

# **Lancashire County Council**

## **Audit and Governance Committee**

**Tuesday, 30th June, 2015 at 2.00 pm in Cabinet Room 'B' - The Diamond  
Jubilee Room, County Hall, Preston**

### **Supplementary Agenda**

We are now able to enclose, for consideration at the next meeting of the Audit and Governance Committee on Tuesday, 30th June, 2015, the following information which was unavailable when the agenda was despatched.

#### **Part I (Open to Press and Public)**

<b>No.</b>	<b>Item</b>	
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|-----------|------------------------------------------------------------------------------------------|------------------------|
| <b>6.</b> | <b>The Council's Annual Governance Statement<br/>2014/15</b>                             | <b>(Pages 1 - 26)</b>  |
| <b>8.</b> | <b>Internal Audit Service annual report to Lancashire<br/>County Council for 2014/15</b> | <b>(Pages 27 - 54)</b> |

County Hall  
Preston

I Young  
Director of Governance,  
Finance and Public Services



# Agenda Item 6

## **Audit and Governance Committee**

Meeting to be held on 30 June 2015

Electoral Division affected: All
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### **The Council's Annual Governance Statement 2014/15**

(Appendix 'A' refers)

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#### **Executive Summary**

The Committee at its meeting in April considered a draft Annual Governance Statement for 2014/15.

The Committee noted that an updated Annual Governance Statement (AGS) for 2014/15 would be presented to the Committee at its meeting in June.

A draft revised version of the AGS is presented for the Committee's consideration at Appendix 'A'.

#### **Recommendation**

The Committee is asked to:

1. Consider and approve the further draft of the Annual Governance Statement for 2014/15 for inclusion in the draft Statement of Accounts.
2. Note that the Annual Governance Statement will be signed by the Chief Executive and Leader of the Council and published on the Council's website following the final approval of the Statement of Accounts at the Committee's meeting on 28 September 2015.

#### **Background and Advice**

The County Council is required to produce and approve an Annual Governance Statement (AGS) which will be included in its Annual Statement of Accounts for 2014/15.

An initial draft AGS was presented to the Committee in March. The Committee was informed that there was still further work to be done with the AGS which would need to reflect the Chief Internal Auditor's Annual Report for the year ended 31 March

2015. The Committee noted that a revised Annual Governance Statement for 2014/15 would be presented to the Committee at its meeting in June and asked for any comments on the draft AGS to be made to the Director of Governance, Finance and Public Services.

Officers have now revised the draft AGS to incorporate the opinions expressed in the Chief Internal Auditor's Annual report and the Council's response to the emerging governance issues. The revised draft is set out at Appendix 'A' on the Agenda for the Committee's consideration and approval.

The revised AGS highlights that having previously given a strong commitment to ensure that basic controls are maintained, virtually all the outstanding actions which formed part of the Audit Plan for 2014/15 which were areas of high and moderate risk have now achieved a substantial assurance assessment in the current Chief Internal Auditor's report.

The revised AGS acknowledges that 2015/16 will be a year of significant challenges for the Council with the need to embed its new operating structure. The risks around transformation will form part of a new corporate risk and opportunity register and appropriate mitigation measures will be in place.

One of the mitigation measures proposed as detailed in the AGS is that for 2015/16 the focus of Internal Audit will be limited to consideration of the key financial systems and that the focus will be to provide consultancy (without any corresponding audit opinion) to Heads of Service to identify key controls around new services/structures. As a consequence it is not proposed that Internal Audit will provide an overall assurance opinion over internal controls for 2015/16.

Once this piece of work is complete the results will be used to inform an action plan for implementation and, once implemented, the controls can be the subject of internal audit and an assurance opinion.

The AGS outlines that going forward, along with the Council's main financial controls, the Council's key strategic risks and opportunities will be identified through the process described above. Some of those risks are clearly apparent, including the ongoing Transformation Programme and the embedding of systems around debt management as well as the risk management process itself. The proposed consultancy role for Internal Audit will also assist in that process.

To ensure that continuous improvement takes place Management Team will continue to work with both the Administration and the Committee to ensure that both the governance issues identified and set in the AGS and those which emerge from the process of embedding a risk management culture, supported by a risk and opportunity register, are identified and mitigated.

The production of a revised Local Code of Corporate Governance (set out at Item 7 on the Agenda) is intended to underpin the Council's vision with mechanisms for control and the management of risk. The Council's new Corporate Strategy is central to that and it is intended that this will be in place by October 2015.

The Committee is asked to consider and approve the further draft of the Annual Governance Statement presented at Appendix 'A' to be included within the Council's Annual Statement of Accounts for 2014/15.

The final AGS will be signed by the Chief Executive and Leader of the Council and published on the Council's website following the final approval of the Statement of Accounts at the Committee's meeting on 28 September. Any consequential changes to the AGS arising at that time will be reported to the Committee for consideration and approval.

### **Consultations**

N/A

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with sound arrangements for control and management of risk. An Authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk. Failure to publish an AGS means the Council would be negligent in its responsibilities for ensuring accountability and the proper conduct of public business.

### **Legal Implications**

The Council must adopt a Code of Corporate Governance which has been produced to the standards prescribed in the best practice guidance in order to prepare the Annual Governance Statement (AGS). The best practice guidance is recognised as the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government (2007). The AGS is used by the Council to report publically on the extent to which the Council has complied with its adopted Code, which is a requirement of the Accounts and Audit Regulations (England) 2015.

### **Financial Implications**

Good governance leads to good management, good performance and good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. However, there are costs associated with embedding and continuing good governance practices, and as the Council's organisational structures develop, the costs associated with governance need to be monitored to ensure they remain proportionate.

**Local Government (Access to Information) Act 1985**  
**List of Background Papers**

Paper	Date	Contact/Service/Tel
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N/A		
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Reason for inclusion in Part II, if appropriate		
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N/A		
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**Lancashire County Council**

**Annual Governance Statement 2014/2015**

**1. The Council's responsibilities**

- 1.1. Lancashire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.
- 1.3. The Council has adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government'. The Code is currently under review and a revised Code will be approved during 2015/16.

**2. The purpose of the Governance Framework**

- 2.1. The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

- 2.3. The governance framework has been in place at Lancashire County Council for the year ended 31 March 2015 and up to the date of approval of the statement of accounts.

### **3. Governance Issues in 2013/14**

- 3.1 The Annual Governance Statement for 2013/14 highlighted that the County Council had experienced exceptional challenges during 2013/14 which had absorbed and diverted a considerable amount of senior leadership time. These circumstances had impacted upon a number of the issues relevant to the adequacy and effectiveness of the Council's control environment highlighted by the Chief Internal Auditor's Annual Report which resulted in an overall limited assurance of the Council's control environment.

#### **The Council's Response to the Chief Internal Auditor's Report 2013/14**

- 3.2 The Council's Leadership and Management Team acknowledged that the exceptional events of 2013/14 had been a diversion having a direct impact on the assessment in the Chief Internal Auditor's report. It was recognised that a number of key aspects of the report for 2013/14 which related to high risk areas of operation could be attributed to failures in the delivery of services by One Connect Limited (OCL). These had been addressed by the renegotiation of the Strategic Partnership arrangements and the return of key services to the Council.
- 3.3 The Management Team gave serious and careful consideration to the Chief Internal Auditor's opinion on the Council's control environment and confirmed its very strong commitment to ensure that basic controls were maintained and, particularly in those cases highlighted by the Annual Report, significantly improved. They expressed their commitment to ensuring that robust governance remained at the heart of the Council's business and to ensure that areas of concern highlighted by the Annual Report would be rectified.
- 3.4 Some areas identified in the Chief Internal Auditor's Annual Report for 2013/14 had already been addressed through remedial actions reported to the Audit and Governance Committee. However, those remedial actions did not form part of the 2013/14 assurance judgement as the implementation of agreed action plans had yet to be audited.
- 3.5 All outstanding actions formed part of the Chief Internal Auditor's Audit Plan for 2014/15 with the intention that all areas of high and moderate risk assessed as limited or nil assurance would achieve at least a substantial assurance. To achieve that objective a Senior Auditor, working to a member of Management Team, was tasked with the specific responsibility of working with services within these categories to ensure that remedial actions were fully implemented. Regular progress reports were provided to Management Team and once this pre-audit work was



judged to be complete these areas of work were referred back to Internal Audit for them to review and give a formal opinion.

- 3.6 The areas reviewed now form part of the Internal Audit Report for 2014/15. With only two exceptions all the areas of high or medium risk previously assessed as limited or nil assurance are now assessed as attracting substantial assurance. The opinions provided demonstrate significant improvements in services, particularly in relation to information governance where a new Information Governance Team has been established. An update report to the Audit and Governance Committee on 13 April 2015 set out the actions that have been completed including the creation of an Information Governance Framework; revised IG policies; the creation of a suite of mandatory IG training courses including an online course completed by over 12,000 staff; the establishment of new governance groups and new information sharing templates.
- 3.7 As a consequence of the improvements in IG the Council has now achieved 94% compliance with the NHS Toolkit which is required for the NHS to provide sensitive patient data and the Council is also now able to connect to the Public Services Network which offers secure access to government information. In view of the high number of serious security breaches that had occurred within 2013/14 and reported to the Information Commissioner's Office (ICO) it was also agreed that the ICO would undertake a voluntary audit. As a consequence of the audit the Council will not now be subject to any more formal action in relation to the breaches reported. Whilst the outcome of the audit has resulted in limited assurance, the recommendations for improvement have been addressed and the ICO has commented that *"the council is in a great position to put the necessary controls in place before our follow-up in 6-9 months"*, a process that will be reported to the Committee in due course.

#### **4. Emerging Governance Issues in 2014/15**

- 4.1 A number of risk areas emerged or came to prominence during 2014/15 including:
- The impact of the transformation process agreed by Cabinet and Full Council approving the senior management structure at grade 11 and above and the principles for recruitment for the whole workforce;
  - The need to embed a systemic approach to identifying and managing strategic risks and opportunities;
  - The introduction of the Care Act 2014 and pressures arising from new responsibilities in relation to Deprivation of Liberty Safeguards;
  - The establishment of the Better Care Fund with partners in Health with a Council contribution of £9.438m into the pooled fund;
  - The Council's decision to terminate the waste PFI contract with Global Renewables Ltd in July 2014 as a result of which the Council took ownership of the waste recovery parks and operating company;

- The issue of legal proceedings concerning the catastrophic fire at Lancashire Business Park in 2011 which was resolved on terms benefitting both the Council and LCDL;
- Procurement issues relating to a number of contracts for which Procurement Rules had to be waived as it would not have been possible to complete tender exercises before current contracts expired;
- Issues relating to the implementation of the Liquidlogic systems for adult and children's social care.

