

**Lancashire County Council
Internal Audit Service**

**Annual report of the Chief Internal Auditor
for the year ended 31 March 2014**

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1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the county council's Internal Audit Service undertook during 2013/14 and the key themes arising from it. It provides my overall opinion on the council's internal control, governance and risk management based upon the work the Internal Audit Service performed under its audit plan for 2013/14.

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 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) require the chief internal auditor 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.
- 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 Annex C to this report.

Interim reports

- 1.4 This report builds on the matters reported in previous years which remain relevant, and matters that have been the subject of discussions throughout 2013/14 and subsequently with the Management Team and the council's senior management.
- 1.5 I have also reported summaries of key areas of audit work to the Audit and Governance Committee as they have been completed during the year.

Ruth Lowry
Chief Internal Auditor
Lancashire County Council

2 Summary assessment of governance, risk management and internal control

Overall opinion

- 2.1 On the basis of the programme of work for 2013/14, I can provide only **limited** assurance overall that there is a generally sound system of internal control, adequately designed to meet the council's objectives and applied consistently in practice. Weaknesses in the council's systems' design and inconsistent application of controls put the achievement of its objectives at risk and, in particular, significant weaknesses in the council's governance were revealed during the year.
- 2.2 There has been no improvement in the council's overall internal control framework for 2013/14 when compared to 2012/13. The overall assurance I have provided across high, moderate and low risk audits for 2013/14 is set out at paragraph 3.2 below but, in summary:
- The results of audit assignments for areas of high and moderate risk are almost evenly spread between full/ substantial assurance and limited/ nil assurance; and
 - The number of areas of low risk given limited/ no assurance has increased significantly since 2012/13.
- 2.3 It is important at the outset to clarify the exceptional context and circumstances of this report for the council during 2013/14. Members of the senior management team, and the council's statutory officers in particular, together with myself were obliged during 2013/14 to focus their attention on the matters exposed as two of the council's procurement processes were reviewed, the remuneration of the Chief Executive Officer of its joint venture company was discovered, the council's former Chief Executive and all of the senior managers seconded by the council to its joint venture company left the organisation, and the relationship with its strategic partner was renegotiated.
- 2.4 These matters alone indicate fundamental weaknesses in the council's corporate governance arrangements that preclude any more favourable evaluation of the council's risk management, control and governance processes. It should be noted that although these events took place in 2013/14, the issues they exposed are rooted in decisions made and actions taken from 2010 onwards.
- 2.5 My opinion on the council's governance, risk management and internal control is clearly supported by the work undertaken by the Internal Audit Service throughout the year. This work was undertaken in accordance with the agreed audit plan, and with amendments during the year as reported to the Audit and Governance Committee. The work in this plan has been subjectively designated as being of high, moderate or low risk and I have reflected this categorisation in my opinion and this report.
- 2.6 The level of assurance I have been able to provide has gradually deteriorated over recent years. I reported last year that the results of individual audit

assignments were almost evenly spread between substantial/ full assurance and limited/ nil assurance. This year that balance has tipped, and only limited or no assurance has been provided over the majority of the control systems audited during the year, albeit that the greatest deterioration has been in areas of relatively low risk. Although the council is continuing to make strenuous efforts to improve corporate procedures and controls, at the same time and for a number of reasons, controls across a range of systems and services are either inadequately designed for their current purposes or are ineffectively operated in practice.

- 2.7 After a number of years in which management and staff resources have been reduced, services restructured, and operating processes redesigned, it is unsurprising that the council's control framework now requires more focussed management attention.

