

## **1 Introduction**

- 1.1 This report summarises the work undertaken during the first five months of the year by the council's Internal Audit Service under the internal audit plan for 2011/12, and the work carried forward from the previous audit plan completed during the year. The findings included in this report have been agreed with executive directors and shared with the Management Team.
- 1.2 Given the degree of change across many of the council's services, much of this year's audit work is weighted towards the end of the year to minimise the additional disturbance to services. The focus in the first five months of the year has therefore been on completing the few remaining audits from the previous year, on school audit visits, counter fraud testing, and on compliance testing fundamental system controls rather than beginning many more substantial control systems audits.

### **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 on a number of cross-cutting areas in the 2011/12 plan has begun and work outstanding from 2010/11 is now largely complete. In particular work on asset management under the 2011/12 audit plan has begun and elements of this fieldwork have been completed in relation to vehicle assets and ICT asset management and disposal. A review of the capital accounting arrangements relating to assets is due to commence shortly.

### **Safeguarding**

- 2.2 Our work on safeguarding under the 2010/11 audit plan is now largely complete and we are in the process of compiling a composite report that will highlight the

## **Internal Audit Service progress against plan 2011/12**

Audit Committee meeting 26 September 2011

significant issues and common themes for the council as a whole. Reports have been completed in relation to the central operation of the Criminal Records Bureau (CRB) vetting and barring scheme and safeguarding arrangements within both Environment and LCCG relating to children's transportation. In addition, a review within ACS relating to the safeguarding of vulnerable adults has been undertaken and the outcome is reported below within the section on ACS.

### ***Criminal Records Bureau (CRB) checks: central arrangements***

- 2.3 We are able to provide substantial assurance over the central arrangements to ensure that appropriate CRB checks are undertaken for those working with children and vulnerable adults. Our testing indicated good practice in:
- ensuring as far as possible that enhanced CRB checks are conducted for all posts in regulated activity prior to employment commencing;
  - providing guidance to managers where employment begins prior to clearance, in line with the CRB Code of Practice; and
  - making available extensive procedural guidance and training programmes to ensure that managers are aware of any changes in requirements relating to vetting and barring.
- 2.4 There have been some delays in processing renewals, resulting in refreshes occurring outside the three year elapsed time the council aims for, although recent improvements in the functionality of the relevant ICT application are now eliminating the backlog. At the time of the audit fieldwork in April/ May 2011, 9.8% of the council's applications contained errors resulting in their return by the CRB for correction, which is significantly higher than the council's target of 5%. Action was agreed during the course of the audit to address these and other more minor issues and we will confirm that this has been implemented during the remainder of the year. In particular, we understand that the error rates on applications submitted to the CRB have already dropped to around 3% for July and August 2011.

### ***Criminal Records Bureau (CRB) checks: service-based arrangements***

- 2.5 We have provided limited assurance over the safeguarding arrangements supporting the transportation of children in both LCCG and Environment. With some cross-over to central arrangements, we identified issues relating to the maintenance of locally held records, refreshing CRB checks after three years, the declarations to and record-keeping by managers of convictions, the internal portability of CRB certificates, and the visibility and availability of drivers that have been appropriately CRB cleared.
- 2.6 Actions plans have been agreed to address these issues, including the need for central and service-based teams to confirm points of practice.

## **Corporate governance**

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

- 2.7 During 2010/11 we provided only limited assurance over the controls relating to officers' declarations of 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 and, since 1 July 2011 when the Bribery Act came into force, the council has also been required to operate procedures to provide an adequate defence against the risk of bribery.
- 2.8 Work is now under way to develop a revised Code of Conduct for Employees and a Statement of Ethics, and consideration is being given to the way in which employees are required to declare their personal interests.

## **3 Cross-service controls**

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

- 3.1 We reported in June that we were unable to provide any assurance over the process by which recharges are made for the provision of transport for children with special educational needs. This work falls within the remit of the Accessible Transport Board, chaired by the executive director for the environment. We have begun to follow up our work in this area but at this stage work is still progressing to address the issues; we will continue to monitor this and will perform further follow-up work later in the year.

## **4 Common controls**

### **Financial control systems**

- 4.1 We have provided assurance over the testing programme undertaken prior to the implementation of the new Oracle HR/ payroll system across the county council, but the rest of the audit work on the council's financial systems is substantially weighted to the second half of the year and is about to begin.
- 4.2 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 minor recommendations to improve controls although in some establishments, which handle only low levels of cash, it may not be practical or cost-effective to implement any additional controls.

### **ICT controls**

#### ***Asset management and disposal***

- 4.3 From 1 April 2010 all ICT assets were brought under corporate management rather than local service management, to provide a more cost effective and controlled solution to the management of these assets across the council. Previous local management of ICT assets was inconsistent, variable in quality and allowed unused assets to remain with a directorate simply because the directorate budget had funded them, even if they could have been effectively used elsewhere in the organisation.

