

1 Introduction

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

Internal audit assurance

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

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

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

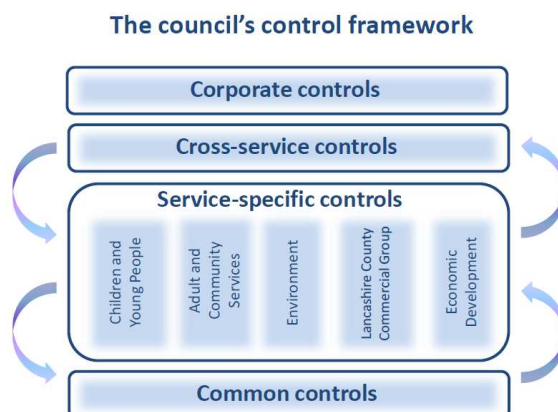
Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

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

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

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

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



2 Cross-cutting and corporate risks

Risk management

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

Corporate governance

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

Information governance

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

Legislative compliance

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

Safeguarding

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

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

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

Public health and safety

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

Health and safety of staff

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

Asset management

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

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Customer Service Centre

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

Partnership working

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

Transfer of services to the council's strategic partner

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

3 Cross-service issues

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

4 Corporate controls

Commissioning and procurement

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

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

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

Financial controls

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

ICT controls

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

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

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

Controls over management of the council's estate

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

Human resources controls

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

5 Service-specific controls

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

Adult and Community Services

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

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

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

Directorate for Children and Young People

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

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

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

Schools

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

School audits

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

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

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

Thematic audits

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

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

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

Environment Directorate

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

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

Lancashire County Commercial Group

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

Economic development

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

6 Investigations and counter fraud work

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