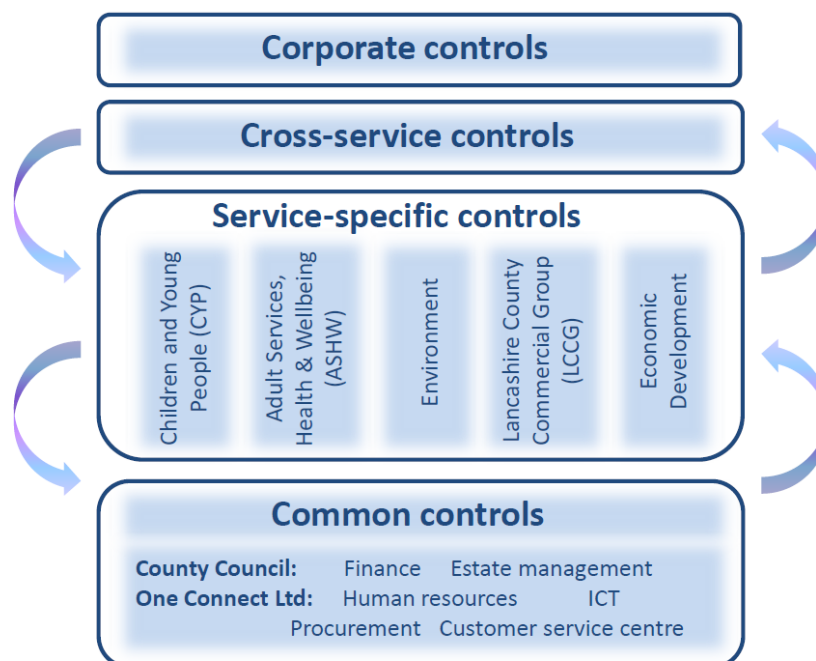
Background

- 2.8 An explanation of the levels of assurance the Internal Audit Service provides are set out in Annex A, and of the scope of our work in Annex C. Annex B provides a summary of each assurance assignment the team has undertaken during the year and the level of assurance we have given for each. I have provided more detailed summaries of individual pieces of audit work throughout the course of the year in my progress reports to each meeting of the Audit and Governance Committee, and Annex D provides details of the findings of each assignment throughout the year at the time our work was completed.

The council's control framework

- 2.9 Our work has been organised in accordance with the Internal Audit Service's understanding of the council's controls as follows:
- Cross-cutting controls: These controls manage the risks arising from the council's over-arching business objectives that cut across all service areas.
 - Cross-service controls: These are the controls that support the council's work across some or all of its service areas, either where two or more teams provide a single service, or where risks are common to a number of (or all) service teams.
 - Common controls: These are the controls that under-pin the council's work whatever service is being provided and in whatever service or directorate. They manage the risks of its day to day operations that are operated in common across the whole organisation.
 - Service-specific controls: The controls designed to manage the risks arising in individual service areas.

The council's control framework



Follow-up of our previous work

- 2.10 We have undertaken work during the year to ascertain management's progress in implementing the actions agreed as a result of earlier years' reviews. Whilst some progress is being made to implement these action plans, restructuring and the work associated with making significant cost savings, and the loss of management capacity, has again meant that some management teams have not acted within the timescales they intended. The Audit and Governance Committee noted a number of such delays in January 2014 and received feedback and assurances from the executive directors for Children and Young People and Adult Services, Health and Wellbeing in March 2014 on some of these areas.

Management's responses to our findings

- 2.11 Each of the issues I have raised during the year has been discussed with the relevant service managers as well as with members of the council's Management Team so that pragmatic solutions have been found to address the control issues identified. Action plans have been agreed and the Internal Audit Service will follow up our findings during the course of 2014/15.
- 2.12 In March 2014 the executive directors for Children and Young People, and for Adult Services, Health and Wellbeing presented explanations and assurance to the Audit and Governance Committee over the progress those directorates were making to enhance internal controls where weaknesses had been identified. This additional assurance is therefore available to the Committee.
- 2.13 The Management Team does not believe that the council's operational performance has been adversely impacted by the issues set out in this report.

3 Summary of the assurance provided by the Internal Audit Service

3.1 A summary of all the assurance the Internal Audit Service has provided during the year is provided 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, which has not been directed at providing controls assurance. A full table of all the audit work completed or almost completed for 2013/14 is included at Annex D.

