

Lancashire County Council Internal Audit Service Annual Report for the year ended 31 March 2022

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the county council's Internal Audit Service has undertaken during 2021/22 and the key themes arising in relation to internal control, governance and risk management across the council.

In April 2021 the Audit, Risk and Governance Committee considered and approved an internal audit plan for 2021/22. At the time it was important that the plan remained flexible to enable the Internal Audit Service to react to the changing risk environment as services adapt and change. As the Council and the Internal Audit Service continues to overcome the challenges that Covid-19 has presented, it is critical that as a service we are able to quickly react to changing circumstances. Over the last 12 months this flexibility has enabled changes to the plan to be made that ensured that Internal Audit's coverage reflected the Council's changing risk environment. This was important in terms of adding value to the Council and in ensuring that a robust annual audit opinion can be provided.

- 1.2 Amendments to the plan have been reported to the committee during the course of the year. The work for the year is now sufficiently complete to support the overall opinion on the frameworks of governance, risk management and internal control, although some pieces of work remain to be finalised and will be reported to the next meeting of the committee.

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 2021/22.

Interim progress reports

- 1.4 Summaries of the individual pieces of audit work completed throughout the course of the year have been provided in progress reports to each meeting of the Audit, Risk and Governance Committee. Any audit reports will be provided to any members if they wish.

2 Summary assessment of internal control

Overall opinion

- 2.1 I, the Head of Internal Audit, can provide moderate assurance overall regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control.
- 2.2 In forming this opinion, I have considered the work undertaken by the Internal Audit Service throughout the year as well as the work of external assurance providers and information available from less formal sources than planned audit engagements. Audit work has covered the full range of the council's services.

- 2.3 The work of Internal Audit has established that as would be the case in any normal organisation, there are some areas of the council's business where improvements need to be made, but there are plans and agreed management actions in place to make these improvements.
- 2.4 Descriptions of the audit work we have done are set out below, and an explanation of the assurance provided by internal audit assignments in 2021/22 are set out in Appendix 'C'.
- 2.5 In making its Annual Governance Statement, the council considers the Head of Internal Audit's opinion in relation to its frameworks of governance, risk management and control. The Council is in a much stronger financial position than many Local Authorities, however, the financial projections show that it still faces financial challenges. The council's Annual Governance Statement should therefore again reflect the continuing challenges presented, along with the Councils' continuing drive and commitment to make challenging cost reductions; the effects of cost reductions on its ability to operate adequate and effective controls to properly manage the risks to its objectives and the continued work to improve its core ICT systems.
- 2.6 The county council has adapted well to the changing risk environment and appears to be operating as would be expected. It should be noted that this favourable assurance is based on a more normal operation of the Internal Audit Service than was possible in the previous year.

The council's control framework

- 2.7 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		Decision-making		Oversight and scrutiny		Policy setting
Business effectiveness						
Risk management	Performance monitoring and management		Organisational design	Financial governance and planning		Working in partnership with others
Service delivery						
Growth, environment, transport & community services			Children's services & education		Adult services, health & wellbeing	
Economic development & planning	Programmes & project management	Community services	Children's services	School improvement & services	Adult Services	Public health
Service support						
Legal services	Skills, learning & development	Core business systems	Property management	Programme management	Business intelligence	Customer access
Business processes						
Financial systems & processes		Procurement	Facilities management		Human resources	
Budget monitoring		Contract monitoring & management		Information management		Payroll processing
Investment				Business continuity		ICT systems

Summary of assurance provided by the Internal Audit Service

- 2.8 Covid-19 continued to present a major challenge to the Council and had a significant impact on all areas of the organisation. As reported in the progress reports to the Committee throughout the year, changes to planned work were necessary in order to provide assurance over the changing risks that the Council faced. Additionally, some planned audit work needed to be deferred to minimise

the impact on services at the frontline of the Council's continued pandemic response.

2.9 The audit work completed during the year was therefore different to that originally planned. However, under the circumstances, it was appropriate for Internal Audit's coverage to reflect the Council's changing risk environment. This is important in terms of adding value to the organisation and in ensuring that a robust annual audit opinion can be provided. The work commenced and completed is therefore considered sufficient and wide-ranging enough to support the annual audit opinion.

2.10 A summary of all the assurance provided during the year to the end of April 2022 is set out 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.

