

1 Introduction

- 1.1 This report summarises the work undertaken during the eleven months of the year to 29 February 2012 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.

Internal audit assurance

- 1.2 Internal 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 has been completed since the last report to the Audit Committee at its meeting on 23 January 2012 a brief summary of our findings is provided in section 2 below. Section 3 addresses special investigations and counter fraud work.
- 1.6 The Audit Committee raised a concern on 23 January that executive members should be made aware of the matters arising from internal audit reports and those in particular where limited or no assurance is given. However it may be more appropriate for the services' executive directors to provide these reports to the relevant Cabinet members and to discuss the issues with them, since it is expected that the executive directors communicate openly with Cabinet members about the services within their portfolios.
- 1.7 The county treasurer and Management Team are currently considering this, and practice elsewhere is mixed. Of 18 members of the County Chief Auditors'

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Network who responded to an enquiry, only three routinely share internal audit reports with executive members; of 13 unitary authorities around the Greater Manchester area and beyond, just four routinely share internal audit reports with executive members.

External sources of assurance

- 1.8 At its last meeting the Audit Committee noted that CYP had been subject to a peer review of its safeguarding arrangements and its arrangements for children looked after by the council by a team brought together by the Local Government Improvement arm of the Local Government Group.
- 1.9 In January 2012 CYP was also inspected by Ofsted, which has now reported that the council's services which protect children, including children looked after, are rated as 'good with outstanding features'. The report can be found through the following link: <http://www.ofsted.gov.uk/local-authorities/lancashire>

2 Matters arising 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.

Corporate arrangements in relation to information governance

- 2.2 A statement of the risks and controls in this area has been completed and shared with the county treasurer, rather than a follow-up of previous recommendations, since the council's information governance arrangements are currently being considered. This includes consideration of which senior officer will be designated as the council's senior information risk officer and, once this is resolved, a number of other arrangements remain to be reinforced before any assurance can be given that the council's information governance arrangements are robust.

Management of vehicle assets

- 2.3 We have provided limited assurance over the management of vehicle assets.
- 2.4 We sampled 25 fleet vehicles from across the council, covering each of the directorates and LCCG, and we also reviewed a small sample of hired vehicles.
- 2.5 There is currently no written policy available to staff to guide them in purchasing or hiring vehicles. Whilst LCCG's Fleet Services team provides basic information on the intranet about the service and contacts, this does not appear on the A-Z or as a result of related searches, which prevents staff from readily obtaining the information they need, should they recognise that need.
- 2.6 There is no single point of contact within the council that administers hired and leased vehicles. There is therefore no central monitoring of these vehicles and their usage, any consideration of whether the existing fleet can meet those requirements or whether a purchase is more cost effective. Without an overall picture of which vehicles the council uses and how, procurement decisions may not be cost-effective.

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- 2.7 Neither hired nor fleet vehicles are consistently recorded on the insurance database within the timescales required by the council's insurance policy, and there is no reconciliation between vehicles, the Repair and Maintenance Program (RAMP) system and the insurance database to confirm that all vehicles are recorded within the timescales demanded. There is therefore a risk that the council is not meeting its insurance obligations and there is a possibility that its insurance in respect of certain vehicles may be invalidated.
- 2.8 There are no regular checks that drivers' licences are valid within any of the directorates, although drivers' licences within LCCG's Travelcare and Highways services are checked annually. The council may therefore be unaware of any employees' driving-related convictions or changes in driving entitlements which affect their ability to drive vehicles owned or hired by the council, or could invalidate the council's insurance cover. Additionally, the council's guidance is not sufficiently clear that drivers using their own vehicles should produce their driving licence annually or when their vehicle or insurance changes, and this is not done.
- 2.9 No manager we met conducted mileage checks on the vehicles used, and we found no guidance or hand-over procedures as vehicles are taken out and returned by drivers. It would therefore be difficult for any manager to identify inappropriate or personal usage of the council's vehicles.

ICT services data centre

- 2.10 The objective of the audit was to assess the physical security and environmental management controls over the council's data centre and that controls have been implemented to prevent unauthorised access, damage and interference to premises and information.
- 2.11 The data centre is crucial to the council's ability to utilise ICT and has been designed to operate robustly. It is provided with alternative forms of power and telecommunications to ensure continuous service, and its environmental conditions are continuously monitored. It is protected from the threat of fire by an automated fire suppression system and from unauthorised intrusion by controlled access to buildings and further restricted access to the centre itself.
- 2.12 Although the data centre can meet current requirements, an increasing number of services are being offered to other organisations and the council itself is increasing its reliance upon ICT solutions for the delivery of its own services. Further demand for ICT services will exceed the data centre's current capacity, and One Connect Ltd and Property Group are discussing how best to achieve the environmental requirements and level of uninterruptable power supply required.