With the exception of risk management (see later), all of these risk areas have been the subject of detailed reports to Cabinet and other committees/ Lancashire County Developments Limited.

### **Chief Internal Auditor's Annual Report 2014/15**

- 4.2 The Annual Report provides substantial assurance as regards the Council's key financial controls. However, due to the approach taken to remedy areas of high/medium risk assessed in 2013/14 as attracting nil or limited assurance, it was not possible to complete the Audit Plan for the remainder of 2014/15. The Chief Internal Auditor's Annual Report does not therefore provide an overall opinion for 2014/15 and the assurances provided within the Annual Report for individual services must be seen in that context.
- 4.3 The Annual Report also identifies a number of key issues and themes (paragraphs 4.2 and 4.3). The following sections comment on those themes and other issues which have started to emerge during 2014/15 and which will continue to feature in 2015/16.

### **Risk Management**

- 4.4 In relation to the need to embed a systematic approach to identifying strategic risks and opportunities, Management Team engaged Grant Thornton to facilitate a workshop for the purposes of identifying strengths and weaknesses in current practice; consider the trend and current pitfalls across the sector; identify the key strategic risks facing the Council and consider the mitigation measures already in place or which should be introduced; and consider the practical next steps to formalise arrangements.
- 4.5 The workshop identified that whilst risk management happens "in practice" and that all major decisions are based on an appropriate analysis of risks and opportunities, effectively protecting the public, the lack of a clear and systematic corporate approach is a weakness. It also identified that Elected Members do not receive appropriate risk management information and training, that risks relating to key partnerships are not fully understood or managed, and that a risk register should be regularly reviewed and communicated to all relevant parties.

4.6 A Risk and Opportunity map is now in draft and work is in hand to set the right governance structures, assign clear responsibilities and roles, agree the corporate approach and provide appropriate training. It is proposed to classify risks and opportunities on a "PESTLEDO" basis:

- **Political** – government or local policy commitments
- **Economic** – meeting financial commitments, budgetary pressures etc
- **Social** – Changes in socio-economic trends
- **Technological** – the capacity to deal with the pace of technological change, the use of technology to manage demand
- **Legislative** – changes in the law
- **Environmental** – Environmental consequences of progressing the Council's objectives
- **Demographic** – demographic changes in the locality
- **Organisational** – internal risks not imposed by the external environment

Once a proposal for a corporate approach is finalised a report will be brought to the Audit and Governance Committee for consultation purposes after training for Committee Members has been delivered.

### **The Council's Transformation Programme**

- 4.7 With effect from 1 April 2015 the transformation of the Council's senior management structure at grade 11 and above is complete and the Council now moves into the second phase that will see a new look organisation in place by April 2016.
- 4.8 The principles underpinning the second phase for staff at grade 10 and below remain the same as in the first phase but the task is quite different because of the scale of the change with around 12,000 staff in scope. Consultation on the proposed approach has now commenced, the intention being that as many staff as possible will be "slotted into roles" rather than having to go through a competitive recruitment exercise or, where that is not possible, with a greater use of closed ring fences.
- 4.9 There will be a far smaller proportionate reduction in staff numbers in the second phase relative to the first phase and there continues to be a commitment that no member of staff will be made compulsorily redundant before 1 April 2016.
- 4.10 Management Team accepts that 2015/16 will present challenges as the Council transitions from the "old" to the "new", particularly given the need for services, some of them quite new, to deliver budget savings and regular risk review reports are provided to Management Team which

assess the risks associated with the achievement of service offer savings.

### **Financial Management**

- 4.11 The financial challenge facing the County Council is unprecedented. Central Government funding is forecast to fall 24.7% over the period 2015/16 to 2017/18. The 2015/16 budget has been set within a framework that will deliver a financial strategy for 2015/16 to 2017/18. A balanced budget has been set for 2015/16 and indicative budgets set for 2016/17 and 2017/18 as part of the financial plan that will deliver the reshaping of the Council and its operations. The service offers and resources approved will continue to be reviewed this year and the financial planning horizon widened to take into account the period up to 2020/2021.
- 4.12 The Service Offers agreed at the Council's budget meeting in February recognise the need to manage demand more effectively, particularly in relation to social care, offering earlier help for those who need it and ensuring that preventative services are effective. Central to this service offer is the recognition for the Council to work more closely with communities and partners to develop new ways of delivering services, targeting and combining public services where they can be the most effective.
- 4.13 The Council has the availability of significant one-off resources to enable the effective downsizing of the staffing structure over 2015/16 to 2017/18 and beyond, including resources to fund voluntary severance. The County Council will also invest in ICT and other service developments which will enable the Council to deliver its savings programme and to provide risk management resources to ensure financial and service sustainability.
- 4.14 However, the Council continues to face significant financial challenges in the period 2015/16 to 2017/18 and beyond. The Council has delivered the 2014/15 Financial Plan through strong financial governance arrangements but there is considerable legislative, operational and delivery risk, and it is vital that the Council maintains robust financial and operational monitoring to oversee the delivery of savings, and is able to take action to respond to the changing environment. The interim Director of Financial Resources provides regular reports on budget and performance to Management Team including an assessment of the delivery of savings identified in the 2015/16 budget.

### **The Better Care Fund**

- 4.15 The Council has recently entered into a planning and pooled budget arrangement with the Clinical Commissioning Groups (CCGs) known as the Better Care Fund (BCF). This plan sets out the Council's and CCGs' vision to deliver integrated health and social care systems to reduce

demand on acute hospital and care home provision in favour of a sustainable integrated neighbourhood health and social care system. Lancashire's BCF plan has now been approved by Government without conditions.

- 4.16 The pooled budget for the BCF is c £90 million, with a current Council contribution of £9.438 million, the pooled fund to be used for the purpose of commissioning services for citizens. The Council will host and manage the pooled fund on behalf of itself and partners and will be responsible for its internal audit.

### **Peer Review**

- 4.17 Last autumn, at the invitation of the Administration, the Council underwent a Local Government Association Corporate Peer Review Challenge. The challenge process is primarily an improvement tool for councils and focuses on five core components that will help to provide an indication of a local authority's ability and capacity to deliver on its plans, proposals and ambitions. With this in mind, the particular areas of focus for the Council's Peer Review Challenge covered the ongoing transformation process along with a general "health-check".

- 4.18 The Peer Review Challenge report has been accepted by the Council as fair and balanced, picking out a lot of strengths within the Council such as economic development and our work with other public sector partners. The report also however noted a number areas for improvement/key challenges including:

- relationships with the health system
- our role as a strategic leader for the county and opportunities for more collaborative working
- financial leadership
- a clear, set out programme for the transformation
- internal control and risks

- 4.19 These areas for improvement highlighted in the report have been included within the Council's improvement plan for the new corporate strategy.

### **Procurement**

- 4.20 The return of the Procurement Service to the Council provided an opportunity for a high level review of contracts which initially identified that a significant number of contracts had either expired or were due to expire without any tendering process in place to award new contracts.

- 4.21 It was recognised that this placed the Council at risk, both in terms of service delivery and the potential for legal challenge, and it was therefore agreed to waive Procurement Rules to extend existing contracts to allow time for full tendering processes to be carried out to put new contractual arrangements in place.
- 4.22 At the same time a Procurement Strategy was developed and, following a consultation exercise, approved by Cabinet in October 2014, recognising the need for effective and efficient procurement practices to operate at all levels within the Council underpinned by an overarching Procurement Strategy. The Strategy was supported by a draft Procurement Improvement Action Plan which set out a number of specific changes that needed to be made in order for the Council's procurement function to effectively deliver the strategy.

### **Proposals for a Combined Authority for Lancashire**

- 4.23 An important recent development has been the exploration of alternative decision-making arrangements for Lancashire, including moves toward a Combined Authority model. To this end, local authorities in Lancashire have been actively working together to consider and define new governance and collaboration arrangements.
- 4.24 At this stage, a preferred governance model has yet to be identified. However, local councils recognise the need to explore enhanced arrangements capable of making robust and binding shared decisions. Leaders and Chief Executives are therefore exploring a fully-integrated approach to shaping, delivering and monitoring local growth and regeneration strategies. Agreement has been secured to undertake a governance review of all possible options.

### **Implementation of Liquidlogic**

- 4.25 Liquidlogic has been implemented within both Adult's (LAS) and Children's (LCS) services. These projects have been a significant undertaking and have introduced significant changes to processes both for the frontline service but also throughout Finance and Procurement.
- 4.26 The systems have been generally well received within the frontline services but have been less successful within the back office services where the newly designed processes have not been as effective as anticipated. A post implementation review was therefore undertaken with BTLS assistance to establish what the processes should look like and to make best use of the core system modules.
- 4.27 As regards LCS, whilst information had been migrated into LCS from ISIS, problems existed in relation to information flow through the system as effectively as it should. Problems also arose as a result of a decision to transfer care plans for historical cases across to LCS. This decision caused a backlog of work for staff and with hindsight it would

have been better for LCS to have simply referred to these care plans being held on ISSIS as reviewed care plans were required within a six month period.

- 4.28 A risk log has been established to catalogue ongoing issues with LCS and resources set aside to address them with the intention of a new version of Liquidlogic being implemented in September 2015 that will improve functionality.
- 4.29 In relation to LAS, this went live in July 2014, introducing better financial governance between commissioned services and invoices. However, these changes resulted in significant issues with some payments to providers. This issue has now been addressed and an annual workplan has been agreed prioritising matters for business delivery in 2015/16 including a review of safeguarding processes and a post-implementation review for Adult Mental Health Services as well as introducing processes required by the Care Act.

