

Lancashire County Council Internal Audit Service

Annual Report of the Head of Internal Audit for the year ended 31 March 2021

1 Introduction

Purpose of this report

- 1.1 This report provides an overall opinion for the year 2020/21 on the council's frameworks of governance, risk management and control. That opinion and the other information included here will inform the annual governance statement that the council will publish within its statement of accounts for the year.

The role of internal audit

- 1.2 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- 1.3 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) set the framework for the service's operation. They require the Head of Internal Audit to provide an annual opinion of the council's framework of governance, risk management and control, supported by sufficient, reliable, relevant and useful information, and a written report to those charged with governance.

The context for 2020/21

- 1.4 A full audit plan was prepared for the start of the year but, by the time the Audit, Risk and Governance Committee considered it on 27 July 2020, the plan had already been curtailed by the onset of the coronavirus pandemic: the auditors had been withdrawn from internal audit work and redeployed to support the council's operational response. It was still anticipated though that detailed audit work on a range of services, systems and processes would be undertaken. However, it quickly became clear that the council lacked the capacity to be audited and a normal audit plan would not be completed, and a much-reduced plan was presented to the committee in October 2020.
- 1.5 The usual year-end summary of individual audits and statistics about the individual assurances provided by each engagement are not therefore available. However other evidence is available, and I have used it, exceptionally, to support my overall opinion for the year. This other evidence has necessarily been largely obtained from sources other than the Internal Audit Service's own work but my opinion has also been strongly informed by my experience within the organisation, my judgements about the calibre and actions of the senior management team, and my understanding of the organisation's direction of travel.

Ruth Lowry

Head of Internal Audit, Lancashire County Council

2 Overall Opinion for 2020/21

- 2.1 I can provide moderate assurance overall regarding the organisation's frameworks of governance, risk management and control. This means that, in my opinion, the council's frameworks of risk management, governance and control are adequately designed and effectively operated overall.
- 2.2 My opinion would normally be informed by evidence from a range of audit work across the organisation and across each of the main categories of control¹. The chief value of internal audit to the council lies in that detailed work, in the information it gives to the managers of individual services, systems and processes, and in the assessment of the further action that may be required to mitigate their inherent risks to an acceptable level.
- 2.3 In a year when the county council has not had the capacity to be audited and, instead, has needed the support of all its resources to respond effectively to the COVID-19 pandemic, the internal audit team has largely been redeployed to other roles and has not undertaken detailed audit work for the council. However, nonetheless, I have sufficient evidence to support my overall opinion for the year.
- 2.4 In forming my opinion I have considered the small number of internal audit engagements undertaken by the Internal Audit Service, conversations during the year with the council's directors, documents that have been made available to me, and other information I have received as a member of the council's senior leadership team. I have reflected upon my experience within the organisation over many years, the actions of the senior management team and my understanding of the organisation's improvement journey. I have also taken into consideration the observations of the audit staff who have been redeployed into a variety of operational roles directed towards managing the impact of the pandemic on the communities of Lancashire.

3 Key Observations

- 3.1 The county council is a long-standing member of the Lancashire Resilience Forum and from the end of the previous year and throughout 2020/21, over the course of the pandemic, it has worked through the forum in particularly close collaboration with the emergency services, NHS organisations, other local authorities, the police, the military and central government. The operation and membership of the forum have been regularly reviewed and in June 2020 the council's Chief Executive took over from the Deputy Chief Constable as chair of the Covid Strategic Coordinating Group.
- 3.2 The council's Corporate Emergency Response Team has been operating since March 2020, in accordance with the Corporate Emergency Response Plan, and includes representatives from all areas of the organisation. Specific directors were identified in March 2020 to lead this team, on rotation, with direct reporting lines into the Corporate Management Team. The Corporate Management Team has maintained continual communication with staff, and beyond to partners and service users.

¹ Governance and democratic oversight, business effectiveness, service delivery, service support and business processes.