3.2 The Internal Audit Service aims to focus only on areas of risk to the council but nonetheless covers a range of the council's activities, some of which represent greater risk than others overall. A subjective assessment has been made of the risk associated with each area audited, and this is shown in Annex B. The assurance provided over areas of high, moderate and relatively low risk is as follows:

2013/14	Total	Assurance			
		Full	Substantial	Limited	None
High risk	12	0	6	6	0
Moderate risk	16	0	8	7	1
Low risk	17	0	5	10	2
	45	0	19	23	3

3.3 The areas of highest risk over which we can provide only limited or no assurance are:

- Information governance arrangements;
- Funds flows between the council and OCL (now BTLS, and with revised systems in place since our audit work was conducted);
- Performance data quality, and monitoring of OCL's performance (again, now BTLS);
- ICT network user management;
- Procurement;
- Adult direct payments initial assessments.

3.4 Areas of moderate risk over which we can provide only limited or no assurance are:

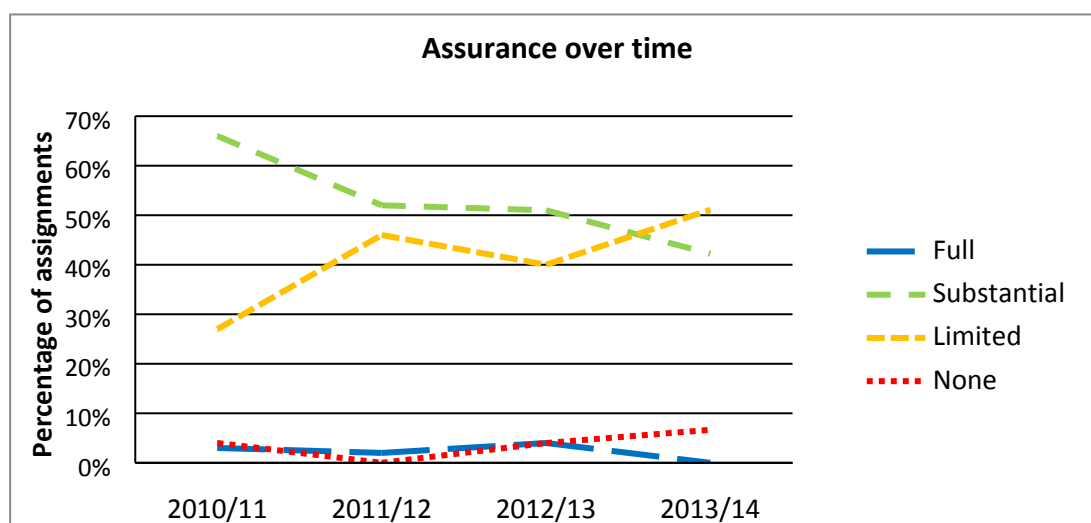
- Accounts receivable and debt recovery;
- Establishment hierarchies on the HR system;
- Adult social care supervision arrangements;
- Children's social care case file audit process;
- Children's mental health provision;

- Children's social care Independent Reviewing Officers;
- Working Together With Families programme; and
- Management of the capital programme.

3.5 The Internal Audit Service has provided assurance under the current classification for the last four years and the results are as follows:

	Total assignments/ opinions	Assurance			
		Full	Substantial	Limited	None
2013/14	45	0 (0%)	19 (42%)	23 (51%)	3 (7%)
2012/13	47	2 (4%)	24 (51%)	19 (40%)	2 (4%)
2011/12	48	1 (2%)	25 (52%)	22 (46%)	0 (0%)
2010/11	67	2 (3%)	44 (66%)	18 (27%)	3 (4%)

3.6 The same information may be presented graphically as shown below:



Wider sources of assurance available to the county council

3.7 Assurance has been provided to the council by Grant Thornton as the council's external auditor for the year. Grant Thornton issued its annual audit letter relating to 2012/13 in November 2013, and gave unqualified opinions on both the annual financial statements and the council's value for money arrangements. A copy of the report is available at: <http://mgintranet/ieListDocuments.aspx?CId=728&MId=2861&Ver=4> (item 4). The external auditor's annual audit letter for 2013/14 is expected to be available in September 2014.

3.8 Data sharing between the council and NHS bodies is necessary to support the council's provision of public health services. During the year the Health and Social Care Information has assessed the council's responses to the NHS

Information Governance Toolkit and determined that they are sufficient, with a score of 87%, to allow NHS bodies to share data with the council.