## **5. Other Sources of Assurance**

- 5.1 In addition to the opinion provided through the work of the Internal Audit Service, the Council can also draw upon external sources of assurance such as the outcomes of the LGA Peer Review Challenge and assessments provided by organisations such as Ofsted and the Care Quality Commission.
- 5.2 In preparation for a forthcoming Ofsted inspection a rigorous self-assessment has been undertaken benchmarked against the Ofsted Inspection Framework and there have been detailed inspections of children's social care in the two busiest offices, Preston and Burnley. Children's Centre performance is judged independently by Ofsted with currently 92% rated as good or outstanding and none judged as inadequate and 89% of children's homes judged as good or outstanding. Data published by Ofsted in April 2015 relating to school inspections show 87% of primary schools being rated as good or outstanding with only 2% judged as inadequate and 77% of secondary schools judged as good or outstanding and 10% judged as inadequate.
- 5.3 The Lancashire Safeguarding Children Board (LSCB) also plays a critical role in ensuring that vulnerable children are protected and as well as routinely monitoring performance data it participates in multi-agency safeguarding practice inspections and peer reviews. Multi-agency audits of early help services have been undertaken which included LCC Children's Centres and the LSCB has been supported in relation to their diagnostic regarding child sexual exploitation.
- 5.4 As an independent regulator the Care Quality Commission (CQC) visit hospitals, care home and home care services at least once a year as part of their programme to inspect health and social care systems in England and performance against national standards with a new CQC

inspection regime coming into force from October 2014. Since the introduction new regime two short breaks services and two domiciliary services have been inspected and rated as "good". The picture is however more mixed in relation to residential care homes for older people, with four of the seven homes inspected being rated overall as "good" but three rated as "requiring improvement".

- 5.5 In relation to other internal sources of assurance, strategic performance is monitored and reported to Management Team and the Cabinet Committee on Performance Improvement (CCPI). Quarterly reports are produced for each service and form the basis on which corporate performance is reported, first by Management Team and then CCPI. Directors and cabinet members are held to account regarding performance against the quality of service reports with the Leader, Deputy Leader and Chief Executive.
- 5.6 A quarterly performance report is presented to CCPI along with recovery plans for any under-performing measures along with other performance/progress reports relating to particular services or projects. Current performance across quarterly KPIs monitored in the quality of service reports has regularly been over 75% meeting target or improving. Risks and issues are flagged and detailed in the quality of service reports and associated risk management arrangements reviewed and monitored.

## **6. The Council's Governance Framework**

- 6.1 The Council's governance framework comprises many systems and processes. The following identifies key elements of the governance framework and the Council's arrangements for fulfilling them:

### **Identifying and communicating the Council's vision of its purpose and intended outcomes for citizens and service users.**

- 6.2 Following on from the elections in 2013, a minority Labour Administration was formed with support from the Liberal Democrat group through an informal agreement between the two parties. Given that the new Administration was formed part way through a 3-year financial cycle, the Cabinet wanted to take stock and fully understand the challenges they faced. Therefore, rather than develop a new corporate strategy at that time, Cabinet agreed a new strategic document that set out the direction of travel they wanted to take. The document outlined the initial priorities for the coming year with a view to developing a future corporate strategy that articulates a new service offer to be delivered by a new-look organisation.
- 6.3 The direction of travel agreed acknowledged the challenging financial environment in which the Council was operating and highlighted the importance of partnership working to support Lancashire communities, reduce duplication and secure value for money. The Administration



signalled their intent to adopt a can-do approach and the need for doing things differently for less.

6.4 The Council agreed three cross-cutting priorities:

- to prepare for the future;
- to support the most vulnerable; and
- to boost the Lancashire economy, both creating and protecting jobs.

These priorities have now been published on the Council's website. Since then work to develop the corporate strategy has been on-going which will reflect both the changing external environment and the priorities set by the Administration.

6.5 Underpinned by the Marmot principles, the Corporate Strategy will set out:

- the Council's core purpose and vision;
- the political priorities of the Administration;
- the Council's strategic priorities and the allocation of resources to them;
- services that the Council is committed to and service standards
- the plans for how services will be delivered
- how the strategy will be financed

Responsibility for developing the new Corporate Strategy sits with the Director of Commissioning and a revised timetable has been agreed that will see the new Corporate Strategy agreed in October.

**Reviewing the Council's vision and its implications for the Council's Governance arrangements.**

6.6 To measure the effectiveness and delivery of the Council's ambitions, the Council's Cabinet Committee on Performance Improvement regularly receives Quality of Service reports which review the performance of services against local and national indicators and are considered at meetings of Cabinet, the Chief Executive and Directors. The Council's Management Team is currently working to embed more effective performance measures across a wide range of its services.

6.7 The Council engages with the communities of Lancashire in a number of ways:

- High profile communication campaigns to encourage communities to take up our services or help change behaviours;
- Use of traditional and new media channels to keep residents informed of our activities;
- Encouraging elected members to use social media;
- Webcasting of Council and Committee meetings;

- Member representation on neighbourhood management boards across Lancashire;
- Using our residents' panel Living in Lancashire to inform priorities and measure service experience;
- Talking regularly with service users and communities to understand their service needs; and
- Consulting on changes we are planning to make.

### **Translating the vision into objectives for the Council and its Partnerships**

- 6.8 As part of developing the new Corporate Strategy the Council's vision will be underpinned by a set of objectives that will be clearly articulated to both partners and the Lancashire public. A new set of performance measures will also be adopted so that progress against the objectives can be monitored and appropriately managed.
- 6.9 During 2014/15 the Council's current priorities have been published on the Council's website pending the development of a new Corporate Strategy. To that end Management Team has been working throughout the latter part of 2014/15 to develop the Council's vision and values.

### **Measuring the quality of services for users, ensuring that they are delivered in accordance with the Council's objectives and for ensuring that they represent the best use of resources and value for money.**

- 6.10
- Using our residents' panel "*Living in Lancashire*" to inform priorities and measure service experience;
  - Talking regularly with service users and communities to understand their service needs; and
  - Consulting on changes we are planning to make

### **Defining and documenting the roles and responsibilities of the Executive, Non-Executive, Scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the Council and Partnership arrangements.**

### **Decision-making and conduct**

- 6.11 The Council operates a leader and cabinet model of executive government with a Cabinet of eight members including the Leader and Deputy Leader of the Council. The responsibilities of the individual Cabinet Members are outlined in the Council's constitution. In 2014/15, a full review of the council's decision making arrangements was undertaken via a member/officer working group, reporting to Full Council. Detailed alternative options for a committee system and a "hybrid" system were drafted, and the outcome of the review was to

maintain the current Cabinet model. The working group continues to meet at the request of Full Council to consider some aspects of the decision making arrangements, such as Full Council procedures and the roles of some committees.

- 6.12 The Scheme of Delegation to officers is intended to enable decisions to be taken at the most appropriate and effective level. The Scheme of Delegation has been reviewed, and a new scheme introduced from 1 April 2015. The new scheme empowers Heads of Service in the new organisational structure to take all decisions within their area of responsibility, except for those reserved to Cabinet or Cabinet members or committees.
- 6.13 The Council operates a decision making protocol, which is regularly reviewed to ensure the legal and financial probity of decisions of the Council, the executive and Committees. New software has been embedded to support consistency and good governance in decision making. Decision making rules are clearly outlined within the Council's constitution.

### **Scrutiny**

- 6.14 The Council has four scrutiny committees.
- The Scrutiny Committee, whose responsibilities include the Council's crime and disorder and flood risk management scrutiny responsibilities.
  - The Health Scrutiny Committee has the statutory role of scrutinising proposed substantial changes in health service delivery and scrutinising the work of the NHS more generally.
  - The Education Scrutiny Committee scrutinises any issues around education.
  - Since May 2013 the Council has also operated an Executive Scrutiny Committee which considers in advance any key decisions to be taken by Cabinet and Cabinet Members, and all other reports (non-key decisions) to be considered by Cabinet. As part of the arrangements for this latter Committee a Budget Scrutiny Working Group has also been established to have oversight of the budget setting process.

### **Partnership arrangements**

- 6.15 The Council recognises the substantial benefits of developing and delivering services in collaboration with other organisations, providing an integrated approach to service provision that is cost effective and maximises impact for people living in Lancashire. The Council plays a key role, either as a statutory lead, or significant partner, in facilitating wider engagement in decisions and developments to align budgets, capacity and expertise and agree shared priorities.

- 6.16 This approach is embedded in a range of formal partnership structures that drive and support ambitious priorities whilst recognising existing and future key challenges, building upon a strong track record in Lancashire that has been recognised by numerous inspectorates, for collaboration and partnership working.
- 6.17 The review, development and implementation of a single commissioning framework for Domestic Abuse is an example of how the Council has led partners in delivering a model of provision, consistent across Lancashire and using pooled resources, to provide support for victims and perpetrators of domestic abuse.

**Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff.**

- 6.18 The Code of Conduct for Elected Members and the terms of reference of some of the Council's committees were revised during 2012/13 to reflect changes to the governance arrangements arising from the Localism Act 2011. The former Standards Committee was disestablished and complaints under the Code are now initially considered under delegated powers and, where necessary, referred to a Conduct Committee.
- 6.19 The Council has a Code of Conduct for employees and a system for recording officer gifts, hospitality and interests, which has recently been reviewed and updated. Councillors and staff are reminded of their requirements on a regular basis. The Council also has a protocol for Councillor/officer relations.

**Reviewing the effectiveness of the Council's decision making framework including delegation arrangements, decision making in partnerships and robustness of data quality.**

- 6.20 The Council agreed to revise its Scheme of Delegation in May 2012 bringing in those changes with the new structure from April 2015. The intention behind the changes is to remove bureaucracy and to ensure that decisions are made at the appropriate level in the organisation.
- 6.21 The Council undertook a major review of partnerships in 2013/14, resulting in significantly streamlined arrangements and improved coherence and integration across some of the key strategic partnerships. For example, local structures around the Children's Trust and the Safeguarding Children Board have been brought together, replacing 12 District Children's Trust Boards and 3 Locality Safeguarding Groups with 5 new Children's Partnership Boards established. A number of other partnership bodies were also disestablished or substantially revised and

this has reduced the number of strategic multi agency meetings by approximately 300 a year.

