

Matters arising from internal audit work completed during the period

1 Introduction

- 1.1 This report highlights key issues that the Audit and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. It highlights key issues arising from the work undertaken during the period to 31 December 2013 by the Internal Audit Service under the internal audit plan for 2013/14.
- 1.2 A full table of all the audit work currently planned, progressing and completed for 2013/14 is included at Appendix B, setting out brief notes of the progress made on each project and the outcomes where reviews have been completed. The terminology used in the table reflects the risk-based audit methodology followed by the Internal Audit Service, which uses a risk and control evaluation-based approach ('RACE-based') combined with compliance testing of key controls, computer assisted audit techniques ('CAATs') and follow-up work.

2 Key issues

- 2.1 Audit work is taking place within the service directorates and this is progressing well. However as was reported in September 2013 a number of high profile issues have impacted on the plan over recent months, including the suspension and departure of the former chief executive, and a number of matters relating to the council's strategic partnership with BT plc.
- 2.2 As a result, a number of areas of the audit plan have slipped behind schedule and will be deferred, but the Audit Managers are working hard with the Chief Internal Auditor to ensure that the audit plan remains on track as far as possible.
- 2.3 Whilst many of the risks facing the council are being well controlled, the council faces significant challenges at present. In particular it is operating in the context of unprecedented financial challenge, resulting in the loss of significant numbers of staff and significant operational change across every service area.
- 2.4 Whilst the Internal Audit Service is itself experiencing difficulties in completing our audit programme as planned, a number of service areas are likewise experiencing delays in implementing the actions agreed as necessary to improve internal controls. Examples of the delays identified during the year to date include the following, which arise from areas that the Internal Audit Service regards as being of high or moderate risk:
 - Action to ensure the council's compliance with the Working Time Directive;
 - Actions relating to initial assessments of direct payments to vulnerable adults and in particular to ensure compliance with the council's responsibilities under the Mental Capacity Act;
 - The use by staff of assessment tools for adults social care to ensure the objective and efficient calculation of individual service user budgets;

Internal Audit Service progress against plan 2013/14

Audit and Governance Committee meeting 27 January 2014

- Action to support the operation of the Working Together With Troubled Families programme, data management in particular and the need to obtain access to data from different organisations, and the requirement to identify initial needs and track performance;
 - Actions supporting the children's social care case file audit process;
 - Actions to track the high priority ('starred') recommendations for children's social care made by Independent Reviewing Officers;
 - Action to ensure that a regular review of allowances is undertaken to ensure the needs of the adopted and fostered children and their families continue to be met; and
 - Actions to better identify schools approaching financial difficulties and to improve the monitoring of schools in financial difficulty.
- 2.5 A number of internal controls are reliant upon both the operation of the Oracle HR/ Payroll and expenses systems, and management action based on accurate and timely information. Controls are not adequately designed or operating effectively in relation to payments to staff in addition to normal salary payments, or reimbursement to staff for travel claims. Controls over the significant numbers of additional payments to staff (primarily overtime and additional allowances) are strongly reliant upon management understanding of what those controls are, and their ability to operate them effectively. However this understanding is generally inadequate and managers across the council generally lack proficiency and understanding in using the system.
- 2.6 Further, the Oracle system itself has some inbuilt control weaknesses and a lack of validation controls. As a result there have been a number of cases of overpayments to staff. The failure to update elements of the expenses system, in particular data tables linked to large groups of staff, has also resulted in significant overpayments of mileage claims. In addition, limitations to the reports available to managers from Oracle impede their access to useful management information; for example information relating to staff annual leave balances.
- 2.7 There is a need both to more establish more closely the council's expectations of its managers, and to ensure that the Oracle and other systems are operated more effectively to meet the council's requirements.

3 Work completed

3.1 As can be seen in more detail in Appendix B, the work completed and on which draft reports have been issued since the last report to the Audit and Governance Committee is as set out in the table below. Each area has been given a weighting to indicate the degree of risk associated with it.

Audit area	Risk weighting	Assurance
Common controls: financial controls		
Payroll data analysis (Oracle self-service, supporting additional payments to staff)	High	Limited
Treasury management	High	Substantial
VAT	Low	Substantial
Oracle release 12 – testing programmes for the fixed assets and procurement modules	Moderate	Substantial
Service specific controls		
Adult Services, Health and Wellbeing Directorate		
Care decision-making panels.	Moderate	Substantial
Direct payments initial assessments.	High	Limited
FACE ('Functional Analysis in Care Environments') – resource allocation within individual budgets.	Moderate	Not applicable: previously substantial
Benefits Service		
Care and Urgent Needs Support Scheme – system testing prior to go-live	Moderate	Limited
Directorate for Children and Young People		
Working Together With Troubled Families Programme	High	Limited
Lancashire Music Service	Low	Limited
Independent Reviewing Officers.	High	Limited
Adoption and fostering allowances	Moderate	Not applicable: previously substantial
LCCG		
Building cleaning	Low	Substantial
Counter fraud work		
Expense payments to staff	Moderate	Nil

Internal Audit Service progress against plan 2013/14

Audit and Governance Committee meeting 27 January 2014

- 3.2 Of the 12 reviews completed during the period, six have provided limited assurance, five have provided substantial assurance, and one no assurance. Three of the reviews completed earlier in the year provided limited assurance and three provided substantial assurance. Taken with the on-going lack of assurance over the council's information governance arrangements, the council's internal audit assessments for the year to date are as follows:

Assurance provided	Number of audit reviews	Percentage of audit reviews
Full	0	0
Substantial	8	42%
Limited	9	47%
Nil	2	11%
Total	19	100%