4 Key issues and themes

- 4.1 I set out below the key issues and themes arising from the internal audit work undertaken during the year. The council's Management Team is taking these issues very seriously and has responded with robust plans to ensure that they are addressed during the current and future years.
- 4.2 The issues arising immediately from the manner in which contracts were tendered and awarded to BT Group companies have already been addressed. The renegotiation of the council's contract with BT plc has from 1 April 2014 resulted in the replacement of the jointly owned One Connect Limited (OCL) with a new company wholly owned by BT plc, BT Lancashire Services Ltd (BTLS). The council's former Chief Executive was suspended in August 2013 and subsequently left the organisation on 31 October 2013. On 1 November 2013 I reported the process by which the council's fleet service contract was tendered, and also the concerns raised by the payments in June and July 2013 to the then Chief Executive Officer of OCL, to the police. The police investigation is still continuing and is likely to continue for some time.
- 4.3 Each of these issues has absorbed a considerable amount of senior management (and internal audit) time and continues to do so at a time when the council is working to a challenging transformational agenda. The significant reduction in government funding in recent years has already necessitated an unprecedented number of voluntary redundancies across the organisation at all officer grades, and more will follow as the council's budget is reduced further.
- 4.4 Seven audits, of 45 in total, were of controls operated over the council's relationship with OCL or were affected by this relationship and, since we provided limited or no assurance in each case, the overall balance of assurance has clearly been impacted by this. However the concerns underpinning my overall opinion on the council's control framework do not solely relate to the control issues arising in relation to OCL.
- 4.5 The Audit and Governance Committee is aware of issues around information governance that have been affected by the council's relationship with OCL and, until recently, a lack of clarity over the responsibilities and resources for this area. There is now a very clear appreciation of the risks around information governance and the control framework has already been strengthened. Progress has clearly been made in designating a senior information risk owner, in the recent appointment of a Head of Information Governance, and in developing the council's policy framework, although further work is still required to raise the general level of awareness of information security requirements and to implement properly effective controls.
- 4.6 The council continues to demonstrate considerable ambition in developing its services, at the same time as cost savings necessitate further service reductions and redesign. There is a strong underlying drive for improvement and, although some developments are subject to delay, other key developments took place during the year that will improve the council's controls. The ongoing

- replacement of the Integrated Social Services Information System (ISSIS) with a system provided by Liquidlogic, for example, will facilitate greatly improved access controls and therefore information security as well as improved operational support and controls over service provision.
- 4.7 However concerted efforts will be necessary to improve a number of other areas of control. The control framework is reliant upon considerable management effort to remedy gaps as they are identified rather than on the operation of planned controls. Although there appears to be a firm desire to improve the council's controls as weaknesses are identified, our follow-up work on a number of areas indicates that action is not generally being taken as management intended.
- 4.8 The implementation of the financial system, Oracle, two years ago was designed around the principles of standardisation, automation, consolidation and simplification, and further work on this system and the operational procedures around it should ensure more consistent and efficient control across the whole of the council. Similar design principles were not employed for the implementation of the separate Oracle human resources/ payroll system. There are at present no effective processes to maintain a current record of the staff establishment and its hierarchies, although this is necessary and would support control improvements in a range of other areas too. For example, ensuring human resources information and establishment details are complete, accurate, and adequately maintained would enable areas of lower financial risk to be subject to more limited monitoring and a stronger focus on high risk areas of the budget.
- 4.9 Insufficient consideration was given to the relationship of the human resources/ payroll system to the financial system, and the need to ensure that both these and other systems are operated more effectively together is recognised. The Oracle human resources/ payroll system currently has some inbuilt control weaknesses and a lack of adequate validation controls and there have been a number of cases of overpayments to staff of amounts in addition to normal salary payments. The use of outdated data tables in the expenses system has also resulted in significant numbers of overpayments to staff of travel claims.
- 4.10 Limitations to the reports available to managers from the Oracle human resources/ payroll system impede managers' access to useful, accurate and timely management information, for example where staff have more than one employment contract with the council, or information relating to staff annual leave.
- 4.11 Controls over the significant numbers of additional payments to staff (primarily overtime and additional allowances) and expense payments, are also strongly reliant upon management understanding 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 both of the Oracle and expenses systems. There is a clear need to establish more closely the council's expectations of its managers in a number of areas, but particularly in relation to managers' responsibilities in operating controls relating to payments to staff.

