

Lancashire County Council Internal Audit Service

Annual report for the year ended 31 March 2019

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the county council's Internal Audit Service has undertaken during 2018/19 and the key themes arising in relation to internal control, governance and risk management across the council.
- 1.2 In April 2018 the Audit, Risk and Governance Committee considered and approved an internal audit plan for 2018/19, and small amendments to the plan have been reported to the committee during the course of the year. The work for the year is now sufficiently complete to support the overall opinion on the frameworks of governance, risk management and internal control, although some pieces of work remain to be finalised and will be reported to the next meeting of the committee.

The role of internal audit

- 1.3 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 (PSIAS) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) require the head of internal audit 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. This report presents my opinion based upon the work the Internal Audit Service has performed during 2018/19.
- 1.4 The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in Appendix C to this report.

Interim progress reports

- 1.5 I have provided summaries of the individual pieces of audit work completed throughout the course of the year in my progress reports to each meeting of the Audit, Risk and Governance Committee. Any audit reports will be provided to any members if they wish.

Ruth Lowry
Head of Internal Audit
Lancashire County Council

2 Summary assessment of internal control

Overall opinion

- 2.1 I can provide moderate assurance overall regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control.
- 2.2 In forming my opinion I have considered the work undertaken by the Internal Audit Service throughout the year as well as the work of external assurance providers and information available from less formal sources than planned audit engagements. Audit work has covered the full range of the council's services and each element of the control framework.
- 2.3 As would be the case in any normal organisation, there are still a number of areas of the council's business where further service improvements as well as cost savings need to be made, but there are now plans to make these improvements and savings. Particularly in respect of plans to achieve a financially sustainable position for the council for the longer term, there is also now sufficient time as well as reserves to support some flexibility where necessary.
- 2.4 Descriptions of the audit work we have done are set out below, and an explanation of the assurance provided by internal audit assignments in 2018/19 during the period to 30 April 2019 are set out in Appendix B.
- 2.5 More details about the key issues and themes are provided in section 3 below.

The council's control framework

- 2.6 Our work has been organised in accordance with the Internal Audit Service's planning principles and an understanding of the council's controls at the start of the year, which was set out as follows:

A framework for governance, risk management and control						
Governance and democratic oversight						
Corporate governance framework		Decision-making		Oversight and scrutiny		Policy setting
Business effectiveness						
Risk management	Performance monitoring and management		Organisational design	Financial governance and planning		Working in partnership with others
Service delivery						
Growth, environment, transport & community services				Children's services & education		Adult services, health & wellbeing
Economic development & planning	Programmes & project management	Community services	Children's services	School improvement & services	Adult Services	Public health
Service support						
Legal services	Skills, learning & development	Core business systems	Property management	Programme management	Business intelligence	Customer access
Business processes						
Financial systems & processes		Procurement	Facilities management		Human resources	
Budget monitoring		Contract monitoring & management	Information management		Payroll processing	
Investment			Business continuity		ICT systems	

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Summary of assurance provided by the Internal Audit Service

- 2.7 A summary of all the assurance provided during the year to the end of April 2019 is set out 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, since this has not been directed at providing assurance.

2018/19 assignments relating to:	Total	Assurance provided			
		Substantial*	Moderate*	Limited	None
Governance	-				
Business effectiveness	2		2		
Service delivery	33	11	16	6	
Service support	4	2	1	1	
Business processes	7	5		2	
2018/19 assignments: total to date	46	18	19	9	-
	100%	39%	41%	20%	-

- 2.8 Audit work in the previous two years was generally directed towards areas that were understood to be subject to relatively few problems. By agreement with the management team at the time, the plan for 2017/18 included some audits that were intended to support managers in making further improvements in high-risk areas that were known to be problematic but without ongoing interventions. In 2016/17 the plan was designed to avoid areas that were regarded as being insufficiently well controlled.

