

1 Introduction

- 1.1 This report summarises the work undertaken during the nine months of the year to 31 December 2011 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.

Audit assurance

- 1.2 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.

- 1.3 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

- 1.4 A full table of all the audit work planned for 2011/12 is included at Appendix B, setting out brief notes of the progress made on each project and the outcomes where work has been completed. It also clarifies where planned assignments have either been deferred into 2012/13, or removed from the plan, and where additional work has been included in the programme for the year.
- 1.5 Where work is complete a brief summary of our findings is provided in section 2 below.
- 1.6 The Internal Audit Service continually reviews our own audit methodology and working practices and, during September, we reconsidered how we follow up our findings and the action plans we agree with management. A short summary of our current approach is set out in Section 3.

2 Matters to report from internal audit work completed during the period

- 2.1 This section of the report should be read in conjunction with the table provided in Appendix B to this report, which outlines the progress of each audit assignment in the audit plan for the year.

Internal Audit Service progress against plan 2011/12

Audit Committee meeting 23 January 2012

Risk management

- 2.2 A separate report has been presented for the Audit committee setting out the proposals considered by Management Team relating to the way in which risk management will be addressed by the council.
- 2.3 This report states that the council already manages its risks well in practice. It has not in the past always documented risks in the ways demanded by the external regulator, but action being taken by management teams across the council amounts to an effective ongoing process of risk identification, assessment and management.

Lancashire Children's Safeguarding Board

- 2.4 During July 2011 CYP was subject to a peer review of its safeguarding arrangements and its arrangements for children looked after by the council. The peer review team was brought together by the Local Government Improvement arm of the Local Government Group and their review was based on a framework focussing on five core good practice themes: outcomes; vision, strategy and leadership; working together; service delivery and effective practice; managing resources; and participation.
- 2.5 The final letter from the Local Government Group set out summaries of the council's strengths and areas for consideration and concluded that:
- 'Lancashire is an authority which shows great ambition. The morale of staff we met was good and there was a strong awareness of the direction of travel for the service area. Leadership at all levels is both strong and committed with a compelling long-term vision for Children's Services. However, there are many plans in place which are at the inception stage and the authority must ensure it can deliver on these commitments within the three year financial strategy.'
- 2.6 The full letter is available at:
<http://lccintranet/corporate/enewsviewer/index.asp?id=2011/10/03/66597&news=422&page=pr&>
- 2.7 The Internal Audit Service's work on the Lancashire Safeguarding Children's Board (LSCB) therefore focussed on controls over the Board's budget, and we provided limited assurance over these.
- 2.8 Adequate and effective systems and procedures are in place in relation to the annual budget-setting and approval process, approval of the training programme and related expenditure, budget monitoring and expenditure commitment, and the collection of partner funding contributions. However, although it is assumed that the LSCB will receive the same funding contributions from partners every year, there is no formal methodology or agreement in place that defines how the LSCB is funded and what contributions can be expected from partners in future financial years.
- 2.9 Regular annual contributions make up the main part of the budget (approximately £530,000), and additional funds are also received that are specifically intended for serious case reviews and the child death overview panel. The regular contributions are based on previous financial years, and the original formula for calculating the contributions agreed at the LSCB's inception in 2004 is not now known.

Internal Audit Service progress against plan 2011/12

Audit Committee meeting 23 January 2012

Lone workers: Environment

- 2.10 We have provided limited assurance in relation to lone workers within Environment (having also given limited assurance over the arrangements within LCCG).
- 2.11 The council has detailed guidance to support its lone working policies and procedures, and generic risk assessments are available to all service teams on the Corporate Health and Safety Team intranet site.
- 2.12 Most, but not all, service teams have established local policies and procedures for lone workers. However, lone working, home visiting, driving and building risk assessments are not routinely completed by service teams. Where these assessments are completed, they are not always regularly reviewed. Where lone working processes exist not all staff are aware of them or are following them.
- 2.13 Like LCCG, Environment does not maintain a central record of lone workers or home workers and this information is held at operational/ service level, often only by individual team managers. Little personal information (for example car details) is held to facilitate assistance to staff in the event of an incident or accident. Home workers are also classified as lone workers but there is no regular review to ensure that their working conditions are, and remain, adequate.
- 2.14 A number of different automated systems are used across the council to manage lone workers – for example the virtual whiteboard used by Trading Standards – but no single system has been developed and implemented.