- 4.12 There has been an awareness of these weaknesses and others for some time, but an inability to address them whilst the human resources/ payroll system was managed within the strategic partnership, despite considerable and repeated management effort. Work has now begun to address these issues, although later than intended. The Assistant Chief Executive and a number of senior officers are working with the Human Resources team to improve the human resources/ payroll system's controls, as well as improving the effectiveness of the management information available from the Oracle financial system, and controls that are reliant on the actions of managers across the council. Action still remains to be taken to reclaim the overpayments made to staff through errors in the expenses and payroll systems.
- 4.13 As the council redesigns its services and management structures, it will have the opportunity to reconsider its current operational policies in light of its more limited resources. It will be necessary to establish new expectations of the operational standards the council aims to achieve and the degree of risk that is acceptable in designing its controls, as compliance with operational policy in a number of areas is not currently being achieved in practice. In particular, targets for the review of children's social care case files and the Independent Reviewing Officers' caseloads in CYP, and targets for the professional supervision of staff in ASHW are not currently being met. Work is already under way to develop a new supervision policy framework for both ASHW and CYP, and this presents the opportunity to design achievable and effective policies in light of current and future resources.
- 4.14 It is intended that work will also be undertaken to set out more closely the council's expectations of its managers in operating effective control mechanisms. This will include specifically the need for every member of staff to be aware of the need to operate robust control processes and the action they should take in the event that they are asked to circumvent such processes since a number of basic controls over the human resources/ payroll system were overridden during this year and earlier, but the whistle-blowing helpline was not used by any member of staff involved.

5 Implications for the annual governance statement

- 5.1 In making its annual governance statement the council considers the Chief Internal Auditor's opinion in relation to its internal control environment, risk management processes and corporate governance. The council should therefore reflect the challenges it faced during 2013/14, and will continue to face in future, drawing on the matters set out in section 3 above.

6 Counter fraud and investigatory work

- 6.1 The Internal Audit Service provides a counter fraud and investigatory service to management, which is distinct from internal audit but is related in considering the council's controls and in the skill sets required.

Special investigations

- 6.2 The Internal Audit Service has spent a considerable amount of time on a number of special investigations, largely arising from whistle-blowing and similar

calls. We have worked closely with the Human Resources team as well as service teams on a number of financial investigations and related disciplinary procedures, and the volume of work arising from these has been considerable.

- 6.3 We are required to report any individual instances of fraud or financial loss exceeding £10,000 to the council's external auditors. Three cases arose during the year which exceed this level, concerning:
- The payments made to the former Chief Executive Officer of OCL;
 - Additional payments and expenses for staff seconded into the NHS; and
 - Overtime payments.
- 6.4 As noted above, investigations are continuing into the matters reported to the police in November 2013. Work also continues in relation to payments made via sub-contractors by a manager within Lancashire Highway Services, which were reported last year.
- 6.5 The need remains to clearly set out the council's expectations that its staff meet the high ethical standards of behaviour expected in public service, although work is beginning to address this. For example a message to all staff on the intranet in June 2014 reinforced the need to comply with the Code of Conduct.

Counter fraud activity

- 6.6 As part of the county council's duty to protect public funds, the Audit Commission requires all local authorities to participate in the National Fraud Initiative. This is a two-yearly exercise that matches electronic data sets held by public sector organisations to highlight potentially fraudulent activity. More information is provided in the annual report on counter fraud and investigations activity.

7 Internal audit performance

- 7.1 The outputs of our audit work have been reported in detail to the senior management teams of individual service areas, and the key themes arising for them and for the council as a whole are set out above.

Internal audit plan 2013/14

- 7.2 Overall, we have provided the assurance the council requires, and in particular we have completed our work on the council's corporate financial and ICT systems on which the external auditor can take assurance. We have provided 45 individual audit assurance opinions and details of these are set out in Annexes C and D. We have also followed up the action plans agreed during the previous year and have undertaken a number of other projects that have not resulted in controls assurance, or which have resulted in the certification of grant funding claims.
- 7.3 However as reported during the course of the year, a number of high profile issues impacted on the audit plan, including the suspension and departure of the former chief executives of both the council and OCL, and a number of other matters relating to the council's strategic partnership with BT plc. The audit plan

therefore slipped behind schedule in some areas and a number of audit reviews have been deferred into 2014/15, or have been superseded.

