

Lancashire County Council

Audit and Governance Committee

Monday, 24th June, 2013 at 2.00 pm in The Diamond Jubilee Room (Formerly Cabinet Room 'B') - County Hall, Preston

Agenda

Part 1 (Open to Press and Public)

No.	Item	
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|-----|--|-----------------|
| 1. | Apologies | |
| 2. | Appointment of Chair and Deputy Chair
To note the appointment by the County Council on the 23 May 2013 of County Councillors C Pritchard and T Brown as Chair and Deputy Chair of the committee respectively for 2013/14. | |
| 3. | Constitution, Membership and Terms of Reference | (Pages 1 - 4) |
| 4. | Disclosure of Pecuniary and Non-Pecuniary Interests
Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda. | |
| 5. | Minutes of the Meeting held on 25 March 2013
To be confirmed, and signed by the chair. | (Pages 5 - 8) |
| 6. | Audit and Governance Committee - working practices | (Pages 9 - 12) |
| 7. | Review of Treasury Management 2012/13 | (Pages 13 - 24) |
| 8. | External Audit - update report June 2013 | (Pages 25 - 38) |
| 9. | Response of the Audit and Governance Committee chair to Grant Thornton's request for information to support its compliance with International Standards on Auditing | (Pages 39 - 46) |
| 10. | Internal/external audit protocol | (Pages 47 - 52) |

11. **Internal Audit Service Charter** (Pages 53 - 62)
12. **Internal Audit Service Progress Report** (Pages 63 - 74)
13. **Internal Audit annual report to Lancashire County Council for 2012/13** (Pages 75 - 90)
14. **Annual Governance Statement** (Pages 91 - 98)
15. **Internal Audit Plan for 2013/14** (Pages 99 - 114)

16. Urgent Business

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

17. Date of Next Meeting

The next meeting of the Committee will be held on Wednesday 25 September 2013 at 2.00 pm at County Hall, Preston.

18. Exclusion of Press and Public

Part II (Not open to Press and Public)

19. **Counter fraud and special investigations annual report 2012/13** (Pages 115 - 124)

(Not for Publication – Exempt information as defined in Paragraphs 1, 2 and 7 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Agenda Item 3

Audit and Governance Committee

Meeting to be held on 24 June 2013

Electoral Division affected: All

Audit and Governance Committee

Constitution, Membership and Terms of Reference

(Appendix 'A' refers)

Contact for further information:

Cath Rawcliffe, 01772 533380, Office of the Chief Executive

cath.rawcliffe@lancashire.gov.uk

Executive Summary

The Constitution, Membership and Terms of Reference of the Audit and Governance Committee.

Recommendation – Summary

That the Constitution, Membership and Terms of Reference of the Audit and Governance Committee be noted.

Background and Advice

The County Council at its annual meeting on 23 May 2013 approved the constitution of the committee on the basis of 4 members of the Labour Group, 4 members of the Conservative Group and 1 Liberal Democrat Group member. The following members were appointed by their respective groups:

County Councillor:

K Brown	C Pritchard
T Brown	A Schofield
D Clifford	V Taylor
C Dereli	D Westley
(1 vacancy)	

A copy of the committee's current Terms of Reference is attached at Appendix 'A'.

Consultations

N/A

Risk Management

N/A

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

Paper	Date	Contact/Directorate/Ext
Full Council agenda	23 May 2013	Cath Rawcliffe 533380

Reason for inclusion in Part II, if appropriate – N/A

Audit and Governance Committee

Terms of Reference

Governance

1. To monitor the operation of the council's corporate governance, risk management and internal control arrangements.
2. To monitor the effectiveness of the council's strategies to counter fraud and corruption.
3. To monitor compliance with the council's local corporate governance code.
4. To promote and maintain high standards of conduct by councillors and co-opted members, to ensure that the highest ethical standards are maintained across all areas of the council's services.
5. To review and approve the council's annual governance statement.
6. To conduct an annual review of the effectiveness of the system of internal audit.

Audit

7. To approve, but not direct, the annual internal audit plan.
8. To consider periodic reports of internal audit activity and outcomes.
9. To consider the head of internal audit's annual report and opinion.
10. To consider the external auditor's annual plan.
11. To consider periodic reports on external auditor's work.
12. To consider the external auditor's annual audit letter.

Financial statements

13. To consider and approve the audited financial statements of the county council and its group subsidiaries and associates.
14. To consider and approve the audited financial statements of Lancashire County Pension Fund.

Treasury management

15. To review the council's treasury management strategy and policies.

16. To consider periodic reports of treasury management activity.

Meetings

17. The Audit Committee will meet at least four times a year.

Agenda Item 5

Lancashire County Council

Audit and Governance Committee

Minutes of the Meeting held on Monday, 25th March, 2013 at 2.00 pm in Cabinet Room 'B' - County Hall, Preston

Present:

County Councillor Mohammed Younis (Chair)

County Councillors

K Brown

M Welsh

H Henshaw

D Westley

J Lawrenson

Officers in attendance

George Graham – deputy county treasurer

Ruth Lowry – chief internal auditor

Karen Murray – director, Grant Thornton

Fiona Blatcher – associate director, Grant Thornton

Roy Jones - assistant county secretary

Cath Rawcliffe – committee support officer

1. Apologies

Apologies were presented on behalf of County Councillors S Chapman and M Parkinson.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

None declared.

3. Minutes of the Meeting held on 14 January 2013

Resolved: That the Minutes of the meeting held on 14 January 2013 be confirmed and signed by the Chair.

4. Internal Audit Service Progress Report

Ruth Lowry, chief internal auditor, presented a report on the work undertaken by the Internal Audit Service for the period to 28 February 2013.

It was reported that during the period since December 2012, the Internal Audit Service had reported assurance in relation to emergency planning, payment of staff expenses, officers' declarations of interest and of gifts and hospitality, and the carbon reduction commitment.

It was noted that since the publication of the agenda, new evidence had been submitted in respect of the carbon reduction commitment and that the level of assurance had been revised and upgraded from 'limited' to 'substantial'.

Reference was made to a briefing meeting held on 11 March 2013 between members of the committee and officers to discuss the progress being made to re-invigorate the council's information governance arrangements. The committee was advised that measures had been put in place and that the County Secretary and Solicitor had been appointed to the role of senior information risk officer (SIRO). Despite this assurance the committee reiterated their concern that the council was not compliant with the standards required for information governance. It considered that the council's information governance arrangements exposed the council to significant risk which should be reflected in the county council's annual governance statement with an indication that appropriate action would be taken to remedy the situation following the transfer of the SIRO responsibilities to the Council. It was agreed that the Chairman of the committee would write to the chief executive and the monitoring officer drawing attention to these concerns.

Reference was also made to the concessionary travel scheme which had been awarded 'limited' assurance.

In commenting on the presentation of the progress report, the committee suggested that it would be helpful if the report contained a summary listing all 'limited assurance' from the previous quarter and the action taken by management. In response, the committee was advised that this information would be included in the annual progress report to be presented to the next meeting on the 24 June 2013.

Resolved: i) That the internal audit progress report for the period to 28 February 2013 as now presented, be noted.

ii) That the significant risk posed by the council's information governance arrangements be reflected in the county council's annual governance statement for the year ending 31 March with an indication that appropriate action will be taken to remedy the situation following the transfer of the senior information risk officer (SIRO) responsibilities to the Council.

iii) That the Chair of the committee be requested to write to the chief executive and the monitoring officer drawing attention to the concerns of the committee in relation to the council's information governance arrangements.

5. Internal Audit Plan for 2013/14

Ruth Lowry, chief internal auditor, presented the outline annual internal audit work plan for 2013/14 which set out the plan of work to be undertaken by the county council's Internal Audit Service for the coming financial year.

The plan amounted to a total resource input to the county council of approximately 2,800 days and was intended to provide assurance that the chief executive and leader of the council need that the risks to the council's objectives were being adequately and effectively controlled. The plan also supported an annual opinion on the effectiveness of the systems of governance, risk management and internal control across the council.

Reference was made to the services provided to the council by One Connect Limited (OCL). It was suggested that the annual internal audit plan should provide details of each OCL service area to be audited. It was also suggested that in future, the report should include reference to OCL in the illustration at paragraph 3.2 of Appendix A to the report under "Service Specific Controls".

Reference was also made to the council's risk management arrangements. Following discussion and questions to the chief internal auditor, it was agreed that a report on risk management would be presented to a future meeting.

Resolved: i) That subject to the inclusion of details of each OCL service area to be audited, the outline audit plan and process for 2013/14 be approved.
ii) That a report on risk management be presented to a future meeting.

6. External Audit Lancashire County Council and Lancashire County Pension Fund Annual Audit Plans 2012/13

Karen Murray and Fiona Blatcher, Director and Associate Director of Grant Thornton respectively presented the External Audit Plans for the audit of the county council and the pension fund for 2012/13.

The Audit Plans set out the main risk areas which the audits would focus on. These included the council's financial statements and value for money.

The committee noted that the fee for the audit of the pension fund had increased by £7,336. This additional charge related to changes in the investment portfolio of the pension fund, an increase in the overall number of managers and the increasing complexity of the financial instruments involved which had given rise to additional risks.

It was also noted that a further report would be presented to the next meeting of the committee in June 2013.

Resolved: - That the External Audit Plans for the audit of the County Council and the County Pension Fund for 2012/13, and the fees therein, be noted.

7. External Audit Lancashire County Council Annual Certification Work Report 2011/12

Karen Murray, Director, Grant Thornton, presented a report on a summary of the Audit Commission's work on certifying the council's 2011/12 claims and returns.

It was noted that four claims/returns had been audited relating to expenditure of £71.8 million and that no significant issues had been reported.

Resolved: That the report be noted.

8. Urgent Business

There were no items of urgent business.

9. Date of Next Meeting

It was noted that the next meeting of the committee would be held on Monday 24 June 2013 at 2.00 pm at County Hall, Preston.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Audit and Governance Committee

Meeting to be held on 24 June 2013

Electoral Division affected: None

Audit and Governance Committee - working practices

Appendix A refers

Contact for further information:

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Executive Summary

The role of the Audit Committee in local government has only recently been recognised in best practice guidance and, like that guidance, is still developing. Lancashire County Council's Audit and Governance Committee and the officers that support it are keen to ensure that it operates as effectively as possible within the local government environment and fulfils the role required of it within the council's corporate governance framework.

A review of the Committee's terms of reference by members of the County Secretary and Solicitor's office and the Chief Internal Auditor has concluded that further clarification of the Committee's working practices may be helpful.

Appendix A sets out a note of proposed working practice that is intended informally to supplement the Committee's terms of reference.

Recommendation

The Committee is asked to note and endorse the proposed note of working practice.

Background

The Committee's terms of reference are amended annually and are aligned with current best practice in the rest of the public sector. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued 'Audit Committees - Practical Guidance for Local Authorities' in November 2005 including exemplar terms of reference and this guidance remains in place.

However the Practical Guidance and other current guidance across the public and private sectors sets out a requirement that the internal and external auditors should meet with the Committee in private at least annually. Unfortunately this requirement is unconstitutional for Lancashire County Council since, except where sufficient cause can be given to include an agenda item under Part II of the meeting and therefore discuss it in private, the Committee is required by the Council's Constitution to conduct its business in public. A routine opportunity for a private meeting between Committee members and auditors does not provide sufficient cause.

However the opportunity has been taken to review the Audit Committee's terms of reference to ensure that they nonetheless still demonstrably meet current best

practice. There are a small number of matters that the Committee may choose to endorse in its working practice, if not in its formal terms of reference under Lancashire County Council's Constitution. These cover:

- Access to the external and internal auditors by members of the Committee in private;
- External and internal auditor's attendance at Audit Committee's meetings;
- The delegation of attendance at meetings by members to substitutes;
- The quorum of the meeting;
- Access by the Committee to independent professional advice at the organisation's expense where this is considered necessary; and
- Self assessment by the Committee of its effectiveness within the Authority's corporate governance framework.

Consultations

Not applicable.

Advice

Not applicable.

Alternative options to be considered

Not applicable.

Implications: e.g. Financial, Legal, Personnel, Human Rights, Crime and Disorder or Other

This item has the following implications: none

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Ext
Audit Committees - Practical Guidance for Local Authorities, CIPFA	2005	Ruth Lowry, County Treasurer's Directorate, extension 34898

Reason for inclusion in Part II, if appropriate
Not applicable.

Appendix A

Audit and Governance Committee working practices

- 1 This paper sets out a number of matters of operational practice in relation to the operation of Lancashire County Council's Audit and Governance Committee. It supplements the Committee's terms of reference but does not supersede them.

Access to the external and internal auditors by members of the Committee in private

- 2 At least once per year, the members of the Committee will have the opportunity, in addition to a formal Committee meeting, to meet informally with the external audit partner (or their representative) and the Chief Internal Auditor without any other officers or members of the Council present.

External and internal auditor's attendance at Audit and Governance Committee's meetings

- 3 It is expected that each meeting will be attended by the Chief Internal Auditor, or exceptionally their representative, and by the external audit partner (or their representative).
- 4 It is accepted that it will not always be appropriate for the external audit partner to attend each Committee meeting and that a representative is acceptable. However the Chief Internal Auditor should usually be expected to attend, only exceptionally sending a representative.

The delegation of attendance at meetings by members to substitutes

- 5 Although the Council's Constitution allows the substitution of members at Committee meetings where a Committee member is unable to attend, this is not deemed generally acceptable for members of the Audit and Governance Committee. Where a member is substituted, the substitute member should have received appropriate training on the Committee.

The quorum of the meeting

- 6 The Constitution requires a quarter of the membership to be present for a meeting to be quorate. Under the current terms of reference, three members must therefore be present. However in the case of the Audit and Governance Committee, whose members have received additional specialist training in their roles, this quorum should be achieved by the Committee's designated members and any substitutes who have received appropriate training..

Access by the Committee to independent professional advice at the organisation's expense where this is considered necessary

- 7 Exceptionally, and subject to the agreement of the County Treasurer the Committee may procure additional specialist professional advice at the Council's expense. Such advisors may attend Committee meetings as necessary.
- 8 This option is not one that the Committee will normally expect to exercise, but it needs to have confidence that it will be able to draw on

Audit and Governance Committee working practices

Audit and Governance Committee meeting 24 June 2013

expertise as appropriate to fulfil its responsibilities to the Council effectively.

Self assessment by the Committee of its effectiveness within the Council's corporate governance framework

- 9 It is good practice for any organisation occasionally to consider its own effectiveness, and this is now widely accepted in governance guidance applicable beyond that relating only to audit committees or only to the public sector.
- 10 The Audit and Governance Committee will therefore ensure that arrangements are in place for it periodically to assess its effectiveness. The exact process followed may change as the Committee itself evolves and it is likely to involve input from officers within the Council, including specifically the Chief Internal Auditor.

Agenda Item 7

Audit and Governance Committee

Meeting to be held on 24 June, 2013

Electoral Division affected: N/a

Review of Treasury Management 2012/13

Appendix A refers

Contact for further information:

Mike Jensen, 01772 534742, Treasury,

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Executive Summary

The report set out in Appendix A is a review of the County Council's treasury management activities in 2012/13. Treasury management activities are regulated by the CIPFA Code of Practice (2011) and it is best practice to review on an annual basis treasury management activities. The review is reported to Cabinet and County Council as part of the effective governance and oversight of treasury management activities.

This review outlines the treasury management activities of the County Council throughout 2012/13 and includes:

- A review of the economic conditions during 2012/13 and the impact on the County Council's borrowing and lending activities.
- Borrowing to finance capital expenditure.
- Investment of cash balances
- Monitoring of prudential indicators for 2012/13
- An update on the recovery of the Investment in Landsbanki hf.

Recommendations

The Committee is recommended to note the review of treasury management for 2012/13.

