a peer review of its safeguarding arrangements and its arrangements for children looked after by the council by a team brought together by the Local Government Improvement arm of the Local Government Group.

1.9 In January 2012 CYP was also inspected by Ofsted, which has now reported that the council's services which protect children, including children looked after, are rated as 'good with outstanding features'. The report can be found through the following link: http://www.ofsted.gov.uk/local-authorities/lancashire

2 Matters arising from internal audit work completed during the period

2.1 This section of the report should be read in conjunction with the table provided in Appendix B to this report, which outlines the progress of each audit assignment in the audit plan for the year.

Corporate arrangements in relation to information governance

2.2 A statement of the risks and controls in this area has been completed and shared with the county treasurer, rather than a follow-up of previous recommendations, since the council's information governance arrangements are currently being considered. This includes consideration of which senior officer will be designated as the council's senior information risk officer and, once this is resolved, a number of other arrangements remain to be reinforced before any assurance can be given that the council's information governance arrangements are robust.

Management of vehicle assets

2.3 We have provided limited assurance over the management of vehicle assets.

2.4 We sampled 25 fleet vehicles from across the council, covering each of the directorates and LCCG, and we also reviewed a small sample of hired vehicles.

2.5 There is currently no written policy available to staff to guide them in purchasing or hiring vehicles. Whilst LCCG's Fleet Services team provides basic information on the intranet about the service and contacts, this does not appear on the A-Z or as a result of related searches, which prevents staff from readily obtaining the information they need, should they recognise that need.

2.6 There is no single point of contact within the council that administers hired and leased vehicles. There is therefore no central monitoring of these vehicles and their usage, any consideration of whether the existing fleet can meet those requirements or whether a purchase is more cost effective. Without an overall picture of which vehicles the council uses and how, procurement decisions may not be cost-effective.

2.7 Neither hired nor fleet vehicles are consistently recorded on the insurance database within the timescales required by the council's insurance policy, and there is no reconciliation between vehicles, the Repair and Maintenance Program (RAMP) system and the insurance database to confirm that all vehicles are recorded within the timescales demanded. There is therefore a risk that the council is not meeting its insurance obligations and there is a possibility that its insurance in respect of certain vehicles may be invalidated.

2.8 There are no regular checks that drivers' licences are valid within any of the directorates, although drivers' licences within LCCG's Travelcare and Highways services are checked annually. The council may therefore be unaware of any employees' driving-related convictions or changes in driving entitlements which affect their ability to drive vehicles owned or hired by the council, or could invalidate the council's insurance cover. Additionally, the council's guidance is not sufficiently clear that drivers using their own vehicles should produce their driving licence annually or when their vehicle or insurance changes, and this is not done.

2.9 No manager we met conducted mileage checks on the vehicles used, and we found no guidance or hand-over procedures as vehicles are taken out and returned by drivers. It would therefore be difficult for any manager to identify inappropriate or personal usage of the council's vehicles.

ICT services data centre

2.10 The objective of the audit was to assess the physical security and environmental management controls over the council's data centre and that controls have been implemented to prevent unauthorised access, damage and interference to premises and information.

2.11 The data centre is crucial to the council's ability to utilise ICT and has been designed to operate robustly. It is provided with alternative forms of power and telecommunications to ensure continuous service, and its environmental conditions are continuously monitored. It is protected from the threat of fire by an automated fire suppression system and from unauthorised intrusion by controlled access to buildings and further restricted access to the centre itself.

2.12 Although the data centre can meet current requirements, an increasing number of services are being offered to other organisations and the council itself is increasing its reliance upon ICT solutions for the delivery of its own services. Further demand for ICT services will exceed the data centre's current capacity, and One Connect Ltd and Property Group are discussing how best to achieve the environmental requirements and level of uninterruptable power supply required.

ICT vulnerability management

2.13 There is widespread proactive and reactive monitoring of the council's information systems infrastructure to identify and mitigate vulnerability to security threats. There are many examples of industry best practice and we found no incidents resulting from poor vulnerability management.

2.14 However, the absence of clear, documented management policies, processes and procedures to support operational practice has limited our ability to fully review and test the effectiveness of the established vulnerability management

processes. We are therefore unable to confirm whether any have gone undetected and could have been exploited.

2.15 We have also identified significant weaknesses in information risk management processes and have been unable to confirm the effectiveness of the response to the 2010 external penetration test. We are therefore able to provide only limited assurance over vulnerability management, although One Connect Ltd has recognised the need to formally define and document policies and procedures and plans to address these risks.

Web/ internet use

2.16 Our review focused upon the council's security needs as well as the users' information requirements and, in particular, use of the Websense Triton product as a tool to monitor compliance with the council's Internet and Email Acceptable Use Policy.

2.17 Reports generated from this system do not support effective monitoring of staff use of the internet. Detailed information within the reports cannot be filtered to differentiate usage which has been positively requested by a user from that generated by dynamic content of a webpage (such as gambling advertisements within a newspaper's web page or links to social media sites).

2.18 Although we can provide limited assurance over the product as a whole we can provide no assurance over the product's ability to support compliance with the Acceptable Use Policy and any subsequent investigations or disciplinary action.

Management of children's social care referrals

2.19 We have discussed our work on the management of children's social care referrals with the director of targeted and assessment services and her senior management team, and our report has also been discussed with the district managers: action is being taken. We are currently performing some additional testing around 'ceased workers' and cases requiring initial assessments and will provide a further verbal update at the Audit Committee meeting.

Schools

2.20 As reported in January, we have completed 36 school audits as part of the 2011/12 audit plan and a summary of the assurance we have provided was set out in the progress report to the Committee in January.

2.21 Where a school received either limited or no assurance during 2010/11 we have undertaken a follow-up audit to ensure that appropriate action has been taken by the school and offer further support. This work is now complete for all 12 of these schools and satisfactory progress has been made by all of these schools in implementing the actions they agreed.

Thematic audit of data protection in schools

2.22 We have completed a thematic audit on data protection compliance in schools. All schools gather and store personal information on pupils and teaching and non teaching employees and must comply with the Data Protection Act 1998. We have issued a newsletter ('Audit Matters') to all Lancashire's schools setting out the key issues and advice arising from our audit which include the need to:

- Issue privacy notices to data subjects (pupils, parents and staff);

- Encrypt all laptops and portable devices that hold data;

- Retain data only for the purpose it was obtained for; and

- Ensure that data is not shared with other third parties without the data subject's permission.

2.23 We found that 36 schools in Lancashire were not registered with the Information Commissioner although failure to register is a criminal offence. We have contacted each of the 36 schools and advised them of this legal requirement, and will follow up this review in the near future to ensure all of the 36 schools have registered.

2.24 We have recently completed thematic reviews of procurement and unofficial school funds and are in the process of drafting our reports. As well as reporting our findings back to the individual schools we have visited we will issue an Audit Matters newsletter to all schools, using the School Portal, which will set out information about common issues as well as providing links to guidance and support.

LCCG catering income

2.25 We have provided limited assurance over the controls in place to securely collect, bank and record income from the catering services provided to fully managed schools.

2.26 LCCG Catering Service has developed and circulated cash handling procedures to unit catering managers and area operations managers, which clearly define best practices that are expected to be followed in respect of income received for schools catering services. However in several cases the practices employed within school kitchens controlled by LCCG did not comply with these documented procedures. For example cash had been held at the unit catering manager's home over a weekend prior to banking, and elsewhere small unidentified discrepancies in bankings had occurred on a regular basis.

3   Investigations and counter fraud work

Special investigations

3.1 We have been working closely with the Human Resources team and have revised our approach to performing financial investigations to ensure our approach to investigations is as effective and efficient as possible.

Counter fraud activity

3.2 We have re-drafted the council's Whistleblowing Policy and this has been publicised to staff via the intranet. The communications team will also ensure that the policy is also communicated to staff without access to the intranet. Similarly, we have aligned the schools' Whistleblowing Policy with the council's and the schools' policy will also be re-issued early in 2012.

3.3 We regularly use data analysis to identify schools that have not banked dinner income regularly, and investigate these. Based on our findings we are currently drafting an Audit Matters newsletter which will be issued to all schools detailing this specific issue and other cash management issues.

3.4   We are also continuing to investigate some issues arising from the Audit
Commission's National Fraud Initiative and the Your Pension Service is
addressing the data matches relating to deceased pensioners.

