

## **1 Introduction**

- 1.1 This report summarises the work undertaken by the council's Internal Audit Service under the internal audit plan for 2010/11 and the work carried forward from the previous audit plan completed during the year. It completes the suite of progress reports for 2010/11, in which summaries of our audit reviews are provided to the Management Team and Audit Committee. The findings included in this report have been agreed with executive directors and shared with the Management Team. It does not repeat the work already reported to the Audit Committee at its meetings earlier during 2010/11.
- 1.2 This report supplements the internal audit annual report also presented to the Audit Committee at this meeting.

### **Audit assurance**

- 1.3 Audit assurance is stated in the following terms:

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

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

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

- 1.4 The report below refers to the council's services as follows:

Adult and Community Services Directorate:	ACS
Children and Young People's Directorate:	CYP
Environment Directorate:	Environment
Lancashire County Commercial Group:	LCCG

## **2 Cross-cutting and corporate risks**

- 2.1 Work has now been completed on a number of the cross-cutting reviews planned for the year, but some are still ongoing. Our findings in relation to the council's selection of its strategic partner, and information governance, were reported to the Committee in January 2011; our work on members' allowance and expenses was reported in September 2010. The findings of our other reviews are reported below.

### **Safeguarding**

- 2.2 Our work on safeguarding has been undertaken during the final part of the year and is still ongoing. We are drafting reports in relation to the operation of the Criminal Records Bureau vetting and barring scheme and safeguarding arrangements within both Environment and LCCG relating to children's

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transportation. However we have completed work on safeguarding vulnerable adults and their finances.

### ***Safeguarding vulnerable adults***

- 2.3 The council works alongside the police and NHS bodies to ensure that procedures and effective arrangements are in place jointly to encourage the reporting of suspected abuse of vulnerable adults. A report by the Care Quality Commission early in 2010 concluded that the county was performing well. The Safeguarding Adults Team was restructured in January 2011 and the new Area Operations Team and Practice Development Team have worked to embed the new structure and revised processes since then.
- 2.4 Given the depth of the Care Quality Commission inspection, the scope of our review was limited to considering the systems in place to ensure that the monitoring and review functions across the directorate are appropriately aligned and complementary to each other. We are able to provide substantial assurance over the arrangements operated within the directorate.

### ***Safeguarding adult finances***

- 2.5 We are able to provide substantial assurance over the safeguarding of adult finances. The Safeguarding Adult Finances Team manages the finances of adults who lack the capacity to do so for themselves and where there are no suitable alternatives, for example family members, friends or solicitors. It works closely with the council's Safeguarding Adults Team and the Court of Protection and receives referrals from care managers. Over the last eighteen months the team has experienced significant growth in client numbers (including a 50% increase in caseload in January 2010), a related increase in transactions, and a further increase in workload arising from service users receiving the Independent Living Fund, which has inevitably placed a strain on the team's resources. Despite this, the team manages effectively the finances of vulnerable adults under appointee and court appointed deputy arrangements.
- 2.6 There was, at the time of our audit, no overall reconciliation between client balances, detailed bank statements, the database records and the overall client monies account. However the migration of data onto ISSIS from 6 December 2010 now supports a reconciliation process and facilitates effective monitoring of client balances.

## **Health and safety of the public**

### ***Petroleum safety***

- 2.7 We have provided substantial assurance over the council's arrangements in relation to petroleum safety at closed service stations whose storage tanks have been decommissioned, although there is scope to enhance monitoring of these sites and to update documented procedures more regularly.

### ***Highways responsibility relating to corporate manslaughter***

- 2.8 At the time of our audit, the council's risks in relation to corporate manslaughter arising out of its responsibility for the county's highways were not fully mitigated and we provided only limited assurance over the controls in place. Inspections of the highways are undertaken externally but no evidence was retained that these inspections were monitored to ensure compliance with the council's Highways Safety Inspections Code of Practice, and testing concluded that few

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defects identified were being rectified within the stipulated time. However since then a number of actions have either been implemented or are planned, including more formal arrangements for undertaking risk assessments and monitoring highways inspections. The ongoing development of the 'one-team' approach with LCCG is expected to enhance the speed and efficiency of the defect rectification process. Risk management arrangements will also be improved by the development of a specific ICT application, and these enhancements will be reflected in a revised Transport Asset Management Plan and other documentation.