2021/22 assignments relating to:	Total	Assurance provided			
		Substantial	Moderate	Limited	None
Governance	1	-	1	-	-
Business effectiveness	4	4	-	-	-
Service delivery	19	3	14	2	-
Service support	2	1	1	-	-
Business processes	5	4	1	-	-
2021/22 assignments:	31	12	17	2	0
total to date	100%	39%	55%	6%	0%
2020/21	9	3	4	2	0
2019/20	55	20	21	14	0
2018/19	46	18	10	9	0

2.11 A summary of the audits completed in the year is set out below showing the assurance level for each audit assignment. The audits are grouped according to the Committee meeting at which they were presented. The Audits detailed in the table for 25 April 2022 are the audits that have been completed since the last audit committee on 31 January 2022. An executive summary for these audits can be found at Appendices 'D' to 'P'.

18 October 2021

Control area	Assurance
Procurement of fleet vehicles	● Substantial
Purchase cards	● Substantial
Prevention of child exploitation	● Moderate
Covid-19 vaccination programme	● Moderate
Staff induction, including the social care academy	● Moderate
Support for the county's economy	● Moderate
Schools' payroll	● Moderate

31 January 2022

Control area	Assurance
Financial planning: Data controls	● Substantial

Control area	Assurance
Lessons learned from the organisation's response to covid-19	● Substantial
Treasury management	● Substantial
Administration of the scrutiny function	● Moderate
Health and safety at operational depots: Highways	● Moderate
Health and safety at operational depots: Waste Management Service	● Moderate
Financial assessment teams	● Moderate
Supervision within the quality, contracts and safeguarding (Adults Service)	● Moderate
Supervision and support arrangements (Children's Social Care)	● Moderate
Contract monitoring: Provider led reviews	● Limited
Health and safety at operational depots: Integrated Transport Service	● Limited

25 April 2022

Control area	Assurance
Value added tax	● Substantial
Risk management	● Substantial
Corporate performance management	● Substantial
Schools in financial difficulties	● Substantial
Children missing from home and care	● Substantial
Loans from the municipal bonds' agency	● Substantial
Capital Strategy	● Substantial
Cyber security: Baseline technical controls	● Moderate
Approved mental health professional service standards (AMHPS)	● Moderate
Children's safeguarding practice reviews	● Moderate
Accounts payable central controls	● Moderate
Schools financial balances on oracle	● Moderate
Recovery of pension overpayments	● Moderate

Wider sources of assurance available to the county council

- 2.12 The Council's external Auditors Grant Thornton within their annual report published on 20 January 2022 has reported positively regarding the Council's financial sustainability, governance and improving economy, efficiency and effectiveness. They did not identify any risk of significant weakness within the council's arrangements.
- 2.13 The reports provided by Ofsted during the year form important sources of external assurance and may be found on Ofsted's website here: <https://reports.ofsted.gov.uk/local-authorities/lancashire>
- 2.14 The Local Government Association completed the Corporate Peer Challenge for the Council and this has provided some key additional external assurance and may

be found on the Council's web-site here:
<https://www.lancashire.gov.uk/media/930046/lga-peer-review-2021.pdf>

- 2.15 Some assurance has been taken from the work undertaken by KPMG over the controls system in place at the Local Pension Partnership Investment Ltd (LPPI). KPMG has formed an independent conclusion that the directors of LPPI have fairly described the investment management operations service as at 30 November 2021. Also, that control activities in place are suitably designed to achieve the control objectives.

Management's responses to our findings

- 2.16 Each of the issues raised during the year has been discussed with the relevant service managers as well as with members of the council's Corporate Management Team. Action plans have been agreed and audit work during 2021/22 indicates that the plans agreed in previous years are largely being addressed, although some improvement work is still ongoing.
- 2.17 Periodically during the year, the Head of Internal Audit has sought and received management updates as to the progress of the implementation of outstanding management actions. This combined with the follow up audit assignments demonstrates that in general good progress is made across the council in implementing agreed management actions. It is also highlighted that there are a significant number of management actions that have been outstanding since they were agreed in 2018/19 and 2019/20. Since these were agreed the council has seen significant changes to the way systems are operated and how services are delivered. Therefore, there is currently uncertainty as to the number of management actions that may have been superseded due to the changes across the council. A wider review of these management actions is currently underway to establish the number that are still valid and require implementation. The results of which will be reported to this committee.