Audit areas	Comments	Assurance				Recommendations (residual risk)				
		Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
Cross-cutting issues										
Corporate governance										
The council's capacity to respond to allegations of fraud or other misconduct	A summary of the work undertaken to enhance the council's response to the risk of fraud is set out in section 3 of Appendix A.									
Declarations of interest and hospitality: officers – follow-up	As previously reported, we are continuing to work with the county secretary and solicitor's team as they develop revised procedures and guidance. A revised Code of Conduct for Employees and a Statement of Ethics have now been issued for staff, and publicised by the chief executive.									
Declarations of interest and hospitality: members – follow-up										
Members' expenses and allowances – follow-up										
Information governance										
Data sharing arrangements	A draft report has been prepared as is being discussed with management. This work will be reported to the Audit Committee in June 2012.									
Investigation into information breach	Additional work was undertaken during February 2012 to investigate the circumstances in which information was released to the incorrect recipients.									
Overall corporate arrangements – follow-up	The council's information governance arrangements are currently being re-considered. The Internal Audit Service is supporting this work but cannot yet provide assurance over the adequacy and effectiveness of these.									
Legislative compliance										
Compliance with the European Working Time Regulations – follow-up	This work will be done during the fourth quarter of the year and will focus on arrangements within LCCG.									
The council's response to new legislation, and compliance with legislation	The deputy county secretary and solicitor is in the process of preparing a report.			✓						
Sample testing of service's compliance with legislation	Work has been initiated to test specific service areas' legislative compliance within each directorate, but will not be complete before the year end and will continue into 2012/13.									
Risk management										
The council's risk management arrangements	A revised approach to risk management was agreed by Management Team in January 2012 and discussed by the Audit Committee at its last meeting.		✓			-	-	-	-	-
Safeguarding										
CRB checks: corporate arrangements (carried forward from 2010/11)	This work was reported to the Audit Committee in September 2011.		✓			0	0	6	4	10
CRB checks: corporate arrangements – follow-up	Our follow-up work is almost complete; we are awaiting responses to a small number of outstanding queries.									
Safeguarding children's transport (CRB checks): Environment (carried forward from 2010/11)	This work was reported to the Audit Committee in September 2011.			✓		0	1	5	1	7
Safeguarding children's transport (CRB checks): LCCG (carried forward from 2010/11)	This work was reported to the Audit Committee in September 2011.			✓		0	1	6	4	11
Children's Safeguarding Board (carried forward from 2010/11)	This work was reported to the Audit Committee in January 2012.			✓		0	0	4	2	6
Children's Safeguarding Board – follow-up	This follow-up work will now be conducted as a full review and the agreed actions will be followed-up during 2012/13.									
Safeguarding children's transport – follow-up	A full review and the agreed actions will be followed-up during 2012/13.									
The work of the CYP compliance auditors (carried forward from 2010/11)	This work has been superseded by the peer review of safeguarding and children looked after that took place in July 2011 that provided positive assurance to the council over safeguarding performance and quality.									
Safeguarding vulnerable adults – follow-up	This work has been deferred until early in 2012/13.									
Public health and safety										
Corporate manslaughter on the highways – follow-up	This will be the subject of a full review in 2012/13.									
Petroleum safety – follow-up	This work is complete and a draft report has been issued to management. The agreed recommendations have been satisfactorily implemented as agreed.									
Health and safety of staff										
Corporate arrangements – follow-up	As was reported in January 2012, the majority of agreed actions have been implemented.									

Audit areas	Comments	Assurance				Recommendations (residual risk)				
		Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
Lone workers: CYP (carried forward from 2010/11)	This work has been completed and a report is being discussed with management.									
Lone workers: Environment (carried forward from 2010/11)	This work was reported to the Audit Committee in January 2012.			✓		0	3	5	0	8
Lone workers: Environment – follow-up	This will be the subject of a full review in 2012/13.									
Lone workers: LCCG – follow-up	This will be the subject of a full review in 2012/13.									
LCCG' engineering and catering services' health and safety arrangements: follow-up	This work is under way.									
Asset management										
Inventory control and usage: ICT assets, including work carried forward from 2010/11)	This work was reported to the Audit Committee in September 2011.		✓			0	0	0	5	5
Inventory control and usage: property assets	Fieldwork on this is nearly complete.									
Inventory control and usage: vehicle assets	A report has now been finalised on this area and is reported in more detail at paragraphs 2.3-2.9 of Appendix A.			✓		0	2	7	7	16
Capital accounting for assets	This work is now planned for 2012/13, since the Audit Commission has undertaken work during the current year.									
Customer Service Centre										
Acorn system – follow-up	Since this system is under review and may be replaced, follow-up work will not be undertaken and has been removed from the audit plan for this year.									
Care Connect service	Both the Customer Service Centre and the front-end of the council's social care services are undergoing substantial change at present, but this work is now under way: it will continue into the next audit year. Additional resource has been assigned to the review from the planned work on intake teams in ACS.									
Partnership working										
The council's role as accountable body – completion of work carried forward from 2010/11, and follow-up	This work was reported to the Audit Committee in January 2012.			✓		-	-	-	-	-
Partnership working to support children	This work will cover the cost and delivery of services provided by the NHS for children with mental health needs, but has been deferred into the next audit year.									
Cross-organisational working with the NHS	This work has been superseded by other work within ACS and will not now take place.									
Transfer of services to the council's strategic partner										
Funds flow between the council and BT plc	Further work will be done on this as the charging process develops towards the year end.									
Transfer of services to the strategic partner: Customer Service Centre	These areas are subject to very close senior management scrutiny and control, and it has not been necessary or appropriate to undertake detailed work during the year. By agreement with the Management Team this work has been removed from the audit plan.									
Transfer of services to the strategic partner: financial controls										
Transfer of services to the strategic partner: ICT										
Cross-service issues										
Reablement: ACS – follow-up	This area is still undergoing further operational change and follow-up work will therefore be undertaken during 2012/13.									
Reablement: LCCG – follow-up										
Integrated service delivery: Environment and LCCG	The cost reductions from this integration project are being discussed and explored with management. It is unlikely that this work will result in specific controls assurance.									
Transport for children with special educational needs – follow-up	This area is still under development by management and specifically the Accessible Transport Board. Although we are maintaining a close interest in progress, follow-up work is not yet appropriate.									
Common corporate controls										
Commissioning and procurement										
Procurement for Fleetwood schools under the Primary Schools Capital Programme	This work was reported in September 2011.			✓						
Purchasing within the LCCG Highways team	This work is on-going.									
Purchasing – follow-up	Whilst the Procurement Centre of Excellence is being established follow-up work has not been appropriate during this year.									