- 2.9 Data sharing agreements, policies and guidance between the council and Lancashire Constabulary had not been regularly updated, but arrangements have now been made to review the documents by the end of June 2011, and at least annually thereafter.

### **Health and safety of council staff**

- 2.10 We reported our work on corporate health and safety arrangements to the Audit Committee in January 2011.

#### ***Staff providing catering and engineering services***

- 2.11 Health and safety arrangements specifically relating to staff providing LCCG's catering and engineering services are effective and we have provided substantial assurance over these controls. LCCG's integrated management system sets out the requirements for the service-specific management of health, safety, quality and the environment. Its highways, fleet management, Travelcare, and school crossing patrols services have systems that are registered to ISO 9001 and also to Occupational, Health and Safety Advisory Services (OHSAS) 18001 with Lloyds Register Quality Assurance Ltd.

#### ***Lone workers***

- 2.12 We have provided only limited assurance in relation to controls over the risks of lone working in LCCG; our reviews of lone workers in Environment and CYP are ongoing and work will be undertaken during 2011/12 on ACS. Although there are examples of good procedures in place, across the council as a whole there is a wide variety of procedures and no consistency. Where procedures are in place it is unclear that all staff members are aware of and complying with them, and some services had no procedures in place at all.

### **The role of the county council as accountable body**

- 2.13 Controls over the council's role as accountable body for various funding streams have some design flaws and are inconsistently applied, and we can therefore only provide limited assurance that the risks are managed.
- 2.14 Although there is an approval process in place requiring directors to approve the council's entry into any partnership, there is no way of enforcing this and as a result some partnerships, including those giving the council responsibility for funding streams, do not have this approval or gain it only later as a formality. Project managers are required to complete the council's Evaluation Questionnaire before entering into grant-funded partnerships and further, if the council is to undertake the role of accountable body, then authorisation must also be obtained from the county treasurer and others including the county

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secretary and solicitor. None of our sample had completed either level of authorisation.

- 2.15 We reported in January 2011 that we had verified the details of performance data supporting the council's claim for Performance Reward Grant.

### **The customer service centre**

- 2.16 We have considered the controls associated with the 'Acorn' system which supports the operation of the customer service centre and can provide substantial assurance over the system's operational support to the delivery of services but only limited assurance over data security since elements of the web-based components of the system render it vulnerable to external threats. Overall however, we have categorised our assurance over the Acorn system as substantial.

### **Corporate governance**

#### ***Declarations of interest, gifts and hospitality – members***

- 2.17 We have provided substantial assurance in relation to arrangements for members' declarations of interest and receipts of gifts and hospitality, although there may be an opportunity to use the new 'modern.gov.net' system more effectively, particularly since this facilitates direct input by members.

#### ***Declarations of interest, gifts and hospitality – officers***

- 2.18 We have provided only limited assurance over the controls relating to declarations of interest by officers. Although declarations were sought during April 2010, there was no requirement on employees to submit nil returns and therefore for an employee positively to confirm that they have no relevant interests. In April 2011 the register of interests held only 38 declarations, and three were duplicates since earlier declarations by the same individuals are not removed.
- 2.19 It is unclear what use could and should be made of this information and to what extent it can be shared within the council, for example the extent to which it should be shared with the relevant management team to enable them to act on it. This has had very real implications in practice during the year, when it is possible that the procurement of certain goods may have been compromised by personal interests. The control derived from adequate declarations of interest is important to protect staff and prevent them from being put into positions where their personal interests conflict with those of the council. It will also be particularly important from 1 July 2011 when the Bribery Act comes into force and the council will be expected to have implemented adequate procedures to provide a defence against the risk of bribery.

## **3 Cross-service controls**

- 3.1 Our audit plan included work on 'cross-directorate services' that addressed two areas of joint working between Environment and LCCG and these assignments are reported separately here to distinguish them from our work on cross-cutting controls that are applicable across the whole of the council. We reported the findings of our work on the Reablement Service, jointly operated by LCCG and ACS in January 2011.