ICT vulnerability management

- 2.13 There is widespread proactive and reactive monitoring of the council's information systems infrastructure to identify and mitigate vulnerability to security threats. There are many examples of industry best practice and we found no incidents resulting from poor vulnerability management.
- 2.14 However, the absence of clear, documented management policies, processes and procedures to support operational practice has limited our ability to fully review and test the effectiveness of the established vulnerability management

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processes. We are therefore unable to confirm whether any have gone undetected and could have been exploited.

- 2.15 We have also identified significant weaknesses in information risk management processes and have been unable to confirm the effectiveness of the response to the 2010 external penetration test. We are therefore able to provide only limited assurance over vulnerability management, although One Connect Ltd has recognised the need to formally define and document policies and procedures and plans to address these risks.

Web/ internet use

- 2.16 Our review focused upon the council's security needs as well as the users' information requirements and, in particular, use of the Websense Triton product as a tool to monitor compliance with the council's Internet and Email Acceptable Use Policy.
- 2.17 Reports generated from this system do not support effective monitoring of staff use of the internet. Detailed information within the reports cannot be filtered to differentiate usage which has been positively requested by a user from that generated by dynamic content of a webpage (such as gambling advertisements within a newspaper's web page or links to social media sites).
- 2.18 Although we can provide limited assurance over the product as a whole we can provide no assurance over the product's ability to support compliance with the Acceptable Use Policy and any subsequent investigations or disciplinary action.

Management of children's social care referrals

- 2.19 We have discussed our work on the management of children's social care referrals with the director of targeted and assessment services and her senior management team, and our report has also been discussed with the district managers: action is being taken. We are currently performing some additional testing around 'ceased workers' and cases requiring initial assessments and will provide a further verbal update at the Audit Committee meeting.

Schools

- 2.20 As reported in January, we have completed 36 school audits as part of the 2011/12 audit plan and a summary of the assurance we have provided was set out in the progress report to the Committee in January.
- 2.21 Where a school received either limited or no assurance during 2010/11 we have undertaken a follow-up audit to ensure that appropriate action has been taken by the school and offer further support. This work is now complete for all 12 of these schools and satisfactory progress has been made by all of these schools in implementing the actions they agreed.

Thematic audit of data protection in schools

- 2.22 We have completed a thematic audit on data protection compliance in schools. All schools gather and store personal information on pupils and teaching and non teaching employees and must comply with the Data Protection Act 1998. We have issued a newsletter ('Audit Matters') to all Lancashire's schools setting out the key issues and advice arising from our audit which include the need to:

- Issue privacy notices to data subjects (pupils, parents and staff);

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- Encrypt all laptops and portable devices that hold data;
- Retain data only for the purpose it was obtained for; and
- Ensure that data is not shared with other third parties without the data subject's permission.

2.23 We found that 36 schools in Lancashire were not registered with the Information Commissioner although failure to register is a criminal offence. We have contacted each of the 36 schools and advised them of this legal requirement, and will follow up this review in the near future to ensure all of the 36 schools have registered.

2.24 We have recently completed thematic reviews of procurement and unofficial school funds and are in the process of drafting our reports. As well as reporting our findings back to the individual schools we have visited we will issue an Audit Matters newsletter to all schools, using the School Portal, which will set out information about common issues as well as providing links to guidance and support.

LCCG catering income

2.25 We have provided limited assurance over the controls in place to securely collect, bank and record income from the catering services provided to fully managed schools.

2.26 LCCG Catering Service has developed and circulated cash handling procedures to unit catering managers and area operations managers, which clearly define best practices that are expected to be followed in respect of income received for schools catering services. However in several cases the practices employed within school kitchens controlled by LCCG did not comply with these documented procedures. For example cash had been held at the unit catering manager's home over a weekend prior to banking, and elsewhere small unidentified discrepancies in bankings had occurred on a regular basis.

3 Investigations and counter fraud work

Special investigations

3.1 We have been working closely with the Human Resources team and have revised our approach to performing financial investigations to ensure our approach to investigations is as effective and efficient as possible.

Counter fraud activity

3.2 We have re-drafted the council's Whistleblowing Policy and this has been publicised to staff via the intranet. The communications team will also ensure that the policy is also communicated to staff without access to the intranet. Similarly, we have aligned the schools' Whistleblowing Policy with the council's and the schools' policy will also be re-issued early in 2012.

3.3 We regularly use data analysis to identify schools that have not banked dinner income regularly, and investigate these. Based on our findings we are currently drafting an Audit Matters newsletter which will be issued to all schools detailing this specific issue and other cash management issues.

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- 3.4 We are also continuing to investigate some issues arising from the Audit Commission's National Fraud Initiative and the Your Pension Service is addressing the data matches relating to deceased pensioners.