- 2.9 The assurance provided in these two years was as follows:

	Total	Assurance provided			
		Substantial*	Moderate*	Limited	None
2017/18 assignments	51	5	34	12	0
	100%	10%	67%	23%	-
2016/17 assignments	31	3	24	4	0
	100%	10%	77%	13%	-

Wider sources of assurance available to the county council

- 2.10 Some assurance has been taken from the work undertaken by Deloitte LLP over the operation of the Local Pensions Partnership. The firm has completed two audits of various aspects of the partnership's activities in accordance with the plan for the year updated in February 2018, and the last audit under the plan for 2017/18. Six further audits for 2018/19 are still ongoing and the assurance provided by them will be reported when available, along with further work for 2019/20.
- 2.11 The reports provided by Ofsted during the year form important sources of external assurance and may be found on Ofsted's web-site here: <https://reports.ofsted.gov.uk/local-authorities/lancashire>

Management's responses to our findings

- 2.12 Each of the issues raised during the year has been discussed with the relevant service managers as well as with members of the council's Corporate Management Team. Action plans have been agreed and audit work during 2018/19 indicates that the plans agreed in previous years are largely being addressed, although some improvement work is still ongoing.

Numbers of actions agreed during 2016/17, 2017/18 and 2018/19							
Action status	December 2018		March 2019				
	Total		Total		Risk rating		
					High	Medium	Low
Complete	230	76%	267	73%	18	141	108
Superseded	39	13%	46	13%	7	24	15
Incomplete	16	5%	11	3%	4	6	1
Awaiting responses	17	6%	39	11%	2	21	16
Total	302	100%	363	100%	31	192	140

3 Key issues and themes

- 3.1 There have been some considerable changes to the organisation's most senior management team over recent years, and this is now becoming more stable following permanent appointments to each of the most senior and statutory posts during 2018/19.
- 3.2 The council's financial position is also beginning to stabilise. In February 2019 the council set a budget for 2019/20 requiring much less support from financial reserves than in recent years, although reserves of £10.2 million will still be necessary and an overall funding gap of £47.2 million by 2022/23 remains. Although current forecasts indicate that there may be sufficient reserves to bridge this gap, work is under way to reduce the need to use these in 2020/21 and beyond by identifying further savings. Therefore, although significant challenges remain, the council's direction of travel in terms of its financial position is positive.
- 3.3 Likewise after some years of considerable effort, the council's provision of children's social care services has been re-assessed by Ofsted and is no longer deemed to be inadequate. Again, there is still further work to do to consolidate this improvement and extend it to services for children with special educational needs and disabilities, but the direction of travel is positive.
- 3.4 Improvement plans are in place across a number of services and systems and although, for example, controls are still insufficient over the operation of the highways asset management system, we have been able to give favourable assurance over the programme designed to improve this. Other areas that are subject to ongoing improvement include the transition of service users from children's to adults' services, and various aspects of adult social care including quality assurance of both residential and non-residential care.

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- 3.5 There are still considerable demands on the council's resources that put improvement of its services, systems and process at risk. The need to support service improvements and cost savings with improvements in ICT systems in particular is being closely assessed.
- 3.6 Despite the challenges facing managers across the council the Internal Audit Service has been welcomed and supported in undertaking our work. We have withdrawn from work in some areas where necessary whilst further action has been taken by management to understand the issues and plan the improvements still required but, overall, we have had access to services in every directorate.
- 3.7 The assurance we have provided on the audit engagements we have completed is largely favourable, and our conclusions where reports are still being drafted follow the same pattern.
- 3.8 I have therefore been able to give moderate assurance overall; a more favourable opinion than the limited or no assurance I have given in the previous five years.

4 Implications for the annual governance statement

- 4.1 In making its annual governance statement the council considers the head of internal audit's opinion in relation to its frameworks of governance, risk management and control. The council's annual governance statement should therefore again reflect the continuing challenges presented by its financial position and projections; its continuing drive to make extremely challenging cost reductions; the effects of cost reductions on its ability to operate adequate and effective controls to properly manage the risks to its objectives and work to improve its core ICT systems.
- 4.2 However more positively, it should also refer to the judgement made by Ofsted during the year arising from its re-inspection of services for children in need of help and protection, children looked after and care leavers. This concluded that children's services in Lancashire require improvement to be good, but which represents a positive improvement from the earlier judgement that these services were inadequate.
- 4.3 It could also reflect the favourable direction of travel in planning and implementing improvement plans in a range of other service areas including adult social care and highways asset management for example.
- 4.4 It could also be noted that the move back to favourable assurance reflects the more normal operation of the Internal Audit Service itself, and a more normal relationship than in recent years with the rest of the organisation. The county council now appears to be operating as would be expected, although like all local authorities it remains under some considerable pressure.