### **The 'one team' approach to engineering work**

- 3.2 We have reviewed the first project to be undertaken under the new 'one team' approach of integrated service delivery, combining teams from Environment and LCCG. Whilst significant savings have been reported, the extent to which these can be specifically attributable to the new arrangements is not easily demonstrated. The teams involved are still developing the new approach and beginning to understand how they relate to one another in a changed environment and it is not appropriate at this point to assign an assurance category to our work. Audit work in 2011/12 will focus on the strategies employed to embed this change in approach.

### **Transport for children with special educational needs**

- 3.3 We are able to provide no assurance over the process by which charges are made for the provision of transport for children with special educational needs as there is a general lack of control over the process and the management information available is not fit for purpose. This in turn makes it difficult to demonstrate that the service provides value for money. Although our work has been restricted (because our original objective was to obtain a robust understanding of the re-charges made to CYP by LCCG and the team formerly located in Environment) it appears that there are a number of issues that the management team needs to address that fall within the remit of the Accessible Transport Board.
- 3.4 It is clear that the management teams within CYP, Environment and LCCG are already aware of some of the issues we have raised, and more, and a steering group has begun to work to remedy them.

## **4 Common controls**

### **Tendering and purchasing**

- 4.1 We reported our findings in relation to tendering and purchasing in January 2011. The corporate Procurement Team has now been seconded into One Connect Ltd as part of the strategic partnership with BT plc and the issues we identified will be addressed by the partnership.

### **Financial control systems**

- 4.2 We have completed our reviews of each of the council's key financial systems and the assurance we have given on each is identified in the table below.
- 4.3 In addition we worked with finance teams across the council to verify the completeness, accuracy and currency of the budgets being transferred from the council to One Connect Ltd associated with the services transferring into the strategic partnership. We have provided advice and assistance, and reviewed the testing strategy, before the new Oracle HR/ payroll system was made 'live' for the Resources Directorate. We also reviewed the controls in place to ensure that efficiency savings are identified, actioned and monitored against planned savings, as required by the Department for Communities and Local Government.

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<b>Control system</b>	<b>Assurance provided</b>
Due diligence over the strategic partnership's budgets	Substantial
Oracle HR/ payroll system testing	Substantial
Efficiency savings	Substantial
Accounts payable	Substantial
Accounts receivable	Substantial
Cash and banking	Substantial
Expenses	Substantial
General ledger	Substantial
Oracle Financials user management and user responsibilities	Substantial
Payroll	Substantial
Treasury management	Substantial
VAT	Substantial

- 4.4 We noted improvements in the operation of the duplicate payments software and prompt creditor payments on the accounts payable system, and improvements too in debt management procedures as part of the accounts receivable system.
- 4.5 Work is now underway with One Connect Limited on the implementation of the new release of the Oracle Financials system in April 2012, and work on the chart of accounts will be progressed in accordance with that time scale. Amendments will also be made to system user rights too, to ensure that system users are able to access only the functionality required for their role.
- 4.6 Corporate policy is lacking regarding the expenses that may be claimed by home-workers and there are inconsistencies in practice across the council and within individual directorates. In areas where applicable policies have been established, for example covering mileage claims for office-based workers, we found a small number of breaches of these policies. However generally we found that controls within the expenses system are adequately designed: the mechanism for setting up authorising officers and the system for authorising expenses are good. Further expenses and allowances policies for office based staff have been revised following the Equal Pay Review and are now available to view on the intranet.
- 4.7 As part of the proactive fraud plan we have performed a number of unannounced visits to establishments throughout the council to assess their controls over cash, and have made a number of recommendations to improve control. In some establishments which receive only low levels of cash it may not be practical or cost-effective to implement additional controls and in these cases we will discuss what action is appropriate for an establishment.

**ICT controls**

- 4.8 We reported our work on Government Connect in January 2011, and our review of the arrangements for asset management and disposal is still ongoing.

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- 4.9 We have completed our review of the security of the council's network and data under the new operational arrangements that have come into effect over the last few years. We focussed on how network access is assigned, managed and terminated across the council and although we have concluded that, overall, we can provide substantial assurance over the operation of Active Directory (the system the council uses to access, manage and secure the ICT network), our conclusion is more limited specifically in relation to the management of user accounts. The system is reliant on managers notifying ICT Services of all staff moves and changes in role that have an impact on their access to the council's network, and there is at present no interface between Active Directory and the human resources system.
- 4.10 We provided substantial assurance over the management of change to the council's IT systems, and these areas appear to be well managed on a day to day basis. However there are no formal change and configuration management policies. Directorates have established their own procedures and documentation in support of the corporate commissioning process that reflect their own requirements, but it is not clear that these are efficient and effective in the corporate context.
- 4.11 The council's new strategic partnership arrangements should enable it to fully address these issues and to move to comply with best practice standards during 2011/12.