Background and Advice

In accordance with requirements of the CIPFA Code of Practice on Treasury Management 2011, the County Council produces an annual treasury management strategy, quarterly reports on treasury management activity to Audit and Governance Committee and an annual review of treasury management. These include the prudential indicators that regulate the operation of the borrowing and lending activity of the County Council and are also set to ensure that the County Council's capital investment plans are affordable, prudent and sustainable. This report outlines a review of the borrowing and lending activity during 2012/13 and monitors this activity against the prudential indicators set in the treasury strategy for 2012/13

Consultations

Arlingclose Limited provides advice on treasury management.

Implications:

N/A

This item has the following implications, as indicated:

Risk management

The County Council's treasury strategy and review set out a policy in respect of borrowing and lending activity and how risks associated with these activities are managed and monitored.

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

Paper	Date	Contact/Directorate/Tel
Treasury Management Policy and Strategy 2012/13	Feb 2012	Andy Ormerod – TM Ext 34740
CIPFA: Treasury Management in the Public Services – Code of Practice	2011	Andy Ormerod – TM Ext 34740

Reason for inclusion in Part II, if appropriate

N/A

Review of Treasury Management 2012/13

Introduction

In February 2012 the Council adopted the 2011 edition of the *CIPFA Treasury Management in the Public Services: Code of Practice*, which requires the Council to approve a treasury management strategy before the start of each financial year, and provide both a mid-year review, and an annual report after the end of each financial year. This report is the annual report for the 2012/13 financial year.

1. Economic Summary 2012/13

During 2012-13 the global outlook stabilised mainly due to central banks maintaining low interest rates and expansionary monetary policy for an extended period. Equity market assets recovered sharply with the FTSE 100 registering a 9.1% increase over the year. This was despite the disappointing economic growth in G-7 nations.

In the UK the economy shrank in the first, second and fourth quarters of calendar 2012. It was the impressive 0.9% growth in the third quarter, aided by the summer Olympic Games, which allowed growth to register 0.2% over the calendar year 2012. The expected boost to net trade from the fall in the value of sterling did not materialise, but raised the price of imports, especially low margin goods such as food and energy. Avoiding a 'triple-dip' recession became contingent on upbeat services sector surveys translating into sufficient economic activity to overhaul contractions in the struggling manufacturing and construction sectors.

Household financial conditions and purchasing power were constrained as wage growth remained subdued at 1.2% and was outstripped by inflation. Annual CPI dipped below 3%, falling to 2.4% in June before ticking up to 2.8% in February 2013. Higher food and energy prices and higher transport costs were some of the principal contributors to inflation remaining above the Bank of England's 2% CPI target.

The lack of growth and the fall in inflation were persuasive enough for the Bank of England to maintain the Bank Rate at 0.5% and also sanction additional £50 billion asset purchases (QE) in July, taking total QE to £375 billion. The possibility of a rate cut was discussed at some of the Bank's Monetary Policy Committee meetings, but never implemented.

In March the Office for Budgetary Responsibility (OBR) halved its forecast growth in 2013 to 0.6% which then resulted in the lowering of the forecast for tax revenues and an increase in the budget deficit. The government is now expected to borrow an additional £146bn and sees gross debt rising above 100% of GDP by 2015-16. The fall in debt as a percentage of GDP, which the coalition had targeted for 2015-16, was pushed two years beyond this horizon. With the national debt metrics out of kilter with a triple-A rating, the UK's sovereign rating was downgraded by Moody's to Aa1. The AAA status was maintained by Fitch and S&P, albeit with a Rating Watch Negative and with a Negative Outlook respectively.

The government's Funding for Lending (FLS) initiative commenced in August which gave banks access to cheaper funding on the basis that it would then result in them passing this advantage to the wider economy. There was an improvement in the flow of credit to mortgagees, but was still below expectation for businesses.

Growth was hindered by the rebalancing processes under way in Euroland economies, most of which contracted in Q4 2012, and in the US the Federal Reserve shifted policy to focus on the jobless rate with a pledge to keep rates low until unemployment falls below 6.5%. The country's extended fiscal and debt ceiling negotiations remained unresolved, although negotiations in December did provide some respite.

Gilt yields ended the year lower than the start in April. By September the 2-year gilt yield had fallen to 0.06%, raising the prospect that short-dated yields could turn negative. 10-year yields fell by nearly 0.5% ending the year at 1.72%. The reduction was less pronounced at the longer end; 30-year yields ended the year at 3.11%, around 25bp lower than in April. Despite the likelihood the DMO would revise up its gilt issuance for 2012/13, there were several gilt-supportive factors: the Bank of England's continued purchases of gilts under an extended QE programme; purchases by banks, insurance companies and pension funds driven by capital requirements and the preference for safe harbour government bonds.

One direct consequence of the Funding for Lending Scheme was the sharp drop in rates at which banks borrowed from local government. 3-month, 6-month and 12-month Libid rates which were 1%, 1.33% and 1.84% at the beginning of the financial year fell to 0.44%, 0.51% and 0.75% respectively.

2. Treasury Management Strategy 2012/13

The Full Council approved the 2012/13 treasury management strategy at its meeting on 23rd February 2012. The Council's stated investment priorities were:

- (a) security of capital and
- (b) liquidity of its investments.

The Council also aimed to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the Council is low in order to give priority to security of its investments.

The Council's stated borrowing strategy was to take advantage of historically low short term interest rates by borrowing short term in the money markets rather than financing capital expenditure through long term PWLB loans.

The County Treasurer can report that all treasury management activity undertaken during the financial year complied with the *CIPFA Code of Practice* and the relevant legislative provisions.

3. Treasury Management Activities in 2012/13

Borrowing Activity 2012/13

The revised 2012/13 borrowing requirement was estimated at £320.631m after taking into account the updated capital programme and the refinancing of existing borrowing, including short term borrowing taken to meet the Capital Financing Requirement. The table below shows the 2012/13 revised borrowing requirement as agreed within the 2013/14 treasury management strategy report, along with the actual position as at 31st March 2013.

	2012/13 Revised £m	2012/13 Actual £m	2013/14 Estimate £m
Capital Programme Expenditure	143.814	139.403	165.808
<i>Financed by:</i>			
Capital Receipts	0	0	9.274
Grants and Contributions	114.293	111.270	125.598
Revenue Contributions	29.521	28.133	29.521
Borrowing	0	0	1.415
<i>Add Maturing Debt to be replaced:</i>			
Long Term PWLB	0	0	0
Short Term Market Borrowing	351.317	351.317	351.317
Less Transferred Debt	2.121	2.121	2.033
Less Statutory Charge to Revenue	28.565	28.865	26.573
Total Borrowing Requirement	320.631	320.33	324.126

As estimated in the revised capital programme no new borrowing was required to finance the capital programme.

Analysis of Debt Outstanding

The following table sets out the structure of the County Council's debt at 31st March 2013.

	Debt at 31 March 2012		Borrowing	Repayments	Debt at 31 March 2013	
	£m	%			£m	£m
Fixed Rate Funding						
Public Works Loan Board	213.100	26.04			213.100	26.04
LOBO (RBS)	50.000	6.31			50.000	6.31
Local Bonds	0.022	0.00			0.022	0.00
Short term Market Borrowing	304.600	37.22	505.870	523.220	287.250	37.22
	567.722		505.870	523.220	550.372	
Variable Rate Funding						
Public Works Loan Board	185.750	22.70	0	60.000	125.750	22.70
Shared Investment Scheme	63.254	7.73	537.059	538.820	61.493	7.73
	249.004		537.059	598.820	187.243	
Loan Debt Administered by the County Council	816.726	100.0	1,042.929	1,122.040	737.615	100

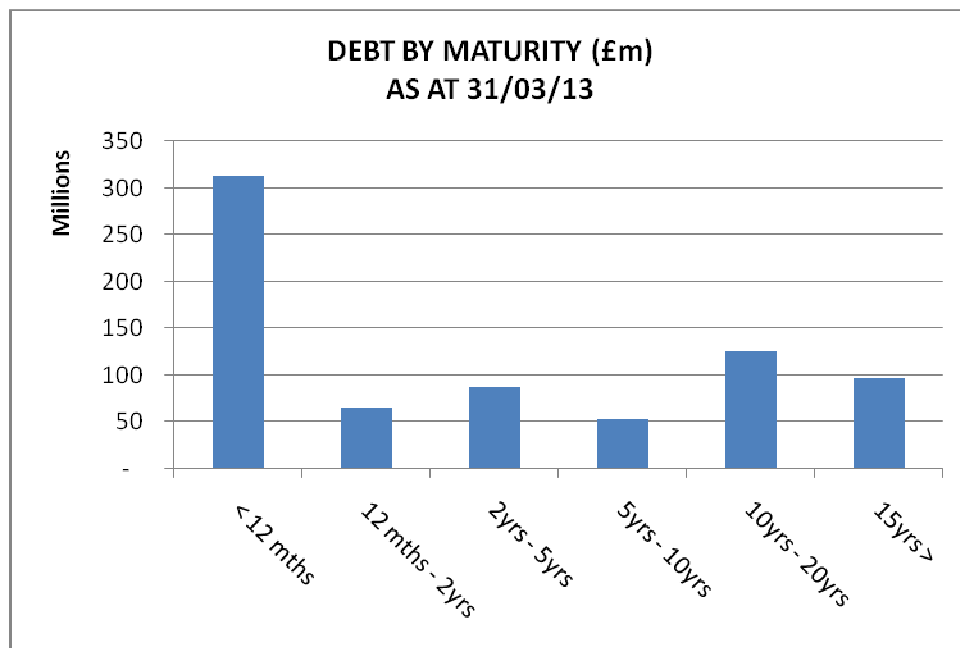
The total loan debt administered by the County Council at 31 March 2013 of £737.615m represents mainly borrowings over the years to finance the acquisition of the County Council's fixed assets, which are currently valued at £2.657 billion. However, it includes £43.106m managed by the County Council on behalf of other local authorities and the Lancashire Police and Crime Commissioner. This debt relates to assets transferred to those authorities in local government re-organisations and the financing charges are repaid to the County Council quarterly. This leaves the net debt for which the County Council is responsible at £694.509m.

The economic background has continued to be characterised by very low short term interest rates, and market borrowing rates consistently lower than those offered by the Public Works Loan Board (PWLB). Consequently the County Council has continued a rolling programme of short term market borrowing to finance the current capital financing requirement as an alternative strategy of financing through long term PWLB loans

Overall the average rate of interest paid in 2012/13 on the debt administered by the County Council was 2.45% per annum compared with an average rate of 2.11% in 2011/12, 2.69% in 2010/11 and 4.37% in 2009/10.

The current strategy of taking advantage of very low short term interest rates, whilst extremely cost effective, means that much more of the Council's debt needs to be refinanced in the short term, so exposing the portfolio to some interest rate and liquidity risk which will be carefully monitored during the coming year.

The chart below shows the maturity profile of the County Council's debt.



There is a significant level of short term borrowing which needs to be constantly refinanced as part of the strategy to benefit from low short term rates. This gives rise to some interest rate risk, although this is mitigated by the ability of the Council to switch from short term to long term borrowing should the UK enter a period of rising interest rates, as the expectation is that rates would rise in a series of steps over a protracted period rather than in a single event.

As part of a balanced portfolio, the risk is further mitigated by two factors:

1. Maturing and available for sale short term investments, which could, if necessary, be used to pay down debt, should it become cost effective to do so.
2. It is also mitigated by a long term £50m loan taken on a Lender Option Borrower Option (LOBO) basis. The interest rate of this loan is 7.52% less the sterling 10 year swap rate, providing an inverse relationship with interest rates - the interest payable on the loan will fall as interest rates rise.

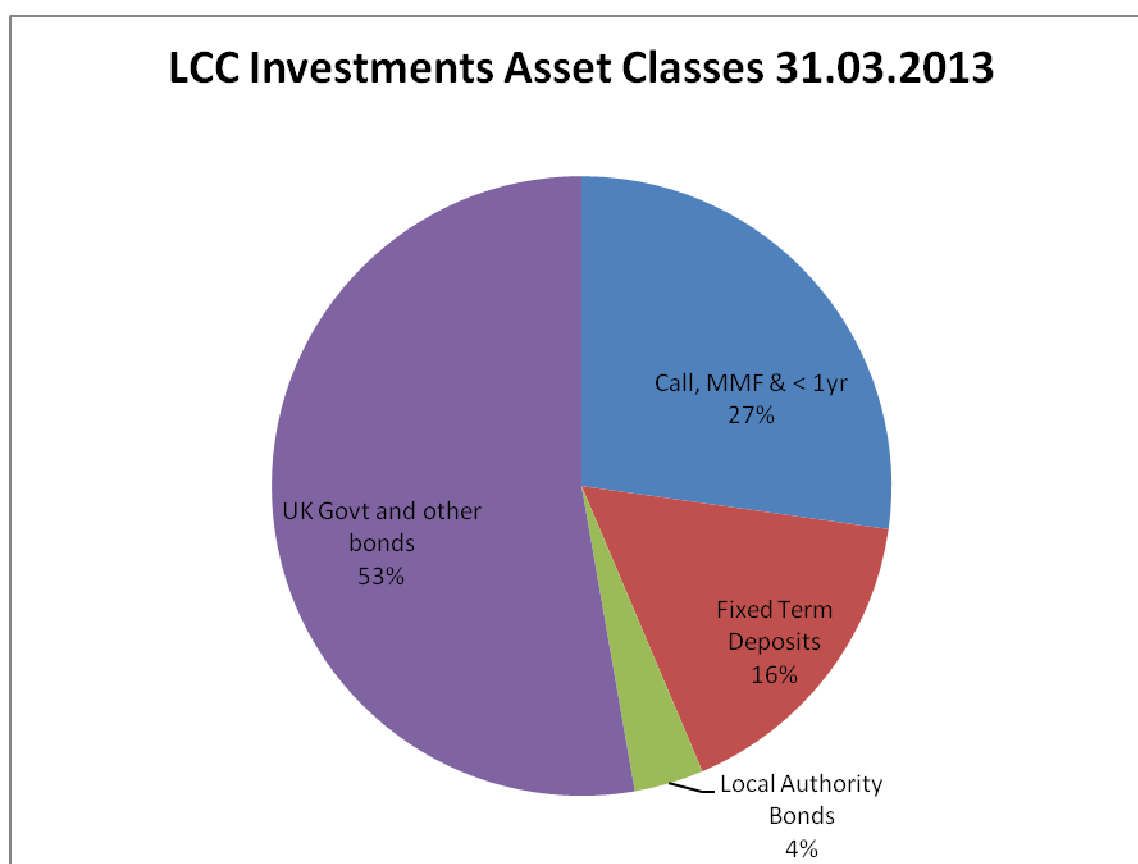
The County Treasurer will continue to closely monitor interest rate forecasts in order to establish when long term interest rates might be expected to rise. At some point, it will be beneficial to the County Council for the short term borrowing to be fixed for a longer period before long term rates rise, but current forecasts do not anticipate a rate rise in the near future.

Investment of Cash Balances

With continued economic uncertainty and volatility in financial markets the County Council still retains the majority of the Council's investments in UK Government guaranteed bonds or deposits in institutions with Government ownership/support.

Like most other councils, Lancashire has a benchmark for the average rate of interest earned on its invested cash balances. The benchmark rate is the average commercial market rate for money deposited on 7 days' notice. During 2012/13, on average, that rate was 0.39%, with Lancashire's average rate being 4.25% over the same period, reflecting the longer term deals which are still attracting a relatively high interest rate.

The total amount of investments held by Lancashire County Council at 31st March 2013 is £576.7m including £49.542m of cash and cash equivalents. The table below shows the asset classes and the proportion of investments held in each class.



The table below shows a maturity analysis of the portfolio at 31st March 2013, alongside the average interest rate earned over the 2012/13 financial year.

