

Lancashire County Council Internal Audit Service

Annual report for the year ended 31 March 2017

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the county council's Internal Audit Service has undertaken during 2016/17 and the key themes arising in relation to internal control, governance and risk management across the council.
- 1.2 In January 2016 the Audit and Governance Committee considered and approved a strategic internal audit plan for 2015/16, 2016/17 and beyond. Small amendments to the plan have been considered by the committee during the course of the year but the work is now complete and is reported here.

The role of internal audit

- 1.3 The Internal Audit Service is an assurance function that provides an independent and objective opinion on the adequacy and effectiveness of the council's control environment. The Public Sector Internal Audit Standards (PSIAS) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) require the head of internal audit to provide an opinion on the council's control environment and a written report to those charged with governance, timed to support the annual governance statement. This report presents my opinion based upon the work the Internal Audit Service has performed during 2016/17.
- 1.4 The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in Appendix C to this report.

Interim reports

- 1.5 This report builds on the matters reported throughout the year that have been the subject of discussions with members of the Management Team and their senior management teams.
- 1.6 I have provided summaries of individual pieces of audit work completed throughout the course of the year in my progress reports to each meeting of the Audit and Governance Committee. Short summaries of each audit are provided here at Appendix B and the full reports will be provided to any members on request.

Ruth Lowry
Head of Internal Audit
Lancashire County Council

2 Summary assessment of internal control

Overall opinion

- 2.1 On the basis of our programme of work for the year, I can provide limited assurance overall regarding the adequacy of design and effectiveness in operation of the organisation's framework of governance, risk management and control.
- 2.2 In forming my opinion I have considered the work undertaken by the Internal Audit Service throughout the year as well as, to a more limited extent, the work of external assurance providers. As explained in the plan for the year, there are a number of areas of the council's business where management continued to make service and control improvements during 2016 and 2017 and these were therefore excluded from the scope of audit work for the year. Some of these areas are significant and have therefore affected the assurance I am able to provide overall.
- 2.3 Descriptions of the work we have done are set out below and an explanation of the levels of assurance the Internal Audit Service provides are set out in Appendices A and C. Appendix B provides a table of each assurance assignment the team has undertaken during the year and the level of assurance we have provided for each.

The council's control framework

- 2.4 Our work has been organised in accordance with the Internal Audit Service's planning principles and an understanding of the council's controls at the start of the year, which was set out as follows:

A framework for governance, risk management and control	
Governance and democratic oversight corporate governance framework, democratic processes	
Business effectiveness risk management, performance monitoring, organisational design, working with other organisations	
Service delivery children's, adult's, community, public health & wellbeing services, corporate commissioning, economic development, emergency planning	
Service support programmes & project management, design & construction, communications, business systems, customer access	
Business processes financial processes, investment, payroll, human resources, ICT, procurement, business continuity, health & safety	

Summary of assurance provided by the Internal Audit Service

- 2.5 A summary of all the assurance we have provided during the year is provided in the table below. This includes each internal audit assignment directed to providing controls assurance, but it excludes work for example on the certification of grant funding claims and participation in working groups, which has not been directed at providing controls assurance.

Assignments relating to:	Total audits	Assurance			
		Full	Substantial	Limited	None
Governance and democratic oversight	1		1		
Business effectiveness	4		3	1	
Service delivery	16	1	14	1	
Service support	1		1		
Business processes	9	2	5	2	
Total	31	3	24	4	0

Wider sources of assurance available to the county council

- 2.6 The reports provided by Ofsted and PricewaterhouseCoopers during the year are key sources of external assurance available to the committee and Council.
- 2.7 In September 2016 PricewaterhouseCoopers' report on the council's financial position (the 'Statutory Services Budget Review') was considered by the Cabinet and is available through the following link (the last 'accompanying document'):
<http://council.lancashire.gov.uk/ieDecisionDetails.aspx?ID=11159>
- 2.8 In February 2017 Ofsted provided the following letter to the Council:
https://reports.ofsted.gov.uk/sites/default/files/documents/local_authority_reports/lancashire/054_Monitoring%20visit%20of%20LA%20childrens%20services%20as%20pdf.pdf

Management's responses to our findings

- 2.9 Each of the issues I have raised during the year has been discussed with the relevant service managers as well as with members of the council's Management Team. Action plans have been agreed and actions are already being implemented; the Internal Audit Service will follow up our findings during the course of 2017/18 and provide support to managers to develop and implement pragmatic solutions to the control issues identified.