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

- 4.12 We have provided substantial assurance over the design of the systems established for property maintenance. Testing confirmed that the controls over service contracts administered by the Building Services Team are operating effectively, but at the time of our audit sample checking of servicing work by engineers had temporarily ceased due to staff vacancies, which we understand will be resolved by the Property Group restructure.
- 4.13 We have provided limited assurance over the controls in place over the council's premises management: the system is adequately designed to achieve its objectives, but at the time of our work controls were inconsistently applied. The council's policy framework requires the designation of a local premises manager for each council-owned building to provide overall control on site and to make an annual statement of compliance with corporate policy requirements. Steps have been taken to implement a premises management framework and associated procedures but, although responsible managers have been identified for each building, not all compliance statements had been made at the time of our audit. We have been informed that the Property Group has now received compliance statements for most of the council's buildings.
- 4.14 We have provided assurance on final accounts with contractors on a sample basis and there are no issues to report.

### **Human resources controls**

- 4.15 We reported our work in relation to the Equal Pay Review in September 2010 and our review of attendance management arrangements, and work in relation to employees on the payroll also receiving pensions (undertaken at the Audit Committee's request), were reported in January 2011.

## **5 Service specific controls**

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

- 5.1 We reported our opinion of substantial assurance in relation to the Transforming Community Equipment Service in January 2011.

#### ***Adult social care case management***

- 5.2 Our work on adult social care case management identified a number of areas of good practice, including documented procedures for the management and supervision of social care cases. Cases are allocated with regard for their complexity and any safeguarding issues or crisis situations. On the whole, cases are managed on a timely basis and closed appropriately.
- 5.3 However delays in implementing revised roles and responsibilities within ISSIS mean that members of staff continue to have numerous access permissions. Security over some personal mailboxes should be improved and, since access to client records is not proactively monitored, there is a risk that records may be accessed inappropriately and this access would not be identified. Cases have also been allocated to dummy mailboxes and to those staff who have left the council's employment (although action has now been taken to reallocate many of these).
- 5.4 We have therefore provided only limited assurance over these social care case management arrangements.

#### ***Care commissioning and procurement arrangements***

- 5.5 We reviewed the commissioning and procurement arrangements in respect of five specific supported living schemes and the move away from block care contracts procured by the council to personal care arrangements and self-directed support. Four of the schemes had been decommissioned at a time when statutory Social Care organisations faced unprecedented change and uncertainty associated with new government policy directives concerning 'personalisation' in late 2007. They were re-commissioned against a backdrop of urgent concerns about service quality and viability. The directorate was therefore operating in a new landscape, before the legal status of care contracts had been clarified and current policy was developed, and its commissioning toolkit was still in development.
- 5.6 Based on the controls in place at the time of our work, we can provide only limited assurance, but managers are still continuing to develop and improve commissioning arrangements for similar schemes.

#### ***Help Direct Service***

- 5.7 The Help Direct Service was established in November 2008, and is open to all adults in Lancashire to help them to access a network of practical support to remain independent and healthy, and to resolve problems before they become crises. We provided substantial assurance over the controls operated to support the Service.

#### ***Financial and administrative arrangements within Lancashire Adult Learning Services***



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- 5.8 We found a number of areas of good practice in financial governance and internal control within Lancashire Adult Learning, including administration of the strategic board, data quality standards, and controls over the management of grants. However a number of issues have limited the assurance we can provide.
- 5.9 In particular: there are inconsistent working practices within the Finance Team, arising from a lack of operational procedures; although key personal documentation is not retained we found that CRB disclosure forms had been retained beyond the period allowed; and there are weaknesses in the implementation and operation of the new management information system, particularly application security and control.

