Lancashire County Council Internal Audit Annual Report for the year ended 31 March 2023

1 Introduction

Purpose of this report

1.1 This report summarises the work that the county council's Internal Audit Service has undertaken during 2022/23 and the key themes arising in relation to internal control, governance and risk management across the council.

The role of internal audit

1.2 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) 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 2022/23.

1.3 The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in Appendix B to this report.

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 can provide limited 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 my opinion, I have considered the work undertaken by the Internal Audit Service throughout the year. The vast majority of audits conducted provided a positive assurance opinion and ascertained that for the areas under review the vast majority were operating as would be expected. The work of external assurance providers and information available from less formal sources than planned audit engagements were also taken into consideration. Audit work covered the full range of the council's services.

2.3 In the main the council adapts well to the changing risk environment and for most of the 2022/23 financial year the council was operating as would be expected. However, issues associated with the implementation of Oracle Fusion resulted in a data breach that was reported to the Information Commissioner's Office. The overall impact of this one project not being implemented as intended significantly impacted on the council's ability to conduct business as usual particularly within the council's Key Financial and HR processes. The council's initial response in resolving these issues has been quick and effective to date. A project programme with a new project board is in place. The aim of this programme is to mitigate the

risks, resolve the known issues, identify any yet unknown issues and apply lessons learnt from this process. The success of this programme will be critical in restoring business as usual and to enable the council to realise benefits from the system change.

2.4   The work that has been completed to address these challenges has resulted in much improved functionality of the system, that has enabled many services to return to more of a business as usual status within the first quarter of 2023/24. There is a significant amount of work to be completed before all the system's functionality is fully working as intended. However, should progress in resolving these issues continue at the current pace it is expected that the system could be operating as intended within the financial year 2023/24. This will then enable the council to start to receive tangible benefits from the system.

2.5   Although it is expected that this situation will be rectified by the actions of the project board this work is still ongoing. At the time of writing this opinion the consequences of this event were impacting the whole council. Had the impact of fusion not occurred the assurance level that the Head of Internal Audit has provided would not have been reduced from moderate assurance to limited assurance.

2.6   Descriptions of the audit work we have done are set out below, and an explanation of the assurance provided by internal audit assignments in 2022/23 are set out in Appendix C.

2.7   It should be noted that this opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the council and is not an absolute assurance of the effectiveness of internal control arrangements and the management of risk. Neither this report nor the work of Internal Audit should be taken as a substitute for management's responsibilities for the application of sound internal control practices. The purpose of this opinion is to contribute to the assurances available to the council which underpin the assessment of the effectiveness of its governance framework, including the system of internal control, which are encapsulated in the Annual Governance Statement.

The council's control framework

2.8   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

2.9   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 2023 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.

2022/23 assignments relating to:	Total	Assurance provided				
		Substantial	Moderate	Limited	None	N/A
Governance	1	3	-	-	-	-
Business effectiveness	7	2	1	-	-	-
Service delivery	19	20	19	4	-	-
Service support	-	1	3	4	-	-
Business processes	1	6	1	-	-	-
Grants/Other	-	-	-	-	-	24
2022/23 assignments:	**88**	**32**	**24**	**8**	**0**	**24**
total to date	**99%**	**36%**	**27%**	**9%**	**0%**	**27%**
2021/22	45	10	16	2	0	17
2020/21	9	3	4	2	0	13
2019/20	55	20	21	14	0	8
2018/19	46	18	10	9	0	8

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.

18 July 2022

Control area	Assurance
Admission of Employers to the Pension Fund	🟢 Substantial
Council's Appointee and Deputy Role	🟢 Substantial
Covid Funding Streams	🟢 Substantial
General Ledger	🟢 Substantial
Community Test and Trace	🟢 Substantial
Facilities Management Cleaning Service	🟢 Substantial
Accounts Receivable	🟢 Substantial
Procurement During Covid	🟡 Moderate
Recruitment	🟡 Moderate
Disclosure and Barring Service (DBS) Policy and Process	🟡 Moderate
Contract Monitoring – Residential Care Providers	🟡 Moderate
Children Looked After - Sufficiency Strategy	🟡 Moderate