Audit areas	Comments	Assurance				Recommendations (residual risk)				
		Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
Tendering – follow-up	Our compliance testing across the directorates has addressed tendering arrangements. This work has been reported to the director of procurement but is still being discussed with relevant managers within the directorates.									
Financial controls										
Implementation of Oracle Release 12	This work has been on-going throughout the year; the Internal Audit Service is closely involved and has undertaken considerable testing of the implementation process, including testing the work done on the detailed development and testing of the system elements, the integration of these elements, and user acceptance testing. Further work is continuing on data migration.									
Accounts payable	The first tranche of testing, covering the first half of the year is complete and a draft report has been issued. There are no significant recommendations other than the need to ensure that all supplier standing data change requests are fully validated.	✓				0	0	1	0	1
Accounts receivable	The first tranche of testing, covering the first half of the year is nearly complete.									
Budgetary monitoring and control	This work has been removed from the audit plan, since the system will be fundamentally altered with the new release of the Oracle financial system.									
Cash and banking	The work will be undertaken in the fourth quarter of the year to ensure maximum coverage of the year's transactions, and is not yet complete.									
Expenses										
General ledger										
Treasury management	Following the Audit Commission's detailed work on this, that was reported to the Audit Committee in January 2012, no further work will be undertaken this year.									
Payroll	Testing is complete on transactions during the first half of the year, and work has extended into the fourth quarter to ensure maximum coverage of the year's transactions.									
VAT	This work is complete. The points arising from our work are relatively minor and have not been reported in any further detail.	✓				0	0	2	4	6
ICT controls										
Asset management and disposal (carried forward from 2010/11)	This work was reported to the Audit Committee in September 2011.	✓				0	0	5	0	5
Data centre	This work is complete and further information is set out in paragraphs 2.1-2.12 in Appendix A.									
Database security	This work has begun and will continue to the final quarter of the year.									
Email usage	A report is being drafted and will be shared with management shortly.									
Incident and problem management	A report is being drafted and will be discussed with management in conjunction with the wider requirements of good information governance.									
Controls over staff leaving the council	This work on information retrieval and computer assisted audit techniques was reported to the Audit Committee in January 2012.									
Oracle/ HR payroll system	We reported this work to the Audit Committee in September 2011.		✓			-	-	-	-	-
Vulnerability management	This work is complete and further details are provided in paragraphs 2.13-2.15 of Appendix A. It will also be relevant to wider considerations of information governance.			✓		0	0	4	0	4
Web/ internet use	This work is reported in paragraphs 2.16-2.18 of Appendix A.			✓		0	1	0	0	1
Asset management and disposal – follow-up	This work will be completed by the end of the year.									
Change management – follow-up										
Government Connect – follow-up										
Network management – follow-up										
User access management – follow-up										
Controls over management of the council's estate										
Premises management: Lancashire County Council	Work on the council's premises is complete and a draft report is being considered by management.									
Final accounts	There were no significant issues to report from this work.		✓			-	-	-	-	-
Carbon reduction commitment annual return process	This work was reported to the Audit Committee in September 2011.		✓			-	-	-	-	-
Strategic partnering – follow-up	This work was reported to the Audit Committee in January 2012.					0	0	3	0	3
HR controls										
Redeployment process	This work was reported to the Audit Committee in January 2012.		✓			0	0	0	0	0

Audit areas	Comments	Assurance				Recommendations (residual risk)				
		Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
Redundancy process	This work will be undertaken at the same time as our work on the administration of the pension fund, in the final quarter of the year.									
Absence management – follow-up	The only medium level recommendation made on this area has been addressed with the implementation of the HR/ payroll system.									
Service-specific controls										
Adult and Community Services										
Adult Learning – follow-up	This work is complete and was reported to the Audit Committee in January 2012.									
Budget transfers between the NHS and county council	We have supported management in considering the budgets being transferred between the NHS and county council, but this work will not provide controls assurance.									
Case management – follow-up	This work has been postponed whilst the current ISSIS system is subject to review; neither the system nor its related procedures will be amended in the short-term. The key issues relate to ISSIS's security and access to confidential data, and until the system is changed these issues will remain.									
Commissioning – follow-up	This work is complete and the directorate has made good progress in addressing the actions agreed within the original review.									
Fair access to care criteria	This work is continuing.									
Intake teams and referrals to support	This work has now been subsumed within work on the Care Connect service within the Customer Service Centre and has been removed from this part of the audit plan for the year.									
Payments to preferred providers: non-residential care	Although it was thought that this work might have to be deferred to 2012/13, it has now begun.									
Payment and monitoring system (PAMS) and Non-Residential Care system (NRCS) – compliance testing	This work is complete and was reported to the Audit Committee in January 2012.		✓			0	0	1	0	1
Resource allocations to individual budgets 'FACE')	This work will not now be undertaken as implementation of the FACE system has been delayed whilst the future of the ISSIS system is resolved.									
Prepayment card pilot	Fieldwork on this review is complete and will be reported shortly.									
Safeguarding vulnerable adults' finances – follow-up	This work is complete and was reported to the Audit Committee in January 2012.									
Vulnerable adults: domiciliary services and day centres	This work was reported in September 2011.		✓			0	0	8	7	15
Children and Young People										
Adoption payments – follow-up	This work has been deferred until 2012/13.									
Agency placements – follow-up	This work is planned for the fourth quarter of the year.									
Children looked after within and outside the county	This work has now been deferred, since this service area has been subject to two external reviews during the year, the latest by Ofsted, focussing on safeguarding and services for children looked after.									
Children educated other than at school – follow-up	This work was reported to the Audit Committee in September 2011.									
Controls within children's residential homes	Work on this area has begun.									
Early intervention	Work on the arrangements in place within the districts is being scoped and will begin early in 2012.									
Emergency payments to families	This work was reported to the Audit Committee in January 2012.			✓		0	0	11	2	13
Financial and performance monitoring of schools	This work is complete and being reviewed.									
Fostering payments – follow-up	This work is planned for the fourth quarter of the year.									
Graduate Leadership Fund – follow-up	This work is complete and was reported to the Audit Committee in January 2012.									
Grant monitoring arrangements	Work on this area has begun and will continue in January 2012.									
ICT support provided to schools	This work has been re-classified as a thematic schools review.									
Management of children's social care referrals	This work is complete and was reported to the Audit Committee in January 2012.			✓		0	2	6	1	9
Management of children's social care referrals – follow-up	At the Audit Committee's request this work has been undertaken immediately following our report on the issues in January 2012. Work is continuing and is referred to in paragraph 2.19 of Appendix A.									
Personnel file inspection	We undertook compliance testing on a sample of personnel files to ensure that they adequately mitigated the risk that the directorate fails an external inspection because it cannot demonstrate the qualifications and clearance of its staff to work with children in professional social care. This work has been completed and the results reported to management.									
Play Capital Grant	An audit certificate for this grant was signed in November 2011.		✓			-	-	-	-	-

Audit areas	Comments	Assurance				Recommendations (residual risk)				
		Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
Provision for children with disabilities	This work has begun.									
SEN transport – follow-up	The Audit Service continues to be involved in this project but will not undertake formal follow-up work this year.									
Sure Start Children's Centres: performance monitoring	This work is substantially complete and is being reviewed, and reports have been issued to the three centres we visited.									
Young Person's Learning Agency grant certification	Early work on this has been completed and an audit certificate will be provided as required during April 2012.		✓			-	-	-	-	-
Schools and sixth form colleges										
School reviews and follow-up	The audit programme for schools is complete.									
Thematic school review: data protection	The field-work on this assignment is complete and a report has been issued. Please see additional information in paragraph 2.22 of Appendix A.									
Thematic school review: procurement	Fieldwork for these reviews is complete and will be reported shortly.									
Thematic school review: unofficial schools funds										
Thematic school review: communicating common controls issues for schools	This work is complete, and communication with schools regarding controls will continue through the Schools' Forum and Portal.									
Premises management: schools	Work on premises management has been separated into work on LCC's premises and work on the county's schools, which began on 6 February 2012.									
Environment										
Certification of Envireo grant claim	An audit certificate for this grant was signed in October 2011.		✓			-	-	-	-	-
Certification of Growth Point grant claim	An audit certificate for this grant was signed in June 2011.		✓			-	-	-	-	-
Certification of INTERREG grant claim	An audit certificate for this grant was signed in October 2011.		✓			-	-	-	-	-
Closed landfill sites – follow-up	This work will be done around the year end.									
Concessionary travel	This work is nearing completion and a report is being drafted.									
Development control: s106 – follow-up	Follow-up of this work will be deferred to 2012/13.									
Development control: s278 – follow-up	This work will be done around the year end.									
Final accounts for contractors	As reported in January 2012 this work is complete and there are no significant issues to report.		✓							
Project management (carried forward from 2010/11)	We have discussed our draft report on the Heysham M6 link road project with management, and will shortly meet the managers involved with the Guild Wheel project.									
Project management – follow-up	Follow-up work will take place during 2012/13.									
Waste PFI: emissions	We will now undertake this work during 2012/13.									
Waste PFI: budget forecasting (carried forward from 2010/11)	This work was to the Audit Committee in January 2012.			✓		0	0	1	1	2
Winter Highways Information Management System – follow-up	The winter maintenance system has changed substantially since our last review and follow-up is no longer appropriate. A full review will be undertaken in 2012/13.									
Lancashire County Commercial Group										
Certification of Bus Service Operators' grant	An audit certificate for this grant was signed in November 2011.		✓			-	-	-	-	-
Compliance testing: area office controls	This work will not now be undertaken but will be replaced instead with work on LCCG's payroll controls.									
Compliance testing: payroll controls	This work has begun.									
Residential homes: medication and care planning – follow-up	This work is nearing completion and is being discussed with management.									
Schools catering income procedures	Work is complete and the report has been finalised. Further information is set out in paragraphs 2.25-2.26 in Appendix A.									
Use of sub-contractors	This work is under way and will be done before the year end but will be combined with the work on purchasing within the LCCG Highways team which is closely related and taking place at the same time.									
Economic development, LCDL and Regenerate										
Certification of grant usage	The final annual certificate for Regenerate's funding from the Homes and Community Agency was signed during May 2011.									
Income protection – follow-up	This work has been prepared and will be undertaken before the year end.									