### ***Payments and monitoring system (PAMS)***

- 5.10 We provided substantial assurance in relation to controls over PAMS. This system enables ACS to make payments to residential and nursing homes for clients who have been assessed as in need of such care, taking into account the amount that the client and any third party will pay as a contribution to the cost of the placement.

### ***Follow-up work***

- 5.11 We have followed up our previous work on contract monitoring, the non-residential care system and payments and monitoring system, and have provided substantial assurance in relation to each although implementation of a small number of planned actions is ongoing.

### **Environment Directorate**

- 5.12 We reported in January 2011 our findings in relation to closed landfill sites and section 278 agreements relating to development control. Our review of the waste management PFI project, centred on financial forecasting and the assumptions supporting an assessment of the project's future liabilities began late in the year and is still on-going. Our work on the directorate's project management arrangements, specifically relating to the Heysham-M6 link (which has recently been given funding approval), and the Guild Wheel has also now begun and will be completed during 2011/12. We have provided assurance on final accounts with contractors on a sample basis during the year and there are no issues to report.

### ***Development control - section 106 agreements***

- 5.13 Our review of this area of development control has proven more wide-reaching than initially envisaged. Section 106 agreements are a way of addressing matters that are necessary to make a proposed development acceptable in planning terms, and they affect the district councils as well as a number of county council services. The two-tier nature of the national planning system means that the county council is largely dependent upon district council partners to identify and protect the county council's interests and there are a number of key risks that are beyond the county council's control.
- 5.14 We can therefore only provide limited assurance over the controls in place, and significant, structural changes to the way in which these agreements are administered are necessary including the local arrangements for managing,

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monitoring, and reporting development applications and their financial implications.

### ***Highways damages***

- 5.15 Control arrangements have changed during the year and our work will be used by the directorate to supplement the work it is already undertaking following its restructure. Controls to recoup the costs of damage to the highways from drivers and insurers are inconsistently designed and applied across the county, with variations in the East of the county for historical reasons and we have therefore provided only limited assurance over them.

### ***Accrington eco-station grant funding certification***

- 5.16 Although not an assignment directed towards an assessment of internal controls, we have certified the council's grant claims for this scheme and therefore have had continuous involvement in the project. In addition to arrangements relating to Accrington EcoStation rail station that opened this year, the project brings together other rail projects across Europe with similar environmental features. Our work raised a number of queries around the procurement of several key suppliers and most of these were resolved through retrospective approval of the procurement decision. One procurement issue relating to the use of legal advisors remains outstanding but is being taken forward by the corporate Procurement Team within One Connect Ltd and the County Secretary and Solicitor's Office.

### ***Follow-up work***

- 5.17 We completed a number of follow-up reviews during the year. The implementation of some agreed actions was affected by the directorate's restructure, budget cuts and loss of staff, but we have provided substantial assurance over the contract monitoring system relating to transport, information management within the highways function, partnerships and the Traffic Management Act. We have provided limited assurance over the urban traffic control system and concessionary travel arrangements.

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

- 5.18 We reported in September 2010 that we had completed our work on data quality and in January 2011 that our findings were being addressed by the directorate. We also reported that the directorate had begun to address matters relating to Sure Start, Early Years and Childcare Services' commissioning arrangements, but that we were unable to provide assurance over the controls in place to operate the Graduate Leader Fund.
- 5.19 We are currently undertaking work on the Lancashire Safeguarding Children Board and will complete this during 2011/12.
- 5.20 The county council is directly responsible for the care of over 1,200 children and young people, who are looked after either by a foster carer (employed by the council or an agency) or in a council residential home. A Corporate Parenting Board monitors the care provided to ensure that appropriate standards are being set and met. During the year we have considered fostering allowances, adoption and other allowances, and agency placements.

### ***Fostering allowances***

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5.21 Foster carers are reimbursed for the expenses they incur whilst providing temporary homes for children who are unable to remain in their parents' care. The council implemented a new package of carer allowances in April 2009, increasing the basic allowance and including enhancements for special events and when certain conditions are met. Additional discretionary payments are also made if approved by a panel.

5.22 We have provided substantial assurance over the controls in place over fostering allowances, but note that guidance regarding the application of the scheme of delegation could be strengthened to improve consistency.