Maturity Range	Amount £m	Average Rate %
Call, Money Market Funds & Under 1yr	154.14	2.27
Bank Deposit 1-2 Years	20.00	2.62
Bank Deposit 2-3 Years	72.92	2.96
Bank Deposit 3-5 Years	0	0

Bank Deposit 5 Years +	0	0
Local Authority Bonds	20.50	7.61
UK Government and Supranational Bonds	298.67	6.04
Total	566.23	4.25

4. Financing Charges Summary at the end of the 2012/13 Financial Year

The 2012/13 financing charges budget was set at £35.004m, against which the end of year position was £21.345m representing an underspend of £13.659m. Further detail is set out in the table below:

Financing Charges 2012/13 – End of Year Position

	Budget	Year End Position	Variance
	£m	£m	£m
Statutory Charge to Revenue		28.865	
Additional Charge to Revenue (Internal Leasing)	28.496	2.762	3.131
Interest paid	18.220	18.234	0.014
Investment interest received	-11.712	-28.516	-16.804
Total net financing charges	35.004	21.345	-13.659

Expenditure against the financing charges budget is lower than anticipated because of higher interest earned on investments due to longer term nature of structured deposits with UK Government owned banks and above benchmark returns on the bond portfolio. This is partially offset by additional MRP contributions to reflect the increase in the asset base in 2012-13 and an increased contribution to the vehicle replacement reserve.

The position above is calculated in accordance with International Financial Reporting Standards and reflects a prudent view of the valuation of financial instruments by recognising the impact of any unrealised losses arising from movements in the valuation of financial instruments held for trading in the revenue account regardless of whether or not the intention is to sell them.

5. Treasury Management Prudential Indicators 2012/2013

The Local Government Act 2003 and supporting regulations require the County Council to have regard to the prudential code and to set prudential indicators to ensure the County Council's capital investment plans are affordable, prudent and sustainable.

A comparison of the actual position at 31 March 2013 compared to the prudential indicators set in the treasury management strategy for 2012/13 is set out below.

Treasury Management Prudential Indicators	2012/13 £M	2012/13 Actual £M
1. Adoption of CIPFA TM Code of Practice	ADOPTED	
2. Authorised limit for external debt - A prudent estimate of debt, which reflects the Authority's capital expenditure plans and allows sufficient headroom for unusual cash movements.		
Borrowing	887	740
Other long-term liabilities(PFI schemes)	500	411
TOTAL	1,387	1151
3. Operational boundary for external debt - A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the County Council's current plans.		
Borrowing	837	740
Other long-term liabilities	450	411
TOTAL	1,287	1,151
4. Upper limit for fixed rate debt	220	9
5. Upper limit for variable rate debt	220	195
6. Upper Limit for Bank Deposits over 364 days		
This limit does not apply to UK or AAA rated foreign Government or Supra National Bank securities.	75%	37%
7. Maturity structure of debt		

	Lower Limit %	Upper Limit %	Actual %
Under 12 months		75	42.2
12 months and within 2 years		75	8.8
2 years and within 5 years		75	11.8
5 years and within 10 years		75	7.2
10 years and above	25	100	30.0

6. Investment in Landsbanki Is.

Lancashire County Council had £6.436m on deposit with the Icelandic Bank Landsbanki Is. when it collapsed in October 2008. The Authority was one of many UK and Dutch Local Authorities with such deposits, all of whom were granted priority creditor status by the Icelandic Supreme Court at a hearing in Reykjavik on 14th and 15th of September 2011. As a consequence the Winding Up Board announced on 9 March 2012 that it anticipated recoveries in the Landsbanki Administration would exceed the book value of recognised priority claims by around ISK 121bn, taking into account the sale of its holding in Iceland Foods. Estimated recoveries are some 9% higher than the value of priority claims, and it is therefore now considered likely that UK local authorities will recover 100% of their deposits, subject to potential future exchange rate fluctuations.

The winding up board made its first distribution on 7th December 2011, being approximately 29% of the total. Subsequent distributions were made on 25th May 2012 and 9th October 2012 so that by 31st March 2013 47% of the claim had been recovered.

The total amount of the claim is £6.529m, made up of principal of £6.436m and interest of £0.093m. From the three distributions made to date the County Council has received a total of £3.097m, of which £3.054m is principal and £0.043m is interest.

The timing of future payments is uncertain, and the Landsbanki Winding Up Board have not, at present, indicated when the next distribution will be made.

Agenda Item 8

Audit and Governance Committee

Meeting to be held on 24 June 2013

Electoral Division affected: All

External Audit – update report June 2013

Appendix A refers

Contact for further information:

Karen Murray 0161 234 6364, Grant Thornton

Karen.l.murray@uk.gt.com

Executive Summary

This report provides an update on the audit work undertaken by Grant Thornton against the 2012/13 Audit Plan for the Council and Pension Fund. Progress is on track and there are no issues or new audit risks to report.

Recommendation

The committee is asked to note the report.

Background and Advice

Karen Murray, Director at Grant Thornton, will attend the meeting to present the report and respond to questions.

Consultations

None

Implications:

N/A

Risk management

N/A

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Tel
Lancashire County Council 2012/13 external audit plan	March 2013	Karen Murray Grant Thornton 0161 234 6364
Lancashire County Pension Fund 2012/13 external audit plan	March 2013	

Reason for inclusion in Part II, if appropriate

N/A



Audit & Governance Committee Update for Lancashire County Council and Pension Fund

Year ended 31 March 2013

June 2013

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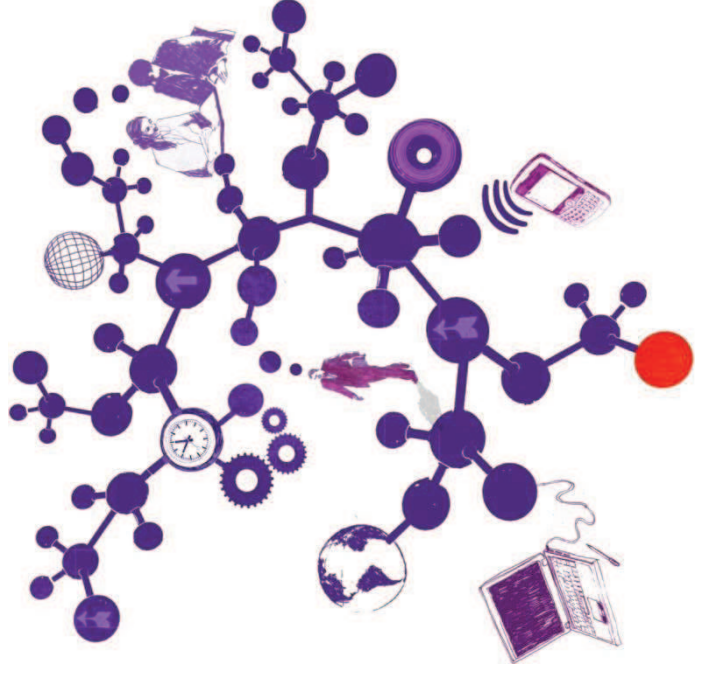
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Towards a tipping point?', 'The migration of public services', 'Local Government Governance Review 2012', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Karen Murray Engagement Lead
Len Cross Audit Manager
Fiona Blatcher Audit Manager

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Progress at May 2013

Work	Planned date	Complete?	Comments
<p>2012-13 Accounts Audit Plans</p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2012-13 financial statements on the accounts of the Lancashire County Pension Fund.</p>	March 2013	Yes	Presented to the March Audit & Governance Committee
<p>Interim accounts audit</p> <p>Our interim fieldwork visit will include the following:</p> <ul style="list-style-type: none"> • updated review of the Council's control environment • update understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • early work on the Value for Money conclusion. 	January to May	Yes	<p>There are no issues to report at this stage from interim accounts audit coverage.</p> <p>Before commencing our final accounts audit we will complete and conclude some early testing of how the authority has accounted for its investment transactions.</p>
<p>2012-13 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2012-13 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July to September	On track	<p>We will complete those elements of our work relating to year end transactions and begin our detailed testing in relation to the financial statements.</p> <p>Meetings have been scheduled with Finance staff to discuss issues arising during the course of the final accounts audit</p>

Progress at May 2013

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2012/13 VfM conclusion comprises considering whether the Council has appropriate arrangements in place for</p> <ul style="list-style-type: none"> • Securing financial resilience; and • for challenging how it secures economy, efficiency and effectiveness. 	February to August 2013	On track	This assessment is currently being undertaken.
<p>Other areas of work</p> <p>Certification of grant claims</p>	September to November 2013	On track	

Emerging issues and developments

Accounting and audit issues

Local government accounts timetable

The key dates in the local government accounts timetable are as follows:

- by 30 June - the responsible financial officer certifies the presentation of the draft statement of accounts
- by 30 September:
 - the responsible financial officer recertifies the presentation of the final statement of accounts before members' approval
 - members approve the statement of accounts
 - the statement of accounts is published, with the audit opinion, certificate and audit report if issued by the auditor.

The key dates for Whole of Government Accounts are:

- by 31 July - submission of unaudited WGA L-Pack by authority
- by 7 October - submission of audited WGA L-Pack by auditor

Challenge questions:

- Has your County Treasurer produced a robust and adequately resourced timetable for the production and submission of its 2012/13 financial statements?
- Has this been discussed and agreed with the External Auditors?

Emerging issues and developments

Accounting and audit issues

UK Public Sector Internal Audit Standards

From 1 April 2013, the UK Public Sector Internal Audit Standards (PSIAS) are to be used throughout the public sector. The PSIAS are based on existing International Standards for Internal Audit, but have been adapted for use in the public sector.

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The key changes are:

- the term 'chief audit executive' is used rather than 'head of internal audit' or 'chief internal auditor'.
- the requirement for an internal audit charter. This must formally define the purpose, authority and responsibility of the internal audit activity, as well as the nature of consulting services and the terms 'board' and 'senior management'. It will also cover arrangements for avoiding conflicts of interest if internal audit carries out any non-audit activities.
- there is no longer a requirement to produce an audit strategy. Instead, a risk-based plan must incorporate or be linked to a strategic or high-level statement which sets out how the internal audit service will be provided and developed in accordance with the charter and how it will link to the organisation's objectives and priorities.
- the chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This includes internal and external assessments. The QA&IP is designed to assess the efficiency and effectiveness of internal audit as well as identify opportunities for improvement. The chief audit executive will have to include a statement on the results of the QA&IP in an annual report.

Challenge questions:

- Do you have an action plan in place to deal with any issues arising from the 2012 review of internal audit?

Emerging issues and developments

Grant Thornton

Local Government Governance report

In February, we published 'Local Government Governance Review 2013', our second annual review into local government governance. The report is based on:

- survey responses from over 60 council senior officers and members on governance reporting and the supporting processes
- a desk top review of 2011/12 Annual Governance Statements and explanatory forewords for 153 councils, against our best practice checklists based on the CIPFA/SOLACE framework and guidance notes.

Good governance is essential to both council leaders and the public. It supports leaders in making the best decisions, reduces the likelihood of things going wrong and protects them when problems do occur. It inspires confidence in the public that the best decisions are being taken for the right reasons, that the quality of service is protected and that public money is being wisely spent.

The key findings included:

- one third of survey respondents do not consider that council accounts are aimed at the public and the length and technical complexity makes them difficult to understand
- many council Annual Governance Statements follow too rigidly the example text in the CIPFA/SOLACE guidance, rather than reflecting the unique features and challenges of their own organisation
- explanatory forewords are often far from 'explanatory', being hard to read and not aligned to councils' strategic goals
- on-going governance processes and year-end statements are commonly two distinct exercises.
- there is often a lack of understanding within local authorities about what the governance framework is for and how it fits together
- although external alliances are becoming increasingly important in service delivery, 21% of survey respondents are not clear about council roles and responsibilities when working in partnerships.

Challenge questions:

- Have you considered the findings of the report?
- Do you need to take action do you plan to take to improve your governance arrangements?

Emerging issues and developments

Local government guidance

Financial sustainability of local authorities

In January, the National Audit Office published 'Financial sustainability of local authorities'. The report examined central government's approach to local authority funding, and reviewed local authorities' financial sustainability against a background of changes to their funding. It has three parts:

- Funding local authority services - setting out the background to the current funding arrangements and the reduction in local authority funding from the government's 2010 spending review
- Local authority budget management - setting out how local authorities have responded to their reduced income
- Maintaining financial sustainability - covering the growing challenges to local authorities' financial sustainability, managing financial risks and opportunities, and the increasing need for central government to make informed decisions as financial and service pressures increase.

Some of the key findings were:

- so far, local authorities have absorbed reductions in central government funding but there is some evidence that services have been reduced
- local authorities may find it harder over the rest of the spending review period to absorb funding reductions and maintain services
- local authorities' ability to make savings while maintaining service levels depends on local circumstances
- by reducing ring-fencing of its grants, central government aims to give local authorities greater spending flexibility
- the government is making changes that create financial opportunities for local authorities but also increase their financial risks and uncertainty, for example, the partial localisation of business rates and the arrangements for council tax benefit
- the accountability framework for local government to address widespread financial failure is untested.

Challenge questions:

- Can the Council learn from how other local authorities have responded to their reduced income?



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Audit and Governance Committee

Meeting to be held on 24 June 2013

Electoral Division affected: All

Response of the Audit and Governance Committee chair to Grant Thornton's request for information to support its compliance with International Standards on Auditing

(Appendices 'A' and 'B' refer)

Contact for further information: Gill Kilpatrick, County Treasurer (01772) 534701

Gill.kilpatrick@lancashire.gov.uk

Executive Summary

The external auditor, Grant Thornton, is obliged to comply with International Auditing Standards and, although it has a good understanding of how the Audit and Governance Committee gains assurance over management processes and arrangements, it is required formally to update this understanding annually.

The Chair of the Audit and Governance Committee has been asked to provide information in respect of both Lancashire County Council and the Lancashire Pension Fund relating to:

- fraud and internal control;
- laws and regulations;
- litigation and claims; and
- going concern.

A response has been prepared for consideration by the committee and is attached at Appendix A. The letter from Grant Thornton is attached at Appendix B.

Recommendation

It is recommended that:

- a) the response attached at Appendix A is considered and approved.
- b) the Chair of the Audit and Governance Committee be authorised to sign the response on behalf of the committee.

Background and advice

The letter from Fiona Blatcher, Associate Director, Grant Thornton is attached at Appendix B.

Implications

This letter will provide supporting evidence to Grant Thornton in determining its opinion on the financial statements of the County Council and the Pension Fund for 2012/13.

Risk management

Not applicable.

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

Paper	Date	Contact/ Directorate/ Ext
Letter from Fiona Blatcher, Associate Director, Grant Thornton	20 March 2013	

Reason for inclusion in Part II, if appropriate:

Not appropriate.

24 June 2013

Dear Mrs Blatcher

Response of the Chair of the Audit and Governance Committee to Grant Thornton's request for information to support its compliance with International Standards on Auditing

The Audit and Governance Committee and I have considered your request for information to enable you to comply with International Standards on Auditing and the committee has approved the following response.

1. Your requirements

1.1 Grant Thornton is obliged to comply with International Standards on Auditing. In particular it is required to gain an understanding of how the Audit and Governance Committee exercises oversight of management's processes in respect of both Lancashire County Council and the Lancashire Pension Fund in relation to:

- fraud and internal control;
- laws and regulations;
- litigation and claims; and
- going concern.

2. The role of the Audit and Governance Committee

2.1 Under its terms of reference the Audit and Governance Committee advises the council on risk, control and governance, oversees the planned activity and results of both internal and external audit, and considers the adequacy of management's responses to issues identified by audit activity. It therefore oversees the work of the council's Internal Audit Service, which provides assurance to the council on the adequacy and effectiveness of its internal controls, including financial controls, and also supports the council in its management of the risk of fraud by providing a counter fraud and investigatory service.

2.2 Since fraud represents a lapse in financial control, the Audit and Governance Committee is also charged with responsibility for overseeing management's arrangements in response to the risk of fraud.