- 6.22 A key feature of the partnership review is an ongoing commitment to continual evaluation of partnership structures to ensure a model that is fit for purpose, sustainable and allows multi agency decision making that improves outcomes for people.
- 6.23 The recent Peer Review Challenge commented that there is positive recognition from a number of partner agencies of the efforts the council's leadership is making in strengthening external relationships. There are a number of examples where the council is working with partner agencies to make a real impact for local communities. This includes delivering specific projects/services with the other local authorities in Lancashire and other public, private and voluntary sector partners.
- 6.24 The Council understands that good quality data is important to ensure accurate reporting of performance to the public and is the basis for effective decision making. Maintaining data that is fit for purpose is an integral part of operational, performance management, and governance arrangements. The Council follows good practice guidance issued by the Information Commissioners Office and general data quality standards, ensuring that information is accurate, valid, reliable, timely, relevant, complete and secure. Data quality advice is included in the Council's Information Governance mandatory training course for all staff and Information Governance awareness sessions for Heads of Service.

**Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability.**

- 6.25 As noted at paragraph 4.5, whilst risk management happens "in practice", the need to embed a systematic approach to managing risk and opportunities is clear and that process is in hand. The arrangements will include the creation of an effective risk and opportunity register owned by Management Team with regular updates provided to Members, including the Audit and Governance Committee.

**Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained.**

- 6.26 The Internal Audit Service undertakes data analysis in areas likely to be susceptible to fraud, supports the biennial National Fraud Initiative data matching exercise, and provides support to managers in investigating allegations of fraud, theft or impropriety.
- 6.27 The Council has adopted a response appropriate to the fraud and corruption risk it faces in line with the CIPFA Code of Practice – Managing the Risk of Fraud and Corruption.

### **Ensuring effective management of change and transformation.**

- 6.28 High level milestones for the Council's Transformation Programme were set out by Management Team in November 2013. A project team was established to manage delivery of Phase 1, with Management Team acting as Programme Board, providing leadership and oversight of significant issues and risks. Delivery has focussed around five key interrelated themes: Culture, behaviours and leadership; Developing the service offer; Restructure; Systems and processes; Skills development.
- 6.29 Employee and Trade Union consultation has helped to shape future structure and the agreed principles for appointment to the structure. Decision making in respect of the new structure for posts at Grade 11 and above, and the County Council's future service offer, has been supported by Equality Analysis where appropriate.

### **Ensuring the Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government (2010)**

- 6.30 The Council's financial management arrangements conform with the governance requirements of CIPFA's 'Statement on the Role of the Chief Financial Officer in Local Government' (2010). The Council's s.151 Officer (the former County Treasurer) left her employment with the Council towards the end of 2014/15 and Full Council has appointed an interim Section 151 Officer who operates in accordance with the relevant statutory and professional guidance.
- 6.31 The County Council's financial arrangements exist within the wider context of UK public sector finance and the local government finance system. The programme of austerity measures instituted by Central Government since 2010 has resulted in a requirement for the County Council to significantly reduce the level of its annual revenue expenditure. The Council's financial planning and management arrangements have maintained robust control of expenditure and enabled resources to be set aside to support the process of adjustment to a lower level of recurrent expenditure.

### **Ensuring the Council's assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010)**

- 6.32 The Council's Internal Audit Service operates in accordance with professional standards and is a key element of the corporate governance framework. However, going forward Management Team have identified

that the current Internal Audit Service lacks sufficient capacity for an organisation of the Council's size and the current arrangements are therefore to be the subject of a fundamental review. See also section 6 below.

**Ensuring Effective arrangements are in place for the discharge of the Monitoring Officer function.**

- 6.33 The Council's former County Secretary & Solicitor, who was also the Council's Monitoring Officer, left his employment with the Council during 2014/15 and his Deputy was redeployed into the post and appointed to the Monitoring Officer role. The Monitoring Officer (the Director of Governance, Finance and Public Services) has in turn appointed a Deputy Monitoring Officer (the Director of Legal and Democratic Services).

**Ensuring Effective arrangements are in place for the discharge of the Head of Paid Service function.**

- 6.34 The Council has appointed the Chief Executive as Head of the Paid Service.

**Undertaking the core functions of an Audit Committee, as identified in CIPFAs Audit Committees: Practical Guidance for Local Authorities.**

- 6.35 The Council has an Audit and Governance Committee which operates in accordance with the CIPFA Statement. The Committee's role is to provide independent oversight of the adequacy of the Council's governance and internal control frameworks, and oversee the financial reporting process, and it will also have a key role in relation to new arrangements for the oversight of risk management.
- 6.36 Whilst training for Committee members has taken place in the past, it has been recognised that this should now be refreshed and arrangements for this are in hand preceded by a self-assessment exercise.

**Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful.**

- 6.37 In an organisation of the size and complexity of Lancashire County Council, it will be never be possible to provide absolute assurance that compliance with all applicable laws and regulations is achieved. However, processes are in place within individual service areas that ensure that compliance with applicable laws, regulations, policies and procedures is achieved.

**Whistleblowing and for receiving and investigating complaints from the public.**

- 6.38 The Council has a whistle-blowing procedure in place, which has been publicised to staff. Reports on its use and outcomes are presented to the Audit and Governance Committee.
- 6.39 The Council has robust arrangements for processing all complaints, including those made under statutory social care procedures. These arrangements were revised during 2014/15, bringing together the adults' and children's social care complaints systems under a single management structure. A new customer feedback system was implemented in October 2014 being utilised by the former ASHW and CYP directorates as a single repository to facilitate the strategic overview of complaints.
- 6.40 The adequacy and effectiveness of the complaints procedures have recently been the subject of a detailed internal audit review which resulted in substantial assurance being given. Under the Council's new operating structure further consolidation means that all complaints procedures, including corporate complaints, will be under a single management structure within Democratic Services.

**Identifying the development needs of members and senior officers in relation to their strategic roles supported by appropriate training.**

- 6.41 A cross-party member development working group plans and co-ordinates member development activities to meet individual and group needs. A comprehensive member development programme was undertaken during 2014/15.
- 6.42 A comprehensive range of learning and development opportunities have been provided during including intranet based tools; numerous training courses; and a series of staff briefing sessions to assist and support staff through the Council's Transformation process.
- 6.43 All senior officers appointed to the new organisation structure will participate in a new Senior Leadership Development Programme designed to create a supportive and respectfully challenging thinking environment that enables leaders in setting a vision, engaging our employees and ensuring the Council delivers high quality services for the people of Lancashire. Additional training needs will be identified through a corporate performance and development review process.

**Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.**



6.44 The Council uses a number of main channels to communicate with the community and other stakeholders including:

- The website [www.lancashire.gov.uk](http://www.lancashire.gov.uk), which is our most used channel and received more than 4.2m unique visitors in 2014/15
- Local newspapers, magazines and newsletters
- Local radio and television
- Social media, particularly Facebook and twitter
- A variety of public information leaflets and other literature distributed to public places across the county

**Enhancing the accountability for service delivery and effectiveness of other public service providers.**

6.45 Overview and Scrutiny has engaged with the NHS, Police and other public sector partners to hold them to account through formal meetings and through informal engagement arrangements. Work was undertaken in the year through Overview and Scrutiny to consider processes for complaints against care providers across all sectors. The Council also hosts the statutory "Healthwatch" organisation.

6.46 The Council has strong relationships with district and parish councils, and works collaboratively with them.

**Incorporating good governance arrangements in respect of partnerships and other joint working as identified in the Audit Commission's report on the governance of partnerships, and reflecting these in the Council's overall governance arrangements.**

6.47 The 2013/14 review of partnerships has ensured a model of strategic partnerships that have a far greater synergy across key corporate priorities and improved the clarity of purpose and accountabilities that exists across partnership structures. The formal working protocols that have been agreed between the Children's Trust, Health and Wellbeing Board and Lancashire Safeguarding Children Board demonstrate this commitment and endorsement of better governance and accountabilities between partnerships. A LGA Health and Wellbeing Peer Challenge will take place during 2015 as part of an ongoing Improvement Programme.

6.48 County Council Scrutiny Committees have continued to conduct scrutiny of external bodies and partners, including the Health services and the Police service.

## **7. Internal Control**

7.1. Having given a strong commitment to ensure that basic controls are maintained, particularly those highlighted by the Chief Internal Auditor's report for 2013/14, it is pleasing that virtually all the outstanding actions which formed part of the Audit Plan for 2014/15 which were areas of high and moderate risk have now

achieved a substantial assurance assessment in the current Chief Internal Auditor's report for the year ending 31 March 2015.

- 7.2 However, it is clear that 2015/16 will be a year of significant challenges for the Council with the need to embed a new operating structure, often with new Heads of Service in post, some of whom may be unfamiliar with either their new role or the "new" service. Clearly the risks around transformation will form part of a new corporate risk and opportunity register and appropriate mitigation measures will be in place.
- 7.3 One of the mitigation measures proposed, which also reflects the fact that the current capacity for Internal Audit is currently limited pending a review of the Internal Audit Service, is to agree that for 2015/16 the focus of Internal Audit will be limited to consideration of the key financial systems and that the focus will be to provide consultancy (without any corresponding audit opinion) to Heads of Service to identify key controls - either those which currently exist or new controls to be proposed – around new services/structures. As a consequence it is not proposed that Internal Audit will provide an overall assurance opinion over internal controls for 2015/16.
- 7.4 Once this piece of work is complete the results will be used to inform an action plan for implementation and, once implemented, the controls can be the subject of internal audit and an assurance opinion.

## **8. Key Issues**

- 8.1 Going forward, along with the Council's main financial controls, the key strategic risks and opportunities will be identified through the process described in paragraph 7.3 above. Even at this stage some of those risks are apparent, including the ongoing Transformation Programme and the embedding of systems around debt management as well as the risk management process itself. The proposed consultancy role for Internal Audit will also assist in that process.

## **9. Review of Effectiveness and a Programme of improvement**

- 9.1 The LGA Peer Review Challenge (paragraphs 4.17 to 4.19) has provided the Council with a useful, independent view on its governance framework, identifying what works well and where there are areas for improvement.
- 9.2 To ensure that continuous improvement takes place Management Team will continue to work with both the Administration and the Committee to ensure that both the governance issues identified and set out above and those which emerge from the process of embedding a risk management culture, supported by a risk and opportunity register, are identified and mitigated.

- 9.3 The production of a Local Code of Corporate Governance is intended to underpin the Council's vision with mechanisms for control and the management of risk. The Council's new Corporate Strategy is of course central to that and it is intended that this will be in place by October 2015.

**Signed:**

.....  
**Leader of Lancashire County Council**

.....  
**Chief Executive of Lancashire County Council**

Date ..... Date .....