### ***Adoption allowances***

5.23 Allowances are payable in certain circumstances to enable children to be adopted where the financial impact on a family may otherwise present a barrier. Both the child's circumstances and the family's income are considered in establishing eligibility and other factors are then used in addition to determine the amount of the allowance that will be paid. Three adoption allowance schemes are currently operated by the council, dependent upon when the adoption allowance began. Residence order allowances and special guardianship orders are paid at the equivalent rate for fostering and are adjusted annually.

5.24 We have provided limited assurance over the systems in place to award adoption, residence order and special guardianship order allowances. Whilst each of the three allowances are different, the review processes for each were operating ineffectively, which may result in the needs of the children and families involved not being met, or overpayments being made by the council.

### ***Agency placements***

5.25 The Commissioning Team is responsible for sourcing external agency placements through the framework provided by the North West Foster Care Controls, established jointly with 21 other local authorities.

5.26 The directorate is focussed on improving the agency placements and wider care provision processes and we have provided substantial assurance over the current controls, although more should be done to ensure full compliance with the agency selection procedure and further automation of the system could improve its efficiency. The Service has also agreed to review the process by which consideration is given to reunifying children with their parents where appropriate.

### ***Elective home education***

5.27 Legally, the responsibility for educating children rests with their parents and, whilst education is compulsory, school attendance is not. Parents may therefore elect to educate their children at home. The council has a statutory duty to identify children resident in Lancashire who may not be receiving a suitable level of education, and to make arrangements to safeguard and promote their welfare.

5.28 We have provided substantial assurance over the controls in place, although the Elective Home Education Team does not review data relating to children of primary school age who are no longer registered at a school, and it is reliant upon notifications from external agencies and other teams to identify children who have never registered with an education provider. In 2008/09 the CYP

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Overview and Scrutiny Committee investigated the monitoring of elective home education. Its findings were deferred pending the outcome of a national review but have not been reviewed since the finding of the national review were rejected.

### Schools

- 5.29 For 2010/11 we have completed 36 school audits and a summary of the assurance we have provided in relation to each school is set out in the table below.

School type	Number of audits	Level of assurance			
		Full	Substantial	Limited	None
High school	4	0	1	1	2
Primary school	32	1	22	8	1
<b>Total</b>	<b>36</b>	<b>1</b>	<b>23</b>	<b>9</b>	<b>3</b>

- 5.30 In March we reported the coverage of our school audits and an outline of the principles on which a level of assurance is assigned to a school, although the audit team ultimately applies professional judgement when deciding the level of assurance. We also reported that all 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.
- 5.31 However it is clear that there is scope to improve the control environments of individual schools and the Internal Audit Service and Schools Financial Services are actively working with schools to achieve this. With the support of the Schools Forum and Schools Sounding Board we will provide information to all schools regarding common control weaknesses and what remedial action they should take, including links to guidance and best practice. Each of the schools that received either limited or no assurance will be followed up during 2011/12.
- 5.32 The common themes that are repeated across many schools relate to the authorisation of expenditure, in particular lack of segregation of duties, the high number of confirmation orders raised after invoices have been received, a lack of records of stock and assets, and weaknesses in computer system security arising particularly from poor password controls. Where schools let out their premises, charges are often not agreed by governors and the school may not hold adequate public liability insurance and indemnities. We will undertake reviews of specific controls across a number of schools during 2011/12 to focus on those controls that are likely to need improvement but where there may be examples of good practice that can be shared.

### ***Young Person's Learning Agency (YPLA) funding***

- 5.33 The YPLA provides funding to schools with sixth forms and during 2010/11 requested us to provide assurance that the schools' attendance and qualification aims are complete and accurate for individual students. In particular they strongly recommended that each council perform an audit of census data (pupil numbers and learning objectives) within schools with sixth forms to allow the county treasurer to certify the annual grant return.

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- 5.34 We highlighted a number of discrepancies in the data submitted, each of which will have a financial impact on the funding provided to the school. Jointly with the 16-19 Team we will support the county's other schools with sixth forms to more closely meet the YPLA's data requirements in future years.

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

- 5.35 We reported our findings in relation to compliance with the Working Time Regulations in September 2010 and January 2011.

