

Internal Audit Service progress against plan 2017/18
Audit and Governance Committee meeting 25 September 2017

Matters arising from internal audit work completed during the period to 31 August 2017

1 Introduction

- 1.1 This report highlights key issues that the Audit and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. It highlights the issues arising from the work undertaken during the period to 31 August 2017 by the Internal Audit Service under the audit plan for 2017/18, although at this point very little work on the plan has been fully completed.
- 1.2 A full table of all the audit work currently planned, progressing and completed for 2017/18 is included at Appendix B, setting out brief notes of the progress made on each engagement. The terminology used in the table reflects the methodology followed by the Internal Audit Service, which undertakes a risk and control evaluation in two phases: the establishment of a risk and control framework, and compliance testing of the controls identified. Any action plans agreed by management to mitigate medium or high residual risks are followed up to confirm their implementation.

2 Key issues

- 2.1 Audit work is progressing well, although very little has been completed to the point where it may be reported to the Audit and Governance Committee. A number of risk and control frameworks are being developed with service managers, but more detailed testing is planned for the second part of the year in a number of cases and will be reported only when all work is complete. However draft reports are being prepared and discussed with managers on:
- panel decision making processes in relation to clients with learning disabilities and mental health issues
 - safeguarding children through recruitment
 - the provision of transport for children
 - the Customer Access Service's management assurance process
 - blue badge applications
 - the Making Safeguarding Personal initiative in the Public Health and Wellbeing service
 - the Caring and Responsive Transport (CART) system's accounts payable and accounts receivable processes
 - the Repair and Maintenance Programme (RAMP) System's accounts payable system
 - management information and budgetary control
 - information governance.
- 2.2 Although it is too soon to highlight any key issues emerging from completed audit work, there will be more to report to the committee's next meeting. However the committee is well aware that the council is currently addressing

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significant challenges. Work is under way to identify further savings in 2018/19 and, in addition to the implications for the council of budget reductions which have already resulted in the loss of significant numbers of staff and major operational change across every service area, it is likely that there will also be considerable change in the council's senior management structure and personnel over the coming months. It would therefore be unreasonable to expect that either the council's senior officers or the Internal Audit Service will be able to provide any more than limited assurance that the council's frameworks of governance, risk management and control will have been adequately designed and effectively operated during 2017/18, whatever improvements in governance and control are ultimately achieved.

- 2.3 The audit plan recognised that there are areas of the council's operations that are subject to too much turbulence to be audited, and areas where managers acknowledged even before the year began that they would not be able to provide assurance that services and systems are adequately controlled. A number of areas that are still subject to further control improvements were listed in the audit plan presented to the committee in June 2017.

3 The assurance available from completed audit work

- 3.1 A brief summary of the assurance provided for each of the audits relating to 2017/18 and completed to final report stage by 31 August 2017 is provided in the table below.

Control area	Assurance
Governance and democratic oversight	
Effective oversight of corporate governance by the Audit and Governance Committee.	Not applicable
Service delivery: Schools' financial management	
Review of a sample of Schools Financial Value Standard (SFVS) self-assessments submitted by schools for 2016/17 to ensure that their assertions are supported by adequate evidence.	Substantial

- 3.2 Since April 2016 the Lancashire Pension Fund has been administered and its pooled assets managed by Local Pensions Partnership Ltd (LPPL). LPPL has appointed Deloitte LLP as its own internal auditor and, in addition to the work being undertaken by the council's Internal Audit Service, the council may choose to take some assurance from Deloitte's work on the framework of governance, risk management and control operating over the council's Pension Fund. Deloitte disclaim any liability to the council for any reliance it may place on this work but have agreed that their conclusions may be reported to the Audit and Governance Committee.
- 3.3 Deloitte have completed two audits in the year to date, relating to the oversight of the first phase of LPPL's business and transformation change, and early work on the core systems and infrastructure migration.

Control area	Assurance
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Control area	Assurance
Lancashire Pension Fund	
Oversight of LPPL's business and transformation change (phase 1).	Effective with scope for improvement
Core systems and infrastructure migration (phase 1).	Effective with scope for improvement

- 3.4 Deloitte's classification scheme differs slightly from that used by the Internal Audit Service, and an explanation of the assurance provided by both is set out in Appendix C.

4 Issues arising from completed audit work

- 4.1 The matters arising from each of the completed audits are set out in the narrative below, and notes of the progress made on each audit on the plan for 2017/18 are set out in the table in Appendix B.

Effective oversight of corporate governance by the Audit and Governance Committee

- 4.2 The Internal Audit Service has assessed the Audit and Governance Committee's objectives in the context of the Council's governance framework and current good practice and, at its meeting on 31 July 2017, the committee agreed that some actions could readily be taken to improve the committee's effectiveness within this framework involving both councillors and officers serving the Committee.
- 4.3 The committee's membership as well as its constitution and officer support arrangements have already changed significantly.

Schools' financial management

- 4.4 The self-assessments in each of the 19 schools we sampled were completed as required, and schools were able to provide sufficient relevant evidence to validate their responses to the council in the Schools Financial Value Standard. Our findings, and some suggestions for improvements that schools could make to support better financial control, will be reported by the Schools Financial Services team in a bulletin for publication on the schools portal at the start of the new academic year.

5 Amendments to the audit plan

- 5.1 The audit plan proposed work on the operational feeder systems relating to payments to and by the council. Two of the three accounts payable systems now selected for audit are: payments to taxi operators by the Public and Integrated Transport Service within Operations and Delivery through the Care and Responsive Transport (CART) system; and payments to suppliers through the Repair and Maintenance Programme (RAMP). Since RAMP is used to control accounts receivable from the council's external clients, that aspect of the system has also been audited.
- 5.2 At the time the audit plan was published it had not been decided which contract it would be appropriate to test in the Public Health and Wellbeing Service. It has

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now been agreed that the contract monitoring process within the sexual health service will be subject to audit, although further cost savings may affect that contract in future. The audit of contract monitoring in Community Services will focus on the processes operated by the Highways Service.

- 5.3 The plan included work to follow up any actions arising from work in 2016/17 relating to the escalation of matters of strategic or political importance in Children's Services, but no action plan was agreed. This work will be taken forward instead through the audit of communication with staff involved in operations and service delivery across the council. Similarly we planned to follow up the actions agreed in two other areas – monitoring of the contract with BTLS, and the identification of, and responses to, external feedback on children's services and schools – but, since actions were agreed only to reduce low risks further, in accordance with our audit approach we will not check that these action have been implemented.
- 5.4 We have added a very short piece of work to the plan to support the Highways Service. We will jointly consider the controls that should be in place when vehicles are hired and reach the end of their contract hire period.

6 External quality assessment

- 6.1 In May 2016 the committee considered the Internal Audit Service's Quality Assurance and Improvement Programme and noted that:

"External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments;
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest."

PSIAS 1312: External Assessments

- 6.2 In September 2016 the committee also noted the proposed appointment of the Chartered Institute of Internal Auditors to undertake an external assessment of the Council's Internal Audit Service, validating the service's own self-assessment against the International Professional Practices Framework, the Public Sector Internal Audit Standards and the Local Government Application Note. This review will take place in November 2017 and the assessor has already arranged to meet the chair of the committee.
- 6.3 The results of the assessment will be reported to the committee at its meeting in January 2018.