2.3 In an organisation of Lancashire County Council's size, a proportional approach must be taken to an assessment of risk and to the assurance required over the controls implemented to manage it. It is impractical to expect that either a committee of elected members or the Internal Audit Service, having adopted a risk-based approach, will be able to oversee and assess all management processes. Nor can absolute assurance be gained that compliance with all applicable laws and regulations is achieved.

3. The Audit and Governance Committee's oversight of internal audit work

- 3.1 The Audit and Governance Committee approves the annual internal audit plan, which is based on an assessment of the council's risks and the operational and financial controls that mitigate these. It is built upon an assessment of risk that includes the risk of non-compliance with relevant laws and regulations. The annual audit plan also refers to the Internal Audit Service's work to support management in managing the risk of fraud and sets aside audit resources for the investigation of suspected or alleged instances of fraud.
- 3.2 The Audit and Governance Committee receives regular progress reports from the head of internal audit, including reports on breaches of internal control and fraud risks. The deputy county treasurer briefs the Audit and Governance Committee on financial matters, and other officers attend to brief the Audit and Governance Committee on control issues as necessary to respond to audit reports and inform the committee of progress where remedial action has been agreed.
- 3.3 The council's Internal Audit Service operates a proactive programme to identify and pursue indications of fraudulent activity in particular within the council's key financial systems, regularly testing both the corporate controls and controls operated within individual services. Computer assisted techniques and additional testing of areas susceptible to fraud have been developed to enable the Internal Audit Service proactively to assess whether there are indications of malpractice in key areas.
- 3.4 As Grant Thornton will be aware, the council actively participates in its National Fraud Initiative which serves as a regular extension of the work done by the Internal Audit Service throughout the year. Checks are carried out on the reports raised by this initiative and support is also given to the Lancashire districts.
- 3.5 The Internal Audit Service services the financial whistle-blowing helpline and regularly responds both to formal whistle-blowing calls and to less formal concerns raised with individual auditors by staff across the council. Investigations are undertaken promptly and pursued vigorously and, where appropriate, there is good liaison with the police.
- 3.6 The Audit and Governance Committee and the Pension Fund Committee have been provided with the head of internal audit's annual plans and reports to Lancashire County Council and the Lancashire Pension Fund respectively, and these reports have also been shared with Grant Thornton.
- 3.7 Both management and the Audit and Governance Committee are aware of Grant Thornton's assessment of the level at which misstatements of Lancashire County Council's and Lancashire Pension Fund's financial statements are deemed to be material, and are briefed on the external auditor's assessment of the risks of material misstatement of the financial statements, including the risk of fraud. Any risk of misstatement due to fraud with a potential impact of this magnitude would be highlighted immediately by the Internal Audit Service to both management and the Audit and Governance Committee.

4. The Audit and Governance Committee's oversight of management processes

- 4.1 The Audit and Governance Committee takes seriously its role in reviewing Lancashire County Council's internal control effectiveness, including financial control arrangements and compliance with the law. It values its independence of both the executive and scrutiny functions and its direct reporting line to the council. The Pension Fund Committee, rather than the Audit Committee,

considers the Internal Audit Service's annual plan and annual report relating to controls over the Lancashire Pension Fund. It is also charged with oversight of the overall arrangements by which the risk of fraud is managed.

- 4.2 A key element of the assurance available to the Audit and Governance Committee and to the Council is the suite of assurance statements made by each of the executive directors annually that support the annual governance statement and require each executive director to take personal responsibility for the operation of an adequate and effective control system, which includes compliance with applicable laws and regulations.
- 4.3 The Audit and Governance Committee receives information about instances of financial impropriety and fraud as well as breaches of control within the Chief Internal Auditor's regular progress reports and annual report.
- 4.4 The former Standards Committee considered the council's counter fraud arrangements and approved a counter fraud policy statement, strategy and work-plan, and a whistle-blowing policy which have been periodically communicated to the council's staff. Its responsibilities were transferred to the Audit and Governance Committee during 2012/13 and this committee receives periodic reports from the Internal Audit Service of issues being investigated as potential impropriety or fraud, and management's responses to these.

5. Fraud and internal control

- 5.1 Other than the issues noted in the Chief Internal Auditor's annual report, progress reports to each of its meetings, and the year-end report on counter fraud and special investigations the Audit and Governance Committee is unaware of any breaches of internal control within Lancashire County Council during 2012/13. The committee has considered the existence and operation of internal controls (including, implicitly, segregation of duties) and where it has concerns, these have been minuted during the year. It has been informed that no breaches of internal control relating to Lancashire Pension Fund have been reported to the Pension Fund Committee during 2012/13.
- 5.2 Similarly, other than as reported in the Internal Audit Service's annual report 2012/13, the Audit and Governance Committee is unaware of any actual, suspected or alleged frauds affecting either the Council or Pension Fund. Nor is the committee aware of any related party relationships or transactions that could give rise to instances of fraud in either entity.
- 5.3 The Audit and Governance Committee is not aware of any entries in the accounting records of either the Council or Pension Fund that it believes or suspects are false or intentionally misleading.

6. Laws and regulations

- 6.1 As stated above in paragraph 2.3, in an organisation of the size and complexity of Lancashire County Council, absolute assurance cannot be gained that compliance with all applicable laws and regulations is achieved. The Audit and Governance Committee is not aware of any significant areas of non-compliance during 2012/13.

7. Litigation and claims

7.1 The Audit and Governance Committee is unaware of any actual or potential litigation or claims against the council that would have a material impact on the financial statements.

8. Going concern

8.1 The Audit and Governance Committee has received assurance from the County Treasurer that it is appropriate to adopt the going concern basis in preparing the council's financial statements. It is not aware of any events or circumstances that cast doubt on the council's ability to continue as a going concern.

Yours sincerely

Chair of the Audit and Governance Committee
Lancashire County Council

Appendix B

Sam Chapman
Audit and Governance Committee Chair
Lancashire County Council
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20 March 2013

Sam Chapman

Lancashire County Council and Lancashire County Pension Fund: Financial Statements for the year end 31 March 2013

Understanding how the Audit & Governance Committee gains assurance from management

To comply with International Auditing Standards, each year we need to refresh our understanding of how the Audit & Governance Committee gains assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me with your responses to the following questions.

- 1 How does the Audit & Governance Committee oversee management's processes in relation to:
 - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
 - identifying and responding to the risk of breaches of internal control
 - identifying and responding to risks of fraud (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
 - communicating to employees its views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Audit & Governance Committee gain assurance that all relevant laws and regulations have been complied with?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

Chartered Accountants

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5 How has the Audit & Governance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

Please could you provide a response by June 2013 and please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Fiona Blatcher
Associate Director

For Grant Thornton UK LLP

Audit and Governance Committee

Meeting to be held on 24 June 2013

Electoral Division affected: All

Internal/external audit protocol

(Appendix A refers.)

Contacts for further information:

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Fiona Blatcher, Associate Director, Grant Thornton 44 (0)161 234 6393

Fiona.C.Blatcher@uk.gt.com

Executive Summary

This protocol sets out how Lancashire County Council's internal Audit Service and Grant Thornton as its external auditor work together, and establishes a framework for coordination, cooperation and exchange of information

The full protocol is included as Appendix A to this paper.

Recommendation

The committee is asked to note this information.

Background and advice

In the interests of value for money it is important that the council's internal and audit auditor operate together efficiently and effectively. This protocol sets out the relationship between the two sets of auditors for the Audit Committee's information.

Consultations

Not applicable.

Implications

Not applicable.

Risk management

Not applicable.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
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Not applicable.

Reason for inclusion in Part II, if appropriate: Not applicable.

Protocol for the relationship between Grant Thornton and Lancashire County Council's Internal Audit Service

June 2013

Introduction

- 1 This protocol sets out how Lancashire County Council's Internal Audit Service and Grant Thornton, as its external auditor, work together, and it establishes a framework for coordination, cooperation and exchange of information.

External audit responsibilities

- 2 External audit responsibilities are set out in the Code of Audit Practice, as developed by the Audit Commission and approved by the Houses of Parliament. Under this code the external auditors are responsible for:
 - Expressing an opinion on the council's financial statements; and
 - Reviewing whether the council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.
- 3 In addition under section 28 of the Audit Commission Act 1998, the external auditor is required to certify some claims and returns for grants or subsidies paid by the government departments and public bodies to Lancashire County Council.
- 4 When completing its work on the financial statements the external auditor is required to comply with International Standards on Auditing (ISA), as adapted for application in the UK and Ireland. The external auditor is required by these ISAs, amongst other things, to:
 - Gain an understanding of the information systems that are relevant to producing material figures in the accounts;
 - Gain an understanding of the way transactions in these systems are initiated, recorded, processed and reported;
 - Identify the risks of material misstatement in the financial statements whether arising from fraud or error; and
 - Plan and carry out tests of controls and/ or detailed transactions to address those specific risks as well as the underlying inherent risks.

Internal audit responsibilities

- 5 The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government and, with the other standard setters for the public sector in the United Kingdom, it has adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework, comprising:
 - Definition of Internal Auditing

- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

6 Internal Auditing is defined 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.

7 The Internal Audit Service is therefore required to formulate an annual risk-based plan of work. This is directed to providing assurance over, amongst other internal controls, the systems that produce material figures in the council's financial statements: these systems control areas of significant financial risk to the council. The Internal Audit Service is similarly obliged to provide an annual opinion to the council on its risk management, control and governance and arrangements, which will inform the external auditor's work.

8 There is therefore a natural alignment of internal audit work with external audit.

9 The PSIAS set out the professional standards the council's Internal Audit Service is required to meet in relation to, amongst other things, independence and ethics, due professional care, and planning, undertaking and reporting internal audit work.

The external and internal audit relationship

10 In the interests of overall efficiency and effectiveness, Grant Thornton seeks to maximise its reliance on the work of the council's Internal Audit Service, most commonly in relation to the council's core financial systems, but also in other areas where this is possible. The Internal Audit Service seeks to provide whatever support is necessary and appropriate to Grant Thornton as the council's external auditor.

11 ISA 610 refers specifically to 'considering the work of internal audit' and requires external auditors to:

- Review the Internal Audit Service to confirm that it meets, as a minimum, the requirements of the PSIAS, to provide assurance that its work can be relied on to inform external audit conclusions;
- Review whether the Internal Audit Service is effective;
- Review (and seek to place reliance on) specific pieces of internal audit work, where that work covers areas relevant to their external audit objectives; and
- Evaluate the work of the Internal Audit Service, where external auditors intend to use internal audit work to inform their conclusions. This may involve re-performance of a sample of work, testing similar items or observing internal audit work in progress.

12 When Grant Thornton undertakes a formal review of the Internal Audit Service, it will discuss its findings with the Chief Internal Auditor and provide a report to the council.

- 13 The Internal Audit Service will take account of the work undertaken by Grant Thornton in assessing the framework of assurance available to the council.
- 14 Both sets of auditors share with each other their risk assessments of the council and their related work programmes. This informs each others' risk assessments and helps to identify opportunities for reliance on work planned to be carried out by the Internal Audit Service.
- 15 Regular liaison meetings are programmed to facilitate this and both sets of auditors share working papers and reports as needed.
- 16 In undertaking work that Grant Thornton will wish to use to support its external audit opinion on the council's financial statements, the Internal Audit Service will:
 - Ensure that the sample methodology and sample sizes are sufficient for the external auditor's purpose and cover as much of the financial period as possible (whilst recognising that the work should be completed within the financial period); and
 - Provide access to the working papers and supporting documentation necessary for the external auditor to assess this work in detail.
- 17 Both internal and external audit will ensure that whenever documentation is obtained from the other auditor, it will be returned promptly and, if used in any published document, will be appropriately cited.

Audit and Governance Committee

Meeting to be held on 24 June 2013

Electoral Division affected: All

Internal Audit Service Charter

(Appendix A refers)

Contact for further information: Ruth Lowry, Chief Internal Auditor (01772) 5 34898
Ruth.lowry@lancashire.gov.uk

Executive summary

The Internal Audit Service is a key element of the council's governance arrangements, and is a statutory service in the context of the Accounts and Audit Regulations 2011. The Service has previously operated to terms of reference last agreed in June 2011, but it is appropriate to revise these at this point.

The relevant standard setters, responsible for defining proper practices in terms of the Accounts and Audit Regulations have issued new Public Sector Internal Audit Standards (PSIAS) with effect from 1 April 2013, although these are not substantially different from the former Code of Practice for Internal Audit in Local Government in the United Kingdom. The PSIAS require the Internal Audit Service to establish a charter and set out certain requirements of this charter.

An Internal Audit Service Charter has therefore been prepared and is attached at Appendix A.

Recommendation

It is recommended that the Committee approves the Internal Audit Service Charter.

Background and advice

The Public Sector Internal Audit Standards, issued with effect from 1 April 2013, set out the professional standards and proper practices to which an internal audit service in local government in the United Kingdom should operate.

Implications

None.

Risk management

Not applicable.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper

Date

Contact/
Directorate/ Ext

Reason for inclusion in Part II, if appropriate:

Not appropriate.

Lancashire County Council
Internal Audit Service Charter
June 2013

1 Introduction

- 1.1 This charter establishes the framework in which Lancashire County Council's Internal Audit Service operates to best serve the council and to meet its professional obligations under the Public Sector Internal Audit Standards (PSIAS) which are applicable from 1 April 2013.
- 1.2 For local government in the United Kingdom the Chartered Institute of Public Finance and Accountancy's (CIPFA) is the relevant standard setter. CIPFA has adopted the PSIAS which encompass the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework, including its definition of internal auditing, code of ethics, and international standards for the professional practice of internal auditing.
- 1.3 Where the Internal Audit Service provides a fully out-sourced service to any other organisation, equivalent arrangements are made that match those set out in this document. So, for example, references in this document to the county council's Audit and Governance Committee should be read to mean the Audit and Accounts Committee at Rossendale Borough Council.

2 Definition of internal audit

- 2.1 The PSIAS define internal auditing 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.'
- 2.2 The requirement to be independent and objective means that an internal audit service cannot assume management responsibility for risk management, control or governance processes. The existence of the Internal Audit Service does not diminish management's responsibility to establish a control environment and systems of internal control, risk management and governance to ensure that the councils' objectives are met and its activities conducted in a secure and well-ordered manner.

3 Responsibilities and objectives

- 3.1 The PSIAS make clear that the provision of assurance services is internal audit's primary role. This role requires the Chief Internal Auditor to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. The scope of internal audit work therefore encompasses all of the council's activities including those operated through partnerships with other organisations.
- 3.2 Therefore, on the basis of work undertaken during the year, the Chief Internal Auditor will provide an opinion annually to the council on the overall adequacy and effectiveness of its control environment. This opinion will be an important element of the council's review of the effectiveness of its control environment and will be used by the council to inform its annual governance statement.
- 3.3 The Chief Internal Auditor will establish an annual risk-based plan that takes into account the requirement to produce an annual internal audit opinion and the council's wider assurance framework and other sources of assurance.

4 The statutory regime and related requirements

- 4.1 Internal audit is a statutory service in the context of the Accounts and Audit Regulations 2011, which state that:

'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control' (6(1)).
- 4.2 The PSIAS and their accompanying Local Government Application Note have been recognised as 'proper practices' by the Department for Communities and Local Government, which sponsors the Accounts and Audit Regulations.
- 4.3 In addition the Local Government Act 1972 (Section 151) states that local authorities are required to 'make arrangements for the proper administration of their financial affairs'. It is this legislation that requires internal audit to maintain a focus on internal financial controls as well as the controls over the council's wider risks as required by the Accounts and Audit Regulations.
- 4.4 The county council's Financial Regulations provide for the Internal Audit Service, representing the County Treasurer, to have access to all cash, property, documents, books of accounts and vouchers appertaining in any way to the finances of the county council, and to require explanations as necessary.

5 Reporting lines and relationships

- 5.1 The Chief Internal Auditor is managed by the County Treasurer, who is a member of the council's Management Team. For the purposes of the

PSIAS the Management Team is regarded as the council's senior management.