Audit areas	Comments	Assurance				Recommendations (residual risk)				
		Full	Substantial	Limited	None	Extreme	High	Medium	Low	Total
Key independent financial systems	Since the systems remain unchanged, but the LCDL team has moved closer to the rest of the county council, it has been agreed that this work is unnecessary.									
LCC's accountable body role in relation to Regenerate	We have continued our involvement with Regenerate but the county council no longer fulfils an accountable body role since the Housing Market Renewal Pathfinder project ended.									
Operational review	It is unlikely that this work will be required during 2011/12.									
Rosebud – follow-up	This work has been completed and was reported to the Audit Committee in January 2012.									
		0	19	12	1	0	10	75	38	123
		0%	65%	31%	4%	0%	8%	61%	31%	100%

Audit Committee
Meeting to be held on 26 March 2012

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Electoral Division affected:
All

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Internal Audit Service: Audit Plan 2012/13
(Appendix 'A' refers)

Contact for further information:
Ruth Lowry, (01772) 534898, County Treasurer's Group
ruth.lowry@lancashire.gov.uk

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 **2,800 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 2012/13.

Background and Advice

The council is required by The Accounts and Audit (England) Regulations 2011 ('the 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 (incorporating consideration of internal control and risk management as well as other aspects of governance).

The regulations also 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.

Lancashire
County
Council

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 plans and budget reports;

- 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 as the council's external auditor.

Implications:

Risk management

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

Financial

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

Paper	Date	Contact/Directorate/Tel
The Accounts and Audit (England) Regulations 2011	2011	Ruth Lowry, County Treasurer's Group, Phone extension 34898

Reason for inclusion in Part II, if appropriate

N/A

Audit Committee meeting 26 March 2012

Internal audit plan for the year 1 April 2012 to 31 March 2013

1. Summary

1.1 The Audit Committee is invited to consider the annual internal audit plan for Lancashire County Council for 2012/13. 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, and to support an annual opinion on the effectiveness of the systems of governance, risk management and internal control across the council.

1.2 The plan amounts to a total resource input to the county council of **2,800 audit days** (2011/12: 2,780 days). During 2010/11 and 2011/12 the Internal Audit Service reduced its audit input to the county council as a result of a reduction in staffing levels as part of the county council's drive to reduce its costs. The council is now clearly beginning to reduce the scale of its operations and its services are going through considerable change as a result; at this point a further reduction in audit resources is not considered appropriate.

1.3 Provisions have been made for sickness and unanticipated staff turnover on the basis of previous experience, and it is assumed that approximately 750 days (2011/12: 1,100 days) will also be provided to external organisations within Lancashire including the pension fund, the police authority and a number of the district councils.

2. The council's assurance requirements

2.1 The council provides a wide range of services across the county and its senior management teams are 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.

2.2 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.

2.3 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 Internal Audit Service may provide it, and this forms our annual audit plan.

3.   The council's control framework

3.1   The plan recognises and aims to provide assurance over the following controls:

- Corporate controls: These controls relate to the overall governance arrangements of the county council as a whole, and are therefore largely limited to corporate governance and risk management, information governance, and the council's partnership arrangements with One Connect Ltd.

- Cross-service controls: These are the controls that support the council's work across some or all of its service areas, either where two or more teams provide a single service, or where risks are common to a number of (or all) service teams. Very few risks are managed by a single corporate solution but similar controls may be implemented across a number of teams to address the same or similar risks.

- Service-specific controls: The controls designed to manage the risks arising from the provision of particular services and from individual service areas.

- 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 elements of the council's day to day operations that are operated in common across the whole organisation, such as financial and ICT services, and human resources.

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

The council's control framework
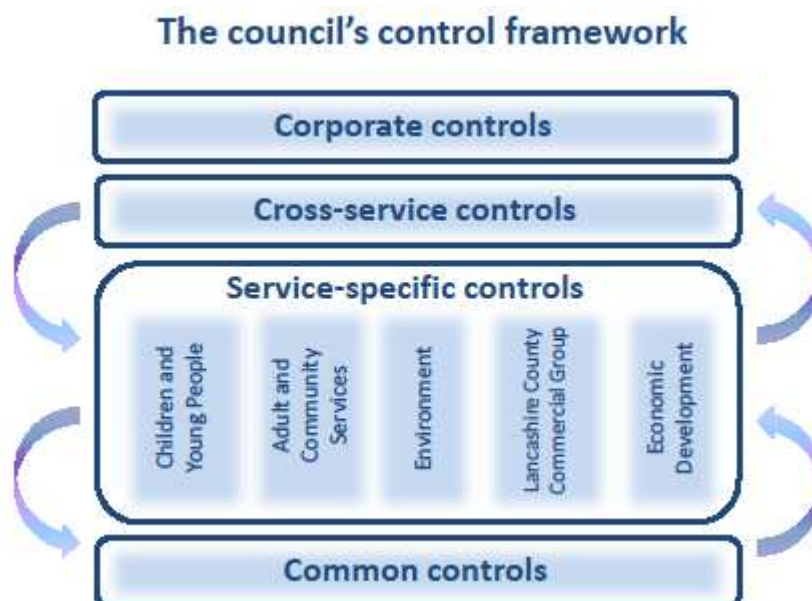
4. The planning process

4.1   The Internal Audit Service has discussed with directors and executive directors the risks identified by Management Team and the council's senior management teams, following the county council's revised approach to risk management. 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 as these are the controls over which the council needs greatest assurance.

4.2   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. Where services are provided by One Connect Ltd we will provide assurance over the controls the council relies upon in the same way as if the controls were operated by the county council itself, but will agree our plan with the chief operating officer and Board of the company as well as with the county council.

4.3   On this basis, we have made an assessment of the assurance we need to provide to the council during 2012/13. Since audit resources are limited they must be prioritised to maximise their value in the council's now fast-changing environment. Input from Management Team has been sought specifically to ensure that we prioritise our resources most effectively.

5. The county council context

5.1   The Internal Audit Service must be alive to changes affecting the whole of the county council as we undertake our work. Having achieved planned savings of £73.7 million and additional savings of £10.7 million during 2011/12, the council is about to start on the second year of its three-year cost-saving programme, although the need for cost-saving is likely to continue for longer than this three-year period. It has already considerably reduced its workforce, and many of the council's services have already been affected and are being re-configured, some also being transferred between directorates. Many of the risks associated with these services are likely to have changed to some degree and it will have been necessary in many cases to re-design their corresponding control frameworks. The council requires strong assurance that its controls are adequately designed and operated effectively.

A changing corporate culture

5.2   The strong drive to change our organisational culture and to become an organisation more closely founded on trust is also continuing into 2012/13, and this too will fundamentally alter the way controls are designed and operated. At the same time as the number of managers is falling, it is likely that there will be a greater reliance on monitoring controls operated by managers and on detective controls, but fewer directly preventative controls.

A new strategic partnership

5.3   The council's strategic partnership with BT plc through One Connect Ltd is now operating and has already catalysed change in key corporate control areas – ICT, payroll, accounts payable and procurement – as well as in the way the council interacts with citizens and service users through its Customer Service Centre. The Internal Audit Service will continue to provide controls assurance over these areas in the coming year.

New IT systems

5.4   A new financial management system, Oracle Release 12, will be introduced at the start of the year and this new IT platform will be supported by fundamental changes to the whole range of key financial systems and processes and to the way budgets are managed across the council. This will be followed during the course of the year and subsequently by changes too to a number of operational systems. In particular, the integrated social services information system (ISSIS) operated jointly by the Directorate for Children and Young People and the Adult and Community Services Directorate will also be replaced during the course of the year with significant implications for the work of both directorates, and with significant resource requirements to support the replacement project too. Similarly, the Corporate Electronic Records Management System (CERMS) is also likely to be replaced during the year affecting information management processes across the authority.