3 Key issues and themes

- 3.1 The council has faced financial challenges since the onset of austerity measures in 2010. This has been exacerbated by two years of the Covid-19 pandemic, and, like all councils, we are facing financial pressures across the period of our medium-term financial strategy. Significant savings programmes and the improved funding for social care, has enable the council to make satisfactory progress in addressing the forecast financial shortfall over the strategy period. Continued work is required to ensure the council can achieve a financially sustainable position over the medium term. The council has a strong track record of delivery of previous savings plans, with some being overachieved and arrangements are in place to track delivery of financial savings and take corrective actions when required.
- 3.2 In 2018 Ofsted identified that there have been improvements in children's services and therefore they lifted its rating from "inadequate" to "requires improvement". Since then, there has been a continued positive direction of travel which is evidenced in a September 2021 Ofsted review of Special Educational Needs and Disability Services (SEND).
- 3.3 Despite the challenges facing managers across the council the Internal Audit Service has been welcomed and supported in undertaking our work. We have deferred work in some areas where necessary to minimise the impact on services at the frontline but, overall, we have had access to services in every directorate.
- 3.4 The assurance we have provided on the audit engagements we have completed has in the main been moderate assurance. This is a favourable, assurance opinion. Our conclusions where reports are still being drafted follow the same pattern. I have therefore been able to give moderate assurance overall.

4 Organisational independence

- 4.1 The Internal Audit Service has access to and support from the council's Corporate Management Team and is able to operate independently within the organisation so is 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.
- 4.2 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. The Head of Internal Audit has direct access to and freedom to report in their own name and without fear or favour to all officers and members.
- 4.3 The Internal Audit Service has a stable and experienced Audit team, which has seen very little staff turnover in recent years. However, this year there has been one significant change within the team. After many years of dedicated service to Lancashire County Council Ruth Lowry, Head of Internal Audit, retired in January 2022. The new Head of Internal Audit was appointed in December 2021. To maintain continuity during this change of leadership there was a two-month handover period. This handover enabled a smooth transition of leadership of the Team.
- 4.4 During the year, there have been no matters arising which have impacted on the independence of the Internal Audit service and there have been no inappropriate scope or resource limitations on internal audit work.

5 Internal audit performance

- 5.1 Within the year the service's establishment has slightly increased by one part time Senior Auditor (0.4fte). The service is currently fully staffed. The Council has completed a staff engagement survey across the whole council. This enabled all staff to share their thoughts and opinions constructively. Overall, the results for the Internal Audit service were largely positive. The results are being used to assist the service in self-reflection and introduce improvements as detailed in section 6 below.

Completion of the internal audit plan 2021/22

- 5.2 As set out at paragraph 2.10 above, at this point we have provided assurance through 31 individual audit assignment reports as well as grant assurance work. The team has completed audit consultancy and support assignments throughout the year that have not resulted in assurance opinions. These include providing:
- Support and oversight of the implementation of the Oracle Fusion project. Fusion is a cloud-based IT solution which will replace Oracle R12, the current HR, Payroll, Finance and Procurement system.
 - Advice and support around the implementation of a case audit process within the Safeguarding Adults Service and Adult Social Care teams.
 - Support to the Quality Contracts and Safeguarding Adults Service to develop a quality & compliance review process for residential/nursing homes.
- 5.3 Two members of the team also supported the Care Navigation team for a six-week period on a full-time basis. This was to support the service in arranging hospital discharges during a spike in Covid-19 cases in November and December.

Client satisfaction

5.4 Internal Audit invites feedback on the quality of service provided by issuing a 'satisfaction questionnaire' at the end of each audit. This is an important process in terms of identifying how the audit was received by the service area. It is also an important means of identifying aspects of the audit process that can be improved

5.5 Our auditees have told us in every case that, overall, they were satisfied with the way we conducted our work with them. We also seek more detailed feedback in relation to our audit planning, the audit process and reporting, our behaviour, and our management and service to our auditees. Our auditees have provided positive feedback across all these areas. There were no common themes in the responses received that highlighted any particular areas for improvement.