- 5.2 CIPFA's Statement on the Role of the Chief Financial Officer in Local Government, 2010, requires the County Treasurer to:
- Ensure an effective internal audit function is resourced and maintained;
 - Ensure that the council has effective arrangements in place for internal audit of the control environment;
 - Support the council's internal audit arrangements; and
 - Ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively.
- 5.3 The Chief Internal Auditor has, in addition, regular access to the chair of the Audit and Governance Committee. For the purposes of the PSIAS this committee is regarded as the 'board'. It meets at least four times each year, and the Chief Internal Auditor reports to each meeting of that committee under its terms of reference. The Audit and Governance Committee is responsible for approving (but not directing) the annual audit plan.
- 5.4 The Internal Audit Service and the council's external auditor operate to a protocol which sets out the relationship between internal and external audit, and supports regular liaison between the two services, leading to a joint improvement in performance and avoidance of duplication of work.

6 Independence and accountability

- 6.1 The Internal Audit Service remains independent of the council's other services, with the exception of its support to management in relation to risk management, counter fraud and investigatory work, no internal auditor has any other executive or operational responsibilities. Auditors are expected to deploy impartial and effective professional judgement.
- 6.2 The Chief Internal Auditor makes an annual declaration that the internal audit function is operationally independent. The Internal Audit Service's priorities are determined in consultation with the Management Team and the council's senior leadership team, but remain a decision for the Chief Internal Auditor.
- 6.3 The Internal Audit Service has direct access to the council's records, assets, premises and officers and is able to report independently and impartially as required. Accordingly the Chief Internal Auditor has direct access to and freedom to report in her own name and without fear or favour to, all officers and members and particularly the Audit and Governance Committee.
- 6.4 The Chief Internal Auditor has the formal opportunity prior to each committee meeting to meet with the chair and deputy chair of the Audit and Governance Committee.

- 6.5 Accountability for the response to the Internal Audit Service's advice and recommendations lies with the council's Management Team, which either accepts and implements the advice or accepts the risks associated with not taking action.
- 6.6 Audit advice and recommendations for action, including where the Internal Audit Service has been consulted about significant changes to internal control systems, are given without prejudice to the right of the Internal Audit Service to review and make further recommendations on the relevant policies, procedures, controls and operations at a later date.
- 6.7 All auditors are required to make an annual declaration of their interests, which is updated during the year as necessary, and where any auditor has a real or perceived conflict of interest this is managed to maintain the operational independence of the Service as a whole.

7 Internal audit resources

- 7.1 Lancashire County Council has taken the strategic decision to provide its internal audit service itself and is committed to providing a service that meets or exceeds the best quality standards.
- 7.2 The Chief Internal Auditor is responsible for ensuring that Internal Audit Service resources are sufficient to meet its responsibilities and achieve its objectives. If the Chief Internal Auditor or the Audit and Governance Committee considers that the level of audit resources or the terms of reference in any way limit the scope of internal audit, or prejudice the ability of the Internal Audit Service to deliver a service consistent with its statutory and related requirements, they will advise the council accordingly.
- 7.3 Nonetheless, the Internal Audit Service has finite resources and its workforce is therefore to be deployed to meet an annual audit plan that pays regard to the relative risks accepted, and levels of assurance required, by the council.
- 7.4 Lancashire County Council's performance and development review scheme is applicable to all staff within the Internal Audit Service. The Service supports continuous staff performance appraisal and development, and assessment of training needs.

8 Quality assurance

- 8.1 The Chief Internal Auditor operates a performance management and quality assurance framework that assesses on-going compliance with the PSIAS, and whether the Internal Audit Service is consistently meeting its internal quality standards.
- 8.2 Periodically, but not less than once every five years, the Internal Audit Service is subject to an external assessment by a qualified, independent assessor from outside the organisation. The Chief Internal Auditor will discuss with the Audit and Governance Committee the form of such an external assessment and the qualifications and

independence of the external assessor, including any potential conflict of interest. An external assessment will either be in the form of a full external assessment, or a self-assessment with independent external validation.

9 Non audit work

- 9.1 The PSIAS recognise that the Internal Audit Service may go beyond the work needed to meet its assurance responsibilities and provide services to assist with, for example, the investigation of suspected fraud or corruption, or provide a consultancy service to management. These services apply the professional skills of internal audit and contribute to the overall opinion.

10 Investigations and counter-fraud services

- 10.1 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management.
- 10.2 Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.
- 10.3 The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for their opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.
- 10.4 The Internal Audit Service operates the council's whistle-blowing helpline and provides an additional service to respond to and investigates instances of suspected or actual fraud, corruption or impropriety.

11 Risk management

- 11.1 The Internal Audit Service is not responsible for managing the council's risks, which is the responsibility of management.
- 11.2 However the Internal Audit Service supports management in making its assessment of risk. The Internal Audit Service will also share information gathered during the course of internal audit work with management to enhance management's understanding of the risks to the council and the financial and operational controls in place to manage them.

12 The Chief Internal Auditor

- 12.1 The Chief Internal Auditor holds a professional qualification (fellow of the Institute of Chartered Accountants in England and Wales) and is suitably experienced in internal audit work.

13 The Internal Audit Service business plan

13.1 The Internal Audit Service business plan is framed in terms of the Internal Audit Service's professional objectives, which require the Service to achieve:

- A best practice approach;
- Effective use of technology;
- Sound client management;
- A strong audit team; and
- Effective quality assurance.

13.2 These objectives underpin the Internal Audit Service's strategic development and operation in practice.

14 Performance measures and service standards

14.1 The Internal Audit Service assesses its performance as follows:

Measures focussed on client satisfaction:

- The degree to which client input is sought to the scope of audit work, and audit procedures agreed in advance;
- The clarity with which findings are communicated;
- The practicality of auditors' analysis and recommendations for remedial action;
- The level of auditors' knowledge of clients' business;
- The effectiveness of liaison arrangements; and
- Auditors' responsiveness to requests for advice, and the extent to which staff demonstrate a professional and helpful attitude.

14.2 Each of these measures is assessed at least annually.

Measures directed towards achieving professional standards:

- The timeliness of quality review processes at the scoping, fieldwork, and reporting stages;
- The timeliness of our audit reporting, within the targets agreed between the audit team and our clients;
- The degree of reliance placed on our work by the external auditor; and
- Achievement of a target level of chargeable time.

14.3 The reliability of the work of the Internal Audit Service is periodically assessed by the external auditor, as required by external audit standards, and its findings are reported to the Audit and Governance Committee.

Organisational measures:

**Lancashire County Council
Internal Audit Service charter**

- The delivery of internal audit assurance within the Internal Audit Service's budget; and
- Achievement of corporate policy targets including, for example, compliance with corporate health and safety procedures.

Audit and Governance Committee

Meeting to be held on 24 June 2013

Electoral Division affected: All

Internal Audit Service Progress Report

(Appendices A and B refer.)

Contact for further information:

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Executive Summary

In the context of fulfilling its responsibility to consider periodic reports of internal audit activity and outcomes, the committee is asked to consider the progress report for the period to 31 May 2013 relating to the audit year 2012/13 (Appendices A and B).

Recommendation

The Audit and Governance Committee is asked to consider the Internal Audit Service progress report for the period to 31 May 2013.

Background and advice

This report sets out for the Committee the internal audit work performed, the key issues emerging from it and management's responses to it.

Appendix A to this report summarises the main issues emerging from the internal audit work completed to date. Appendix B sets out the work performed against the annual audit plan for the year and the assurance assessment provided where work has been completed, including our work to assess progress against management's agreed action plans. The table in this appendix also indicates where the audit plan has been amended.

Internal audit assurance

Internal audit assurance is stated in the following terms:

Full assurance: there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ have resulted in failure to achieve the service objectives.

Consultations

Not applicable.

Implications

Not applicable.

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

Paper	Date	Contact
Not applicable.		

Reason for inclusion in Part II, if appropriate: Not applicable.

Matters arising from internal audit work for the period to 31 May 2013

1 Introduction

- 1.1 This report highlights issues that the Audit and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. It summarises the work undertaken under the internal audit plan for 2012/13 by the council's Internal Audit Service.
- 1.2 A full table of all the audit work for 2012/13 is included at Appendix B, setting out brief notes of the progress and outcomes of each project.
- 1.3 The Internal Audit Service continues to follow our risk-based audit methodology, using a risk and control evaluation-based approach ('RACE-based') combined with compliance testing of key controls, computer assisted audit techniques ('CAATs') and follow-up work.

2 Key issues

- 2.1 A number of areas were removed from the audit plan for the year as management continued to work on service restructures and ongoing process improvements, and as audit resources have been temporarily constrained during the year.
- 2.2 However a number of unplanned audit reviews were undertaken, as is to be expected in the council's current, rapidly changing environment, and there have been an unusual number of special investigations during the year that have taken considerable resources at senior levels within the team.
- 2.3 As is usual at the year end therefore, a small number of audit reviews are still in progress and will be reported in the coming year. Nonetheless, during the period since March 2013 we have completed work on a number of reviews as follows, and brief details are provided in Appendix B to this report.
 - Advance consideration of the legal implications of decisions;
 - Sample testing of Trading Standards' compliance with legislation in relation to the use of children in testing the sale of age restricted products;
 - Financial systems: accounts payable, accounts receivable, general ledger, payroll, treasury management.
 - Property asset inventory control and usage;
 - Public health transfer;
 - Child and adolescent mental health services.
 - Flood risk management;
 - Food stock and consumption, ordering, provision, and invoicing;
 - Prevention of bribery – street works;

Internal Audit Service progress against plan 2012/13

Audit and Governance Committee meeting 24 June 2013

- 2.4 Work on special investigations, and the proactive counter fraud activity undertaken during the year has been reported during the year and a separate annual report has been prepared for the Committee and for the County Treasurer.

3 Follow-up work

- 3.1 It is a professional requirement that we follow-up the work we have done, and do so on a timely basis. Set out below is an outline of the Internal Audit Service's methodology in relation to follow-up work.
- 3.2 As a result only those areas that have been assigned 'full' or 'substantial' assurance will be followed-up and we undertake a full re-review of any control systems that have been assigned 'limited' or 'no' assurance.

What we follow up

- 3.3 We follow up all agreed actions arising from audit assignments where we have provided substantial or full assurance. We do not generally follow up work where we have provided limited or nil assurance, but instead re-perform this work either later in the same year, or in the next audit plan. Where an investigation results in the agreement of action to rectify control issues, then these will also be subject to follow-up work.

When we follow up our work

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

The outputs of our follow-up work

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

Control	Audit review	Audit scope	Comments	Assurance
Corporate controls				
Governance				
	Support to management, including input to the council's annual governance statement. Corporate performance monitoring.	RACE-based review.	Work is continuing with the Assistant County Secretary to consider and develop the council's governance arrangements.	-
	Staff acceptance of gifts and hospitality.	RACE-based re-review – previously limited assurance.	The corporate performance monitoring framework was amended during the year and, although some preliminary work has been done, the audit will take place during 2013/14. We reported in March that although there had been some moves to communicate to all staff the need to declare any relevant personal interests, there has been a low response rate and it is unlikely that all interests have been declared appropriately. Interests that had been declared were not adequately communicated to the relevant managers.	Limited
	Staff disclosures of business interests and their use by management.	RACE-based re-review – previously limited assurance.	This work was combined with that above relating to staff acceptance of gifts and hospitality.	-
	Members' allowances and expenses, and declarations of interests, gifts and hospitality.	Follow-up review.	We reported in January 2013 that action has been taken as agreed, although further work is planned to train new elected members and to use plain English in the guidance.	-
Working in strategic partnership				
	Funds flow between LCC and One Connect Ltd.	RACE-based review.	We reported in January 2013 that there are effective controls over the flow of funds between the county council and One Connect Ltd.	Substantial
Legislative compliance				
	Advance consideration of the legal implications of decisions.	RACE-based review.	The general principals of good decision making within the law and the council's constitution are implemented effectively, although further action will be taken to ensure that any officers who write reports for decision-making understand and comply with the controls in place.	Substantial
	Testing within service areas of their compliance with service-specific legislation: Compliance testing of the Registration Service operated within the Adult and Community Services Directorate.	Compliance testing.	We reported in January 2013 that the Registration Service operates a robust system of control to effectively identify and interpret the legislation affecting it.	Full
	Compliance testing of the Trading Standards Service within the Environment Directorate.	Compliance testing.	The council undertakes test purchases to assess and improve local traders' compliance with the legislation that controls the sale and supply of age restricted products. The Trading Standards Service therefore asks children to undertake tobacco test purchases, and these should be conducted in line with the Children and Young Persons (Protection from Tobacco) Act 1991. We have provided full assurance over the Service's interpretation and implementation of its legal obligations.	Full
Information governance				
	Overall corporate arrangements.	RACE-based re-review.	As reported previously, information governance arrangements are still subject to further development. Some progress is now being made: the role of senior information risk officer has been taken up by the council's monitoring officer, who is a member of the management team, and the Corporate Information Governance Group has been re-formed and met for the first time in April. The Audit and Governance Committee has taken an active interest in this area and has requested that reference is made to information governance in the council's annual governance statement.	Nil
	Overall corporate arrangements for data sharing with partners, supported by work in directorates.	RACE-based review – completion of prior year's work.	We reported in September 2012 that the local arrangements employed by a sample of service areas were adequately designed but that corporate information sharing arrangements were out of date, incomplete and not complied with.	Limited
Cross-service controls				
Partnerships/ accountable body				
	The council's accountable body role.	RACE-based re-review – previously limited assurance.	In January 2013 we reported that changes are being made that will strengthen the council's arrangements supporting its accountable body role, but that it is still too soon to undertake a re-review.	-

Control	Audit review	Audit scope	Comments	Assurance
Business continuity and emergency planning				
	Overall corporate arrangements for emergency planning.	RACE-based review.	In March 2013 we reported that a comprehensive emergency planning framework has been developed and, in particular, the risk assessment process and emergency planning carried out with the Lancashire Resilience Forum demonstrate good practice. However we also reported that further work is required to confirm that business continuity plans are effective, and to develop the links between the council's business continuity arrangements and those of One Connect Limited relating to the services they provide to the council.	Substantial
Transition from children's services to adult services.				
	Transition from children's services to adult services.	RACE-based re-review – previously limited assurance.	As already reported, the arrangements to support young people as they move from children's services to receiving services as young adults have been re-designed and this audit will now take place in 2013/14.	-
Transport				
	Accessible transport arrangements including internal re-charges.	RACE-based re-review – some restricted audit work gave no assurance in 2011/12.	Audit work is still on-going and will be completed during 2013/14..	-
	Safeguarding children's transport.	RACE-based re-review – previously limited assurance.	This work is almost complete but has been undertaken in conjunction with the work on accessible transport under the new arrangements implemented within the Integrated Transport Unit, and cannot therefore be reported at this point.	-
Common controls				
Financial controls				
	Accounts payable.	Compliance testing (split start and end of year).	We have again provided substantial assurance over this key financial system. However action is still required to ensure that the 'no order, no pay' policy operates more efficiently and payment times are reduced as significant delays have been caused when invoices do not match the orders raised. We also identified Oracle users with inappropriate access to process payments or create/amend supplier details including bank account details, although there is no evidence that this access has been misused.	Substantial
	Accounts receivable.	Compliance testing (split start and end of year).	Our testing raised no significant issues, although there are ways in which the efficiency of the process could be improved and work is already in progress to address these. Problems were encountered with the production of debt recovery documentation after the implementation in April 2012 of the upgrade to the Oracle system, but appropriate action was undertaken in July 2012 to resolve these.	Substantial
	Budgetary monitoring and control and scheme of delegation.	RACE-based review.	As already reported this work has only recently begun, as the new arrangements for budget-holders under the latest release of the Oracle financial system start to settle down. Audit work will continue into 2013/14.	-
	Cash and banking.	Compliance testing.	Detailed audit fieldwork on cash management in establishments has been completed but further work is under way in the central cashier's office.	-
	Expenses.	Compliance & CAATs testing (split start and end of year).	As reported in March 2013, we focussed our testing on excess mileage claims and found that control weaknesses, both in terms of management approval and automated controls built into the IT system, have allowed a number of staff to claim excess mileage inappropriately. Action is being taken to build stronger controls into the IT system but on the basis of the work we have done, it is not clear that claims for excess mileage are adequately controlled.	Limited
	General ledger.	Compliance testing.	A number of Oracle users hold unsuitable access to the general ledger, although we have confirmed that this access has not been used inappropriately. The Systems and Control Team is now taking action to review access to the general ledger and the process by which access is allocated.	Substantial
	Payroll codings to the general ledger	Compliance & CAATs testing (split start and end of year).	The Internal Audit Service has supported on-going data cleansing work, and compliance testing specifically on payroll codings is included with work on the general ledger above.	-