Service reorganisation and re-structuring

5.5   A number of services have been subject to reorganisation and relocation within the county council's organisational structure and these changes will be consolidated and continue throughout the year. For example, following its integration into one team during 2011/12, the Highways Service was fully transferred into the Environment Directorate, and the new operational processes facilitated by this newly integrated service are still being developed. Other service teams have been relocated within the One Connect Ltd structure and are subject to similar change to working practices to realise cost efficiencies and stimulate performance improvements; examples include the Human Resources 'Ask HR' service, and ICT Services. Other similar moves will continue during the year, for example as the Procurement Centre of Excellence and Care Connect (which assesses social care cases at the first point of contact) are established.

On-going service development

5.6   Other service-specific developments are continuing too, for example: work within the Environment Directorate supporting the council's waste management strategy and private finance initiative; the impact of personal care budgets and fee banding within the Adult and Community Services Directorate; the council's work with families and the need to make savings associated with early intervention services in the Directorate for Children and Young People, as well as the delivery of the schools financial strategy at the same time as academies

are forming; and preparation for the council's new responsibilities in relation to public health.

6.   The Internal Audit response

6.1   In a time of such fundamental change the Internal 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.

6.2   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.

6.3   We aim to provide integrated assurance across the whole council, recognising the relationships between 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.

6.4   The Internal Audit Service 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.

6.5   During 2011/12 the Internal Audit Service also took on responsibility for overseeing the council's risk management process. The council's revised approach to risk management makes clear that managers – rather than the Internal Audit Service – are responsible for ensuring that risk is considered as part of any new service developments or improvements, and in on-going performance monitoring. However the synergy between internal audit and risk management is clear. In taking the 'annual snapshot' for Management Team and the Audit Committee of the council's greatest current risks, and discussing this with senior management across the council, the Internal Audit Service will be well placed to ensure that the assurance we provide to the council is focussed on controls over its greatest risks.

6.6   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 support to management on risk management and counter fraud work.

7.   Deployment of audit resources

7.1   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 flexible audit plan

7.2   The resources available to the Audit Service have been reduced over recent years but we have focussed ever more effectively on the council's risks and sought to deliver high quality advice to the council. As part of the continuous drive to secure value for money and in response to the current budget constraints, Internal Audit resources were reduced in 2011/12 and current vacancies within the team will not be filled.

7.3   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. 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 audit resources available.

7.4   We have discussed the council's key current risks and ongoing underlying risks with members of the Management Team and senior leadership team. The audit plan therefore reflects the need to provide assurance that the controls over the council's greatest risks are adequately designed and effectively operated.

7.5   Although the annual plan enables both managers and members to see the overall scope of internal 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, but we intend to minimise this work as far as possible. 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 and we will amend the plan throughout the year as required.

7.6   The planned overall deployment of audit resources on the council's controls is shown in summary on following next page. A more detailed list of each audit review planned with the council's managers at this stage is shown in the annex to this document.

CONTROLS ASSURANCE	Estimated audit days	
Corporate controls		
Governance, including legislative compliance	48	
Information governance	10	73
Working in strategic partnership with One Connect Ltd	15	
Cross-service controls		
Business continuity and emergency planning	30	
Partnership working	10	
Reablement	25	120
Transition from children's to adult services	20	
Transport (accessible transport, and safeguarding)	35	
Service-specific controls		
Adult and Community Services	279	
Children and Young People	314	
Environment (including grant certification)	328	
Lancashire County Commercial Group	90	
Economic development	72	1,502
Customer Service Centre	37	
Public health	32	
Schools and sixth forms	350	
Common controls		
Financial controls	308	
ICT controls	181	
Human resource controls	92	650
Procurement controls	58	
Controls over the estate	11	
Management of the Internal Audit Service		75
Total internal audit plan		
Counter fraud and investigatory service		345
Support to management on risk management		35
Total internal audit resource for the county council		**2,800**

7.7   An allocation of 75 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 external auditor; and

- Attendance, support, and reporting to the Audit Committee and Standards Committee as required.

Risk management

7.8   The Internal Audit Service is also responsible for supporting management in managing the council's risks. The council's approach to risk management was revised in January 2012 and in particular the Internal Audit Service will work during 2012/13 to revise the associated risk management guidance to managers.

Controls to manage the risk of fraud

7.9   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.

7.10   This work will account for approximately 345 days of the Audit Service's resources during 2012/13. This is a further reduction on previous years' allocations and we will again take a supportive role, working with managers across the council as they undertake investigative work themselves where possible rather than transferring this work to the Internal Audit Service.

	Type of control	Audit review	Audit scope	Planned audit days
Corporate controls				
	Governance	Audit planning, reporting & management.	Client liaison including periodic reporting.	1
	Governance	Support to management, including input to the council's annual governance statement.	Support to management.	6
	Governance	Corporate performance monitoring.	RACE-based review.	15
	Governance	Implementation of member's decisions and decision-tracking.	RACE-based review.	15
	Governance	Staff acceptance of gifts and hospitality.	RACE-based re-review - previously limited assurance. Supported by limited work in directorates.	5
	Governance	Staff disclosures of business interests and their use by management.	RACE-based re-review - previously limited assurance. Supported by limited work in directorates.	3
	Governance			**45**
	Working in strategic partnership	Funds flow between LCC and OCL	RACE-based review.	15
	Working in strategic partnership			**15**
	Legislative compliance	Follow-up: Overall control of the council's response to new legislation.	Follow-up review.	3
	Legislative compliance			**3**
	Information governance	Overall corporate arrangements.	RACE-based re-review.	5
	Information governance	Follow-up: Overall corporate arrangements for data sharing with partners, supported by work in directorates (ACS & CYP).	Follow-up review (subject to opinion in 2011/12), supported by work in directorates (ACS & CYP).	5
	Information governance			**10**
Total corporate controls				**73**
Cross-service controls				
	Business continuity and emergency planning	Overall corporate arrangements. (Note the link with ICT disaster recovery).	RACE-based review.	30
	Business continuity and emergency planning			**30**
	Accountable body role	The council's accountable body role.	RACE-based re-review - previously limited assurance.	10
	Partnerships/ accountable body			**10**
	Reablement	Reablement service commissioned by ACS and provided by LCCG.	Full RACE-based re-review of 2010/11 audit, including new controls testing and compliance checks - previously limited assurance.	25
	Reablement			**25**
	Transition from children's services to adult services.	Transition from children's services to adult services.	Full RACE-based review including new controls testing and compliance checks - previously limited assurance.	20
	Transition from children's services to adult services.			**20**
	Transportation services.	Accessible transport arrangements including internal re-charges, building on work undertaken in 2011/12.	RACE-based re-review. (Nil assurance in 2011/12, on limited audit work).	30
	LCCG	Safeguarding children's transport.	RACE-based re-review - previously limited assurance.	5
	Transport			**35**
Total cross-service controls				**120**