Control area	Assurance
Children's Safeguarding Assurance Partnership	🟡 Moderate
Older People Care Services - Safeguarding Alerts	🟡 Moderate
Older People Service - Sickness Absence Management	🟡 Moderate
Contract Monitoring Homecare Framework Providers	🟡 Moderate
Debt Management	🟡 Moderate
Payment Card Industry Data Security Standards	🔴 Limited
Grant certification and special Investigations	
Culture Recovery Fund - Grants Programme	
Peer Network Funding to Local Enterprise Partnerships (LEPS) Grant	
Core Growth Hub Grant Funding to Local Enterprise Partnerships	
Liverpool Combined Authority Local Energy Hub – Q3 2021/22	
Skills Bootcamp	
Supporting Families Grant Claims– Q1 2022/23	
Bank Mandate Special Investigation	

31 October 2022

Control area	Assurance
Management of Capital Projects	🟢 Substantial
Corporate Parenting Strategy	🟢 Substantial
Payroll and Overpayments	🟢 Substantial
Better Care Fund	🟡 Moderate
Transport Provision for Children	🟡 Moderate
Grant certification	
Covid Bus Services Support Grant (CBSSG)	
Bus Recovery Funding (BRF)	
Bus Service Operators Grant	
Adult Weight Management Grant	
Inpatient Detoxification Treatment	
Universal Drug Grant	
Contain Outbreak Management Fund	
Social Care Digital Pathfinders Project	

25 January 2023

Control area	Assurance
Major Strategic Development Projects	🟢 Substantial
School Catering	🟢 Substantial
Lancashire County Development Ltd. - Financial Management	🟢 Substantial
Children's Social Care Case Recording	🟢 Substantial

Control area	Assurance	
Infection Prevention & Control Team – Management arrangements	🟢	Substantial
Multi Agency Safeguarding Hub	🟢	Substantial
Children's Support Services Hub	🟢	Substantial
Treasury Management	🟢	Substantial
School Property Maintenance Traded Service	🟢	Substantial
General Data Protection Regulations (GDPR)	🟢	Substantial
Schools' SFVS self-assessment	🟢	Substantial
Safeguarding Adult Reviews	🟡	Moderate
SEND Plan - Project Management	🟡	Moderate
Mobile Working & Devices	🟡	Moderate
Managing Failing Care Homes	🟡	Moderate
Commercialisation	🟡	Moderate
Operation of the Lancashire Volunteer Partnership	🔴	Limited
Corporate Mandatory Training	🔴	Limited
Special Guardianship Order - Financial Support	🔴	Limited
CCTV	🔴	Limited

School Asset Management Audits	Assurance	
Brookfield School	🟢	Substantial
Leyland Methodist Junior School	🟢	Substantial
Our Lady's Catholic High School	🟢	Substantial
St. Gregory's Catholic Primary School	🟡	Moderate
Spring Hill Community Primary School	🔴	Limited

Grant certification
Local Transport Capital Block Funding (Integrated Transport and Highway Maintenance Blocks)
Local Transport Capital Block Funding (Pothole Fund)
Liverpool Combined Authority Local Energy Hub – Q1 2022/23
Supporting Families Grant Qtr1
Supporting Families Grant Qtr2
Business Mileage Claims – analysis of normal commute deductions (consultancy)

24 April 2023

Control area	Assurance	
Value Added Tax	🟢	Substantial
Blue Badges	🟢	Substantial
Recording of Youth Referrals	🟢	Substantial
Transition from children's to adult services	🟡	Moderate
Schools Thematic Audit Asset Management	🟡	Moderate
Highways Equipment Hire	🔴	Limited

Control area	Assurance	
School Asset Management Audits	**Assurance**	
Penwortham Girls High School	🟢	Substantial
Breck Primary School	🟢	Substantial
Whitworth Community High School	🟢	Substantial
St Joseph's Catholic Primary School	🟢	Substantial
Wellfield Methodist and Anglican Church School	🟢	Substantial
Hyndburn Park Primary School	🟡	Moderate
Christ Church Primary	🟡	Moderate
Walverden Primary School	🟡	Moderate
SS John Fisher and Thomas More RC High School	🟡	Moderate
Water Primary School	🔴	Limited
Grant certification		
Department for Education (DfE): Skills Bootcamp Grant Scheme Wave 3		
Liverpool Combined Authority Local Energy Hub – Q2 2022/23		
Liverpool Combined Authority Local Energy Hub – Q3 2022/23		

Wider sources of assurance available to the county council

2.12   The council's external Auditors Grant Thornton have not yet published their annual report. However, throughout the financial year 2022/23 they have provided regular updates to the Audit Risk and Governance Committee. During which they have not highlighted any risk of significant weakness within the council's arrangements.