Control	Audit review	Audit scope	Comments	Assurance
	Payroll – contractual payments	Compliance & CAATs testing (split start and end of year).	We have reviewed the procedures for processing new starters, terminations, pay amendments (including honorariums), and the monthly pay run. We also considered access to the Oracle HR & Payroll system.	Substantial
	Treasury management.	RACE-based review.	As reported in March 2013, we have undertaken considerable analysis of the whole of the council's payroll to identify any areas of particularly large allowances relative to basic pay both for teams as a whole and for individual members of staff. A small number of areas are being investigated further and this work will be reported separately during 2013/14. We have completed a review of controls over the council's treasury management function, including following up the action agreed in response to the Audit Commission's report in 2011/2. Appropriate action has been taken to address all the issues raised with just one area still outstanding. Treasury management practice documents have not yet been updated to reflect revised practices, although they would help define the processes and responsibilities of the treasury management function, and this would also support contingency arrangements for key members of staff.	Substantial
	VAT.	Compliance testing.	As reported in January 2013 there are adequate controls, operating effectively to identify, account for and recover VAT on the council's purchases.	Substantial
	Oracle release 12 - ongoing implementation and further work on the controls established in phase 1 and phase 2.	RACE-based review.	We continue to be involved in work on this project, which includes work on the new fixed assets and procurement modules.	-
HR controls				
	Connect2HRP (previously 'Ask HR')	RACE-based review.	We reported in September 2012 that there are examples of good practice in a number of areas of this service.	Substantial
	Hierarchies in the Oracle HR/ payroll system.	Compliance testing.	We are continuing to provide support to the project to resolve the hierarchies in the HR/ payroll system, including reviewing the project testing programme. However it is too soon at this point to undertake compliance testing, and this will be done in 2013/14.	-
	Leave system	Compliance testing.	Although work on this area started during the year, there have been considerable changes to this system that mean it will be necessary to extend this work and continue it into 2013/14.	-
	Long term sickness absence Oracle HR/ payroll system.	RACE-based review. RACE-based review.	This work is on-going but nearing completion. This ICT audit work will take place in 2013/14.	-
ICT controls				
	Data centre.	RACE-based re-review – limited assurance in 2011/12.	Work by management to address the issues raised during 2011/12 is on-going.	-
	Help desk.	RACE-based review.	As already reported, although this work has begun, it will continue into 2013/14.	-
	Implementation of Lancashire Electronic Content System (LECS) and identity management.	Advice and assistance, including attendance at corporate groups.	As already reported, it is unlikely that any further input will be required from the Internal Audit Service.	-
	Network access.	RACE-based review.	A report is being drafted.	-
	Password standards.	Compliance testing	A draft report was issued in March 2012 but, as above, until the issues relating to information governance are resolved, appropriate action cannot be agreed.	Limited
	Security of mobile devices.	RACE-based review.	Terms of reference for this work have been agreed but the work will continue into 2013/14.	-
	Web usage.	RACE-based re-review – nil assurance 2011/12.	We have previously reported that new software has been implemented that resolves the issues we raised in 2011/12.	Substantial
	Database security.	RACE-based review – completion of prior year's work.	We reported our work on database security in September 2012.	Limited
Procurement				
	Procurement Centre of Excellence – purchasing and tendering control compliance testing (including follow-up of previous audit work).	RACE-based review and follow-up work.	Work on purchasing and tendering has been combined into a single project that is almost complete and which will be reported shortly. Work to follow up specific issues relating to the procurement of goods and services in Highways, and contracts for adult social care will also be undertaken in 2013/14.	-

Control	Audit review	Audit scope	Comments	Assurance
Estate management				
	Property asset inventory control and usage – reactive repairs and planned maintenance.	RACE-based review.	We have tested the council's controls relating to reactive property repairs and maintenance, and planned maintenance, covering samples of properties and maintenance work across both the council's retained and school property portfolio. Steps are already being taken to address some of the issues raised and to improve the effectiveness of controls over maintenance of the council's assets. However constraints over the council's budget mean that reactive maintenance costs are increasing significantly as planned maintenance expenditure is falling, and budget monitoring of maintenance costs is limited by the management information systems currently available.	Limited
	Follow-up: Property asset inventory control and usage – high level controls.	Follow-up review – substantial assurance in 2011/12.	This work has been incorporated with that above.	-
Service specific controls				
Adult and Community Services (ACS)				
	Support to management. Care decision-making panels.	RACE-based review.	We have supported management in considering the procurement of certain social care contracts. A representative of the Internal Audit Service is supporting the working group, and further audit work is scheduled for 2013/14.	- -
	Data quality for performance management.	RACE-based review.	Our work, focussed specifically on monitoring the performance of the Library Service, was reported in January 2013.	Substantial
	Direct payments.	RACE-based review.	This work was reported in January 2013. The issues included the need to demonstrate that an assessment of mental capacity has been made; to clarify for service users the council's relationship with third party service providers; to approve the on-going assessments of need; and to more effectively check the use of the funds provided, in accordance with a risk assessment and on a timely basis.	Limited
	Health and safety of lone workers.	RACE-based review – previously limited assurance.	As previously reported, this work has been undertaken as part of a review of lone workers in each of the directorates. The work is complete and draft reports are being compiled for each directorate as well as for the council as a whole.	-
	Establishment visits (cash management).	Compliance testing – completion of prior year's work.	We undertook a number of unannounced visits to libraries, museums and county information centres to review cash handling procedures, and reported our work in January 2013.	Limited
	ISSIS replacement: advice and support re controls over configuration, security and implementation of replacement system.	Advice and support.	As previously reported, the Internal Audit Service is represented on the project board and work has begun. Input is being coordinated with work on the CYP project board.	-
	Management of case referrals: compliance testing.	Compliance testing.	We reported in March 2013 that the issues we raised in June 2011 have been addressed and we have improved our assessment from limited assurance at that time, to substantial assurance.	Substantial
	Non residential care system (NRCS): compliance testing.	Compliance testing.	We reported our work on this area in January 2013 and there are no significant issues to note.	Substantial
	Payment and monitoring system (PAMS): compliance testing.	Compliance testing.	We reported our work on this area in January 2013 and there are no significant issues to note.	Substantial
	Preferred provider scheme.	RACE-based review – completion of prior year's work.	We reported our work on this area in January 2013, noting that a high proportion of providers were automatically accredited as 'preferred' and the accreditation process was variable. The standard domiciliary monitoring framework has not been consistently applied, and it is not clear that all preferred providers are meeting the required standards.	Limited
	Resource allocation within the model that allocates individual budgets.	RACE-based review.	This work has begun and will incorporate follow-up of the work on fair access to care criteria but is not yet complete.	-
	Follow-up: Fair access to care criteria (FACS).	Follow-up review – substantial assurance in 2011/12.	This work has been combined with the work above on the allocation of individual budgets.	-
	Follow-up: Vulnerable adults' domiciliary services and day centres.	Follow-up review – previously substantial assurance.	We reported in January 2013 that good progress has been made by Domiciliary Services in implementing recommendations from the previous review of this area in August 2011.	-
	Care grants and crisis loans	RACE-based review.	We are providing on-going support to the Project Board and in 2013/14 will provide assurance over key system developments including the identification and prioritisation of claimants, safeguards against error, fraud and abuse, and the integration of the service with other areas of discretionary financial assistance.	-

Control	Audit review	Audit scope	Comments	Assurance
Public health				
	Operational review in the shadow year.	RACE-based review.	We have undertaken work to determine whether the council has taken all reasonable steps to ensure that information regarding the assets and liabilities and details of staff transferring to Public Health Lancashire is complete and valid, accurately or reasonably valued, and current. Good progress was made to support an effective transfer of the service and the key risks affecting the transition process were identified, appropriately managed and reported both to the Public Health Lancashire Steering Group and to Cabinet. Where processes could not be finalised prior to 1 April 2013 appropriate arrangements are in place to resolve these issues at the earliest opportunity.	Substantial
CYP				
	Support to management. Emergency payments to families.	Support to management. RACE-based re-review – previously limited assurance.	We have continued to work with management to consider their responses to control issues. We reported in November 2011 that controls were not operating effectively and had been applied inconsistently, and that local judgement of appropriate expenditure was inconsistent across the county. Most of the actions agreed by management to address these issues remained incomplete when we reported our re-review in January 2013, but we met the Directorate Leadership Team in March 2013 and we understand that action is now being taken to implement the outstanding recommendations.	- Limited
	Financial, operational and safeguarding procedures within children's residential homes. Health and safety of lone workers.	RACE-based review – completion of prior year's work. RACE-based review.	We reported our work on this area in January 2013 and there are no significant issues to note. As previously reported, this work has been undertaken as part of a review of lone workers in each of the directorates. The work is complete and draft reports are being compiled for each directorate as well as for the council as a whole.	Substantial
	ISSIS replacement process: advice and support re controls over configuration, security and implementation of the replacement system. Independent Reviewing Officers (IROs)	Advice and support re controls over configuration, security and implementation of replacement system. RACE-based review – completion of prior year's work.	The Internal Audit Service is represented on the project board and work is on-going. Input is being coordinated with work on the ACS project board. It was reported in January 2013 that high priority ('starred') recommendations are not fully logged and the log is not adequately monitored to ensure that actions are taken as required. The Directorate Leadership Team has recently discussed this and will implement the outstanding agreed actions.	- Limited
	Management of children's social care referrals.	RACE-based re-review – previously limited assurance.	As reported in September 2012 management has already acted to ensure that cases are not allocated to ceased workers or managers. Since the system will be significantly changed by the introduction of the system that will replace ISSIS we will undertake a full re-review during 2014/15.	-
	Partnership working with the NHS to support children with mental health needs.	RACE-based review.	Although the specification of child and adult mental health services (CAMHS) reflects both national and local priorities, the county council has not seen evidence from its service providers of the outcomes of the funding it provides, and these are not monitored. The NHS is currently undergoing a major transformation, and this will affect the arrangements currently operating for the delivery of CAMHS across the county.	Nil
	Provision for children with disabilities (direct payments).	RACE-based review – completion of prior year's work.	We reported a number of concerns in January 2013, relating to the approval and review of initial assessments of need within the directorate, and on-going reviews of the use of the financial support provided. The Directorate Leadership Team is now taking action to address this.	Limited
	School budget formula and pupil forecasting.	RACE-based review.	The funding arrangements for schools will change considerably for the 2013/14 school financial year and we assessed the council's readiness to implement these changes. Funding is dependent upon the number of pupils on schools' rolls which is determined by a census on a specific date, and on the proper application of the funding formula to individual schools' data. We tested the quality of this census data and visited a sample of five schools to assess the controls in place to ensure that the census data submitted was complete and accurate. We then tested that the validated census data was input accurately to the funding formula, and concluded that the controls operating within the Information Unit and Business Partner for Schools Team are operating effectively.	Substantial

Control	Audit review	Audit scope	Comments	Assurance																																								
	Troubled Families programme	RACE-based review.	The Troubled Families programme was introduced earlier in the year and our work is focussed on the directorate's operational response to this programme and its related payment-by-results scheme. Our work is on-going and will continue into 2013/14 but we have issued an initial report that provides substantial assurance over the governance arrangements in place for the programme. However we have provided only limited assurance over the processes currently in place supporting the operation of the programme, in particular, its data management and the need to obtain access to data from different organisations, including central government.	Substantial & Limited																																								
	Young Persons Learning Agency (now the Education Funding Agency) grant certification.	Compliance testing – grant certification.	Although the Young Persons Learning Agency has now become the Education Funding Agency, certification of the funding provided to schools with sixth forms is still required and work is in progress to provide this.	-																																								
	Implementation of the Ofsted action plan and actions arising from the peer review.	Follow-up review of Ofsted's report.	As we reported in January 2013, most of the actions arising from Ofsted's review of the council's children's services are being monitored by the Head of Safeguarding Inspection and Audit, but there are significant deficiencies in the directorate's review of its case files. The Directorate Leadership Team is now taking action to implement the outstanding recommendations.	Limited																																								
	Follow-up: Financial and performance monitoring of schools.	Follow-up review – substantial assurance in 2011/12.	Actions were due by September 2012 but will not be evidenced until the spring term, and are therefore still being followed up.	-																																								
	Follow-up: SureStart children's centres.	Follow-up review – limited assurance in 2011/12.	Actions were due by September 2012 but will not be evidenced until the spring term, and are therefore still being followed up.	-																																								
Schools and sixth forms																																												
	Support to LCC management.		The Internal Audit Service is continuing to work with other members of the County Treasurer's team to assess the council's responsibilities in relation to schools, the related assurance requirements, and the impact of the move of some schools to academy status.	-																																								
	School reviews.	Whole-school reviews.	Work has been completed as follows:																																									
			<table border="1"> <thead> <tr> <th rowspan="2">School type</th> <th rowspan="2">Number of audits</th> <th colspan="4">Level of assurance</th> </tr> <tr> <th>Full</th> <th>Substantial</th> <th>Limited</th> <th>None</th> </tr> </thead> <tbody> <tr> <td>High school</td> <td>6</td> <td>0</td> <td>4</td> <td>2</td> <td>0</td> </tr> <tr> <td>Primary school</td> <td>27</td> <td>1</td> <td>15</td> <td>9</td> <td>2</td> </tr> <tr> <td>Special school</td> <td>2</td> <td>0</td> <td>2</td> <td>0</td> <td>0</td> </tr> <tr> <td>Nursery school</td> <td>3</td> <td>0</td> <td>2</td> <td>1</td> <td>0</td> </tr> <tr> <td>Total</td> <td>38</td> <td>1</td> <td>23</td> <td>12</td> <td>2</td> </tr> </tbody> </table>	School type	Number of audits	Level of assurance				Full	Substantial	Limited	None	High school	6	0	4	2	0	Primary school	27	1	15	9	2	Special school	2	0	2	0	0	Nursery school	3	0	2	1	0	Total	38	1	23	12	2	
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Total	38	1	23	12	2																																							
	Follow-up of school reviews.	Follow-up review.	We have followed up all recommendations where we gave a school limited or no assurance in 2011/12 and schools have implemented the majority of them, with no significant outstanding recommendations.	-																																								
	Thematic review - income.	Thematic review	Our work on this area was reported in January 2013.	Limited																																								
	Thematic review - schools with public sports facilities	Thematic review	This work has begun but will continue into 2013/14.	-																																								
	Follow-up of thematic reviews: procurement, unofficial school funds and data protection.	Follow up all 2011/12 thematic reviews.	This work has begun and draws on our work on individual school visits.	-																																								
	Premises management framework - schools and sixth forms	RACE-based review – completion of prior year's work.	We noted in January 2013 that the mechanism to enforce or verify schools' compliance with the council's premises management framework or any other framework is not comprehensive and there is no evidence that more than half of all schools have arrangements in place to ensure that premises are compliant with health and safety requirements. In 2013/14 the Environment Directorate will undertake a programme of school visits to validate schools' compliance.	Limited																																								
Environment																																												
	Support to management.		We have discussed the integrated assurance plan/ risk management arrangements involved in the Pennine Reach project.	-																																								
	Budgetary control within the directorate.	RACE-based review.	This work was scheduled for late in the year as the new arrangements for budget-holders under the latest release of the Oracle financial system settle down but it has now been incorporated into the work on budgetary control for the council as a whole, which will begin in 2013/14.	-																																								