3 Key issues and themes

- 3.1 The committee's attention has previously been drawn to the existence of a number of areas of the council's operations that are subject to too much turbulence to be audited, and areas where managers could not themselves provide assurance over the adequacy and effectiveness of controls. It has also been made aware of the limited assurance effectively provided by both PricewaterhouseCoopers (in respect of the council's financial position and capacity to make the necessary financial savings) and Ofsted (in respect of children's social care). The Internal Audit Service's own work has generated some positive assurance, but also only limited assurance over a key control in adult social care – professional supervision – and key areas of financial control – accounts receivable and debt management, and accounts payable.
- 3.2 One common theme across a number of areas is inappropriate access to systems available to officers who no longer need it, or whose roles do not require it. This issue is known to the council's management and it is being considered as part of the council's wider development of improved ICT systems.
- 3.3 However as has been noted during the year, despite the instability arising from the changes taking place across the council, there are some areas where strong control is exerted over the services being provided and systems operated. In particular, we have provided full assurance over the provision of school places, treasury management, and over BT Lancashire Services Limited's (BTLS) processing of the council's payroll. Whilst the process is still developing, the Council has also begun more explicitly to demonstrate its management of risk at both the corporate level and within individual service areas.

4 Implications for the annual governance statement

- 4.1 In making its annual governance statement the council considers the head of internal audit's opinion in relation to its internal control environment, risk management processes and corporate governance. The Council's annual governance statement should therefore reflect the continuing challenges presented by its financial position and projections; its continuing drive to make extremely challenging cost reductions, involving ongoing restructures of many of its services; and the effects of continuing restructuring and cost reductions on the Council's ability to operate adequate and effective controls to properly manage the risks to its objectives.
- 4.2 More positively, the Council could also reflect its improvement in demonstrable risk management and the improvements being made that, whilst they have been temporarily disruptive, are expected eventually to support improvements to both services and internal controls. There is considerable work ongoing to make improvements in both adult and children's social care services, and the introduction of improved asset management systems and the development of a wider strategic plan for the development of the council's ICT systems as a whole are also good examples.

5 Organisational independence

- 5.1 The Internal Audit Service has access to and support from the council's Management Team but is able to operate independently within the organisation and is therefore properly able to fulfil its responsibilities. In accordance with its charter the service remains independent of the council's other functions and, with the exception of its support to management in relation to counter fraud and investigatory work, no member of the Internal Audit Service has any executive or operational responsibilities.
- 5.2 The Internal Audit Service's work programme and priorities are determined in consultation with the Management Team, the council's senior managers and the Audit and Governance Committee, but remain decisions for the head of internal audit. The head of internal audit has direct access to and freedom to report in her own name and without fear or favour to all officers and members.

6 Internal audit performance

- 6.1 Following a review of resourcing and confirmation of the structure of the service during the year a number of recruitment exercises were successfully completed and the service's establishment is currently fully staffed. However this was achieved only by the end of March 2017 and the service operated with a number of vacancies during the year.

Completion of the internal audit plan 2016/17

- 6.2 The outputs of our audit work have been reported in detail to the senior management teams of individual service areas, and the key themes arising for them and for the council as a whole are set out above.
- 6.3 We have completed 31 individual audit assignments, as well as a number of other pieces of work that have not resulted in assurance opinions, and these are set out in Appendix B.

