

## **1 Introduction**

- 1.1 This report summarises the progress made by the council's internal Audit Service against the internal audit plan for 2010/11 to 28 February 2011, and some of the findings arising from this work. The findings included in this report have been agreed with executive directors and shared with the Management Team.
- 1.2 Since a considerable amount of work was reported to the Audit Committee in January this report includes only additional matters not already reported and updates where appropriate.

### **Audit assurance**

- 1.3 Audit assurance is stated in the following terms, some of which are used below:

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

**Substantial assurance:** there is a generally sound system of internal control, designed to meet the council's 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 council's objectives at risk.

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

### **Overview of progress**

- 1.4 We are in the process of completing our work on the 2010/11 audit plan and, although work remains to complete our audit programme on the county's schools, much of our other work is substantially complete. The Audit Service has maintained our focus on performance management, in particular our focus on chargeable work for our clients. For the eleven months of the year to 28 February 2011 we have more than achieved (by 351 days) the overall intended inputs to our work for the county council.

## **2 Progress in relation to cross-cutting and corporate risks**

### **Risk management and corporate governance arrangements**

- 2.1 The council has for some time been considering how best to use risk management as a tool to support its business processes. It now operates a process that provides a regular summary to the Audit Committee of the greatest risks to the organisation, which is agreed and reviewed by the Executive Management Team on a quarterly basis.

### **Safeguarding**

- 2.2 We have recently completed fieldwork assessing controls over the finances of adults in the care of the Adult and Community Services (ACS) Directorate and

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are drafting our report for management. We are also starting to consider the systems and controls in place to ensure that the monitoring and review functions across ACS teams are appropriately aligned and complement each other.

- 2.3 A review of the corporate arrangements relating to vetting and barring and the enforcement of Criminal Records Bureau (CRB) checks is ongoing. Further audit work is also planned within the Directorate for Children and Young People (CYP) relating to the work of the Safeguarding Board, and a review of safeguarding arrangements relating to children being transported within the county is underway.

### Health and safety of the public

- 2.4 We have recently completed fieldwork in relation to the council's highways responsibilities and are discussing our findings with the Environment Directorate's management team.

### Health and safety of council staff

- 2.5 The review is continuing of the arrangements in place to ensure the continued wellbeing of lone workers employed throughout the council and that risk exposure to both employer and employee is appropriately managed.

### *Compliance with the European Working Time Directive*

- 2.6 We reported in September that the council did not have arrangements in place to enable it adequately to comply with, and monitor compliance with, the European Working Time Directive and related British law, the European Working Time Regulations. In January we were informed that the corporate Human Resources team had produced guidance notes for managers addressing all of our recommendations including key areas such as working hours, young workers and night workers, and these guidance notes have now been published on the intranet.

## 3 Progress in relation to corporate or common controls

### Financial control systems

- 3.1 We remain on target to complete reviews of the council's key financial systems by the end of the financial year and the current position in relation to each is identified in the table below.

System	Position	Opinion
<ul style="list-style-type: none"><li>• Accounts payable</li><li>• Accounts receivable</li></ul>	We issued a final report in January 2011.	Substantial assurance.
<ul style="list-style-type: none"><li>• VAT</li></ul>	Our fieldwork is complete and reported in draft.	Substantial assurance.
<ul style="list-style-type: none"><li>• Payroll</li><li>• Expenses</li><li>• General ledger</li><li>• Treasury management</li><li>• Cash and banking</li></ul>	Our fieldwork is complete and we are drafting a report.	Not yet applicable.

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### **ICT controls**

- 3.2 We are currently undertaking work to review the security of the council's network and data under new operational arrangements which have come into effect over the last few years. This work is focussed on how network access is assigned, managed and terminated across the council.
- 3.3 A review of the arrangements for asset management and disposal is also ongoing.

### **Controls over the council's estate**

- 3.4 The Property Group acts as the council's corporate landlord, for example developing the asset management plan, and supports the council in the practical management of its estate. In particular this involves managing the risk of corporate manslaughter through premises management controls. The council has adopted a policy framework developed by the Property Group, where a local premises manager should be designated to provide overall control on site and make an annual statement of compliance with corporate policy requirements.
- 3.5 We have completed a review of the premises management framework operated within the council's directorates, and intend to review the arrangements for schools as part of next year's audit plan. A draft report has been issued to management for consideration.
- 3.6 We continue to provide assurance on the final accounts with contractors on a sample basis, and there are no issues to report at this time.

### **Human resources controls**

#### ***Employees on the payroll also receiving pensions***

- 3.7 Guidance has been developed for managers relating to the conditions that will be applied in future to flexible retirements. This is currently subject to consultation with the unions but will be issued shortly. An update will be provided to the Audit Committee at its meeting on 21 March 2011.

## **4 Progress in relation to service specific controls**

### **Directorate for Children and Young People (CYP)**

- 4.1 We have issued a draft report to management covering adoption allowances. Audit fieldwork has been completed for our reviews of agency placements and fostering allowances and audit reports will be issued in March.
- 4.2 We have begun our audit of the Young Person's Learning Agency (YPLA) funding provided to schools with sixth forms. We are required to provide assurance that details of the schools' attendance and qualification aims are accurate and complete. We have selected a sample of three schools with sixth forms and have completed our first visit. A number of discrepancies were identified which are being discussed with the school to identify if they will have any impact on the funding provided by the YPLA.

### **Schools**

- 4.3 We reported in January that we had completed 21 schools audit visits and that 10 of them had received limited or nil assurance. By the end of February we

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had completed 27 school audit visits and a summary of the assurance levels is provided in the table below.