Control	Audit review	Audit scope	Comments	Assurance
	Analysis of overtime and additional payments.	Data analysis to support management.	As already reported, this work was added to the plan for the year to support management in understanding overtime and other additional payments made to groups of staff now within the directorate. Management is satisfied that the amounts being paid are appropriate and, although a formal assurance level was not provided within our report, the council should take substantial assurance that such payments are not being made inappropriately within the directorate.	Substantial
	Carbon reduction commitment.	Compliance testing.	As already reported, we reviewed the process by which the Council's return was made to the Carbon Reduction Commitment Energy Efficiency Scheme for 2011/12 and, after some additional work we provided substantial assurance over this process.	Substantial
	Concessionary travel.	RACE-based review – completion of prior year's work.	We reported our findings on this area in January 2013. We noted in particular that the national scheme to identify the use of lost or stolen NoWcards is not yet fully enabled and there is therefore a risk that lost or stolen cards may be misused. Certificates of accuracy were received late from operators, and one was inaccurate, but no payments were suspended.	Limited
	Flood risk management.	RACE-based review.	The directorate is making good progress in implementing the legislative requirements. Not all the duties specified have been commenced in legislation yet, but those that have are currently being undertaken, and where deadlines have been specified these have been met.	Substantial
	Health and safety of lone workers.	RACE-based re-review – previously limited assurance.	As previously reported, this work has been undertaken as part of a review of lone workers in each of the directorates. The work is complete and draft reports are being compiled for each directorate as well as for the council as a whole.	
	Corporate manslaughter - highways responsibilities.	RACE-based re-review – previously limited assurance.	This work has been combined with work on highways asset management, and a report is being drafted.	
	Highways asset management.	RACE-based review.	This work has been combined with work on highways responsibilities in relation to corporate manslaughter, and a report is being drafted.	
	Highways purchasing and use of subcontractors.	RACE-based review – completion of prior year's work.	An outline of our findings was reported to the Audit Committee in June 2012, and the implications of this work are being addressed by the Environment Directorate, LCCG and the Procurement Centre of Excellence.	Limited
	Winter highways information management system.	RACE-based re-review – previously limited assurance (although the previous opinion used different terms).	A report is being drafted for discussion with management but is not yet complete.	
	Follow-up: Closed landfill sites.	Follow-up review – previously substantial assurance.	As previously reported, all the agreed actions have been completed by management.	-
	Follow-up: Development control s278.	Follow-up review.	This work is complete and the action plan has been largely completed as agreed.	-
	Grant audit: Citizen Rail.	Compliance testing – grant certification.	This work is on-going; we are actively involved in supporting the preparation of an appropriate claim, and in certifying expenditure in accordance with EU requirements.	-
	Grant audit: CIVINET.	Compliance testing – grant certification.	This work has been completed.	-
	Grant audit: ENVIREO.	Compliance testing – grant certification.	This work has been completed, but further claims will be made in the coming year.	-
	Grant audit: Growth Point.	Compliance testing – grant certification.	This work has been completed, but further claims will be made in the coming year.	-
	Grant audit: Interreg IVB SusStations (NWE).	Compliance testing – grant certification.	This work has been completed, but further claims will be made in the coming year.	-
	Grant audit: Local Transport Capital	Compliance testing – grant certification.	This work was unplanned but was completed at the end of September 2012.	-
Lancashire County Commercial Group				
	Support to management.		We have continued to provide ad hoc support to management.	-
	Bus service operators grant.	Compliance testing – grant certification.	This claim is made twice-yearly and both claims have now been made and certified.	-
	Catering income procedures in schools.	RACE-based re-review – previously limited assurance.	As already reported, progress has been made in implementing most of the actions agreed. Work instructions have been reissued to units and area managers have been reminded of the importance of complying with work instructions. Furthermore, audit visits are now up to date and are being undertaken on a termly basis by the quality auditor.	-
	Health and safety of lone workers.	RACE-based re-review – previously limited assurance.	As previously reported, this work has been undertaken as part of a review of lone workers in each of the directorates. The work is complete and draft reports are being compiled for each directorate as well as for the council as a whole.	-

Control	Audit review	Audit scope	Comments	Assurance
	Food stocks, consumption, ordering, and invoicing.	RACE-based review.	The council currently provides more than 55,000 meals each day in approximately 550 of Lancashire's schools. All catering contracts are managed directly for each school and services are tailored to their needs individually through service level agreements: the volume of catering activity and transactions reflects the scale and variety of this operation. Food orders are not always retained as required, particularly when goods are ordered over the phone, and it is not clear that invoices received from suppliers are fully matched to delivery notes and price lists. Two systems were being used to control costs and to manage menus, but a fully integrated system is now being used to manage both menus and management information.	Limited
Customer service centre				
	Emergency Duty Team.	Support to management.	At management's request we have provided support to understand the structure and costs of the Emergency Duty Team in readiness for its transfer into Care Connect. We have undertaken work specifically to understand the allowances paid and the shift patterns worked by the team, but an opinion regarding the assurance we can provide is not appropriate.	-
Economic development				
	Superfast broadband project, involving the assistant chief executive, LCDL's grant specialist team and the economic development team. Grant audit: Intensive Business Start-up.	RACE-based review. Compliance testing – grant certification.	We have started to work with the specialist grants team to consider what procedures are required to support the council's claims for grant funding. We have completed work begun in 2011/12 to certify this grant funding claim.	- -
Counter fraud service				
Counter fraud				
	Bribery Act.	RACE-based review.	This work has not been undertaken, as a considerable amount of resources have been spent on supporting management in dealing with a number of investigations.	-
	School income testing.	Compliance testing directed by data analysis.	As already reported, we have undertaken a number of investigations during the year relating to the management of school income.	-
	Prevention of bribery – street works.	RACE-based review – completion of prior year's work.	We have reviewed controls over the management of default notices in respect of street works, which were identified as a specific area that could be susceptible to bribery. Although action has been agreed to enhance control further, the controls in place are adequate to counter the risk of bribery as far as is practical.	Substantial
National Fraud Initiative				
	National Fraud Initiative testing.		In January 2013 we were provided with a number of data matches to investigate and are continuing to work with a number of managers around the council to investigate these.	-
Reactive work				
	Responsive work to support management.	Individual investigations.	We have supported management, and continue to provide on-going support, on a considerable number of investigations and disciplinary procedures.	-

Audit and Governance Committee

Meeting to be held on 24 June 2013

Electoral Division affected: All

Internal Audit annual report to Lancashire County Council for 2012/13

(Appendix A refers)

Contact for further information:

Ruth Lowry, (01772) 534898, Chief Internal Auditor, County Treasurer's Directorate

Ruth.lowry@lancashire.gov.uk

Executive Summary

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

The opinion given in the report states that "I can provide substantial assurance that there is generally sound system of internal control, adequately designed to meet the council's objectives, and controls are generally being applied consistently."

However there are matters that put the achievement of the council's objectives at risk and these have been discussed with members of the Management Team.

Recommendation

The Committee is asked to consider the internal audit annual report for 2012/13.

Background

The Internal Audit Service complies with the professional standards of the Chartered Institute of Public Finance and Accountancy, which has 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 Application Note require a chief internal auditor to deliver an annual internal audit opinion and report that can be used to inform the council's governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual 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 the quality assurance and improvement programme.

Background and advice

The work on which this report is based is in accordance with the annual internal audit

plan agreed by the Audit Committee on 26 March 2012, and has been reported in progress reports to each meeting of the Audit Committee during 2012/13.

Consultations

Not applicable.

Implications

Not applicable.

Risk management

This report supports the Audit and Governance Committee in undertaking its role, which includes advising the Council on the adequacy of its risk management processes.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Ext
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Reason for inclusion in Part II, if appropriate:

Not appropriate.

**Lancashire County Council
Internal Audit Service**

**Annual report of the chief internal auditor
for the year ended 31 March 2013**



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4 Implications for the annual governance statement	5
5 Counter fraud and investigatory work	6
6 Internal audit performance	7

Annex A: Audit assurance levels and classification of audit recommendations

Annex B: Detailed analysis of internal audit assurance assignments 2012/13

Annex C: Scope, responsibilities and assurance and audit assurance levels

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the county council's Internal Audit Service has undertaken during 2012/13 and the key themes arising in relation to internal control, governance and risk management across the council.

The role of internal audit

- 1.2 The Internal Audit Service is an assurance function that provides an independent and objective opinion on the adequacy and effectiveness of the council's control environment. The Public Sector Internal Audit Standards issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) require the chief internal auditor to provide an opinion on the council's control environment and a written report to those charged with governance, timed to support the annual governance statement. This report presents my opinion based upon the work the Internal Audit Service has performed during 2012/13.
- 1.3 The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in Annex C to this report.

Interim reports

- 1.4 This report builds on the matters reported in previous years which remain relevant and matters that have been the subject of discussions throughout the year with members of the Management Team and their senior management teams.
- 1.5 I have also reported summaries of key areas of audit work to the Audit and Governance Committee as they have been completed during the year, including a report for the final period of the year.

Ruth Lowry
Chief Internal Auditor
Lancashire County Council

2 Summary assessment of internal control

Overall opinion

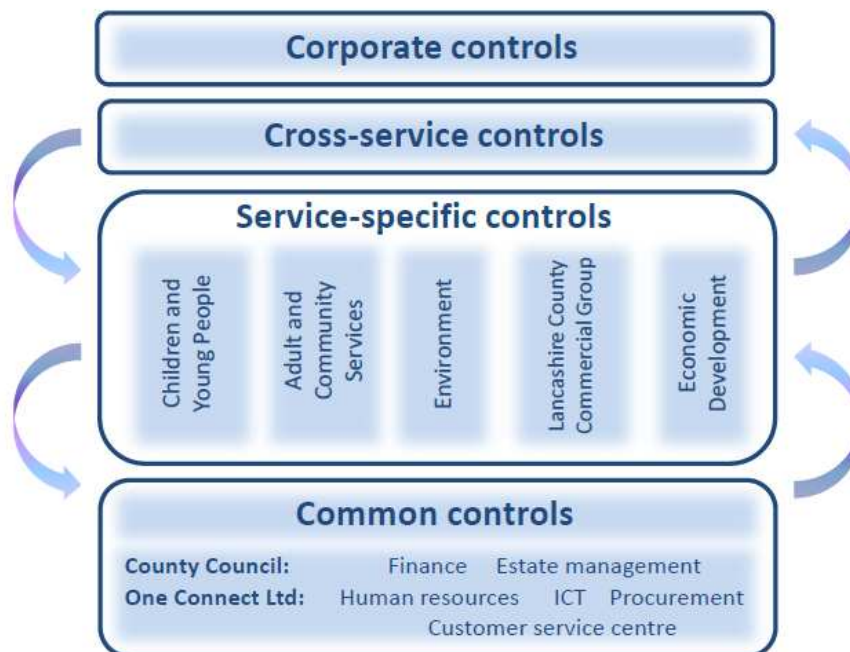
- 2.1 On the basis of our programme of work for the year, I can provide **substantial** assurance overall that there is generally sound system of internal control, adequately designed to meet the council's objectives, and controls are generally being applied consistently. However some weaknesses in the design and inconsistent application of controls put the achievement of particular objectives at risk.
- 2.2 In forming my opinion on the council's internal control environment, risk management and corporate governance, I have considered the work undertaken by the Internal Audit Service throughout the year as well as, to a more limited extent, the work of external assurance providers. Although the results of individual audit assignments are almost evenly spread between substantial/ full assurance and limited/ nil assurance it is clear that real improvements continue to be made in some common areas of control across the council and that the council's risks are adequately controlled and, in overall terms, there is generally a sound system of internal control. There are a number of other areas where controls are either inadequately designed for their current purpose or ineffectively operated in practice and the follow up of action plans agreed with management to remedy this will be a focus of audit work in the coming year.
- 2.3 I have provided more detailed summaries of individual pieces of audit work throughout the course of the year in my progress reports to each meeting of the Audit and Governance Committee.
- 2.4 Explanations of the work we have done are set out below and an explanation of the levels of assurance the Internal Audit Service provides are set out in Annexes A and C. Annex B provides a table of each assurance assignment the team has undertaken during the year and the level of assurance we have provided for each.

The council's control framework

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

- Service-specific controls: The controls designed to manage the risks arising in individual service areas.

The council's control framework



Management's responses to our findings

- 2.6 Each of the issues I have raised during the year has been discussed with the relevant service managers as well as with members of the council's Management Team. Action plans have been agreed and actions are already being implemented; the Internal Audit Service will follow up our findings during the course of 2013/14 and provide support to managers to develop and implement pragmatic solutions to the control issues identified.

Follow-up of our previous work

- 2.7 We have undertaken work to ascertain progress in implementing agreed recommendations resulting from earlier years' reviews. Whilst progress is generally being made to implement the action plans as agreed, restructuring and the work associated with making significant cost savings, and the loss of some management capacity, has again meant that some management teams have not acted within the timescales they intended. However most of the recommendations we have agreed with management have been or are being implemented and revised action plans have been agreed where necessary.

Summary of assurance provided by the Internal Audit Service

- 2.8 A summary of all the assurance we have provided during the year is provided in the table below. This includes each internal audit assignment directed to providing controls assurance, but it excludes work for example on the certification of grant funding claims and participation in working groups, which has not been directed at providing controls assurance.

Assignments relating to:	Assurance			
	Full	Substantial	Limited	None
Corporate and cross-service controls	2	3	2	1
Common controls		8	4	
Service-specific controls		13	13	1
Total assignments = 47	2 (4%)	24 (51%)	19 (40%)	2 (4%)
2011/12 (48 assignments)	1 (2%)	25 (52%)	22 (46%)	0 (0%)

Wider sources of assurance available to the county council

- 2.9 Assurance has been provided to the council by the Audit Commission as the council's external auditor for the year. The Audit Commission issued its annual audit letter relating to 2011/12 in January 2013, and gave unqualified opinions on both the annual financial statements and the council's value for money arrangements. A copy of the report is available at:
<http://mgintranet/documents/s17641/2011-12%20Lancashire%20CC%20Annual%20Audit%20letter.pdf>
- 2.10 In March 2013 I reported that a short quality screening inspection of the Lancashire Youth Offending Team had been completed by Her Majesty's Inspectorate of Probation (HMIP) to assess the quality and effectiveness of the council's casework with children and young people who have offended. A copy of the report is available at: <http://www.justice.gov.uk/publications/inspectorate-reports/hmi-probation/inspection-reports-youth/inspection-of-youth-offending-work>

3 Key issues and themes

- 3.1 Despite the considerable change agenda, overall, the council continues to operate an effective framework of internal control.
- 3.2 There is a clear trajectory of continuous improvement in the common controls that underpin the work of all the council's services, specifically through developments in the use of e-enabled systems and the county's financial software, which are being streamlined and increasingly demand consistency in their operation. Improvements are still ongoing to strengthen these common controls, particularly the corporate financial systems where controls are already generally good. The work arising from the implementation of the upgrade to the financial software has again been subject to close management attention during the year, and there have been major related changes to operating procedures and organisational structures, which will continue into the coming year. This is already resulting in more consistent and efficient control across the whole of the council as systems have been designed around the principles of standardisation, automation, consolidation and simplification.
- 3.3 The council continues to demonstrate considerable ambition in developing its services, at the same time as cost savings necessitate service reductions and

redesign. Where services and systems are subject to such considerable change it is unsurprising that the related controls also require adjustment.