Partnership working and the council's role as accountable body

- 2.15 The council is involved in a range of partnerships to assist in the delivery of services to the people of Lancashire. In some cases the council has taken on the role of accountable body for the partnership. The responsibilities of this role vary but generally relate to the exercise of proper financial control and ensuring compliance with specific financial management requirements, but may also extend to performance management and responsibility for ensuring the achievement of specific delivery outcomes.
- 2.16 The council has established a process to commit the council to becoming an accountable body, including the county treasurer's approval that the role is acceptable. Without adequate and effective control of these processes the council may be exposed to unacceptable levels of financial, legal, or reputational risk. However like the more general requirements committing the council to any partnership, these requirements are not enforced and the county council has entered into partnerships without the required approvals.
- 2.17 Once a partnership has been established, assessments both of the risks of being in partnership and of the partnership's own risks are not generally being undertaken. Information sharing agreements are not generally in place and, when they are, do not use the corporate format.

Control of ICT costs as employees leave the council

- 2.18 During the course of our work on lone workers, which includes home workers, it became apparent that the council is continuing to pay for home broadband facilities (and other ICT services such as mobile phones) for employees who

Internal Audit Service progress against plan 2011/12

Audit Committee meeting 23 January 2012

have now left the organisation or who no longer work from home. We have undertaken a considerable amount of data analysis to identify these employees and are now supporting managers across the council's directorates to ensure that ICT services are cancelled for employees and former employees who no longer require them. We have also provided details of our findings to the project manager who is currently reviewing the facilities still provided for staff who have left the organisation.

Human resources controls: redeployment

- 2.19 We have provided substantial assurance over the redeployment process. An effective system operates in relation to the availability of policy and procedures; allocation of the correct priority to employees at risk of redundancy; allocation of jobs to employees on the basis of priority; and control over advertising vacancies externally.
- 2.20 The redeployment team has been very successful in keeping compulsory redundancies to a minimum. There is a good system in place to enable employees at risk of redundancy to apply for vacancies before the vacancies are advertised externally. The redeployment team proactively matches employees at risk of redundancy to vacancies, and regularly reports the position to the Management Team.

Controls over the council's estate: strategic partnering

- 2.21 During 2009/10 we gave substantial assurance in respect of the design and application of the systems in place for strategic partnering, including those to select partners and allocate work. However we were only able to give limited assurance in respect of the Property Group's ability to demonstrate the efficiencies gained from strategic partnering.
- 2.22 Since then the Property Group has been subject to restructure and a number of staff have been redeployed, and there have also been delays in the modification of the Property Asset Management Information System and an ongoing review of the council's key systems by One Connect Ltd. Therefore, although key performance indicators are in place to enable review of partnering project performance, they have yet to be further developed to incorporate a comparison with tendered projects.

Emergency payments to families ('section 17' payments)

- 2.23 We have provided limited assurance over emergency payments to families. The controls over the administration of payments are not operating effectively and have been applied inconsistently, and inappropriate expenditure has been charged to the budget. During 2010/11 a budget of £371,000 was set, but £745,000 was actually spent. Local judgement of appropriate expenditure is inconsistent across the county and the districts in the north and east of the council accounted for approximately 25% each of the total expenditure, whilst 50% was incurred in the south.
- 2.24 The directorate has now established arrangements to ensure that each of the district managers routinely reviews and authorises the expenditure incurred and we will re-review this area and the action plan agreed with management during 2012/13. Expenditure on emergency payments will become increasingly prominent as more social care funding is to be transferred by central

Internal Audit Service progress against plan 2011/12

Audit Committee meeting 23 January 2012

government to the county council, and it will be important to ensure that this funding is consistently applied to local needs.