#### ***Residential care establishments***

- 5.36 In January 2011 we reported that we had followed up our earlier work on controls at the county's care homes for older people. At the time, many of the issues we reported in 2009/10 remained unresolved and, in addition, we identified a discrepancy in relation to a controlled drug, which required the council to notify the police and Care Quality Commission (although neither took any further action). However, management are progressing with the issues identified in our audit and a single supplier has now begun to provide medication to all 17 homes, and related services to help the homes to control this medication, which ought to facilitate further improvements in medication management. The medication policies and procedures have also been reviewed and members of staff have recently received training in this area.
- 5.37 Key performance indicators have also been developed that will highlight, for example, when care plans are overdue but these indicators and the data collection processes required to operate them were still new at the time of our work.
- 5.38 However since implementation of the agreed action plan is still in progress, we have been able to provide only limited assurance over the controls currently in place.

#### ***School catering management system***

- 5.39 LCCG provides more than 50,000 meals each day in more than 550 schools. It has recently replaced an Access database with a catering management system that can gather details of purchases, stock and cash income from multiple sites and provide management information as well as interfacing with the council's main Oracle Financials system. Implementation of the system was on-going during the course of our work but we have provided substantial assurance over its controls at this stage.

#### ***Whistle-blowing***

- 5.40 Although not addressed as assurance work, we have undertaken work during the year in response to a number of whistle-blowing calls. These have raised control issues in specific locations relating to various procurement procedures and management oversight of these, the use of sub-contractors, and cash handling.

### **Economic development**

- 5.41 We have provided substantial assurance over the income protection arrangements in relation to properties let out to tenants by Lancashire County Developments Ltd through its relationship with Property Group, and identified no significant issues.

### **The accountable body role in relation to Regenerate Pennine Lancashire (RPL)**

- 5.42 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 until the county council's responsibilities for this partnership end.
- 5.43 We have provided substantial assurance over procedures relating to the treatment of capital receipts to ensure that the partnership's ongoing responsibilities continue to be met although we identified instances of non-compliance with the agreed financial and operational procedures.
- 5.44 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. As previously reported, the first phase of this work has been to confirm with the relevant funding bodies any eligibility criteria associated with their funding. Assurance over redundancy payments is ongoing as partner authorities report their relevant expenditure on a quarterly basis and it is expected that a significant number of redundancy payments will be made in the quarter to 31 July 2011.

### **Pension Fund**

- 5.45 Lancashire Pensions Service has been under particular pressure during 2010/11 arising from the additional work involved both in processing the abnormal level of redundancies associated with the council's cost saving measures, and also from the implementation of the new pensions administration system, Altair. This has also delayed our audit work, and we still have some enquiries to make before our work is finalised. However we have not identified any major issues to date.
- 5.46 We have provided substantial assurance over the controls associated with the pension fund's global custodian: information on the fund's investment activity is received from the global custodian and investment managers on a regular basis and is accurately reconciled. We have reviewed the fund managers' reporting accountants' assurance reports on the adequacy and effectiveness of controls within three of our fund manager's systems, and the fund managers' controls are reported as satisfactory, providing full assurance.

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

#### ***Special investigations***

- 5.47 During 2010/11 we undertook work on a total of 27 special investigations, 14 of which were completed during the year. A number of investigations and related disciplinary procedures are on-going and have been for time. As a result of the 14 investigations that were concluded during the year, three employees were dismissed, one resigned and one was subject to police prosecution. Twelve of the investigations highlighted control weaknesses and areas for improvement which were reported to management.

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***Counter fraud activity***

- 5.48 Our counter fraud activity has been adversely affected by the time required on investigations but we have undertaken work in preparation for the Bribery Act 2010 and provided fraud information bulletins on the council's intranet and schools portal. We have also used computer assisted audit techniques to identify schools that have not banked cash regularly, and have made unannounced visits to these schools and have made similar visits to the council's own establishments, including libraries and museums. These audits have identified a number of control weaknesses.

***National Fraud Initiative***

- 5.49 As part of the council's duty to protect public funds, the Audit Commission requires all local authorities to participate in the National Fraud Initiative (NFI). This is a two-yearly exercise that matches electronic data held by public sector organisations to highlight potentially fraudulent activity. Nationally, the 2008/09 NFI exercise identified £215 million of fraud, errors and overpayments, including £46,482 related to the county council. We are continuing to investigate the potential issues raised by this exercise using data interrogated by the Audit Commission during 2010/11.