2.13   The reports provided by Office for Standards in Education, Children's Services and Skills (Ofsted) during the year form important sources of external assurance and may be found on Ofsted's web-site here: [Office for Standards in Education, Children's Services and Skills](#)

2.14   The reports provided by Care Quality Commission (CQC) during the year also form important sources of external assurance regarding the council's Older Peoples Care services and may be found on CQC's web-site here: [Care Quality Commission](#)

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). As well as the reviews completed by the Internal Auditor of the Local Pension Partnership Administration.

Audit work	Status/Assurance
Assurance relating to LPPA's administration of benefits	
Operational Quality	Immediate Action Needed
Contractual Service Level Agreement	Enhancement Required
Procurement & Vendor Management	Significant Improvement Required
Operational Capacity Planning	Significant Improvement Required

Assurance relating to Local Pensions Partnership Investments (LPPI)	
Type II Independent Service Auditor's Assurance Report - KPMG	Qualified Opinion

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 2022/23 indicates that the plans agreed in previous years are largely being addressed, although some improvement work is still ongoing.

2.17   The Internal Audit Service aims to follow up the action plans agreed by managers to address the risks identified through the audit process, to confirm that action has been taken. Over the previous few years. The council has seen some significant changes to the way systems are operated and how services are delivered. This led to some uncertainty at the start of 2022/23 as to the number of management actions that may have been superseded due to these changes. A wider review of these management actions was completed which establish the number of management actions that were still valid and require implementation.

2.18   This combined with the follow up audit assignments demonstrates that in general good progress is made across the council in implementing agreed management actions. The table below shows the number of Management Actions agreed and their current status, along with a summary of when the actions were agreed.

Action status	As at 20 June 23					
			Risk rating			
	Total		Critical	High	Medium	Low
Complete	146	40%	0	3	71	72
Incomplete	19	5%	0	2	11	6
Follow up Scheduled	133	37%	0	29	73	31
Superseded	65	18%	0	11	37	17
Total	**363**	**100%**	**0**	**45**	**192**	**126**
Arising in:						
2019/20	161	44%	0	12	87	62
2020/21	12	3%	0	2	9	1
2021/22	111	31%	0	4	54	53
2022/23	79	22%	0	27	42	10
Total	**363**	**100%**	**0**	**45**	**192**	**126**
Incomplete by year						
2019/20	5	26%	0	0	2	3
2020/21	0	0%	0	0	0	0
2021/22	10	53%	0	1	7	2
2022/23	4	21%	0	1	2	1

3   Key issues and themes

3.1   The council has faced significant challenges regarding the implementation of the Oracle Fusion project. However, significant progress has been made to address these issues. The response from the council to address the difficulties identified after the fusion go live and to support the services impacted was quick and

decisive. The council has worked collaboratively across a wide range of support services to bring together a variety of skills and experience to resolve these issues. The response and progress made is notable and if continued in this way it should see all the issues resolved. However, there still much work to be completed before the system will be operating as intended.

3.2 The county council's overall approach to managing financial risks continues to be to identify and acknowledge risks early and build the impact into financial plans while continuing to develop strategies which will minimise their impact. This approach operates in parallel with the identification and setting aside of sufficient resources to manage the financial impact of the change risks facing the organisation.

3.3 The council has identified significant financial savings, additional income and efficiencies to address forecast financial shortfalls. Delivery of these savings is challenging and is likely to be challenging beyond the 2023/24 financial year. However, the council has a strong track record of delivering previous savings plans, with some being overachieved.

3.4 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. When this is required, the changes have been reported to the Audit Risk and Governance committee. Overall, we have had access to services in every directorate.