Lancashire County Council: Internal Audit Plan 2012/13

Type of control	Audit review	Audit scope	Planned audit days
Common controls			
Financial controls	Audit planning, reporting & management.	Client liaison including periodic reporting.	5
Financial controls	Accounts payable.	Compliance testing (split start & end of year).	30
Financial controls	Accounts receivable.	Compliance testing (split start & end of year).	30
Financial controls	Budgetary monitoring and control and scheme of delegation.	RACE-based review.	20
Financial controls	Cash & banking.	Compliance testing.	10
Financial controls	Capital accounting.	RACE-based review, to tie into work on directorates.	15
Financial controls	Expenses.	Compliance & CAATs testing (split start & end of year).	10
Financial controls	General ledger.	Compliance testing.	25
Financial controls	Payroll.	Compliance & CAATs testing (split start & end of year).	20
Financial controls	Payroll codings to the general ledger	Compliance & CAATs testing (split start & end of year).	15
Financial controls	Payroll controls recognising the area office locations in LCCG.	Compliance testing.	20
Financial controls	Follow-up: payroll controls in LCCG	Compliance testing and follow-up work.	10
Financial controls	Treasury management.	RACE-based review.	30
Financial controls	VAT.	Compliance testing.	8
Financial controls	Oracle release 12 - ongoing implementation and further work on the controls established in both phase 1 and phase 2.	RACE-based review.	60
Financial controls			**308**
HR controls	Audit planning, reporting & management.	Client liaison including periodic reporting.	4
HR controls	'Ask HR' service	RACE-based review.	20
HR controls	Hierarchies in the Oracle HR/ payroll system.	Compliance testing.	15
HR controls	Leave system	Compliance testing.	15
HR controls	Long term sickness absence	RACE-based review.	15
HR controls	Oracle HR/ payroll system.	RACE-based review.	15
HR controls	Redundancy process.	RACE-based review begun in 2011/12.	5
HR controls	Follow-up: Redundancy process.	Follow-up review - subject to assurance level of work in 2011/12.	2
HR controls	Follow-up: Redeployment process.	Follow-up review - substantial assurance in 2011/12.	1
HR controls			**92**
ICT controls	Audit planning, reporting & management.	Client liaison including periodic reporting.	5
ICT controls	Data centre.	RACE-based re-review.	5
ICT controls	Email use.	RACE-based re-review - limited assurance in 2011/12.	3
ICT controls	Help desk.	RACE-based review.	20
ICT controls	Implementation of Lancashire Electronic Content System (LECS) and identity management.	Advice and assistance, including attendance at corporate groups.	15
ICT controls	Incident and problem management.	RACE-based review - limited assurance in 2011/12.	10
ICT controls	Network access.	RACE-based review.	30
ICT controls	Password standards.	Compliance testing	15
ICT controls	Security of mobile devices.	RACE-based review.	15
ICT controls	Web applications.	RACE-based review.	20
ICT controls	Web content management.	RACE-based review.	20
ICT controls	Web usage.	RACE-based re-review.	10
ICT controls	Vulnerability management.	RACE-based re-review - limited assurance in 2011/12.	10
ICT controls	Follow-up: Database security.	Follow-up review - subject to assurance level of original work.	3
ICT controls			**181**

Lancashire County Council: Internal Audit Plan 2012/13

Type of control	Audit review	Audit scope	Planned audit days
Procurement	Audit planning, reporting & management.	Client liaison including periodic reporting.	3
Procurement	Districts', schools' and other organsations' use of the Procurement Centre of Excellence (the risks to LCC).	RACE-based review.	15
Procurement	Procurement Centre of Excellence - purchasing control compliance testing (including follow-up of previous audit work).	RACE-based review and follow-up work.	25
Procurement	Procurement Centre of Excellence - tendering control compliance testing (including follow-up of previous audit work).	RACE-based review and follow-up work.	15
Procurement			**58**
Estate management	Audit planning, reporting & management.	Client liaison including periodic reporting.	1
Estate management	Follow-up: Property asset inventory control and usage.	Follow-up review - subject to assurance level of original work.	10
Estate management			**11**
Total common controls			**650**
Service specific controls			
ACS	Audit planning, reporting & management.	Audit planning, reporting & management.	20
ACS	Support to management.	Support to management.	5
ACS	Capital accounting (related to other central audit work and work in the directorates).	RACE-based review.	5
ACS	Care decision-making panels.	RACE-based review.	20
ACS	Care navigation system; individual selection of personal care providers.	RACE-based review.	20
ACS	Data quality for performance management (related to central audit work on performance management).	RACE-based review.	10
ACS	Data sharing with partners: information governance.	RACE-based review.	5
ACS	Direct payments.	RACE-based review.	30
ACS	Health and safety of lone workers.	RACE-based review - previously limited assurance.	10
ACS	Hospital discharge model and social care support.	RACE-based review.	20
ACS	ISSIS replacement system - application audit.	RACE-based review.	20
ACS	ISSIS replacement: advice and support re controls over configuration, security and implementation of replacement system.	Advice and support.	40
ACS	Management of case referrals: compliance testing.	Compliance testing.	10
ACS	Non residential care system (NRCS): compliance testing.	Compliance testing.	8
ACS	Payment and monitoring system (PAMS): compliance testing.	Compliance testing.	8
ACS	Resource allocation within the 'fair access to care' (FACE) model - allocation of individual budgets.	RACE-based review.	25
ACS	Follow-up: Fair access to care criteria.	Follow-up review - subject to assurance level of original work.	10
ACS	Follow-up: Prepayment card pilot	Follow-up review - subject to assurance level of original work.	3
ACS	Follow-up: Preferred provider	Follow-up review - subject to assurance level of original work.	5
ACS	Follow-up: Vulnerable adults' domicilary services and day centres.	Follow-up review - previously substantial assurance.	5
ACS			**279**
Public heath	Audit planning, reporting & management.	Audit planning, reporting & management.	2
Public heath	Operational review in the shadow year (in two-phases).	RACE-based review.	30
Public health			**32**

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Type of control	Audit review	Audit scope	Planned audit days
CYP	Audit planning, reporting & management.	Audit planning, reporting & management.	20
CYP	Support to management.	Support to management.	5
CYP	Capital grant funding/ capital accounting.	RACE-based review linked to work on capital accounting centrally and in other directorates.	10
CYP	Data sharing with partners: information governance.	RACE-based review.	5
CYP	Emergency payments to families.	RACE-based re-review - previously limited assurance.	15
CYP	Grant fund monitoring arragements.	RACE-based review: new grant monitoring arrangements for Best Start and Music grants.	20
CYP	ISSIS replacement process: advice and support re controls over configuration, security and implementation of the replacement system.	Advice and support re controls over configuration, security and implementation of replacement system.	32
CYP	Management of children's social care referrals.	RACE-based re-review - previously limited assurance.	30
CYP	Performance management framework.	RACE-based review of performance management using data interrogation software to analyse the reported statistics.	20
CYP	Residential homes: review of the key risks of short stay breaks including unit costing.	RACE-based review.	20
CYP	The Safeguarding Children's Board budget.	RACE-based re-review - previously limited assurance.	5
CYP	School budget formula and pupil forecasting.	RACE-based review of the school budget formula, PLASC1 and school pupil forecasting, including 14-19 education.	20
CYP	Partnership working with the NHS to support children with mental health needs.	RACE-based review.	20
CYP	Pupil Referral Units and excluded pupil interventions.	Race-based review.	15
CYP	Young Persons Learning Agency (YPLA) grant certification (if still required by the Secretary of State).	Compliance testing - grant certification.	30
CYP	Follow-up of the Ofsted action plan and actions arsing from the peer review.	Follow-up review - scope to be discussed once Ofsted's report is issued.	20
CYP	Follow-up: Financial and performance monitoring of schools.	Follow-up review - subject to assurance level of original work.	5
CYP	Follow-up: Health and safety of lone workers.	Follow-up review - previously substantial assurance.	3
CYP	Follow-up: Personnel file documentation.	Follow-up review.	1
CYP	Follow-up: Financial, operational and safeguarding procedures within childrens' residential homes.	Follow-up review - subject to assurance level of original work.	10
CYP	Follow-up: Provision for children with disabilities.	Follow-up review - subject to assurance level of original work.	3
CYP	Follow-up: SureStart childrens' centres.	Follow-up review - subject to assurance level of original work.	5
CYP			**314**
Schools and sixth forms	Audit planning, reporting & management.	Audit planning, reporting & management.	15
Schools and sixth forms	Support to LCC management.	Support to management.	10
Schools and sixth forms	School reviews.	Whole-school reviews.	200
Schools and sixth forms	Follow-up of school reviews.	Follow-up review.	40
Schools and sixth forms	Thematic review - special schools.	Thematic review	15
Schools and sixth forms	Thematic review - payroll services.	Thematic review	15
Schools and sixth forms	Thematic review - income.	Thematic review	15
Schools and sixth forms	Thematic review - insurance.	Thematic review	15
Schools and sixth forms	Follow-up of thematic reviews: procurement, unofficial school funds and data protection.	Follow up all 3 2011/12 thematic reviews: procurement, unofficial school funds and data protection.	25
Schools and sixth forms			**350**