## **Internal Audit Service progress against plan 2011/12**

Audit Committee meeting 26 September 2011

- 4.4 The Asset Management Team within ICT Services (now part of One Connect Limited) has implemented a range of effective processes for the management and disposal of assets. These new systems are designed to issue assets to individual members of staff based upon the operational requirements of their post and to refresh those assets on a cyclical basis to ensure they remain effective and provide value for money. Centralised control facilitates the better utilisation of assets across the organisation and the achievement of necessary cost savings.
- 4.5 The control framework now in place is well designed overall and we have provided substantial assurance in respect of the asset management and disposal processes.

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

- 4.6 The Carbon Reduction Commitment Scheme is a mandatory carbon emissions reporting and pricing scheme established by the Department of Energy and Climate Change to cover all organisations using more than 6,000 megawatt hours per year of electricity. Under this scheme the county council is required to measure and report its carbon emissions annually following a set of specified measurement rules.
- 4.7 We have undertaken a review which provides substantial assurance to the director of property that the systems and procedures operated for the completion of this annual return are adequate and effective.

### **Human resources controls**

- 4.8 Work on a review of the redeployment process is nearing completion and a review of redundancy payments is due to commence later in the year.
- 4.9 We have completed tests to confirm that individuals who have left the council's employment no longer have access to the home broadband service (and intend to extend this to other services in due course too) and it appears that not all services have been cancelled appropriately, although HR records and ICT Services records are not readily reconciled.

## **5 Service specific controls**

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

#### ***Safeguarding vulnerable adults (work carried forward from 2010/11)***

- 5.1 We have provided substantial assurance over the safeguarding procedures relating to vulnerable adults. Given the comprehensive review of safeguarding procedures by the Care Quality Commission in 2010, the scope of this review was specifically focussed on considering whether the assessment, monitoring and review functions within the directorate are appropriately aligned and complimentary to each other, and that the directorate interacts effectively with its partner agencies.
- 5.2 We noted a number of points of good practice including:
- A formal governance structure ensuring effective authority and accountability within the directorate;

## **Internal Audit Service progress against plan 2011/12**

Audit Committee meeting 26 September 2011

- An overarching Lancashire Safeguarding Adults Multi Agency Policy which facilitates partnership working and the establishment and dissemination of best practice;
- A comprehensive training strategy to ensure all applicable staff and partners receive safeguarding training appropriate to their needs;
- Safeguarding alerts are screened on receipt by the Intake and Assessment Service ensuring they are dealt with effectively and directed to the appropriate teams within the directorate.

5.3 Progress continues to be made by ACS to improve communication between safeguarding managers and the Social Care Procurement Team through specific enhancements to logs within ISSIS, and a wider continuing focus on safeguarding arrangements within both the domiciliary and residential frameworks. Our examination of a sample of safeguarding alerts confirmed that the Social Care Procurement Team is brought into the safeguarding process appropriately.

5.4 We also identified a number of areas for improvement relating to the more effective review and use of management information relating to safeguarding alerts, which we are discussing with management.

### ***Domiciliary care services' medication and financial records***

5.5 We have completed a review of the medication and financial records maintained at eight tenancies operated within four domiciliary service schemes across the geographical spread of the county council and are able to provide substantial assurance over these two discrete areas.

5.6 The administration of medication is generally well managed at all the tenancies we visited:

- Individual medication stock record books are maintained for each service user, with regular evidenced review by team managers;
- Comprehensive medical records are maintained for each service user supported by risk assessments and medication administration details; and
- Stock deliveries are promptly recorded and prescribed medication is held securely.

5.7 We identified a small number of minor operational issues relating to medication and action was taken immediately during the audit visit.

5.8 Our review of financial records specifically focused on the follow up of recommendations made in our 2009/10 review of domiciliary services and we found that the recommendations had generally been implemented as agreed across the tenancies we visited.

### ***Compliance testing of key service-specific controls***

5.9 We have completed a suite of compliance tests of the payments and monitoring system (PAMS) and non-residential care system (NRCS) which have not identified any significant issues over the control arrangements operated for these two systems.

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

## **Internal Audit Service progress against plan 2011/12**

Audit Committee meeting 26 September 2011

- 5.10 We are currently following up our previous work on Help Direct and Lancashire Adult Learning and discussing progress in relation to the Reablement Service.

### **Environment Directorate**

#### ***Work carried forward from 2010/11***

- 5.11 The fieldwork relating to the reviews that commenced towards the end of 2010/11 has been completed, namely strategic forecasting of the waste PFI scheme and project management arrangements. The issues arising are currently being discussed with the directorate and will be reported shortly.