Internal audit performance review

- 7.4 In order to place reliance on the work of the Internal Audit Service it is important that the council receives assurance regarding its quality. This is also a professional requirement. The Internal Audit Service therefore undertook a self-assessment in 2012 against the professional standards in place during at the time (the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006). This self-assessment was verified externally by the Council's external auditor, and the Audit Commission's findings were reported to the Audit and Governance Committee in September 2012.
- 7.5 The Audit Commission concluded that:
- 'the Council's Internal Audit function meets each of the eleven standards for Internal Audit set out in the CIPFA Code of Practice for Internal Audit in Local Government.
- 'Our review has also concluded that the Internal Audit function demonstrates many of the characteristics of best practice as set out in the CIPFA Statement on the role of the Head of Internal Audit and The Excellent Internal Auditor. In particular, the Internal Audit work programme includes proactive fraud awareness work, thematic and corporate reviews to promote good governance across the organisation, and the annual plan is based on a comprehensive risk assessment process.'
- 7.6 Like the rest of the council, the Internal Audit Service will be subject to further restructuring, and a reassessment against the Public Sector Internal Audit Standards published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) in 2013 will be necessary in due course.

A Audit assurance levels and classification of agreed actions

Audit assurance

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/ has resulted in failure to achieve the service objectives.

Actions proposed by the Internal Audit Service

All actions proposed by the Internal Audit Service and agreed by management are stated in terms of the residual risk they are designed to mitigate.

Extreme residual risk: Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: catastrophic loss of the county council's services, loss of life, significant environmental damage or huge financial loss, with related national press coverage and substantial damage to the council's reputation. *Remedial action must be taken immediately.*

High residual risk: Critical in that failure to address the issue or progress the work would lead to one or more of the following occurring: failure to achieve organisational objectives, disruption to the business, financial loss, fraud, inefficient use of resources, failure to comply with law or regulations, or damage to the council's reputation. *Remedial action must be taken urgently.*

Medium residual risk: Less critical, but failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. *Prompt specific action should be taken.*

Low residual risk: Areas that individually have no major impact on achieving the service objectives or on the work programme, but where combined with others could give cause for concern. *Specific remedial action is desirable.*

B Summary of internal audit assurance assignments 2013/14

B.1 The work completed during the year is set out in the table below. Each control area audited has been given an overall relative risk weighting to indicate the degree of risk associated with it, although this is a subjective assessment.

Audit areas	Risk weighting	Assurance			
		Full	Substantial	Limited	None
Corporate controls					
Corporate governance					
Officers' declarations of interests, gift and hospitality	Low	Audit work is incomplete			
Information governance					
Corporate information governance arrangements	High			✓	
Working in strategic partnership					
Funds flow between LCC and OCL	High			✓	
Performance data quality and monitoring of OCL by LCC	High			✓	
Legislative compliance					
Compliance with the Working Time Directive	Low			✓	
Business continuity and emergency planning					
Corporate arrangements for emergency planning – follow-up		N/A: previously substantial			
Cross-service controls					
Health and safety of lone workers	Moderate		✓		
Reablement service	Moderate	Audit work is incomplete			
Safeguarding children's transport	High		✓		
Common controls					
Financial controls					
Accounts receivable and debt recovery	Moderate			✓	
Accounts payable	Moderate		✓		
Budgetary monitoring and control	Moderate	Audit work is incomplete			
Cash and banking	Moderate		✓		
Expenses payments	Low				✓
General ledger	High		✓		
Oracle Release 12: implementation of further modules	Low		✓		
Payroll	High		✓		
Payroll: additional payments	Low			✓	
Treasury management	High		✓		
VAT	Low		✓		
HR controls					
Hierarchies in the Oracle HR/ payroll system	Moderate			✓	
Leave and absence management	Low			✓	
ICT controls					
Database security	Low			✓	