Internal audit quality assurance and improvement programme

- 6.4 A self-assessment of the Internal Audit Service carried out in June 2017 confirmed that the service substantially meets the requirements of PSIAS. A more detailed assessment will build on this in 2017/18 and a full external assessment of the Internal Audit Service's self-assessment of its compliance with PSIAS will take place during November 2017. The chair of the Audit and Governance Committee will be invited to participate in this process, and the results will be reported to the committee. The outcome of that review will be used to inform a revised quality assurance and improvement programme if necessary.
- 6.5 The Internal Audit Service has requested feedback from its auditees throughout the year as each audit assignment has been completed. This has provided very positive feedback about the conduct of our audit work and some helpful indications of practical matters for the team to consider in conducting its work.

A Audit assurance levels and classification of residual risks

Audit assurance

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

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

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

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

Classification of residual risks requiring management action

All actions agreed with management are stated in terms of the residual risk they are designed to mitigate.

Extreme residual risk: Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: catastrophic loss of the county council's services, loss of life, significant environmental damage or huge financial loss, with related national press coverage and substantial damage to the council's reputation. *Remedial action must be taken immediately.*

High residual risk: Critical in that failure to address the issue or progress the work would lead to one or more of the following occurring: failure to achieve organisational objectives, disruption to the business, financial loss, fraud, inefficient use of resources, failure to comply with law or regulations, or damage to the council's reputation. *Remedial action must be taken urgently.*

Medium residual risk: Less critical, but failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. *Prompt specific action should be taken.*

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

B Assurance provided by internal audit assignments in 2016/17

Service area	Operational area	Audit work	Findings	Assurance
Governance and democratic oversight				
Corporate governance framework	Documentation of the council's governance arrangements: the framework that addresses the council's constitutional decision-making and delegation of powers	Review of the ownership, completeness and currency of documentation the council is required to hold, publicise and periodically review setting out its governance arrangements for decision-making and delegation of powers.	All of the documentation that would be expected to be in place to underpin constitutional decision-making and delegation of powers exists, as does most of the wider documentation required by the CIPFA/ SOLACE publication 'Good governance in local government: framework 2016'.	Substantial
	Operation of the scheme of delegation to officers	Review of the introduction of the revised scheme of delegation and its operation in practice.	This work will continue into the audit plan for 2017/18.	Not applicable
	Effective oversight of corporate governance by the Audit and Governance Committee	Assessment of the constitution and operation of the Audit and Governance Committee against professional guidance and current best practice.	An assessment has been made and revised terms of reference for the committee will be taken to Council in July 2017.	Not applicable
Business effectiveness				
Risk management	Preparation and use of the corporate risk register	Assessment of the principles and practical operation of risk management arrangements to produce a corporate risk register and respond to the issues it records.	The process by which the corporate and service risk registers are prepared is still relatively new and, although there are differences in the extent to which it is understood by individual services, the arrangements are operating as intended overall.	Substantial
Financial governance	Delivery of the council's financial strategy and	Risk and control assessment of the measures in place to monitor and	On the basis of PricewaterhouseCoopers' report dated 23 September 2016 the	Limited

Service area	Operational area	Audit work	Findings	Assurance
	budget reductions	achieve planned budget reductions.	committee can take no more than limited assurance that the risks to delivery of the council's financial strategy and budget reductions have been adequately mitigated.	
	Oversight of the Lancashire Pension Fund	Assessment of the governance framework to achieve corporate oversight by the council of the Fund, whose assets are owned by the council.	Oversight of the pension fund is well controlled, and we found no significant areas of concern.	Substantial
Performance monitoring	Corporate performance monitoring	Support to management in establishing a revised framework for monitoring and managing achievement of the council's key strategies.	A draft corporate strategy dashboard was produced in August 2016 and has been used to establish a suite of performance indicators and targets. These are reported to senior managers, Management Team and the Cabinet Committee on Performance Improvement, but will need to be revisited as the new corporate strategy is approved.	Substantial
Service delivery				
Children's services	Escalation of matters of strategic or political importance through to the Operations and Delivery management team and beyond if appropriate	Compliance testing of the escalation as appropriate of issues arising within individual caseloads or social care teams. This work could be replicated in other service areas but will be piloted here first.	The risk and control framework developed has been discussed with the Operations and Delivery management team and this work will be developed further in 2017/18, in particular addressing communication with staff across Operational and Delivery Services.	Not applicable