Management of children's social care referrals

- 2.25 We have provided limited assurance over the controls in place to manage the referral of children's social care cases. Controls should be strengthened and managers are now addressing the issues raised.
- 2.26 At the time of our work, 15 former employees remained as ceased users on ISSIS (users who have been deleted from the system) but 47 cases were allocated to them. It has been confirmed to us that each of these cases was being addressed by at least one other, current, social worker (or, in one case, was awaiting closure) and appropriate cover was therefore provided. Three of these 47 cases had also been allocated to managers who had also left and ceased on ISSIS.
- 2.27 Whilst none of the service users have been placed at risk of harm the significant risk remains that children may not be appropriately reallocated to social workers as those caring for them leave the council.
- 2.28 We were unable to reconcile the total number of cases received into the Care Connect team from the Customer Service Centre and other referral sources (for example the Children and Family Court Advisory and Support Service and local administrative teams). For the period April to June 2011, 7,406 cases were received and assessed by the Care Connect team.
- 2.29 For the same period we were also unable to reconcile the number of cases between Care Connect and ISSIS. Of the discrepancies, 46 were allocated to the incorrect service teams, nine were assessed as requiring an initial assessment, which has not been carried out or completed, and two cases assessed by Care Connect do not appear on ISSIS management reports. Conversely, two cases were logged on ISSIS that appear to have by-passed Care Connect.
- 2.30 A detailed examination of a sample of 45 case referrals received during April to June 2011 confirmed that the majority of cases are assessed within prescribed timescales, and the details are documented on ISSIS. However there were four exceptions in our sample. Three initial assessments missed the 10-day deadline (two by just one day, but one was completed 15 days after the deadline), and one initial assessment was still incomplete but was already 10 days overdue at the time of the testing. In addition, three cases were assessed and the outcomes authorised by the same person.
- 2.31 We have discussed our detailed findings with management and have been invited to the next quarterly service meeting to discuss and evaluate progress against the action plan.
- 2.32 We have in recent years undertaken a lot of work on the ISSIS system itself, and have reported that substantial technical amendments are required to the way in which user access to the system is managed. At this point the council is working with One Connect Ltd to assess the need for, and specification of, a new social care information management system.

Internal Audit Service progress against plan 2011/12
Audit Committee meeting 23 January 2012

Schools

- 2.33 We have completed 36 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	5	0	4	1	0
Primary school	31	2	27	1	1
Total	36	2	31	2	1

- 2.34 The level of assurance we are providing continues to compare favourably with that we gave during 2010/11 since, 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.
- 2.35 We have given only limited assurance to one school, and we have met with the headteacher and the chair of governors to discuss this. We are working closely with the headteacher to ensure the action plan is implemented and have also provided a copy of our report to the CYP Directorate Special Support Group who will provide additional support to the school.
- 2.36 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. We have now followed up the action taken in seven of the 12 schools who received limited or no assurance last year and have reported the findings to the headteachers and chairs of governors. Satisfactory progress has been made by these schools in implementing the actions they agreed.
- 2.37 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 have almost completed a thematic audit of data protection in schools which has raised a number of areas where schools are non compliant. Our report will be issued via the schools portal in January 2012 and will include links to best practice documentation. We will also begin thematic audits of procurement and unofficial school funds in January 2012.

Waste PFI budget: budget forecasting

- 2.38 We have provided limited assurance in respect of the system in place to enable realistic strategic forecasting and monitoring of the PFI waste project budget. Whilst an adequately designed framework of controls is now in place, there were weaknesses in budget forecasting and checks over the contractor's invoices raised in 2010/11, as well as in the development of the 2011/12 waste PFI budget.
- 2.39 During 2010/11 several key staff previously involved in the development of the project either left the council or moved to other posts. The officers involved since mid 2010/11 have reviewed the processes in place and a number of the

Internal Audit Service progress against plan 2011/12

Audit Committee meeting 23 January 2012

issues we have identified relate to control weaknesses that have since been resolved.

- 2.40 In general, there are adequate and effective systems and procedures in place to support budget forecasting and reporting and to review and adjust budget forecasts throughout the year. However we identified several issues that should be considered in respect of 2011/12 and future year's budgets. In particular, the 2011/12 approved budget for waste recycling payments to district councils was underfunded by over £190,000 and may also be significantly underfunded in the budgets prepared for 2012/13 and 2013/14 because an incorrect inflation factor was applied during budget preparation.
- 2.41 The 2011/12 budget allocations for waste flows and ramp-up costs were inadequately supported by working papers or other documentation and allocations may therefore be inaccurate, based on inappropriate assumptions, and lead to unreliable forecasting. The directorate is developing a budget forecasting tool which will determine whether the waste flow and ramp-up budget allocations are sufficient or require adjustment.
- 2.42 There were significant changes to budget projections from month to month during 2010/11, which impeded effective planning. The development of the budget forecasting tool will also help to minimise such unexpected changes in budget forecasts.