- 3.3 As the country went into the first full lockdown of the pandemic, the council began to identify its critical functions and assess its ability to fulfil them. Information was gathered from every service to support a corporate response and situation reports began to be compiled regularly for the whole organisation. This information was used to assess the services with the greatest need for additional support and those with some capacity to assist, and since then the council's resources have been actively managed throughout the year. The main focus has been on care-related services, and resources were concentrated on supporting the most vulnerable individuals.
- 3.4 After an initial pause in meetings of the Council, Cabinet and committees from the start of the lockdown until mid-May, whilst the necessary national legislation and local technology was put in place to allow meetings on-line, the council has continued to be governed in accordance with its constitution and decisions have been properly made. Scrutiny has continued, in particular through the scrutiny panels addressing the council's budget, public health and children's services.
- 3.5 New systems were required in the Finance Directorate to ensure that emergency funding was appropriately accounted for and used. Additional funding of almost £156m has been received during the year through a variety of different grants; some has been passed directly to the district councils, some used for specific purposes such as supporting Adult Social Care providers and the Public Health Directorate's test and trace activity and rapid testing, and more than £76m was received in general emergency response grants.
- 3.6 The council was key to the early provision of adequate personal protective equipment (PPE) to organisations across the county, particularly its many care providers and schools, as well as to the council's own front-line teams. Approximately £9.3m has been spent on PPE during the year and new procurement and stock control processes were introduced quickly on a large scale. For much of the year they were operated continuously throughout the week and through holidays, and staff to support this were drawn from a range of the council's services (including the Internal Audit Service).
- 3.7 The Adult Services Directorate has incurred considerable additional costs amounting to £35m to meet extra demand, including £12m spent on supporting new processes to ensure that individuals are discharged promptly from hospitals either into care homes or into care at home with crisis or reablement support. It has also spent £42.6m on supporting the market for adult social care, including disbursing approximately £30m to the county's 16,500 registered care homes and community care providers to support their infection control measures.
- 3.8 It was quickly understood that new processes would be required in the Public Health Directorate in particular to support large-scale community testing and infection control. Inevitably these did not all immediately work perfectly but, where improvements were required, they were rapidly made. Additional controls were put in place and adaptations were made to the council's public-facing services, including access to adult social care support, residential care homes, household waste disposal sites, and school bus services. For example, the Children's Social Care services put new controls in place to ensure that, when social workers speak to vulnerable children remotely, they could be sure that children are alone and free of undue influence; and the Countryside Service worked hard to ensure that sites were safe for the significantly increased

numbers using them. Other services were adapted to ensure that they were safe for the staff providing them, including highways maintenance, waste processing, and the delivery of major capital schemes. Support was given to the county's schools and other educational establishments in dealing with outbreaks of COVID-19 and reopening after lockdown.

- 3.9 Strong support was provided internally by the ICT Service within BT Lancashire Services Ltd to enable a rapid move to wholesale homeworking at the start of the year, with appropriate ICT hardware and advice and, later with the council-wide move to the Teams software and implementation of the wider suite of Microsoft Office 365 products. Support was similarly provided by the council's Health, Safety and Quality team as staff began to work at home temporarily and then continued to do so, effectively on a permanent basis. The Facilities Management team ensured that the council's buildings were quickly adapted to support social distancing where continued office-based work has been necessary.
- 3.10 The council's corporate improvement journey has clearly not taken the course originally intended during the year but, in addition to the huge changes in the council's use of ICT, other developmental work has continued. Improvements to front-line services have been made, for example work that was already under way to remodel children's social care and move towards a new family safeguarding model. Improvements have also taken place in support services and, in addition to working to bring the council's ICT, recruitment and payroll services back in house from 1 April 2021, preparations have begun for the implementation of a cloud-based replacement for the council's Human Resources, payroll, finance and procurement system (Oracle Fusion).
- 3.11 The council's response to COVID-19 has necessarily moved its focus away from planned cost-saving initiatives and, in a number of cases, planned savings will take longer than intended to put into effect and form a significant element of the cost pressures covered by the COVID emergency response grants. In the coming year there will be additional pressure to work through the implications of the pandemic for the council's future ways of working and service delivery, and to revise its plans to return to long-term financial stability.