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Type of control	Audit review	Audit scope	Planned audit days
Environment	Audit planning, reporting & management.	Audit planning, reporting & management.	20
Environment	Support to management.	Support to management.	5
Environment	Budgetary control within the directorate.	RACE-based review.	10
Environment	Capital programme (of the combined Environment Directorate and former Property Group).	RACE-based review.	15
Environment	Carbon reduction commitment.	Compliance testing.	10
Environment	Corporate manslaughter - highways responsibilities.	RACE-based re-eview - previously limited assurance.	8
Environment	Development control s106.	RACE-based re-review - previously limited assurance.	20
Environment	Disposal of scrap metal: matters arising from work done during 2011/12.	RACE-based re-review.	20
Environment	Flood risk management.	RACE-based review.	20
Environment	Health and safety of lone workers.	RACE-based re-review - previously limited assurance.	5
Environment	Highways asset management.	RACE-based review.	25
Environment	Lancashire Highways Service.	RACE-based re-review including follow-up work.	10
Environment	Local service commssioning arrangements.	RACE-based review of central controls over the services commissioned.	25
Environment	PFI waste project - emissions.	RACE-based review.	25
Environment	PFI waste project - strategic and budget forecasting.	RACE-based re-review - previously limited assurance.	10
Environment	Project management.	RACE-based re-review - previously limited assurance.	10
Environment	Winter highways information management system.	RACE-based re-review.	10
Environment	Follow-up: Closed landfill sites.	Follow-up review.	3
Environment	Follow-up: Concessionary travel.	Follow-up review - subject to assurance level of original work.	5
Environment	Follow-up: Compliance with relevant legislation and LCC regulations.	Follow-up review - subject to assurance level of original work.	5
Environment	Follow-up: Development control s278.	Follow-up review.	5
Environment	Follow-up: Highways purchasing and use of subcontractors. (Tie into work on corporate procurement.)	Follow-up review - subject to assurance level of original work.	10
Environment	Follow-up: Premises management framework - LCC services.	Follow-up review - subject to assurance level of original work.	5
Environment	Follow-up: Premises management framework - schools & sixth forms	Follow-up review - subject to assurance level of original work.	5
Environment	Grant audit: Citizen Rail.	Compliance testing - grant certification.	20
Environment	Grant audit: CIVINET.	Compliance testing - grant certification.	3
Environment	Grant audit: ENVIREO.	Compliance testing - grant certification.	8
Environment	Grant audit: Growth Point.	Compliance testing - grant certification.	1
Environment	Grant audit: Interreg IVB SusStations (NWE).	Compliance testing - grant certification.	10
Environment			**328**
LCCG	Audit planning, reporting & management.	Audit planning, reporting & management.	15
LCCG	Support to management.	Support to management.	5
LCCG	Bus service operators grant.	Compliance testing - grant certification.	4
LCCG	Catering income procedures.	RACE-based re-review - previously limited assurance.	10
LCCG	Compliance with relevant legislation and LCC regulations: Working Time Directive.	Compliance testing.	10
LCCG	Food stock and consumption, ordering, provision, invoicing controls.	RACE-based review.	25
LCCG	Management of residential care medication and care plans.	Compliance testing.	10
LCCG	Vehicle asset inventory control and usage.	RACE-based re-review - previously limited assurance.	8
LCCG	Follow-up: Compliance with relevant legislation and LCC regulations.	Follow-up review - subject to assurance level of original work.	3
Lancashire County Commercial Group			**90**
Customer service centre	Audit planning, reporting & management.	Client liaison including periodic reporting.	2
Customer service centre	Care Connect Service.	RACE-based review.	20
Customer service centre	Pension helpdesk.	RACE-based review.	15
Customer service centre			**37**

Lancashire County Council: Internal Audit Plan 2012/13

	Type of control	Audit review	Audit scope	Planned audit days
	Economic development	Audit planning, reporting & management.	Audit planning, reporting & management.	5
	Economic development	Support to management.	Support to management.	1
	Economic development	Enterprise zones.	RACE-based review.	15
	Economic development	Growing Places outcomes (the grant element of the Lancashire Enterprise Partnership).	RACE-based review.	15
	Economic development	Revised Rosebud Fund.	RACE-based review.	15
	Economic development	Superfast broadband project, involving the assistant chief executive, LCDL's grant specialist team and the economic development team.	RACE-based review.	20
	Economic development	Grant audit: Regenerate's Statement of Grant Usage.	Compliance testing - grant certification.	1
	Economic development			**72**
Total service specific controls				**1,502**
Counter fraud service				
	Counter fraud	Planning, reporting & management.	Planning, reporting & management.	10
	Counter fraud	Bribery Act.	Select bribery risks (to be identified) and review controls.	30
	Counter fraud	Cash handling.		15
	Counter fraud	School income testing.	CAATs and unannounced visits to schools.	25
	Counter fraud	Follow-up: Prevention of bribery - streetworks.	Follow-up review - subject to assurance level of original work.	5
	Counter fraud			**85**
	NFI	Audit planning, reporting & management.		5
	NFI	National Fraud Initiative testing.		5
	NFI			**10**
	Reactive work	Responsive work to support management.	Individual investigations.	250
	Reactive work			**250**
Total counter fraud service				**345**
Risk management				
	Risk register.	Support to management.	Support to management.	20
	Support and advice.	Support to management including updating guidance to managers.	Support to management.	15
	Risk management			**35**
Total risk management service				**35**
Audit				
	Audit service management	Audit planning, reporting & management.	Annual plan, annual report, progress reports.	45
	Audit service management	Audit planning, reporting & management with One Connect Ltd.	Annual plan, annual report, progress reports.	15
	Audit service management	Support to management.	Support to management.	15
	Audit service management			**75**
Total audit control				**75**
LCC				**2,800**
NOTE: acronmym used above				
	CAATs	Computer assisted audit techniques.		
	RACE	Risk and control evaluation. This is a full assessment of the risks and related controls in place to manage a system or service.		

Audit Committee
Meeting to be held on 26 March 2012

| Electoral Division affected: |
| All |

Audit Commission – Audit Committee update report March 2012
Appendix A refers

Contact for further information:
Fiona Blatcher, 0844 798 7056, Audit Commission,
f-blatcher@audit-commission.gov.uk

Executive Summary

This report provides an update on the audit work undertaken by the Audit
Commission against the 2011/12 Audit Plan for the Council and Pension Fund.
Progress is on track and there are no issues or new audit risks to report. It also
includes an update on the future of local public audit and the externalisation of the
Audit Practice.

Recommendation

The committee is asked to note the Audit Commission report.

Background and Advice

Karen Murray, District Auditor and Fiona Blatcher, Senior Audit Manager, will attend
the meeting to present the reports and respond to questions.

Consultations

None

Implications:

N/A

Risk management

N/A

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

Lancashire
County
Council

Paper	Date	Contact/Directorate/Tel
		Fiona Blatcher
Lancashire County Council 2011/12 external audit plan	January 2012	Audit Commission 0844 798 7056
Lancashire County Pension Fund 2011/12 external audit plan	January 2012	

Reason for inclusion in Part II, if appropriate

N/A

Audit Committee update

Lancashire County Council

Audit 2011/12

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

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

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

Contents

Introduction

1   The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the future of local public audit and the externalisation of the Audit Practice.

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

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

Karen Murray

District Auditor / Engagement Lead

12 March 2012

Progress report

Financial statements

4   My team is updating our understanding of key financial systems and completing any controls and early substantive testing we can at this stage. We have had detailed discussions with Internal Audit, to maximise the reliance we place on their work. The Council's financial team is heavily involved in preparing to move to the upgraded ledger system in April. In recognition of the additional workloads involved I have delayed some of our planned audit work. However, I remain confident that all such work will be completed by the end of June 2012.

5   My team is maintaining close liaison with the Council's finance team around technical issues, closedown timetable and audit requirements. The Audit Commission has run workshops for all local government bodies on key accounting issues for 2011/12 in January/February which were attended by a number of accountants from Lancashire CC. These activities minimise the likelihood of any unexpected significant accounting issues arising later on in the closedown or audit process.

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

VFM conclusion

7   Through meetings with key officers and review of relevant reports, my team and I are currently reviewing the Council's arrangements and progress across those areas which I highlighted in my audit plan. Namely:
- Financial planning and delivery
- Waste Management financial pressures
- BT Partnership/One Connect Contract performance
- Treasury management.

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

Other areas of work

9   My team has completed the audit and certification of two of the Council's grant claims for 2012. These were required to be submitted and certified earlier than usual due to the demise of the grant paying body, (the North West Development Agency). Both of these claims were certified without qualification and with only minor amendments. The impact of the amendments was to reduce the amount payable to Lancashire by £2,825. This followed identification of ineligible expenditure included in one of the returns.