Children's	Identification of, and	Assessment of the potential sources	This audit focussed on two separate	Substantial
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Service area	Operational area	Audit work	Findings	Assurance
services	responses to, external feedback on children's services and schools	of feedback and operational services' responses to these including escalation of the information to senior management.	control frameworks relating to the county's schools and children with special educational needs or disabilities, and the processes in both cases are effective.	
	Oversight of schools' financial management	Risk and control evaluation of the arrangements to oversee schools' financial management.	There is a clear audit trail of funding from the Education Funding Agency through to its distribution to schools. The Schools Forum is properly established and operated, and its remit regularly reviewed, and the School Improvement Challenge Board manages all funding decisions to support schools in financial difficulty in accordance with the policy agreed by Schools Forum. However whilst checks are made to ensure that all schools return their Schools Financial Value Standard returns, no checks are made that the returns accord with expectations and that action plans are in place to address any deficiencies.	Substantial
	Certification of claims made under the Working Together with Families Programme	Testing to certify that central government's grant funding requirements have been met. We are required to test 10% of the claims submitted.	Claims were submitted in January, February and March 2017 amounting to a total of 338 cases. We have undertaken testing of 48 cases to confirm that the claims were made in accordance with the funding requirements.	Not applicable

Adults' services	Data held on LAS (Lancashire Adult Services)	Assessment of staff training, error correction mechanisms and system	A significant amount of development work is still being undertaken in relation to LAS	Substantial
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Service area	Operational area	Audit work	Findings	Assurance
	system provided by Liquidlogic) – access, training, and support	access controls.	to address issues of data quality and to support the new ways of working being introduced across Adult Social Care. This in turn affected the scope of our review. However, in relation to system access, training and support we found a number of areas of good practice although we also identified instances of helpdesk requests being closed rather than resolved, and leavers not always being deleted from the system on a timely basis.	
	Case management: supervision and support to front-line social workers to ensure safeguarding of service users	Risk and control evaluation of supervision and support arrangements under the new team management arrangements, with full compliance testing.	The service's managers were already aware that current supervision arrangements are not complied with; they are onerous and no longer reflect the new staff structure and the revised operational framework for adult social care. New policies and procedures have been drafted and are being piloted, and the Audit and Governance Committee was informed at its meeting in April 2017 that the Corporate Director for Operations and Delivery had updated the Scrutiny Committee regarding resolution of the issues.	Limited

Adults' services continued	Case management: other areas	Controls assessment of the assignment of officers to cases; timely	As noted above the Adult and Social Care Service is still subject to considerable	Substantial
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Service area	Operational area	Audit work	Findings	Assurance
		completion of action to statutory and advisory deadlines; and delegation of responsibilities to accredited social workers.	change. However the social care case management process appears to be well controlled across a number of different teams (although at this point we have assessed only the adequacy of controls and not their effectiveness in operation). There are some areas of good practice including comprehensive training and support for all staff; efficient review of work trays and case progression by team managers; improved performance monitoring and reporting; and adoption of new ways of working developed through the Passport to Independence programme.	
Public health and wellbeing services	Commissioning and oversight of commissioned public health service provision	Risk and control evaluation of joint working with the NHS and voluntary sector to provide services within Lancashire.	Controls to oversee contracts for the provision of public health services are in place and operating effectively.	Substantial
	Operation of the Health and Wellbeing Board	Assessment of the constitution and operation of the Board against professional guidance, local requirements and current best practice,	The Lancashire Health and Wellbeing Board has been appropriately constituted and is acting in accordance with its terms of reference.	Substantial
with Corporate commissioning	Operation of the Better Care Fund	Including assessment of the governance arrangements for the council's use of the Better Care Fund.	The procedures operated within the council to administer the fund are adequate and effective.	Substantial
Corporate commissioning	Commissioning, design and monitoring of the capital programme	Risk and control evaluation of the revised procedures to oversee the whole capital programme, including elements managed by the council for	A risk and control framework has been documented and agreed with management, and has been assessed as adequate. Detailed testing of its effectiveness will be undertaken during	Substantial

