Matters arising from internal audit work completed between 31 March and 30 June 2018

1. Introduction
   1. This report highlights the issues that the Audit, Risk 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 sets out the issues arising from the work undertaken during the period to 30 June 2018 by the Internal Audit Service under the audit plans for 2017/18 and 2018/19.
2. The assurance now available to the committee for 2017/18
   1. A summary of all the assurance we have provided during the year to the end of June 2018 is set out in the table below, including each internal audit assignment directed to providing controls assurance. The headline figures for 2017/18 reported at the last meeting of this committee the 2016/17 position are included for comparison. This now completes the audit plan for 2017/18, and the audits still being finalised have been added to the plan for 2018/19.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **2017/18 assignments relating to:** | **Total** | **Assurance** | | | |
| **Full** | **Substantial** | **Limited** | **None** |
| Governance and democratic oversight | 2 | 1 |  | 1 |  |
| Business effectiveness | 5 | 2 | 3 |  |  |
| Service delivery | 25 |  | 16 | 9 |  |
| Service support | 2 |  | 2 |  |  |
| Business processes | 17 | 2 | 13 | 2 |  |
| **2017/18 assignments: total** | **51** | **5** | **34** | **12** | **0** |
|  | 100% | 10% | 67% | 23% | - |
| **Status of 2017/18 assignments: total as at 30 March 2018** | 31 | 3 | 21 | 7 | 0 |
| 100% | 10% | 67% | 23% | - |
| **2016/17 assignments: total** | 31 | 3 | 24 | 4 | 0 |
|  | 100% | 10% | 77% | 13% | 0 |

* 1. As can be clearly seen, a further 20 audits have now been reported and the overall balance of assurances remains consistent with the position reported at the end of March. This reinforces the overall opinion given for the council as a whole in the annual report for 2017/18 and although limited assurance was given for the council overall, the results of the audit work conducted during the year are very positive.
  2. As reported in March 2018, there are a number of areas of the council's business where management has identified the need to continue to make service and control improvements and these were therefore excluded from the scope of audit work for 2017/18. Some of these are significant and have therefore also affected the assurance provided overall but the plans being implemented by managers across the organisation are building the foundations for better control.
  3. The full list of audits completed under the plan for 2017/18, and the assurance provided for each, are shown in annex 1 to this report.
  4. Summaries of the findings from each of the audit engagements completed between 31 March and 30 June 2018 are included in annex 2 to this report.

Lancashire Pension Fund

* 1. Deloitte has completed one of the two remaining audits of Local Pensions Partnership Ltd (LPPL), on the oversight of business and transformation change (phase 2), and provided their opinion that controls over this are effective with scope for improvement. Deloitte expects to take the final audit of 2017/18, on investment operations, to LPPL's Audit Committee in November 2018.
  2. Note that Deloitte disclaims 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, Risk and Governance Committee.
  3. At its last meeting the committee was concerned that seven of the eight reports completed by Deloitte gave the opinions that controls were "effective with scope for improvement". LPPL's management team has responded to these concerns as follows:

"LPP embarked on an ambitious Year 1 audit plan which focused on high risk areas to the business. This included reviewing governance, financial controls, benefit administration, and general IT controls. As a newly formed business it was important that LPP’s internal auditors reviewed the foundations of the business and provided valuable input in how to move forward.

"During 2017-18 Deloitte completed 9 out of 10 scheduled audits. The final audit is in progress with management responses undergoing LPP internal review. Of the 9 completed audits, 8 received a rating of “Effective with scope for improvement” and 1 received an “effective” rating. LPP’s management agreed with all of the ratings and felt that it reflected the start-up nature of the business.

"77% of all recommendations have been implemented or are on track to be implemented by the original due date, with the remaining 23% overdue but with a remedial plan for implementation. Only 3 remaining recommendations are categorised as “high” and are on track to be completed by 30th September 2018."

1. Completion of the audit plan for 2017/18
   1. The audit plan for 2017/18 included 68 engagements that would be expected to result in assurance. Of these, 51 (75%) have been completed, four removed from the plan completely and seven deferred into 2018/19, and seven were still ongoing at the time this report was published. These will be added to the plan for 2018/19 and reported to the next meeting of the committee.
   2. Six follow-up engagements were undertaken, which do not normally result in a revised audit opinion but confirm whether action has been taken as intended by managers. Other follow-up work was embedded within the 51 main audit engagements and reported with these to our auditees. In 2017/18 we did not separately report our follow-up work and findings, but will do so during 2018/19.
2. Follow up work
   1. The Internal Audit Service routinely follows up the action taken by managers to address the risks identified through the audit process to confirm whether or not action has been taken. However it normally does so only once all, or the majority, of the deadlines for completion have passed. The Cabinet Committee for Performance Improvement (CCPI) has now adopted a new performance indicator on the corporate performance dashboard: the 'proportion of the actions identified through audit work that were completed within the agreed timescale in the period'. The service has therefore begun to collate managers' assessments of whether action has been completed by the due date as that date passes and this data will become the first stage of our follow-up work as well as informing the corporate dashboard.
   2. Every manager responsible for an action arising from an audit that was due to be completed before the end of June 2018 was contacted during June. At this point not all the data from managers is available for all the actions due to have been completed but the initial statistics are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Numbers of actions agreed following audit work during 2016/17 and 2017/18** | Risk rating | | | |
| Total | High | Medium | Low |
| Complete | 114 | 10 | 53 | 51 |
| Incomplete | 21 | 1 | 14 | 6 |
| Superseded | 22 | 4 | 8 | 10 |
| Awaiting response re status | 70 | 7 | 34 | 29 |
| **Total** | 227 | 22 | 109 | 96 |

* 1. Work will continue to develop this process and the data obtained, ensuring that managers are aware that a status report will be required every quarter. Updates will be provided to future meetings of the committee and it is intended that this indicator will be provided at the end of every quarter throughout the year.
  2. Since managers will now be held more closely to account for completion of the actions to address unmitigated risks to their service's objectives, at a time when their capacity to operate any additional controls is reducing, they are likely to be more discriminating about what action they agree to take and their deadlines for completion. It is also increasingly likely that any unmitigated risks are accepted and the council's risk appetite increases. This is a valid response but one that, ultimately, both the committee and CCPI will be interested to understand. A further performance indicator will therefore be reported: the 'number of risks accepted'.
  3. This indicator will be further developed but, at this point, two risks assessed as being of 'medium' impact to the services involved have been identified as acceptably unmitigated. These relate to the confirmation of transport providers' licenses and insurance, and the use of the corporate contract for agency staff in Children's Services.

1. Audit work for 2018/19
   1. Work has begun on a number of audits, but only one has reached a point at which our findings may be reported. We have completed work on a sample of schools' self-assessments submitted to the council under the Schools Financial Value Standard and have provided moderate assurance under the revised categorisation of assurance we have adopted for 2018/19. An explanation of the assurance provided in both 2017/18 and 2018/19 is provided in annex 3.