5 Organisational independence

- 5.1 The Internal Audit Service has access to and support from the council's Corporate Management Team and is able to operate independently within the organisation so is properly able to fulfil its responsibilities. In accordance with its charter the service remains independent of the council's other functions and, with the exception of its support to management in relation to counter fraud and investigatory work, no member of the Internal Audit Service has any executive or operational responsibilities.
- 5.2 The Internal Audit Service's work programme and priorities are determined in consultation with the Corporate Management Team, the council's senior managers and the Audit, Risk and Governance Committee, but remain decisions for the head of internal audit. The head of internal audit has direct access to and freedom to report in her own name and without fear or favour to all officers and members.

6 Internal audit performance

- 6.1 Following confirmation of the structure of the service during the previous year the service's establishment is currently fully staffed.

Completion of the internal audit plan 2018/19

- 6.2 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.
- 6.3 As set out at paragraph 2.7 above, at this point we have provided assurance through 46 individual audit assignment reports (2017/18: 51 in total by July 2018), as well as a number of other pieces of work that have not resulted in assurance opinions, and these are set out in Appendix B. This represents 58% of the current plan after some work has been deferred and removed, and this rises to 73% if the 12 assignments that are currently in draft are also included.
- 6.4 At the same time as work on the audit plan for 2019/20 is begun, the remaining work for 2018/19 will be completed and reported to the committee in July 2019.

Client satisfaction

- 6.5 The Internal Audit Service has requested feedback from its auditees throughout the year as each audit assignment has been completed. This has again provided very positive feedback about the conduct of our audit work and just a few helpful indications of practical matters for the team to consider in conducting its work.
- 6.6 We have received feedback on 46% of the audit engagements completed for the county council, although surveys have only just been sent for the most recently completed audits. We have received 33 surveys relating to 2018/19 (2017/18: 33) from all our auditees including from our external client organisations. Given the number of assignments completed at this point, this number is entirely consistent with the previous year.

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6.7 Our auditees have told us in every case that, overall, they were satisfied with the way we conducted our work with them. We also seek more detailed feedback in relation to our audit planning, the audit process and reporting, our behaviour, and our management and service to our auditees. Our auditees have judged our performance across all categories to be very good in 48% of our audits (2017/18: 52%), and a mix of very good and good in all other audits with only one exception. We were judged as just fair in one area (reporting) on just one audit (2017/18: 1).

7 Quality assurance and improvement programme

7.1 The Internal Audit Service has established and regularly reviews a quality assurance and improvement programme. PSIAS requires that all aspects of internal audit activity are considered by a combination of ongoing internal monitoring, periodic self-assessments or internal assessments by others with sufficient knowledge, and independent external review at least once every five years.

Type of review	Internal review		External review
	Frequency	Ongoing	Periodic
			At least 5-yearly
Audit assignment quality	✓		✓
Professional and operational framework		✓	✓

7.2 Following this framework, the Internal Audit Service's quality assurance and improvement programme consists of internal ongoing monitoring of audit assignment quality, periodic internal assessment of the professional and operational framework, and external review.

External review

7.3 The findings of the last external quality assessment undertaken by the Chartered Institute of Internal Auditors were reported to the committee in January 2018. This confirmed that the Internal Audit Service 'generally conforms' to the full range of standards set out in the International Professional Practice Framework, PSIAS and Local Government Application Note. Work has continued to address the few matters raised to improve the operation of the service and an assessment of progress against the action plan will be provided to any member who wishes to see it.

7.4 The review confirmed that the Internal Audit Service can say that its work has been in accordance with the International Professional Practices Framework, PSIAS and the Local Government Application Note.

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Internal review

- 7.5 The Internal Audit Service has designed procedures and an audit methodology that conform to PSIAS and are regularly reviewed. Every auditor in the team is required to comply with these or document the reasons why not, and to demonstrate this compliance on every audit assignment. The audit managers assess the quality of each audit concurrently as it progresses, and a post-audit file review process has been undertaken. These reviews indicate that there is good evidence of compliance with our audit methodology and input from the audit managers to support the work of the auditors although, like last year, some learning points have been drawn out and shared with the team.
- 7.6 In addition to these periodic file reviews, the service's methodology includes a step which requires the head of internal audit to read each report as it is finalised. This does not entail an additional detailed review and the auditors' reports remain theirs, using their own style and wording, but is intended to ensure that each assignment can be adequately understood and is properly communicated.