Level of assurance	Full	Substantial	Limited	No
Number of schools	0	15	9	3

- 4.4 As noted in January, all three of the schools given no assurance, and one of those given only limited assurance, were selected for audit on the basis of concerns raised either by the headteacher or the area finance office. These have not therefore been selected on any random basis and cannot reasonably be regarded as representative of schools generally.
- 4.5 Our school audits cover the operation of controls over the following areas: management structure, policies, budget, expenditure, income, IT, catering, assets, extended services, safeguarding, and engagement with young people. The level of assurance assigned to a school is based on all of the recommendations raised. However, a school may be given 'limited' or 'no' assurance based on recommendations which relate to just one or two areas of the audit. As a general rule the following principles are followed when allocating a level of assurance to each report:

Assurance level	Distribution of recommendations
Full	No high and no medium recommendations and less than six low recommendations
Substantial	No high recommendations and less than 16 medium recommendations
Limited	One or two high recommendations and less than 24 medium recommendations OR No high recommendations and 16 or more medium recommendations
No	Three or more high recommendations OR One or two high recommendation and 24 or more medium recommendations

This information is provided as guidance only, and the audit team will apply professional judgement when deciding the level of assurance.

- 4.6 As noted in January, our audits have highlighted some common issues covering schools' income and letting arrangements which we have shared with our colleagues in the CYP Combined Finance Team who are providing additional support and guidance to schools where appropriate. The Audit Service is also providing support to the Schools Finance Team as they update schools' administrators and bursars of the control issues relating to their role. The Audit Service has facilitated workshops at the Administrators and Bursars Conference and considered with attendees how controls may be improved to address the common issues identified in our audits.

### **Environment Directorate**

- 4.7 The waste PFI scheme has entered a new phase as the new facilities have begun to receive waste, and we are in the early stages of a significant review centred upon financial forecasting and the assumptions upon which future financial liabilities are based. Our planned work around project management arrangements, specifically relating to the Heysham-M6 link (which has recently been given funding approval) and the Guild Wheel, has now commenced. Our review of the 'one-team' approach involving the directorate and LCCG is due to start shortly.
- 4.8 Several follow-up reviews have also been completed recently, including information management within the highways function, the contract monitoring system relating to transport, and concessionary travel. The directorate's management team is currently considering our work on concessionary transport, and we have provided substantial assurance for the two other follow-up reviews where action had been ongoing to implement the agreed action plans.

### **Adult and Community Services Directorate (ACS)**

- 4.9 A draft report has been issued to management following our review of adult social care case management. This has focussed on the allocation of cases, the creation and closure of user records, workload management and supervision, and the use of ISSIS.
- 4.10 In addition, we have reported our findings to management on the adequacy and effectiveness of the directorate's commissioning arrangements. This review has specifically considered the decommissioning of a number of block contracts and the re-commissioning of those services through personal budgets where appropriate.
- 4.11 Our fieldwork to review the financial and administrative arrangements operated by Lancashire Adult Learning Services is complete and a draft report will be issued shortly.
- 4.12 Fieldwork is ongoing to undertake follow-up reviews of the work we completed last year, which includes the payment and monitoring system which makes payments to private residential homes, and the non-residential care system which monitors payments made to domiciliary care providers.

### **Lancashire County Commercial Group (LCCG)**

- 4.13 We have recently reviewed the procurement arrangements for the supply of raw materials required by LCCG's engineering services, and have identified some significant issues that we are currently discussing with the LCCG management team and both the corporate procurement team and LCCG's own procurement manager.
- 4.14 We have undertaken a considerable amount of work arising from whistle-blowing calls relating particularly to one of the engineering depots. We have provided a report to LCCG's director and a disciplinary hearing is continuing. Our investigation identified a number of control weaknesses which will also be addressed following the disciplinary process.

### **Economic development**

- 4.15 We have recently begun work to review income protection arrangements in relation to properties let out to tenants by LCDL.

### **Regenerate Pennine Lancashire (RPL) – the accountable body role**

- 4.16 The council remains the accountable body for the Housing Market Renewal Pathfinder partnership in the face of significant changes to the nature and amount of current and future funding. Audit work will continue to ensure that any risks to the council are robustly dealt with in this changing environment. We are currently undertaking a review of procedures relating to the treatment of capital receipts to ensure that the partnership's ongoing responsibilities continue to be met.
- 4.17 At the request of the RPL Board we are undertaking specific assurance work relating to the eligibility and accuracy of any redundancy payments the partnership will be required to make as a result of its reduced funding. The first phase of this work has been to confirm with the relevant funding bodies any eligibility criteria associated with their funding, and these details have been recently reported to the RPL Board.

### **Pension Fund**

- 4.18 We have continued to provide ongoing support and advice to management on the implementation of the new pension administration system during the year and we have recently begun a comprehensive review of this application, considering both manual and ICT controls.

### **Investigations and counter fraud work**

- 4.19 Our work supporting the council's management of the risk of fraud falls broadly into responsive work, where allegations have been made or fraud suspected, and proactive work to enhance the council's controls and to consider areas of the council's activities that may be susceptible to the risk of fraud.
- 4.20 As reported in January 2011, some investigations and related work supporting the disciplinary process have been under way for a considerable period.
- 4.21 As part of our proactive counter fraud work we have performed a series of unannounced visits to a number of the council's establishments that handle cash. All cash checked has been accounted for, but we are in the process of making some recommendations to improve controls over cash handling.
- 4.22 We have also used computer assisted audit techniques to analyse the pattern of bank deposits by schools to identify schools where money has not been banked on a regular basis. We have recently made three unannounced visits to such schools. Whilst in two of these schools there were no further problems, in one school the records were incomplete and it is not clear that all monies received by the school have been banked. We are continuing to work with the school's head teacher to resolve this.