Government response to consultation on the future of local public audit

10 In August 2010, the government announced its intention to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011, the government published a consultation paper and, in January 2012, announced its response to the consultation to which it received 453 responses, the majority from audited bodies.

11 The Audit Commission recently awarded contracts for the work currently undertaken by the Audit Practice for the period 2012/13 to 2016/17 (see 'update on the externalisation of the Audit Practice' below). The government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments.

12 Thereafter, the government proposes that a new local public audit regime will apply. The key features of that regime are as follows.

- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- Mirroring the Companies Act provisions, auditors will be subject to the overall regulation of the Financial Reporting Council (the FRC). The FRC will authorise one or more Recognised Supervisory Bodies (in practice, the professional institutes) to register and supervise audit firms and engagement leads.
- Directly-elected local government bodies will appoint their own auditor on the advice of an independent audit appointment panel with a majority of independent members. Such panels may be shared between audited bodies.
- Audited bodies must run a procurement exercise for their external audit appointment at least every five years, although there would be no bar on the reappointment of the incumbent audit firm (for a maximum of one further five-year term).
- Audited bodies will be able to remove their auditor, but only after due process, involving the independent audit appointment panel and culminating in a public statement of the reasons for the decision.
- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness, but without imposing further burdens on audited bodies. There will be further consultation on the approach to value for money.
- The power to issue a public interest report will be retained.
- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and gaining approval from the independent auditor appointment panel.
- The right to object would be retained, but the auditor will be given the power to reject vexatious, repeated or frivolous objections.

- Grant certification will be subject to separate arrangements between grant paying bodies, audited bodies and reporting accountants (who could be the external auditors).
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

13 Government is holding further discussions with audited bodies and audit firms to develop its proposals. The Regional Improvement and Efficiency Partnerships held events in January and February 2012 to which audited bodies were invited. The Government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

Further information is available at:
http://communities.gov.uk/publications/localgovernment/localauditgovrespon se.

Update on the externalisation of the Audit Practice

14 The Audit Commission's Chief Executive, Eugene Sullivan, wrote to audited bodies on 21 September 2011 summarising the Department for Communities and Local Government's plans for externalising the Audit Commission's work that is currently undertaken by the Audit Practice. An update on progress was provided in Eugene's subsequent letter of 10 November 2011.

15 On 6 March 2012 the Audit Commission announced the award of contracts to four firms:
  – **Grant Thornton (UK) LLP**, covering four contract areas for the North West, West Midlands, London (South) Surrey & Kent, and South West
  – **KPMG LLP** covering three contract areas for Humberside & Yorkshire, East Midlands, and London (North)
  – **Ernst & Young LLP** covering two contract areas in Eastern, and South East
  – **DA Partnership Ltd** covering one contract area in the North East & North Yorkshire.

16 The Audit Commission consulted the Department for Communities and Local Government (DCLG) on the length of contracts to be awarded. DCLG in turn consulted key stakeholders in the different sectors and across government. Ministers' preference, taking stakeholders' views into account, was for the Commission to award the contracts for five years, which the Board agreed at its February meeting.

17 Savings secured through the procurement, together with the benefits of the Commission's own cost reduction programme, will be passed back to local public bodies through significant reductions in scale of audit fees. The Audit Commission have already consulted on draft scales of fees which provided for a ten per cent reduction. They are now confident that fees can be reduced significantly further. The final scales of audit fees for 2012/13 in will be published in April. 2012.

18 The Commission is planning to set out shortly the consultation process to be followed for individual audit appointments. Where a body is currently audited by an auditor from the Commission's in-house Audit Practice, it will propose as the appointed auditor the firm that was awarded the contract in each area, unless there are good reasons that to do so would be inappropriate. For bodies currently audited by the Audit Practice, there will be an opportunity to attend an introductory event in each contract area with the Commission and the firm awarded the contract. The event for the North West is on 1 May 2012.

19 Appointments will start on 1 September 2012. As such, the Audit Commission is extending the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. Lancashire County Council has already been consulted on this appointment and the appointment agreed.

20 Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

21 Against this background, the Audit Practice's focus remains.
- Fulfilling our remaining responsibilities delivering your 2011/12 audit to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

Contact details

22 If you would like further information on any items in this briefing, please feel free to contact either your District Auditor / Engagement Lead or Audit Manager.

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

Karen Murray

District Auditor

0844 798 7041

k-murray@audit-commission.gov.uk

Fiona Blatcher

Senior Audit Manager

0844 798 7056

f-blatcher@audit-commission.gov.uk

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0844 798 7070

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.

Audit Committee
Meeting to be held on 26 March 2012

| Electoral Division affected: |
| All |

Audit Commission – 2010-11 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 2010/11 claims and returns. Five claims/returns were audited with a value of over £130m. No significant issues have been reported.

Recommendation

The committee is asked to note the Audit Commission report.

Background and Advice

Karen Murray, District Auditor and Fiona Blatcher, Senior Audit Manager, will attend the meeting to present the reports and respond to questions.

Consultations

This report 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

Lancashire
County
Council

Paper   Date   Contact/Directorate/Tel

None

Reason for inclusion in Part II, if appropriate

N/A

Paper   Date   Contact/Directorate/Tel

None

Reason for inclusion in Part II, if appropriate

Certification of claims and returns - annual report

Lancashire County Council

Audit 2010/11

audit
commission

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Introduction

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my certification work on your 2010/11 claims and returns.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:

- for claims and returns below £125,000 the Commission does not make certification arrangements and I was not required to undertake work;
- for claims and returns between £125,000 and £500,000, auditors are required to undertake limited tests to agree form entries to underlying records, but do not undertake any testing of eligibility of expenditure. I did not receive any such claims for certification; and
- for claims and returns over £500,000 I planned and performed my work in accordance with the certification instruction to assess the control environment for the preparation of the claim or return to decide whether or not to place reliance on it. Depending on the outcome of that assessment, I undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data.

Claims and returns may be amended where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.

Summary of my 2010/11 certification work

The Authority has performed well in preparing claims and returns.

My work gave rise to amendment of three of the five claims and returns for the year ended 31 March 2011 that the Authority was required to submit for certification. The errors were presentational errors made during the compilation of the claims and none of them impacted on the amount of monies due to Lancashire from grant paying bodies. I did not have to issue a qualification letter accompanying my certificate on any of the claims or returns.

Table 1: **Summary of 2010/11 certification work**

Number of claims and returns certified	
Total value of claims and returns certified	£130,521,069
Number of claims and returns amended due to errors	3
Number of claims and returns where I issued a qualification letter because there was disagreement or uncertainty over the content of the claim or return or scheme terms and conditions had not been complied with	0
Total cost of certification work	£23,436

Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work and highlights any issues arising from that work.

The Authority has good arrangements in place for preparing claims and returns that are accurate and comply with the conditions set by the grant paying bodies.

Table 2: **Claims and returns above £500,000**

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Teachers' pensions return	75,469	No. Whilst I consider the control environment to be strong, I am required to complete detailed testing at least every three years. I was therefore unable to place reliance on the control environment this year.	None	No

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Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Sure start, early years and childcare grant and aiming high for disabled children grant	50,424	No. Ineligible expenditure in included in previous years' returns and difficulties in obtaining supporting evidence meant additional assurance was needed.	None	No
School centred initial teacher training	1,957	No. This return was subject to a new certification requirement in 2010/11. I therefore had no previous knowledge of the control environment in place.	The return was amended to exclude £8,660 of capital expenditure from the income and expenditure account which had already been accrued and accounted for in 2009/10. This amendment had no impact on the amount of monies due to the Council from the grant paying body since it had been correctly excluded from the grant report element of the return.	No
Single programme (2 claims)	2,670	Yes	Both returns were amended for compilation errors. These amendments did not impact on the grant funding provided.	No

Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

Table 3: **Summary of certification fees**

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Teachers' pensions return	1,937	1,201	More work required this year because of the need to complete detailed testing once every three years.
Sure start, early years and childcare grant and aiming high for disabled children grant	13,616	15,795	Fewer issues identified as part of audit process this year and better co-ordination of responses to audit queries.
School centred initial teacher training	4,089	0	New certification requirement for 2010/11
Single programme (2 returns)	3,794	4,955	Less work required because of increased reliance on the control environment.
Total	23,436	21,951	

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The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.

February 2012

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