Service area	Operational area	Audit work	Findings	Assurance
		the Lancashire Economic Partnership.	2017/18.	
	Provision of school places	Risk and control evaluation of the provision of school places.	Effective controls are operated to ensure that the council's statutory responsibilities are fully met.	Full
	Certification of claims made through the Challenge Fund to the Department for Transport	Testing to certify that central government's grant funding requirements have been met.	The council's use of £5.1 million of grant funding for M65 motorway infrastructure and £5 million for its lighting under the Challenge Fund has been certified as meeting the conditions of that funding.	Not applicable
Economic development	Lancashire Economic Partnership (LEP): governance and accountability	Assessment of the constitution and operation of the Partnership against guidance and local requirements, to ensure the success of the partnership and the effective use of its individual funding streams (Lancashire Enterprise Zone, City Deal, Boost Business Lancashire, Growing Places Fund, Growth Deal Programme).	The operation of the LEP is heavily circumscribed by central government and the council is compliant with those requirements.	Substantial
		Establish and assess the assurance framework for the programme, including assurance available from other areas of audit work and any work by other organisations.	The assurance framework for the LEP was audited by the North West office of the former Department for Business and Skills and by the Government Internal Audit Office, both of which identified only minor administrative points.	Substantial
Economic development continued	Local Growth Fund certification	We have certified that the Department for Communities and Local Government's requirements in respect of Growth Deal funding have been met.	The council's use of £39.35 million of grant funding under the Local Growth Fund has been certified as meeting the conditions of that funding.	Not applicable
Emergency	Adequacy of the plans in place to address	Risk and control evaluation of the adequacy of emergency planning,	There are good practices in place to ensure that emergency response plans	Substantial

Service area	Operational area	Audit work	Findings	Assurance
planning	emergencies and civil contingencies	including involvement of appropriate partners and adequacy of testing.	are effective, viable, and up to date. There are also areas where action is still required to enhance compliance with the Civil Contingencies Act, but these areas have already been identified and action is being taken or is planned for 2017.	
Pension fund administration	Administration of the fund to serve its members	Risk and control evaluation, with annual compliance testing, whilst the council has no other source of assurance over this.	Control over the administration of the pension fund is good, and we found no major areas of concern.	Substantial
	Accounting for the fund	Risk and control evaluation, with annual compliance testing, whilst the council has no other source of assurance over this.	There are no significant issues in relation to accounting for the transactions of the Pension Fund, although officers retaining inappropriate access to the council's financial system is a common theme across a number of systems.	Substantial
	Fund investment management	Assessment with management of the assurance framework and available assurance over the Fund's investments, including follow-up of actions agreed in relation to monitoring the performance of the Pension Fund's investments.	Management of the pension fund's investments is well controlled, and we found no significant areas of concern.	Substantial

Service support				
Business systems	Monitoring of the contract with BTLS	Risk and control evaluation of contract monitoring, with compliance testing.	Monitoring of the contract within the council is effective.	Substantial
Business processes				
Financial	Treasury management and	Risk and control evaluation of the controls in place, with annual	The Council approves a treasury management strategy annually that adopts	Full

Service area	Operational area	Audit work	Findings	Assurance
processes	investment	compliance testing.	the prudential code for capital finance in local authorities and the relevant code of practice. The investments we sampled were fully compliant with this strategy.	
	Oracle general ledger	Risk and control evaluation of the controls in place, with annual compliance testing.	We found no issues other than officers retaining inappropriate access to the system.	Substantial
	Accounts receivable and debt management: central controls	Risk and control evaluation of the controls in place, with annual compliance testing.	Since the remedial action agreed by the Finance Team was scheduled to be implemented during 2016/17 we have not undertaken any further work (including follow-up of the agreed actions).	Limited
	Accounts receivable and debt management: feeder system controls	Risk and control evaluation of the controls in place, with annual compliance testing of a sample of feeder systems.	The work above on the central controls supporting the accounts receivable system and debt management also addressed the main feeder system, Controcc, which supports adult social care. Testing also incorporated samples from the Symology, CART and MICE systems and the local arrangements within the services that use them (highways assets, transport and street lighting).	Not applicable
Financial processes continued	Cash and banking: central controls including checks over completeness and compliance in other locations	Risk and control evaluation of the controls in place, with annual compliance testing.	The income identification and allocation process is effective and has been improved by greater automation in recent years. However we noted issues in the operation of the Streamline system we tested at three locations around the county, and also in the operation of the ParentPay system in three schools.	Substantial
	Oversight of payroll	Risk and control evaluation of the	Controls to oversee the processing by	Substantial