## **Audit and Governance Committee**

Meeting to be held on 30 June 2015

Electoral Division affected: All
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### **Internal Audit Service annual report to Lancashire County Council for 2014/15** (Appendix 'A' refers)

Contact for further information:

Ruth Lowry, Head of Service Internal Audit, (01772) 534898

[Ruth.lowry@lancashire.gov.uk](mailto:Ruth.lowry@lancashire.gov.uk)

#### **Executive Summary**

The annual report to Lancashire County Council is included at Appendix 'A' to this report.

The Committee has considered periodic reports of progress throughout the year, and is aware that the provisional plan it approved in June 2014 was amended at management's direction in September 2014.

#### **Recommendation**

The Committee is asked to consider the Internal Audit Service annual report for 2014/15.

## **Background and advice**

The Internal Audit Service aims to comply with the professional standards of the Chartered Institute of Public Finance and Accountancy, which established Public Sector Internal Audit Standards with effect from 1 April 2013. These are drawn from the Chartered Institute of Internal Auditors' International Professional Practices Framework, comprising a definition of internal auditing, a Code of Ethics, and International Standards.

The Public Sector Internal Audit Standards and supporting Local Government Application Note require a chief internal auditor to deliver an annual internal audit opinion and report. The opinion should address the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control and should be used to inform the council's governance statement. The annual internal audit report must incorporate the opinion, a summary of the work that supports the opinion, a statement on conformance with the Public Sector Internal Audit Standards and the results of a quality assurance and improvement programme.

In light of the exceptional circumstances of the last two years, which are expected to continue into 2015/16, the Internal Audit Service has been unable to complete a risk-based programme of work to support an opinion on the council's overall framework of governance, risk management and control, and is also

therefore unable to comply with the requirements of the Public Sector Internal Audit Standards.

### **Consultations**

N/A

### **Implications**

This item has the following implications, as indicated:

### **Risk management**

This report supports the Audit and Governance Committee in undertaking its role, which includes providing independent oversight of the adequacy of the council's governance, risk management and internal control framework.

### **Local Government (Access to Information) Act 1985**

#### **List of Background Papers**

	Date	Contact/Service/Tel
Paper		
N/A		

### **Reason for inclusion in Part II, if appropriate:**

N/A

**Lancashire County Council  
Internal Audit Service**

**Annual report of the Head of Internal Audit  
for the year ended 31 March 2015**



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Annex A: Summary of internal audit assurance assignments 2014/15

Annex B: Detailed findings of internal audit assurance assignments 2014/15

Annex C: Audit assurance levels and classification of agreed actions

Annex D: Scope, responsibilities and assurance



## **1 Introduction**

### **Purpose of this report and the role of internal audit**

- 1.1 Internal auditing is defined by the Chartered Institute of Internal Auditors as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes". Driven by this, the Public Sector Internal Audit Standards require the head of internal audit to provide an opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control, and a report to those charged with governance, timed to support the annual governance statement.
- 1.2 This report summarises the work that the county council's Internal Audit Service undertook during 2014/15 and is made in accordance with the Public Sector Internal Audit Standards issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors. Except for the issue set out in the following paragraph, the Internal Audit Service conforms to these Standards.
- 1.3 The draft internal audit plan for 2014/15 was approved by the Audit and Governance Committee in June 2014 and revised in September 2014 at management's direction. However this revised plan was not capable of providing the evidence to support an overall assessment as required, and I cannot therefore provide an overall opinion on the council's framework of governance, risk management and control.

### **Interim reports**

- 1.4 The matters reported in previous years and, in particular the issues I reported last year, have been the subject of Management Team's discussions during 2014/15 and discussions with the council's senior management.
- 1.5 I have also reported summaries of the audit work undertaken to the Audit and Governance Committee as it has been completed during the year.

Ruth Lowry  
Head of Service Internal Audit  
Lancashire County Council

## **2 Summary assessment of governance, risk management and internal control**

### **Opinion**

- 2.1 On the basis of our programme of work for 2014/15, I cannot provide an overall opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- 2.2 For a number of reasons, by 2013/14 controls across a range of systems and services were either inadequately designed for their current purposes or were ineffectively operated in practice. For some years, management and staff resources have been reduced, services restructured, and operating processes redesigned. However members of the senior management team, and the council's statutory officers in particular, were obliged during 2013/14 and 2014/15 to focus their attention instead 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 to the council's joint venture company left the organisation, and the relationship with its strategic partner was renegotiated. During 2014/15 the council's Management Team and senior management was itself restructured under the new Chief Executive, and it then focussed its attention on re-structuring the rest of the organisation. This work has continued into 2015/16.
- 2.3 The level of assurance I provided therefore gradually deteriorated in the years prior to 2013/14, and I provided only limited or no assurance over the majority of the control systems audited during 2013/14. At the Management Team's request internal audit work during 2014/15 has been directed towards re-assessing key areas of control weaknesses and following up the actions agreed by management to improve controls across a number of systems and services identified in earlier years' reviews. A senior member of the team was also seconded out of the Internal Audit Service from September 2014 onwards to support management in assessing the actions taken in key risk areas.
- 2.4 I can however provide substantial assurance that appropriate efforts have been made to rectify the controls over a number of areas of high and moderate risk. If the relevant control systems continue in all other respects to operate as they did at the time of our original work, then we would now be able to provide substantial (rather than limited) assurance over the adequacy and effectiveness of their controls. However our work has been restricted to testing only management's actions to rectify those control issues we originally reported.
- 2.5 I can also provide substantial assurance that the controls over two high risk financial systems – general ledger and treasury management – as well as the payroll and central accounts payable systems, are adequately designed and operating effectively.

### **Background**

- 2.6 Annex A 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 audits throughout the

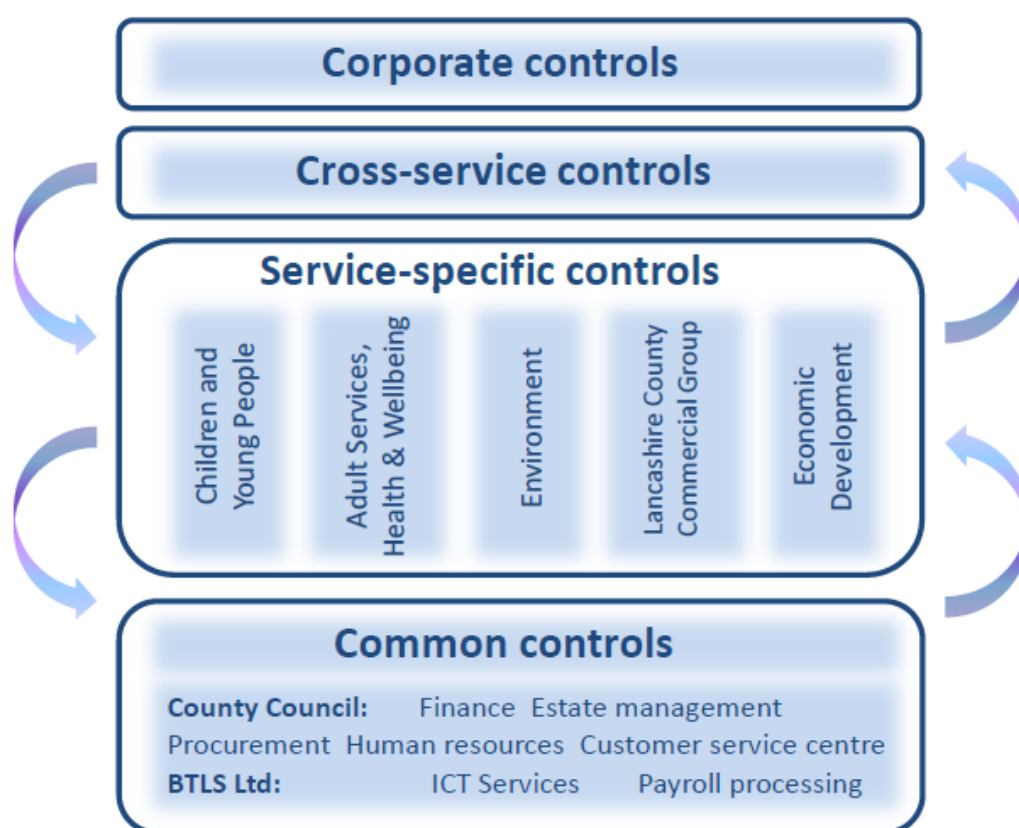
course of the year in my progress reports to each meeting of the Audit and Governance Committee, and Annex B provides details of the findings of each assignment throughout the year at the time our work was completed. An explanation of the levels of assurance the Internal Audit Service provides are set out in Annex C, and of the scope of our work in Annex D.

## The council's control framework

2.7 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



- 2.8 Our work on controls is aligned with this framework and, in addition to following up management's action plans, we have undertaken work on a small number of other areas, with a particular focus on the council's financial controls.

### 3 Summary of the assurance provided by the Internal Audit Service

- 3.1 A summary of the assurance the Internal Audit Service has provided during the year is set out below. This includes each internal audit assignment directed to providing assurance over either control systems or the actions taken by management, 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 table of all the audit work completed for 2014/15 is included at Annex A.
- 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 the assurance provided over areas of high, moderate and relatively low risk is as follows:

2014/15 assurance	Total	Full	Substantial	Limited	None
<b>System controls assurance</b>					
High risk	2	0	2	0	0
Moderate risk	10	0	9	1	0
Low risk	10	0	8	2	0
<b>Total</b>	<b>22</b>	<b>0</b>	<b>19</b>	<b>3</b>	<b>0</b>
<b>Assurance that action has been taken</b>					
High risk	6	0	6	0	0
Moderate risk	6	0	5	1	0
Low risk	1	0	1	0	0
<b>Total</b>	<b>13</b>	<b>0</b>	<b>12</b>	<b>1</b>	<b>1</b>

#### Wider sources of assurance available to the county council

- 3.3 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 2013/14 in October 2014, and gave a qualified opinion on the annual financial statements, but qualified its opinion on the council's value for money arrangements. A copy of the report is available at:  
<http://mgintranet/ieListDocuments.aspx?CId=728&MId=3009&Ver=4> (item 9).  
The external auditor's annual audit letter for 2014/15 is expected to be available in September 2015.