5.6 A sample of comments received in response to the questionnaire is included below:

- *The Auditor was very professional and thorough. They took time to listen to explanations and seek further information when required. At all times I felt they really understood the work being done in the team.*
- *The Auditor's auditing technique was thorough yet efficient. Their manner polite and friendly and they kept us up to speed the whole way through (nothing was as surprise when we received the report). The report was comprehensive, accurate and very clear.*
- *The Auditors were very patient and understanding when I had to prioritise work and delay providing information in order to cover a period of sickness during the audit.*
- *The Auditor was really good and worked well with us during the audit period.*

6 Quality assurance and improvement programme

6.1 The Internal Audit Service has established and regularly reviews a quality assurance and improvement programme. 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
Frequency	Ongoing	Periodic	At least 5-yearly
Audit assignment quality	✓		✓
Professional and operational framework		✓	✓

6.2 Following this framework, the Internal Audit Service's quality assurance and improvement programme consists of internal ongoing monitoring of audit assignment quality, periodic internal assessment of the professional and operational framework, and external review.

External review

6.3 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, PSIAS and Local Government Application Note. There were no departures from these

arrangements in 2021/22. Another external review is due to be completed in 2022/23 the findings of which will be reported to this committee.

Internal review

- 6.4 The Internal Audit Service has designed procedures and an audit methodology that conform to 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 assignment. The audit managers assess the quality of each audit concurrently as it progresses, and a post-audit file review process has been undertaken. These reviews indicate that there is good evidence of compliance with our audit methodology and input from the audit managers to support the work of the auditors.
- 6.5 In addition to these periodic file reviews, the service's methodology includes a step which requires the Head of Internal Audit to read each report as it is finalised. This does not entail an additional detailed review and the auditors' reports remain theirs, using their own style and wording, but is intended to ensure that each assignment can be adequately understood and is properly communicated.

Areas for development

- 6.6 As with many teams across the Council, the Covid-19 pandemic impacted significantly on the Internal Audit team over the last two years and the way in which it delivers its work. This year the Internal Audit team has returned to completing normal audit assignments after approximately a year of supporting other Council services in their responses to Covid-19. The return to completing normal audit assignments was aided by a move to remote auditing. This was initially challenging for the audit team. However, as the year has progressed productivity is increasing each quarter, and this is demonstrated by the increasing number of completed audits reported to each committee in 2021/22. Despite the challenges faced this is starting to prove to be a successful experience.
- 6.7 Across the wider Council, it appears likely that many teams will not go back to a predominantly office-based service when we finally emerge out of the pandemic. It is therefore very likely that the Internal Audit team will in future adopt a hybrid approach to work, with staff predominantly being home-based but going into the office as the requirements of the service dictate.
- 6.8 In response to these changes, some revised performance management and support arrangements have been put in place for the Internal Audit team. These changes are intended to help ensure quality and delivery of work, whilst also providing support to staff working remotely and to maintain a sense of 'team'.
- 6.9 These arrangements include:
- Allocating an annual plan of work to each auditor to manage and agree delivery timescales with the relevant service areas;
 - A greater focus on outcomes with each auditor identifying the audits they will aim to complete for each meeting of the Committee;
 - Brief daily team meetings to discuss progress on each piece of work and to allow the team to discuss issues and to support one another.
- 6.10 A minor restructure has been completed within the team. This has provided the team with additional resources of a part time Senior Auditor (0.40 fte). They will solely be focused on reviewing, monitoring, and reporting on the progress of the implementation of agreed management actions. The results of the follow up assignments will be reported to this committee.

- 6.11 The service has introduced a new report format that is designed to communicate the results of the audit engagements clearly and concisely to the relevant recipient of the report. This includes highlighting areas of good practice as well as any areas for improvement that are identified, along with the agreed management actions. Feedback from auditees who have received the new report format has been very positive. The new format has also enabled a new style of executive summary to be produced for this committee. These can be found at Appendices 'D' to 'P'. The executive summaries outline the key findings from each audit.
- 6.12 Additionally, the service will continue to reflect on its performance and seek to continually improve the service making further refinements to internal audit processes. Where appropriate we will seek to apply the principles of Lean Audit within our working practices.
- 6.13 Lean auditing refers to the application of 'lean' principles to the internal audit process. 'Lean' is about working in the most efficient and effective way. The focus is on ensuring that the whole process adds value to the customer by removing waste and focusing on excellence. This will aid the team in completing audits in the most effective way that delivers a service that is valued by the customer.