#### ***2011/12 planned work***

- 5.12 A significant proportion of this year's planned reviews are scheduled to occur in the latter half of the financial year, in particular further work on the waste PFI scheme as it moves into the next phase, and examination of concessionary travel arrangements following the introduction of the new national scheme from April 2011. We plan to test key procurement controls operated within the directorate and, in addition, we are continuing with our role of first level controller for the European-aided sustainable rail station ('SusStations') project.

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

- 5.13 We have completed a number of follow-up reviews relating to the transport contract monitoring system, information management and risk assessment processes within the Trading Standards service. The agreed action plans have been implemented or are in the process of being so, with no significant issues arising.

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

#### ***2010/11 work***

- 5.14 We have issued our draft on the Lancashire Safeguarding Children Board and our report has been discussed by the Board. We are awaiting management's finalised responses.

#### ***Elective Home Education***

- 5.15 We have nearly completed our follow up review of the recommendations raised in our Elective Home Education report issued in December 2010. The service has implemented some of our recommendations and is progressing with the remaining recommendations. The implementation of the outstanding recommendations is awaiting further legal advice and the implementation dates for some of our recommendations have been revised accordingly. As the legal advice is clarified it is possible that some of our original recommendations may also be amended.

#### ***Primary Capital Programme***

- 5.16 We have assessed the adequacy of the procedures in place in relation to the procurement of ICT equipment relating to the Fleetwood Schools Primary Capital Programme amounting to in excess of £2 million. Our findings are currently being considered by senior management.

## Internal Audit Service progress against plan 2011/12

Audit Committee meeting 26 September 2011

### Schools

- 5.17 We have already completed 31 school audits as part of the 2011/12 audit plan. 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                  | 4           | 0        | 0        |
| Primary school | 27               | 1                  | 26          | 0        | 0        |
| <b>Total</b>   | <b>31</b>        | <b>1</b>           | <b>30</b>   | <b>0</b> | <b>0</b> |

- 5.18 The level of assurance we are providing compares favourably with that we gave during 2010/11. During 2010/11 we audited a number of schools on the basis of concerns raised by CYP and this resulted in a higher percentage of schools than had been normal being assigned limited or no assurance. This year, the schools we have visited have been selected on an assessment of their risks, but few specific concerns have been raised with us.
- 5.19 Where a school received either limited or no assurance during 2010/11 we will undertake a follow-up audit to ensure that appropriate action has been taken by the school and offer further support. To date we have followed up five of the schools who received limited or no assurance last year and have reported the findings to the headteacher and the chair of governors. Satisfactory progress has been made by these schools in implementing our recommendations.
- 5.20 We issued an audit newsletter to all the county's schools in early July, summarising the key issues we identified during our 2010/11 audits and including links to guidance and best practice. We will provide further newsletters throughout the year to advise schools on current control issues. We are about to begin a thematic audit of data protection in schools which will include a number of visits to individual schools. We will publish an overall report on the schools portal highlighting any common issues and provide links to guidance and best practice.
- 5.21 We have developed a service to assist academies in undertaking the role of responsible officer, and are discussing this service with the Lancashire schools that are, or are planning to become, academies.

### Lancashire County Commercial Group (LCCG)

- 5.22 We have recently begun a review of catering income procedures relating to schools and a follow-up review relating to care plans and medication controls in residential homes is due to be undertaken later in the year.

### Economic development

- 5.23 We continue to provide an internal audit service to Regenerate Pennine Lancashire Limited but this is likely to be limited during 2011/12 as the scope of its work has reduced.

### Investigations and counter fraud work

#### *Special investigations*

## **Internal Audit Service progress against plan 2011/12**

Audit Committee meeting 26 September 2011

- 5.24 Over the past year the Internal Audit Service has assisted the police and the Insolvency Service with their investigations into a number of bogus companies targeting local authorities, NHS Trusts and other public sector organisations nationally; they are believed to have fraudulently obtained payments of approximately £1.5 million nationally. We are pleased to report that based on the evidence we were able to provide to the Insolvency Service the bogus companies have been wound up and the police investigation is continuing.
- 5.25 Work is underway to follow up the control issues arising from the various whistle-blowing calls received during 2010/11 and subsequently. The Standards Committee has asked for an update on the position to be reported at its October meeting and this will also be reported to the Audit Committee at that point.

### ***Counter fraud activity***

- 5.26 Our counter fraud activity in 2011/12 is focusing on the National Fraud Initiative (NFI) exercise. As part of the council's duty to protect public funds, the Audit Commission requires all local authorities to participate in the 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 nationally, 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.
- 5.27 One of the new NFI reports matches bank account and/ or address details from the payroll and creditor systems. This data match has produced 2,836 matches and we have investigated the 250 highest value matches. The majority of these data matches were appropriate and did not require further investigation. Where the data match has led us to investigate further we are satisfied that there has been no inappropriate action and the member of staff has not directly influenced the decision making process. In some of these cases we would have expected the individual to declare their interest and this will be addressed by the revisions being made to the Register of Business Interests.