4 The Annual Governance Statement

- 4.1 The council considers the Head of Internal Audit's opinion in making its annual governance statement and for 2020/21 the statement should reflect the council's positive response to the immediate challenge of the coronavirus pandemic as the year began, as well as to the ongoing challenges presented by its medium-term financial position and continuing need to improve its services to the public. The council has continued to provide key services to the communities of Lancashire in rapidly changing and challenging circumstances. It has been responsive and adaptable and has continued to make improvements that will support it in the longer term, although its short-term priorities and focus necessarily changed through the course of the year.

5 Internal Audit Work Completed During the Year

- 5.1 A small number of audits were undertaken during the year, generally where services requested the work and audit resources were available. These do not amount to a risk-based audit plan but provide additional evidence of systems and processes operating effectively. The assurance we provided on each of these is as follows, although some work was simply advisory or supportive:

Audit work	Assurance provided
Decision-making by councillors	Substantial
Decision-making by officers	Substantial
Planning for the return of services from BTLS to the council (ICT, payroll and recruitment)	Moderate
Workforce modelling in the Hospital Discharge team	Not applicable
Information management in relation to covid-19 community testing results	Moderate
Cash controls in older people's care homes	Not applicable
Prevention of child exploitation	Not applicable
Accounting through the general ledger	Substantial
Recovery of over-payments made from the Lancashire Pension Fund	Limited
External assurance over ICT controls	Limited
Access to the Public Sector Network	Moderate
Cyber resilience	Moderate
Organisational resistance to email phishing	Not applicable

- 5.2 Work to provide assurance over the administration of the Lancashire Pension Fund is still continuing and will be reported to the Pension Fund Committee at its meeting in June 2021.

6 Organisational Independence

- 6.1 The Internal Audit Service has access to and support from the council's Corporate Management Team. In the course of its normal work it is able to operate independently within the organisation and, in accordance with its charter, the service remains independent of the council's other functions.
- 6.2 The Internal Audit Service's work programme and priorities are determined in consultation with the Corporate Management Team, the council's senior managers and the Audit, Risk and Governance Committee, but remain decisions for the Head of Internal Audit. I have direct access to and freedom to report in my own name and without fear or favour to all officers, and to members of the Audit, Risk and Governance Committee.
- 6.3 During 2020/21 members of the team have taken up operational roles as noted in Appendix B.

7 Quality Assurance and Improvement Programme

- 7.1 The Internal Audit Service has established and regularly reviews a quality assurance and improvement programme. The PSIAS requires that all aspects of internal audit activity are considered by a combination of ongoing internal monitoring, periodic self-assessments or internal assessments by others with sufficient knowledge, and independent external review at least once every five years.

Type of review	Internal review		External review
	Ongoing	Periodic	5-yearly
Audit engagement quality	✓		✓
Professional and operational framework		✓	✓

- 7.2 Following this framework, the Internal Audit Service's quality assurance and improvement programme consists of internal ongoing monitoring of audit engagement quality, periodic internal assessment of the professional and operational framework, and external review. Although less audit work than usual has been done, the quality assurance framework has been applied to that work as normal.

External review

- 7.3 The findings of the last external quality assessment undertaken by the Chartered Institute of Internal Auditors were reported to the committee in January 2018. This confirmed that the Internal Audit Service 'generally conforms' to the full range of standards set out in the International Professional Practice Framework, the PSIAS and Local Government Application Note. It confirmed that the Internal Audit Service can say that its work has been in accordance with the International Professional Practices Framework, the PSIAS and the Local Government Application Note.

Internal review

- 7.4 The Internal Audit Service has designed procedures and an audit methodology that conform to the PSIAS and are regularly reviewed. Every auditor in the team is required to comply with these or document the reasons why not, and to demonstrate this compliance on every audit engagement. The audit managers assess the quality of each audit concurrently as it progresses, and a post-audit file review process is undertaken.
- 7.5 Internal audit work continued in 2020/21 to a very small extent for the county council and also for the service's external clients and has been subject to both review processes. These have identified a small number of points that will allow the team to further improve its work and have confirmed that the team's methodology is being appropriately followed.
- 7.6 Whilst recognising that a full risk-based audit plan has not been pursued for the county council this year, the team's work conforms with the PSIAS. In 2021/22 consideration will have to be given to individual auditors' independence of the functions that they will audit, recognising that many members of the team have worked in operational roles during 2020/21.