## **4 Key issues and themes**

- 4.1 The council's Management Team continues to take the issues raised in 2013/14 very seriously and has responded robustly to make improvements. In particular, information governance has seen considerable improvement during the past year, as was reported to the Audit and Governance Committee in April 2015.
- 4.2 The last 12 months have seen continued efforts to achieve significant cost-savings and to reconfigure the council's services. This work is on-going and will continue throughout 2015/16 as the council continues to face the need for further cost savings, service re-organisation and re-structuring and system re-design. In particular the benefits arising from the replacement of the old social services information system, as well as the introduction of the Oracle financial and human resources/ payroll systems, are still to be fully achieved. All of these suites of systems will in due course support improved controls in social care, financial control, and control over the council's establishment, but continue to present challenges for the coming year.
- 4.3 The reduction in the council's workforce and re-structuring of all of the council's services continues, and is absorbing a considerable amount of senior management time. Many of the risks associated with the council's services have changed to some degree and their corresponding control frameworks are now being re-designed by new heads of service under the new organisational structure. During 2015/16 the Internal Audit Service will work to support management and in particular a number of members of the team will be seconded into the finance teams. It will not therefore undertake work that will support an overall opinion in 2015/16.

## **5 Implications for the annual governance statement**

- 5.1 In making its annual governance statement the council is required to consider the Head of Internal Audit's report in relation to internal control, risk management and corporate governance. The council should therefore reflect the challenges it faced during 2014/15 and earlier, the challenges it still faces in implementing a new organisational structure, risk and controls framework, and the strenuous efforts it has made to address these.
- 5.2 It should also reflect the intention that the Internal Audit Service will provide support to management during 2015/16 rather than assurance over the adequacy and effectiveness of the council's framework of governance, risk management and control.

## **6 Internal audit quality assurance and improvement**

- 6.1 In order to place reliance on the work of the Internal Audit Service and in conformance with the Public Sector Internal Audit Standards, it is important that the council receives assurance regarding its quality. 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.

6.2 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.'

6.3 Like the rest of Lancashire County Council, the Internal Audit Service will be subject to further restructuring, and a full externally validated reassessment against the Public Sector Internal Audit Standards published in 2013 will be necessary in due course.

## A Summary of internal audit assurance assignments 2014/15

A.1 The work completed during the year is set out in the table below. Each 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.

Control areas and audit reviews	Audit nature and scope	Risk weighting	Key area	Audit complete	Assurance – over controls, or actions
<b>Corporate controls</b>					
<b>Working in strategic partnership</b>					
Funds flow between LCC and BTLS	Review of remedial action	High	✓	✓	Substantial – actions
Performance data quality and monitoring BTLS by LCC	Review of remedial action	High	✓	✓	Substantial – actions
<b>Corporate governance</b>					
Declarations of officers' interests, gifts and hospitality	Re-review of earlier work	Low (but with potential reputational risk)		✓	Substantial – controls
Members' expenses and allowances	Re-review of earlier work	Low (but with potential reputational risk)		✓	Substantial – controls
Responses to complaints	RACE-based review	Low (but with potential reputational risk)		✓	Substantial – controls
<b>Information governance</b>					
Overall corporate arrangements and action	Review of remedial action	High	✓	✓	Substantial – actions
<b>Common controls</b>					
<b>Financial controls</b>					
Accounts payable (excluding social care payments)	Compliance testing	Moderate		✓	Substantial – controls
Accounts receivable and debt recovery	Review of remedial action	Moderate	✓	x	Limited – actions
Budget monitoring and control	RACE-based review	Moderate		✓	Substantial – controls
Capital accounting	RACE-based review	Moderate		✓	Substantial – controls

Control areas and audit reviews	Audit nature and scope	Risk weighting	Key area	Audit complete	Assurance – over controls, or actions
Cash and banking (centrally, and individual establishments)	Compliance testing	Moderate		✓	Substantial – controls
Expenses and allowances	Compliance testing	Low (but with potential financial risk)		✓	Limited – controls
General ledger	Compliance testing	High		✓	Substantial – controls
Payroll	Compliance testing	Moderate		✓	Substantial – controls
Payroll additional payments	Compliance testing of specific services	Low (but with potential financial risk)		✓	Substantial – controls
Treasury management	Compliance testing	High		✓	Substantial – controls
VAT	Compliance testing	Low		✓	Substantial – controls
<b>Human Resources controls</b>					
Hierarchies in Oracle HR/ payroll system	Review of remedial action	Moderate	✓	✓	Substantial – actions
<b>ICT controls</b>					
Network user management	Compliance testing of network user access	High	✓	✓	Substantial – actions
<b>Procurement controls</b>					
Central procurement	RACE-based review	High	✓	✓	Substantial – actions
<b>Service specific controls</b>					
<b>Adult Services, Health and Wellbeing</b>					
Initial assessment for direct payments	Review of remedial action	High	✓	✓	Substantial – actions
Reablement	RACE-based review	Moderate		✓	Substantial – controls
Social care supervision	Review of remedial action	Moderate	✓	✓	Substantial – controls
Support planning	RACE-based review	Moderate		✓	Substantial – controls
<b>Public Health</b>					
Scheme of delegation	RACE-based review	Moderate		✓	Substantial – controls



Control areas and audit reviews	Audit nature and scope	Risk weighting	Key area	Audit complete	Assurance – over controls, or actions
<b>Children and Young People</b>					
Case file audit process	Review of remedial action	Moderate	✓	✓	Substantial – actions
Direct payments to children with disabilities	Review of remedial action	High	✓	x	Not applicable
Emergency payments to families	Review of remedial action	Low	✓	x	Not applicable
Partnership working with the NHS to support children with mental health needs	Review of remedial action	Moderate	✓	x	Not applicable
Independent Reviewing Officers	Review of remedial action	Moderate	✓	✓	Substantial – actions
Due diligence over the transfer of children's centres from the NHS	Work at the request of management	Low		✓	Substantial – controls
Residential homes	Follow-up of agreed action	Low		✓	Substantial – actions
Working Together with Troubled Families	Follow-up of agreed action	Moderate	✓	✓	Substantial – actions
Working Together with Troubled Families	Grant certification	Not applicable		✓	Not applicable
<b>Schools and sixth forms</b>					
School reviews	Reviews of financial controls in schools	Moderate		✓	See table in Appendix B below for individual schools' assurance
Follow-up of school reviews	Follow-up of agreed action	Low		✓	
Schools with new bank accounts	RACE-based review	Low		✓	Limited – controls
<b>Environment</b>					
Capital programme management	Review of remedial action	Moderate	✓	✓	Substantial – actions
Capital programme management	Compliance testing of capital cost codes	Low		✓	Substantial – controls
Highways and property asset management project	Support to the project	Not applicable		On-going	Not applicable
Procurement of Highways contractors	Re-review	Moderate (with potential reputational and financial risks)		✓	Limited – controls

<b>Control areas and audit reviews</b>	<b>Audit nature and scope</b>	<b>Risk weighting</b>	<b>Key area</b>	<b>Audit complete</b>	<b>Assurance – over controls, or actions</b>
Grant audit: Citizens Rail	Grant certification	Not applicable		✓	Not applicable
Grant audit: CIVINET	Grant certification	Not applicable		✓	Not applicable
Grant audit: Interreg IVB SusStations	Grant certification	Not applicable		✓	Not applicable
Grant audit: Local Sustainable Transport	Grant certification	Not applicable		✓	Not applicable
Grant audit: Local Transport Capital	Grant certification	Not applicable		✓	Not applicable
<b>Lancashire County Commercial Group</b>					
Fleet services	RACE-based review	Low		✓	Substantial – controls

## **B Detailed findings of internal audit assurance assignments**

- B.1 Brief information is provided below about the findings of each piece of work completed during the year. Where services have been re-assessed the audit opinion is on the basis that the process continues in all other respects as it did when first assessed.

### **Corporate controls**

#### ***Funds flow between LCC and BTLS: substantial assurance***

- B.2 The monthly payroll report is used to identify the appropriate charges to BTLS and, in future, it will also be reviewed to identify significant changes from month to month so that payments of arrears, pay awards or bonuses can be identified and validated.
- B.3 Evidence is available of challenges being made by the LCC Client Manager in respect of BTLS charges raised for goods and services. There are new governance arrangements between the two organisations, and monthly and quarterly review meetings will enable this issue to be addressed.
- B.4 Charging guidance will also be made available on the intranet for LCC requisitioners, including the requirement that staff contact the LCC Client Manager if they are uncertain about any ICT procurement issue.

#### ***Performance data quality and monitoring of BTLS by LCC: substantial assurance***

- B.5 There are new governance arrangements in place between LCC and BTLS. A client manager has been appointed and regular monthly and quarterly review meetings have been scheduled, attended by appropriate representatives of both LCC and BTLS, to facilitate performance monitoring. The Cabinet Committee for Performance Improvement (CCPI) meets on a regular basis and will be provided with a six-monthly report on BTLS performance.
- B.6 A new key performance indicator (KPI) has been defined but needs to be ratified for processing payroll changes, and work is on-going to further develop KPIs covering the payroll and ICT functions. The ICT KPIs cover only one aspect of the ICT service provided at present and an additional non-contracted ICT KPI has therefore been set, initially as a monitoring exercise.
- B.7 It is also intended that limited data access will be given to LCC's client manager to validate BTLS's performance, but this is still under negotiation.

### **Corporate governance**

#### ***Declarations of officers' interests, gifts and hospitality: substantial assurance***

- B.8 Registration of interests, gifts and hospitality offered to and accepted by officers forms part of the council's wider framework of corporate governance. Although controls could be further improved overall, we are able to provide substantial assurance over the processes operated by the County Secretary and Solicitors team.
- B.9 However the council's governance would be improved by the requirement that certain officers (for example those in posts responsible for procurement) state positively either that they have no personal interests, or else declare them.

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***Members' expenses and allowances: substantial assurance***

- B.10 The Council approved a new Code of Conduct in 2012 in accordance with provisions in the Localism Act 2011. Under this Code members are required to declare any disclosable pecuniary or non-pecuniary interests that relate to public duties and take steps to resolve any conflicts in a way that protects the public interest. The Members' Allowances Scheme sets out the allowances payable to councillors, the expenses they may claim and how claims should be made and is approved by the Council annually, taking into account the recommendations of the Independent Remuneration Panel (IRP).
- B.11 The Members' Allowance Scheme also requires councillors to retain receipts for three years in addition to the current financial year and to produce these when required by claim processing officers and internal or external auditors. However such checking has not previously been required. Random sample checks of members' claims from 1 April 2015 have been introduced since councillors were informed that such checks would take place, and have been reminded of the requirement to retain receipts.