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, as such the Internal Audit Service does not have 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 any decisions on audit activities remains with 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. The most notable change in 2022/23 was a change of Audit Manager for one of the Audit Teams. The previous audit Manager Judith Taylor who has been a valued member of the Audit team for many years changed roles in the team to a part time Senior Auditor post. The service would like to extend our gratitude to Judith for her time as the Audit manager. We are grateful that she has stayed within the team as a Senior Auditor. We are pleased to report that Laura Rix is the new Audit Manager for the team. Laura has been a valued member of the audit team for many years as a Senior Auditor.

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 The Internal Audit Service is currently fully staffed. The council has provided additional investment into the Audit Team's Investigatory resources. This will create a new investigation team that will be responsible for the council's response to financial crime, including fraud, corruption and other criminality.

5.2   At the Start of the 2022/23 financial year the Internal Audit Service set itself five key performance indicators (KPIs) to help the service measure its performance throughout the year. These KPIs and results can be found in the table below.

5.3   The team has exceeded the target for three of the KPIs. Although the targets were not fully achieved for the remaining two. As a service we have used the data to inform our reflections on how the serviced can improve going forward.

KPI	Performance overview	Performance target	2022/23 Performance
1 Completion of the audit plan.	Percentage of planned audits completed to draft report stage by end of financial year. (Including grant reviews and new audits added to the plan).	80%	75%
2 Timely productions of draft report.	Percentage of draft reports issued on or before the draft target deadline.	80%	63%
3 Timely agreement and issue of the final report.	Percentage of final reports issued within 5 weeks of draft report.	80%	83%
4 Positive customer satisfaction.	Percentage of audit feedback questionnaire provide positive feedback.	80%	96%
5 Management actions agreed.	Percentage of required Management actions are agreed to be implemented.	90%	100%

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 concern.

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

- *The Fusion project workload was always taken into consideration and the auditor was available on hand if we needed to ask anything. The auditor went above and beyond to facilitate different meeting times and delays caused by working on the project (for myself). The auditor was very approachable and understood different factors that would affect outcomes. I specifically appreciated the understanding the auditor had of the workload we were facing at the time of the audit.*

- *The auditor was very accessible and explained the process of the audit too me. He was quick with his responses and provided useful feedback throughout the process.*

- *The auditor was professional throughout the whole Audit. He was accommodating and always approached me when needed and avoided any major disruption to the service. It was a pleasure to work alongside him.*

- *The Auditor had clear and concise communication and understood the resource model for Procurement including Business lead accountability.*

- *Our service area is rather unique in the organisation and the Auditor was able to quickly understand and ask salient questions on how we work and drill down to explore the right questions. Overall, it was a positive experience and helped us understand the many facets of what we do and why we do it which gave further thought on how we can improve.*

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 (EQA) undertaken by the Chartered Institute of Internal Auditors were reported to the committee in April 2023. This confirmed that the Internal Audit Service 'generally conforms' to the full range of standards set out in the International Professional Practice Framework. Another external review is due to be completed in 2028/29, with a self-assessment planned for 2024/25 the findings of both 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. 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. As was confirmed by the results of the EQA.

Areas for development

6.5   A significant area for development that the Internal Audit team is focusing on is improving the use of data analytics within our reviews. Data analytics has a range of alternate definitions, however it can be summarised as the process of examining

data sets in order to find trends and draw conclusions about the information they contain.

6.6   An Internal Audit data analytics strategy has been developed and is attached at appendix D. The strategy outlines Internal Audit's aim to work towards a position where data analytics is fully embedded within our activities, and we are regularly and successfully using data analytics to provide insight and foresight to our partners and clients.

6.7   This strategy also supports conformance with the Public Sector Internal Audit Standards (1220.A2): 'in exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques'.

6.8   The Investigatory resources within Internal Audit have been greatly increased from a resource of one FTE Senior Investigator. To a team of five, comprising of an Investigations Manager, two Senior Investigators and two Investigators. The Investigations Manager has been appointed and the recruitment for the other team members is underway.

6.9   The vision for this team is to build an effective, efficient counter fraud service that will meet the council's current needs and be able to be built upon in the future. To achieve this the service will develop robust governance arrangements to counter financial crime such as fraud and corruption. They will raise awareness of fraud risks and promote good practice and preventative measures, while also encouraging the reporting of suspicious activities across the council. The service will react quickly and effectively to allegations of fraud and corruption, prioritising fraud recovery and use of criminal and civil sanctions.