Audit areas	Risk weighting	Assurance			
		Full	Substantial	Limited	None
Email usage	Low		✓		
Helpdesk	Moderate		✓		
ICT assets	Low				✓
Network user management	High			✓	
Security of mobile devices	Low			✓	
Procurement controls					
Procurement controls	High			✓	
Service-specific controls					
Adult Services, Health and Wellbeing					
Care decision making panels	High		✓		
Direct payments initial assessments	High			✓	
FACE resource allocation within individual budgets – follow-up	Moderate	N/A: previously substantial			
Non-residential care system	Moderate		✓		
Payment and monitoring system	Moderate		✓		
Social care case referrals management	Moderate		✓		
Social care supervision	Moderate			✓	
Support planning	Moderate	Audit work is incomplete			
Benefits Service					
Care and Urgent Needs Support Scheme	Low			✓	
Customer Service Centre					
Care Connect	Moderate		✓		
Children and Young People					
Adoption and fostering allowances – follow-up	Moderate	N/A: previously substantial			
Case file audit process	Moderate			✓	
Child mental health provision	Moderate				✓
Children's centres performance monitoring	Low	Audit work is incomplete			
Children's centres – follow-up	Low	N/A: previously substantial			
Children's residential homes	Low	Audit work is incomplete			
Independent Reviewing Officers	Moderate			✓	
Lancashire Music Service	Low			✓	
Lancashire Safeguarding Children's Board – financial admin.	Low			✓	
School budget formula – follow-up	Moderate	N/A: previously substantial			
School Performance and Financial Monitoring – follow-up	Moderate	N/A: previously substantial			
Targeted youth support	Low		✓		
Working Together With Troubled Families programme – 2nd phase	Moderate			✓	
Working Together With Troubled Families programme – claim submitted in January 2014	N/A	The Department for Communities and Local Government specifically requested this audit, and audits of earlier claims are also now under way.			

Audit areas	Risk weighting	Assurance			
		Full	Substantial	Limited	None
Schools and sixth form colleges					
School audit visits and follow-up (52 in total)	Moderate	1	42	6	3
		These assessments are not included in the total for the county council			
Thematic school review: schools operating a non-LCC payroll	Low	Audit work is incomplete			
Thematic school review: schools opening a bank account	Low	Audit work is incomplete			
Environment					
Capital programme management	Moderate			✓	
Use of contractors by the Highways Service	Moderate	Audit work is incomplete			
Waste contract performance measures	High		✓		
Grant audits: Citizen's Rail, CIVINET, ENVIREO, Interreg IVB SusStations (NWE), Local Transport Capital	N/A	N/A: all claims certified			
Lancashire County Commercial Group					
Building cleaning	Low		✓		
School Catering: stock control, consumption and performance	Low			✓	
School catering: income	Low			✓	
Grant audit: Bus service operators grant	N/A	N/A: two claims certified			
Total of all assurance assignments (45)		0	19	23	3

C Scope, responsibilities and assurance

Approach

- C.1 The scope of internal audit encompasses all of the council's operations, resources and services including where they are provided by other organisations on their behalf.

Responsibilities of management and internal auditors

- C.2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.
- C.3 However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to management as they have become known to us, without undue delay, and have worked with management to develop proposals for remedial action.
- C.4 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.
- C.5 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

Basis of our assessment

- C.6 My opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken and completed during the period in accordance with the plan approved by the Audit and Governance Committee. Sufficient, reliable and relevant evidence has been obtained to support the recommendations made.

Limitations to the scope of our work

- C.7 There have been no limitations to the scope of the audit work.

Limitations on the assurance that internal audit can provide

- C.8 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Further, there is no certainty that internal

controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.

- C.9 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Access to this report and responsibility to third parties

- C.10 This report has been prepared solely for Lancashire County Council. It forms part of a continuing dialogue between the Internal Audit Service, the chief executive, Audit and Governance Committee and management of the council. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- C.11 This report may be made available to other parties, such as the external auditors and BT Lancashire Services Ltd. No responsibility is accepted to any third party who may receive this report for any reliance that may be placed on it and, in particular, the external auditors must determine the reliance placed on the work of the Internal Audit Service.