***Responses to complaints: substantial assurance***

- B.12 A new Customer Feedback System was implemented on 1 October 2014, which is used by Adults and Children's Services for complaint handling and it is envisaged that the system will also be used for corporate complaints in the future. From April 2015, management of all complaints came under one team which will facilitate a single management overview. A strategic overview of social care complaints is provided through appropriate scrutiny committees, and of corporate complaints through the Cabinet Committee for Performance Improvement.

**Information governance**

***Overall corporate arrangements and action against plans set out in the Information Governance Framework: substantial assurance***

- B.13 A number of key actions have been taken that have considerably improved controls over the council's information governance. Staff have been appointed to key information governance roles; a series of governance groups are in place; a comprehensive information governance framework has been developed, including detailed guidance, policies and procedures; a training programme developed; responsibility for ensuring compliance with information governance standards vested with Heads of Service, who have been designated as Information Asset Owners; and a range of spot checks programmed by the Head of Information Governance to ascertain the extent to which the new controls have been implemented.

**Financial controls**

***Accounts payable – central system: substantial assurance***

- B.14 We have tested the centrally operated controls over the requisitioning, goods receipt and payments processes and can provide substantial assurance over their operation for the whole year.

***Accounts receivable and debt recovery: limited assurance***

- B.15 Remedial action was not complete before the year end and therefore no detailed audit work was undertaken in 2014/15. However it is clear that robust action is in hand; for example a document setting out a revised income and debt management policy, processes and responsibilities was finalised and shared with all heads of service during May 2015.

***Budget monitoring and control: substantial assurance***

- B.16 The data recorded in the Oracle Financials system is accurate although the system's reporting function makes examination of details difficult for budget holders. Forecasting is thorough and effective, and is subject to a number of reviews. However it is clear that finance staff still play a very significant role in the forecasting process and whilst this is appropriate for high risk budgets, it runs counter to the current strategy of placing strong reliance on budget holders. In future the number of budget holders will be significantly reduced, focussing attention primarily on high risk budgets and members of the Finance team will work closely with budget holders to understand their budgets.

***Capital accounting: substantial assurance***

- B.17 Some minor actions were agreed to improve the control environment, relating to the need to reconcile the separate databases of property assets that support the property maintenance and estates function, and the financial accounting function for fixed assets.

***Cash and banking: substantial assurance***

- B.18 The income identification and allocation process is effective and has improved significantly after a number of performance and process improvements over the last year. Efficiencies have been made by automating manual processes, introducing new ways of working and making better use of the technology available.
- B.19 Our testing of controls over cash income handling, income upload and banking processes at a sample of remote establishments is also complete and has raised no significant issues. However it would be helpful to establishments if written procedure notes could be provided. We also note that ideal segregation of duties is always difficult to achieve where there are few staff in place.

***Expenses and allowances: limited assurance***

- B.20 Although there has been an improvement in control since the last audit of expenses in October 2013, when we were able to provide no assurance, there are still areas for significant improvement, in particular ensuring all staff and authorising managers are aware of and apply the council policies. In some cases non-compliance has resulted in significant overpayments. For example the maximum limits have been exceeded for overnight accommodation and evening meals, and 17 individuals in CYP's Residential Care Service have been overpaid excess travel allowances totalling more than £23,100 over the period 2011 to 2014.
- B.21 A draft policy for the recovery of overpayments to employees relating to salary, allowances, overtime and expense claims is to be considered by Management Team and the trades unions through the Joint Negotiating and Consultative

Forum process with a view to a policy being agreed by Employment Committee. Although all employment contracts state that the council is able to recoup overpayments, the method, timing, circumstances and obligations of the employee have not yet been fully defined. When overpayments are found to have been made they are not always pursued or pursued promptly.

***General ledger: substantial assurance***

- B.22 Overall, there are effective and comprehensive controls in place over the operation of the general ledger. We identified few issues, but note the need to revoke a limited number of inappropriate system user access rights, to adhere to the journal naming convention, and to improve the format and frequency of some control account reconciliations.

***Payroll: substantial assurance***

- B.23 The LCC payroll processes approximately 42,000 individual BACS payments to employees of the county council and the county's schools each month, amounting to approximately £44 million. We can provide substantial assurance over the processes controlling payroll payments, including payments to starters and leavers, and the statutory and voluntary deductions made from them.
- B.24 Given the scale of the payments processed, it is to be expected that minor errors will arise due to human error by both managers and the payroll processing team. The errors we found as a result of testing, relating to honoraria payments, were trifling in both number and value but overpayments have been referred to payroll for recovery. We understand that the entire honorarium process is to be reviewed during 2015/16 to improve efficiencies and ensure that over- or under-payments are eliminated in future.
- B.25 As with other elements of the Oracle system, there are issues with regard to access rights to the Oracle HR/ Payroll system. We found that 29 individuals had inappropriate access rights to the system, and 30 others had access to data that should no longer be held relating to employees of an external organisation. Following the audit, access to the accounts of these users has been revoked or disabled as appropriate.

***Payroll additional payments: substantial assurance***

- B.26 We have provided substantial assurance that additional payments to staff through the payroll but beyond their normal salary payments are effectively controlled. However it is not clear that the risk that staff work excessive hours is adequately managed, or that reimbursement is properly achieved from the NHS where appropriate. The council is also aware of an issue relating to allowances for officers working shifts in its Adult Disability Provider Services and is working to resolve this because its financial implications are significant. It is estimated on basis of work done by management to date that these over-payments amount to £2.3 million.

***Treasury management: substantial assurance***

- B.27 We have provided substantial assurance over the council's treasury management function. We found no issues to report in terms of reported treasury management activity, cash flow forecasting, approval of treasury management transactions (other than a limited number of minor sign-off issues), or segregation of duties over key investment transactional controls.

***VAT: substantial assurance***

- B.28 We have provided substantial assurance over this area with no significant issues emerging, although there are a number of coding errors each month, anomalies in the system that need to be resolved, and a need to ensure that self-billing arrangements are compliant with HMRC's record-keeping requirements.

**Human resources controls**

***Hierarchies in the Oracle HR/ Payroll system***

- B.29 A project team is working to ensure that the establishment hierarchies for the year 2015/16 are correct in the Oracle HR/ Payroll system. This work is taking place alongside additional projects to ensure that the council transitions from its old management structure to its new structure, and the Internal Audit Service has been represented at recent project meetings. The team involved was clearly committed to ensuring that the council was ready to operate its new structure from 1 April 2015 and this objective was achieved.

**ICT controls**

***Network user management: substantial assurance***

- B.30 BTLS has taken significant steps to cleanse and reduce the number of active network users and to ensure that user accounts are disabled as officers leave the council's employment. As at 24 March 2015, there were 107,540 log-in accounts, but 94,626 had been disabled, leaving fewer than 13,000 active accounts. The impact of permanently deleting these disabled accounts is now being considered. Sample testing indicates that leavers' user accounts are now being routinely disabled in accordance with weekly reports from the Human Resource Service.
- B.31 BTLS's ICT Services and the council are also considering the implementation of an identify management system which has the potential to significantly strengthen the efficiency and effectiveness of controls over users' access to the council's network and individual systems, although it is clear that this would require significant resources.

**Procurement controls**

***Central Procurement: substantial assurance***

- B.32 A procurement board has been established, a procurement strategy has been approved by Cabinet and a contracts register has been set up. Further, guidance is now available to staff on the Procurement intranet, which covers the relevant council and EU rules. However we also identified some minor instances of non-compliance with the council's Procurement Standing Orders, largely relating to record-keeping, sign-off and the timing of approvals.

**Service specific controls: Adult Services, Health and Wellbeing Directorate**

***Initial assessments for direct payments: substantial assurance***

- B.33 Good progress has been made in ensuring that, when direct payment cases are reviewed, due consideration is being given to the capacity of the service users, and mental capacity assessments are being performed as appropriate. In the

majority of cases, direct payments are not being made directly to service users who lack the appropriate capacity to take on the employer responsibilities attached to them. However the controls in place to ensure that an appropriate direct payment agreement document is signed and retained, following completion of a mental capacity assessment, are not yet fully effective.

***Reablement: substantial assurance***

- B.34 The Reablement Service exists to help people re-learn valuable life skills that have been lost due to a period of illness or incapacity. Support plans are developed with the service users and put in place for a period of up to six weeks to encourage individuals to do more for themselves and to become as independent as possible, thereby minimising the need for long-term homecare packages. The involvement of service users in their own service plans is key, and we found that this is achieved and that service users' needs are appropriately captured and addressed.

***Social care supervision: substantial assurance***

- B.35 Overall, action has been taken as intended to improve controls over supervision arrangements, although more time is clearly needed to enable these control improvements to become embedded. In particular, a revised supervision policy framework was developed for use within Adult Social Care from 1 October 2014: the policy statement and associated documents are easily accessible to staff and the policy is starting to be applied. However, there has been limited time for supervisors to fully embed the revised procedures into practice.

***Support planning: substantial assurance***

- B.36 Self-directed support enables service users to take control of the on-going personal social care support they receive, based on the budget allocated to them and the range of universal and informal supports available to ensure their safety. The preferred route is for the service user to work with community support planners, other service providers, family or friends to develop the most appropriate support.
- B.37 Key to support planning are the quality and timeliness of the customer journey and the support plans produced, consideration of the service users' preferences, appropriate utilisation of universal services and informal support arrangements, and effective monitoring arrangements. We found that service users are involved in support planning and clear, robust, person-centred plans document the assistance required by service users, their support preferences and their individual capabilities.

**Service specific controls: Public Health**

***Scheme of delegation: substantial assurance***

- B.38 The council's scheme of delegation gives authority to chief officers to take decisions on the day-to-day operations of the council. Although we have provided substantial assurance overall on this area, we found a lack of clarity regarding the implementation of the council's procurement rules, including the procedures to be followed where a variation to an existing contract is required, or where contracts may be awarded to a single source supplier without seeking competitive tenders. A high proportion of decisions (three of ten sampled) were



made retrospectively, and the decisions taken are not routinely reported to the public health management team.