Service area	Operational area	Audit work	Findings	Assurance
	payments	council's monitoring and oversight of BTLS's processes, with annual compliance testing.	BTLS of payroll transactions on behalf of the council are effective.	
	Accounts payable: central controls	Risk and control evaluation of the controls in place, with annual compliance testing.	<p>Whilst it is appropriate that officers are able to incur expenditure on behalf of the council, at the time of our audit there were 1,280 officers who could raise and approve requisitions. Of these, 48 officers could self-approve expenditure up to £25,000; nine up to £125,000; one up to £1.7 million; and one up to £10 million. Although we found that no inappropriate purchases had been made, there are clearly weaknesses in the permissions granted to officers.</p> <p>We also identified 23 officers with access to process and transmit BACS files, of whom four had left the council's or BTLS's employment and seven others no longer required this access. Similarly we identified a number of users who had retained other access they no longer required.</p>	Limited
Financial processes continued	VAT	Risk and control evaluation of the controls in place, with periodic compliance testing.	Controls over accounting for VAT are generally good, and we found no significant areas of concern.	Substantial
Procurement	Central procurement: compliance with legislation, financial regulations and standing orders	Risk and control evaluation with annual compliance testing.	The Procurement Service has established procedures to ensure that all procurement exercises follow the council's procurement rules and strategy, and the control exerted by that central team is effective.	Substantial

Service area	Operational area	Audit work	Findings	Assurance
Payroll processing	Processing of payments by BTLS, using information supplied by LCC	Risk and control evaluation, with annual compliance testing.	We found no control issues in the process operated by BTLS to process payroll payments to the council's staff.	Full
Human resources (and finance)	Amendments to the council's establishment: completeness, accuracy and currency of records	Risk and control evaluation to ensure that the staff establishment, hierarchies and budgets are aligned, with full compliance testing.	Work has begun and will continue into 2017 as the systems are further developed.	Not applicable
ICT	Possible work may include general IT controls, IT security and continuity planning, and application controls.	External advice is required, including discussions with BTLS, to properly assess the ICT audit work that is appropriate and achievable.	Discussions with Corporate Services and BTLS are progressing into 2017/18, but some assurance over the controls operated on the council's behalf to manage the risks around the use of ICT systems is available and has been provided through BTLS's ISO 9001:2008 certification, Public Sector Network compliance, and compliance with the NHS Code of Connection.	Not applicable

C Scope, responsibilities and assurance

Approach

- C.1 The Internal Audit Service operates in accordance with Public Sector Internal Audit Standards, 2017. The scope of internal audit work encompasses all of the council's operations, resources and services including where they are provided by other organisations on its behalf.

Responsibilities of management and internal auditors

- C.2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.
- C.3 However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to management as they have become known to us, without undue delay, and have worked with management to develop proposals for remedial action.
- C.4 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.
- C.5 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing to ensure those controls were operating effectively for the period under review.

Basis of our assessment

- C.6 My opinion on the adequacy of control arrangements is based upon the result of internal audit work undertaken and completed during the period in accordance with the plan approved by the Audit and Governance Committee. Sufficient, reliable and relevant evidence has been obtained to support the recommendations made.

Limitations to the scope of our work

- C.7 Other than as set out in the audit plan for the year there have been no limitations to the scope of the audit work.

Limitations on the assurance that internal audit can provide

- C.8 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Further, there is no certainty that internal

Annual report for the year ended 31 March 2017

controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.

- C.9 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Access to this report and responsibility to third parties

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