3 Investigations and counter fraud work

Special investigations

- 3.1 We are working closely with the Human Resources team to ensure that our approach to investigations is consistent and supports the council's disciplinary procedures as effectively as possible.
- 3.2 We have undertaken a considerable amount of work recently to support management in investigating their controls over the disposal of scrap metal by the council. This has arisen in part due to concerns brought to our attention by whistle-blowers and this work is continuing.
- 3.3 After more than four years our investigation into the actions of a headteacher in east Lancashire has drawn to a close. Our investigation and subsequent witness statements focussed on the school's public funding, unofficial school funds and the school's after-school club and nursery. A disciplinary panel dismissed the head teacher for gross misconduct in November 2008 and decisions were made, after appeals by the headteacher, by an employment tribunal and the General Teaching Council in September 2011.
- 3.4 The employment tribunal found that the claimant was fairly dismissed. The General Teaching Council sanctioned the Headteacher with a conditional registration order limiting his permission to undertake financial responsibilities within any school in which he is employed.

Counter fraud activity

- 3.5 We have re-drafted the council's whistle-blowing policy and have been working with the council's Communications team to ensure that this is released and publicised to all staff. Similarly, we have aligned the schools' whistle-blowing policy with the council's and the schools' policy will also be re-issued early in 2012.

Internal Audit Service progress against plan 2011/12

Audit Committee meeting 23 January 2012

- 3.6 We regularly use data analysis to identify schools that have not banked dinner income regularly, and investigate these. We have made six unannounced visits to schools and at one school have found that income (of approximately £3,800) is indeed missing. The school secretary has been suspended and an investigation is ongoing.
- 3.7 We are also continuing to investigate the data matches generated by the Audit Commission's National Fraud Initiative and this will be completed early in 2012. As noted in September, there has been a significant increase in the number of matches produced from this exercise and this is set out below.

Area of risk	Number of matches		Examples of risks addressed by data matches
	2008/09	2010/11	
Creditors	4,259	18,520	Possible duplicate payments; overpayment of VAT; employees with a business interest.
Blue badges (parking permits)	2,618	2,212	Use of the badge by someone other than the registered holder after their death.
Payroll	1,091	4,169	Employees with additional employment; housing benefit claimants; employees' right to work within the UK.
Pension	1,849	1,972	Claimants with additional employment affecting their pension, or deceased.
Insurance	298	164	Duplicate insurance claims.
Residential care homes	565	521	Payments made to care homes for now-deceased residents.
Total	10,680	27,558	

4 Follow-up work

- 4.1 It is a professional requirement of both the Institute of Internal Auditors and the Chartered Institute of Public Finance and Accountancy that we follow-up the work we have done, and do so on a timely basis.
- 4.2 Set out below is an outline of the Internal Audit Service's methodology in relation to follow-up work, which was introduced at the end of September 2011 (although it is largely in accordance with practice prior to this date).
- 4.3 As a result, although a number of follow-up reviews were included in our audit plan for the year, only those relating to areas that have been assigned 'full' or 'substantial' assurance will be followed-up. From the end of September 2011 onwards we will re-review in full any control systems that have been assigned 'limited' or 'no' assurance.

What we follow up

- 4.4 We follow up all recommendations arising from audit assignments where we have provided substantial or full assurance. We do not generally follow up work where we have provided limited or nil assurance, but instead re-perform this

Internal Audit Service progress against plan 2011/12

Audit Committee meeting 23 January 2012

work either later in the same year, or in the next audit plan. Where an investigation results in the agreement of action to rectify control issues, then these will also be subject to follow-up work.

When we follow up our work

- 4.5 We undertake our follow-up work to the timescale agreed as we finalise the original work, ideally after all the actions are scheduled to have been implemented but, if there is an action with an implementation date significantly after most of the others then we follow up the others and obtain evidence that implementation of the longer-term action is being actively pursued.

The outputs of our follow-up work

- 4.6 We do not reissue or revise our audit opinion but simply assess whether actions have been taken to address low or medium residual risks on areas we have given full or substantial assurance. Our opinion could arguably be revised to provide full assurance if all agreed actions have been implemented, but this is reliant on the assumption that nothing else has changed and we are unwilling to make that assumption.
- 4.7 If it is clear that the control system has changed and that the agreed actions are no longer appropriate then we will not undertake further follow-up of these agreed actions.
- 4.8 If there are indications that controls may have deteriorated then we should consider undertaking another full review, but this should be assessed in light of other risk areas across the council. However if we have concerns about a deterioration in controls we will discuss these concerns with management.