### **Service specific controls: Directorate for Children and Young People**

#### ***Case file audit process: substantial assurance***

- B.39 The Victoria Climbié Inquiry Report recommended that directors of social services ensure that senior managers inspect, at least once every three months, a random selection of case files and supervision notes. The county council has established a case file audit framework to fulfil this requirement and ensure that positive outcomes for vulnerable children and young people in Lancashire are achieved through high quality social care practice and compliance with procedures. The framework was revised in July 2014 and sets out the number of case file audits that managers and the CYP Audit Team are expected to complete each month and, to support the process, details of completed file audits are reported to the Directorate Leadership Team quarterly.
- B.40 Each of the agreed actions has now been addressed. It was intended that the requirement for case file audits would be designed into the new Lancashire Care System (LCS) provided by Liquidlogic, but discussions are still ongoing with the developers because LCS does not currently meet this requirement. However, a robust interim system and a toolkit have been introduced which could be built into LCS in the future.

#### ***Direct payments and emergency payments to families***

- B.41 It has become clear that the processes and controls in these two areas have altered so significantly since we undertook our original audit that the actions raised are no longer relevant. The audit of emergency payments to families was reported in November 2011 and on direct payments for children with disabilities in December 2012.

#### ***Partnership working with the NHS to support children with mental health needs***

- B.42 The issues are complex, involving the NHS clinical commissioning groups and trusts as well as the council and requiring action over the long term. We are aware that action has been taken since we reported in July 2013, but also that the issues have not yet been resolved. In January 2014 the council's and NHS commissioners attended the Scrutiny Committee, with Child and Adolescent Mental Health Services (CAMHS) providers to provide an update on the action being taken to improve CAMHS services in Lancashire and to provide information on wider developments of emotional health and wellbeing services for children and young people. The Head of Policy, Information and Commissioning (Start Well) has recently taken a further report to the Scrutiny Committee.

#### ***Independent Reviewing Officers: substantial assurance***

- B.43 The role of the independent reviewing officer (IRO) involves chairing a child looked after's review, monitoring a child's case on an ongoing basis to identify any areas of poor practice, and raising any concerns around service delivery generally, not just in relation to individual children. The Government has established statutory guidance regarding IROs' caseloads and the frequency of

contact with children looked after, and also gives the IRO the authority to convene a review whenever they deem one necessary.

- B.44 The Service agreed to implement two high priority actions in this area. The first was that the 'starred recommendations' log would be continuously updated to ensure that all actions are easily identifiable, implemented in a timely manner and are reported to senior management as part of a quarterly quality assurance report. The second was that the caseloads of any IROs who leave or who are absent on long-term sickness would be reallocated with immediate effect by the Quality and Review Managers, and that this would be checked by producing and reviewing regular caseload reports. The testing we have undertaken confirms that both sets of actions have been addressed.
- B.45 Most of the other actions have also been addressed, although the Service still struggles to meet the timescales in statutory guidance for reviews of children looked after and child protection cases and the reporting required to support these, as well as timely reporting to the families involved in child protection conferences.

***Due diligence over the transfer of children's centres from the NHS: substantial assurance***

- B.46 This review was carried out at the request of the Head of Quality and Continuous Improvement to provide assurance over the use of funding prior to the transfer in October 2014 of management responsibility for the centres from Lancashire Care NHS Foundation Trust to the council's Quality and Continuous Improvement Service.
- B.47 We have provided substantial assurance that the funding has been spent to support valid, eligible activities that meet the core offer of children's centre services. In addition, testing of the expenditure and income did not suggest that there had been any accrued surplus funds or that funding had been used to support non-core activities.

***Residential homes: substantial assurance***

- B.48 We have followed up the actions agreed in January 2013. Some actions have been taken as intended whilst others are reliant on wider control improvements, in particular revised social care supervision arrangements, and the development of revised financial procedures for these establishments.

***Working Together With Troubled Families Programme: substantial assurance***

- B.49 We have followed up the action taken to rectify controls that were previously not operating effectively and significant steps have been taken to implement the majority of the agreed actions. The Information Governance team has confirmed that consent from families to their inclusion on the programme is required, and managers have confirmed that families are now only discussed where they have given their explicit consent to this. It was also agreed that consent would be obtained from any new families taken onto the programme from 23 January 2015 onwards, but the programme has now finished and no new families have been taken on since January.

## Service specific controls: schools

### School audit visits

B.50 We have completed audits of the county's schools with assurance results as follows:

School type	Number of audits	Level of assurance			
		Full	Substantial	Limited	None
High school	8	-	6	2	-
Primary school	14	-	12	-	2
Nursery/ special school	3	-	-	-	3
<b>Total</b>	<b>25</b>	<b>-</b>	<b>18</b>	<b>2</b>	<b>5</b>

B.51 We have followed up the actions agreed during 2012/13 and 2013/14 with a number of the schools where we provided only limited or no assurance to assess whether improvement is being made to the controls over their finances. Each of the schools whose actions we have followed up has implemented appropriately improved controls.

B.52 We have issued five school audit reports with no assurance during the year. In four of these cases this work was initiated because we have also conducted a disciplinary investigation at the school. All schools that receive no assurance are reported to the council's School Improvement Challenge Board (SICB) so that appropriate support may be provided by the council to these schools.

### Schools with new bank accounts: limited assurance

B.53 We have reviewed the adequacy and effectiveness of the council's controls over schools which have recently chosen to have their own bank accounts. There are a number of weaknesses in these controls and the Head of Finance (Capital and Schools) will facilitate a review of the council's overall financial control framework over schools during 2015/16.

B.54 In particular, training is available from the Westfield Centre for officers involved in administering school bank accounts, but this is not mandatory and is not always accessed. Training has previously been provided by the Schools Finance team, but this has not been available recently. The school's bank account mandate ought to make reference to the fact the Lancashire County Council is the ultimate owner of the funds, but the Accounting and Budgeting team does not check that this is the case prior to approving any bank account: none of the mandates at the four schools we examined incorporated this reference. Schools are required to undertake bank reconciliations on a monthly basis and submit them to the Accounting and Budgeting team. However these reconciliations are not verified against actual bank statements until the end of the year and any errors cannot be promptly identified.

B.55 At all four schools that we visited there was inadequate segregation of duties. Whilst it is acknowledged that in certain schools there are too few staff to separate their duties adequately, this should be identified as part of the application process, thereby allowing other appropriate arrangements to be made.

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**Service specific controls: Environment Directorate**

***Capital programme management – programme monitoring: substantial assurance***

- B.56 The capital monitoring system (CMS) is used to facilitate monitoring of the council's capital programme. Project and Programme Managers have access to CMS to enable them to monitor their respective programmes. CMS interfaces with the Oracle financial system and the Management Information for County Engineering (MICE) system and data from these systems and others provides the financial information relating to specific projects.
- B.57 Significant effort has gone into improving monitoring controls over the council's capital programme. Although this work will continue, a number of key actions have been completed. For example, a comprehensive list of capital projects has been produced and officers will continue to carry out reconciliations and reviews to ensure programme records remain consistent and current. Officers have been using the multi-year reporting facility on the CMS since January 2015 and records are being updated to reflect schemes falling into 2015/16. The CMS has been fully reconciled to the Oracle financial system.
- B.58 A schedule has been produced setting out the officers responsible for each programme, and monitoring meetings are held periodically depending on the size and scale of the programme. Information is used by officers in the Commissioning Team to monitor budgets and expenditure and to discuss these with the relevant programme managers.

***Capital programme management – use of cost codes: substantial assurance***

- B.59 In light of the importance to effective monitoring of the capital programme of the cost codes used in the programme's feeder systems, we have satisfactorily tested the controls ensuring that capital programme costs are fully, promptly and accurately charged to the correct 'live' codes on the CMS, Oracle financial system and the related capital cost capture feeder systems.

***Highways and property asset management project***

- B.60 The Internal Audit Service has been represented on the project board and the project is continuing into 2015/16.

***Procurement of highways contractors: limited assurance***

- B.61 Lancashire Highways Service is responsible for designing, building and maintaining roads, buildings and other public and environmental assets on behalf of the county council. The services are generally provided by in-house teams located across the county although contractors are used for some specialist services and to provide extra capacity during periods of high demand. Procurement notices are issued to update managers on contract arrangements which have been established by the Procurement Service and staff must follow the council's Procurement Rules.
- B.62 Non-contract spend is analysed and areas where corporate contracts could be put in place are identified annually, but no further work was undertaken to develop this and place additional corporate contracts accordingly during 2014.
- B.63 We found a general lack of evidence that procurement exercises have taken place as required where corporate contracts are not already in place: evidence could not be located due to restructuring, office moves, and the lack of a formal

filing system. Where corporate contracts are in place we found that the first preferred supplier is frequently not used, with no explanation or evidence that the preferred suppliers had been contacted and been unable to undertake the work. Further, some corporate contracts, such as traffic management, require mini tenders to be undertaken with selected suppliers if the order is above a specific threshold. For each of the three cases we sampled the required mini tender was not undertaken.

- B.64 Since our work was completed, the Head of Service for Highways and the Head of Procurement have provided assurance that the issues raised by our initial audit work and investigation have been, or are being, addressed.

### **Service specific controls: Lancashire County Commercial Group**

#### ***Fleet Services: substantial assurance***

- B.65 Fleet Services manages and maintains over 950 vehicles and 1,000 plant items for the county council as well as maintaining additional vehicles on behalf of external partners such as Burnley Borough Council. The service also issues, maintains and monitors the usage of all fuel cards allocated to fleet vehicles, departments and named individuals for obtaining fuel from garage forecourts.
- B.66 The RAMP (Repair And Maintenance Programme) system records all vehicle and plant items, their location, service dates, repairs, end of life and disposal/sale. It is also designed to record orders and invoices for vehicle and plant item purchases and related expenditure. Invoice data is transferred from RAMP into the Oracle accounts payable system for payment.
- B.67 Good practices have been established, especially for servicing fleet vehicles and in relation to the accuracy of vehicle and plant item details entered in to RAMP (Repair And Maintenance Programme). However there are some areas where controls should be improved, in particular, around the use of the RAMP system to process payments.

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## **C      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.*

## **D Scope, responsibilities and assurance**

### **Approach**

- D.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**

- D.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.
- D.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.
- D.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.
- D.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**

- D.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 on the assurance that internal audit can provide**

- D.7 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.

- D.8 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**

- D.9 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.
- D.10 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.