- 3.4 Reviews of the council's core ICT systems are under way in a number of operational areas, and the replacement of software that has been designed and maintained in-house with off-the-shelf software systems is providing opportunities to strengthen system security and control. In particular, the replacement of the Integrated Social Services Information System (ISSIS) in the coming year will facilitate greatly improved access controls and therefore information security.
- 3.5 However I reported in my last annual report and throughout the year that risks around information governance are not being adequately managed. Work has begun to strengthen the control framework but, whilst progress has clearly been made in designating a senior information risk officer, developing the council's policy framework and a revised suite of draft policies, other work has not progressed quite as successfully. Little action has been taken for some time to ensure that there is any general awareness amongst the council's staff of the need for information security, how to guard this effectively, how to recognise that security has been breached and what action to take if it has.
- 3.6 Information governance is the single most significant control issue currently facing the council and it should be reported in our annual governance statement.
- 3.7 The council is required to comply with a very wide range of legislation. Whilst the Deputy County Secretary and Solicitor reported during the year that "a high degree of assurance can be provided" over the council's "compliance with legislation focussed specifically on local government", he also stated that "a lesser degree of assurance can be provided in relation to legislation that is local government-specific but relates to functions". So, for example, a high court judgement was made in June 2012 against the council and one of its independent reviewing officers (who oversee children's social care). However although our compliance testing has necessarily been limited, we have nonetheless been able to provide full assurance that the two detailed areas we reviewed during the year are compliant with relevant legislation.

4 Implications for the annual governance statement

- 4.1 In making its annual governance statement the Audit and Governance Committee has specifically requested that the council refers to the need to improve its arrangements supporting good information governance. The council also considers the chief Internal Auditor's opinion in relation to its internal control environment, risk management processes and corporate governance.
- 4.2 The annual governance statement should therefore refer to the need to improve the council's arrangements to ensure good information governance.

5 Counter fraud and investigatory work

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

Special investigations

- 5.2 The Internal Audit Service has spent a considerable amount of time on a number of special investigations, largely arising from whistle-blowing and similar calls. We have worked closely with the Human Resources team as well as service teams on a number of financial investigations and related disciplinary procedures, and the volume of work arising from these has been considerable. Work on one case in particular is likely to continue for some time.
- 5.3 We are required to report any individual instances of fraud or financial loss exceeding £10,000 to the council's external auditors. There have been three cases arising during the year which exceed this level, concerning:
- Payments via sub-contractors by a manager within Lancashire Highway Services;
 - Theft of dinner money at a school; and
 - Payment of a deceased person's pension to a relative.
- 5.4 We have worked closely with the Environment Directorate in particular on a number of investigations and disciplinary action, and disciplinary hearings are on-going relating to the sale of scrap metal by council officers that was investigated during 2011/12. It is likely that the publicity generated within a service from one incident has generated others, but we have been discussing with management the need to do more to proactively raise awareness of the issues. There is a need to clearly set out the council's expectations that its staff meet the high ethical standards of behaviour expected in public service.

Counter fraud activity

- 5.5 As part of the county council's duty to protect public funds, the Audit Commission requires all local authorities to participate in the National Fraud Initiative. This is a two-yearly exercise that matches electronic data sets held by public sector organisations to highlight potentially fraudulent activity.
- 5.6 The 2012/13 data was submitted in October 2012 and has generated a total of 65,381 matches, which were received in January 2013. These suggest areas of enquiry that we have prioritised and are currently pursuing with service managers. In particular there are a number of members of staff who receive payments through the accounts payable system as well as payroll system. We are also working with the Your Pension Service to identify overpayments relating to deceased pensioners. This exercise may be available on an annual basis in the future, and the council has expressed an interest in piloting this to ensure that any overpayments are identified and recovered at the earliest opportunity.

6 Internal audit performance

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

Internal audit plan 2012/13

- 6.2 Overall, we have provided the assurance the council requires and in particular we have completed our work on the council's corporate financial and ICT systems. We will be able to satisfy the external auditor that our work is sufficient for them to take assurance from it in undertaking their work. We have completed 47 individual audit assignments (2011/12: 48) and these are set out in Annex B. We have also followed up the action plans agreed during the previous year and undertaken a number of other projects that have not resulted in controls assurance, or which have resulted in the certification of grant funding claims.

Internal audit performance review

- 6.3 The Internal Audit Service has again requested client feedback through a questionnaire available to all officers via the Internal Audit Service's page on the council's intranet, and a similar survey to obtain feedback on each individual audit assignment has been established.
- 6.4 As part of the performance management framework for the service, a self assessment against the professional standards in place during the year (the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006) was undertaken. 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.
- 6.5 The Audit Commission concluded that:
- 'the Council's Internal Audit function meets each of the eleven standards for Internal Audit set out in the CIPFA Code of Practice for Internal Audit in Local Government.
- 'Our review has also concluded that the Internal Audit function demonstrates many of the characteristics of best practice as set out in the CIPFA Statement on the role of the Head of Internal Audit and The Excellent Internal Auditor. In particular, the Internal Audit work programme includes proactive fraud awareness work, thematic and corporate reviews to promote good governance across the organisation, and the annual plan is based on a comprehensive risk assessment process.'

A Audit assurance levels and classification of audit recommendations

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.

Audit recommendations

All recommendations are stated in terms of the residual risk they are designed to mitigate.

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

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

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

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

B Detailed analysis of internal audit assurance assignments 2012/13

Audit areas	Assurance			
	Full	Substantial	Limited	None
Corporate and cross-service controls				
Corporate governance				
Staff acceptance of gifts and hospitality, and disclosures of interests			✓	
Members' expenses and allowances – follow-up	Satisfactory progress			
Information governance				
Corporate information governance arrangements				✓
Corporate arrangements for data sharing with partners			✓	
Partnership working				
Funds flow between LCC and One Connect Ltd		✓		
Legislative compliance				
Advance consideration of the legal implications of decisions		✓		
Compliance testing within the Registrars Service	✓			
Compliance testing within the Trading Standards Service	✓			
Business continuity and emergency planning				
Corporate arrangements for emergency planning		✓		
Common controls				
Financial controls				
Accounts payable		✓		
Accounts receivable		✓		
Expenses			✓	
General ledger		✓		
Payroll		✓		
Treasury management		✓		
VAT		✓		
HR controls				
'Connect2HRP' advice to managers		✓		
ICT controls				
Password standards (draft report only)			✓	
Web usage		✓		
Database security			✓	
Controls over management of the council's estate				
Property assets – reactive repairs and maintenance			✓	
Service-specific controls				
Adult and Community Services				
Data quality for performance management – Library Service		✓		
Direct payments			✓	
Cash management at establishments			✓	
Management of case referrals		✓		
Non-residential care system (NRCS)		✓		

Audit areas	Assurance			
	Full	Substantial	Limited	None
Payment and monitoring system (PAMS)		✓		
Preferred provider scheme			✓	
Vulnerable adults' domiciliary services and day centres –follow-up	Satisfactory progress			
Public health				
Information on the resources transferring to the council		✓		
Children and Young People				
Emergency payments to families			✓	
Financial, operational and safeguarding procedures in children's residential homes		✓		
Independent reviewing officers			✓	
Partnership working with the NHS to support children with mental health needs				✓
Provision for children with disabilities (direct payments)			✓	
School budget formula and pupil forecasting		✓		
Working with Troubled Families Programme – governance, and operation of the programme		✓	✓	
Case file audit process			✓	
Schools and sixth form colleges				
School audit visits and follow-up (overall, combined assessment)		✓		
School audits – follow-up	Satisfactory progress			
Thematic school review: income			✓	
Premises management framework for schools			✓	
Environment				
Analysis of overtime and additional payments		✓		
Carbon reduction commitment		✓		
Concessionary travel			✓	
Flood risk management		✓		
Highways purchasing and use of sub-contractors			✓	
Closed landfill sites – follow-up	Satisfactory progress			
Development control (s278) – follow-up	Satisfactory progress			
Lancashire County Commercial Group				
Food stocks, consumption, ordering and invoicing			✓	
Counter fraud				
Street works and the risk of bribery		✓		
Total of all assurance assignments (47)	2	23	20	2
	4%	49%	43%	4%

C Scope, responsibilities and assurance

Approach

- C.1 In accordance with the CIPFA Code of Audit Practice, 2006, the scope of internal audit encompasses all of the council's operations, resources and services including where they are provided by other organisations on their behalf.

Responsibilities of management and internal auditors

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

Basis of our assessment

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

Limitations to the scope of our work

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

Limitations on the assurance that internal audit can provide

- C.8 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and

of management overriding controls. Further, there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.

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

Access to this report and responsibility to third parties

- C.10 This report has been prepared solely for Lancashire County Council. It forms part of a continuing dialogue between the Internal Audit Service, the chief executive, Audit Committee and management of the council. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- C.11 This report may be made available to other parties, such as the external auditors and One Connect Limited. 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.

Audit and Governance Committee
Meeting to be held on 24th June 2013

Electoral Division affected: None

Annual Governance Statement 2012/13
(Appendix A refers)

Contact for further information:
Roy Jones, 01772 533619, Office of the Chief Executive,
roy.jones@lancashire.gov.uk

Executive Summary

To approve the Annual Governance Statement (AGS) for 2012/13.

Recommendation

To approve the Annual Governance Statement for 2012/13.

Background and Advice

The Accounts and Audit Regulations 2011, require all relevant bodies, of which the County Council is one, to prepare and approve an Annual Governance Statement.

A requirement of the AGS is that reviews must be conducted of the governance arrangements in the authority. It has previously been agreed that this would be achieved by means of obtaining statements of assurance from executive directors as to the effectiveness of the governance arrangements for which they are responsible, and by reference to the annual report of the Chief Internal Auditor which is set out at Item 13 on the Agenda.

Those statements have now been obtained. Executive Directors were asked to confirm the adequacy of the arrangements within their directorate against all the principles set out in the council's Code of Corporate Governance, by indicating whether in each case they were good, adequate or weak. In all cases, the response has been categorised as either good or adequate.

The draft statement for 2012/13 is being finalised following submissions from executive Directors and will be circulated to members of the Committee as a supplementary to this item. The AGS describes the governance arrangements in the authority and the process by which the review of those arrangements have taken place.

The Statement outlines areas where there are suggested improvements in the coming year and the Committee is asked to note that a number of changes have already been agreed for several aspects of the governance regime for 2012/13.

These will include those areas outlined in the annual report of the Chief Internal Auditor. It will also be noted that it is recommended that the annual governance statement should include reference to the need to improve the council's arrangements to ensure good information governance.

The AGS will be presented to the Chief Executive and Leader for signature.

The Audit and Governance Committee are asked formally to approve the AGS.

Consultations

Executive Directors individually.

Risk management

The risk management implications are referred to in the body of the report.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Directorate/Tel
Delivering Good Governance in Local Government – Guidance Note for English Authorities	2007	Roy Jones, Office of the Chief Executive, 01772 533619

Delivering Good Governance Addendum - 2012

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Council

Annual Governance Statement – Financial Year 2012/2013

1. The council's responsibilities

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 and 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.

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.

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 of corporate governance is available on the council's website and hard copies can be obtained by contacting Roy Jones on 01772 533619. This statement explains how the council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 4(30), which requires all relevant bodies to prepare an annual governance statement.

The council's code of corporate governance has been approved by the Audit and Governance Committee.

2. The purpose of the governance framework

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.

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.

This statement confirms that the governance framework has been in place at the council for the year ended 31 March 2013.

3. The council's governance framework

The following are highlights of the key elements of the systems and processes that comprise the county council's governance arrangements:

Communicating and reviewing the Authority's vision

The council has a Corporate Strategy which sets out its vision for Lancashire for the period 2013-17. The strategy is refreshed annually to reflect changes in both local and national priorities.

To measure the effectiveness and delivery of the council's ambitions, the council's Cabinet Committee on Performance Improvement regularly reviews performance of services against both local and national indicators and in relation to progress against the objectives set out in the Corporate Strategy, including progress towards the achievement of the council's corporate performance priority areas.

Decision making

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.

The terms of reference of some of the committees of the council were revised in 2012/13 to reflect changed governance arrangements around standards and the code of conduct for members arising out of the Localism Act 2011.

The scheme of delegation to officers enables decisions to be taken at the most appropriate and effective level. A review of the Scheme of Delegation to Chief Officers is underway. A review will be simultaneously undertaken of the council's Financial Regulations and Cabinet Member delegations.

The council operates a decision making protocol, which is regularly reviewed to ensure legal and financial probity and compliance of decisions of the Council, the Executive and Committees. The protocol is supplemented by a new software system being developed to enhance consistency and good governance in decision making. Decision making rules are clearly outlined within the council's constitution.

Arrangements for Scrutiny

The council's current scrutiny arrangements have been in place since May 2010, and comprise three scrutiny committees - the Scrutiny Committee, Education Scrutiny Committee and Health Scrutiny Committee, to provide the effective scrutiny for the authority of the council, executive and its partners.

The functions of the Scrutiny Committee include scrutiny of the council's crime and disorder partnership and responsibility for the scrutiny of flood risk management.

The Health Scrutiny Committee has the statutory role of scrutinising proposed substantial variations in service delivery in the health service and scrutinising the work of the NHS more generally, which was reaffirmed by the council in March 2013.

A standing joint health committee has been established with Blackburn with Darwen and Blackpool councils to consider substantial variations in services affecting all three areas. A joint committee has also been agreed in principle with Cumbria County Council to consider changes at a hospital trust which operates across the boundary of the two authorities.

Public Health

From April 2013 the council became responsible for Public Health and a Cabinet Member for Health and Wellbeing has responsibility for this function.

The council has established a Lancashire Health and Wellbeing Board which is leading on the strategic co-ordination of commissioning across the NHS, social care and public health, to secure better outcomes for the population, better quality of care for patients and care, and develop a Health and Wellbeing Strategy for Lancashire. A local Healthwatch has been established which will give citizens and communities a stronger voice to influence and challenge how health and social care services are provided within the locality.

Codes of Conduct and ethics

In May 2012, the council agreed a revised code of conduct for members in line with new arrangements required under the Localism Act 2011, including the establishment of a new Conduct Committee to consider complaints made against members of the council.

Appointed "Independent Persons", provide a clear guide to members and set out the arrangements for handling complaints. Training has been provided to all councillors on the new requirements.

The council has fully reviewed its system for recording officer gifts, hospitality and interests. Revised policies have been introduced and publicised to staff and an online form has been developed to make it easier for officers to record

any interests or gifts and hospitality, and for that data to be collated and made available to senior managers.

The council has a protocol on County Councillor/ Officer Relations. A series of corporate political awareness training sessions for staff at all management levels of the council, involving leading councillors, has been underway in 2012/13 and will continue across council directorates in 2013/14.

Audit

The council has an Audit and Governance Committee which operates in accordance with professional guidance. It provides independent oversight of the adequacy of the council's governance, risk management and internal control frameworks, and oversees the financial reporting process. It receives appropriate training for the work that it does.

The council has a well regarded Internal Audit Service that provides an independent and objective opinion to the council on the overall adequacy and effectiveness of its control environment (comprising governance, risk management and internal control). It works with officers to develop the control environment, and supports management's compliance with established policies, control procedures, laws and regulations. It also provides a counter fraud and investigatory service and produces an annual report on counter fraud activity and special investigations for the Audit and Governance Committee.

Whistleblowing and complaints

The council has an effective whistleblowing procedure in place, which has been publicised to staff. Reports on the level of use and outcomes are presented to the Audit and Governance Committee.

There is a two-stage corporate complaints procedure in addition to statutory complaints procedures in relation to children's and adult social care.

Risk Management

In January 2012 the Management Team and Audit Committee agreed revised arrangements for risk management within the council. The council manages its risks well in practice, and action taken by management team amounts to an effective ongoing process of risk identification, assessment and management. There is good general awareness of risk and the need to demonstrate risk management by managers across the council.

Member and Officer Training and Development

There is a cross-party member development working group in place with the remit of planning and co-ordinating member development activities to meet

individual and group needs. Officer training is overseen through a performance and development review process.

Information Governance

Work has begun to strengthen the control framework for Information Governance including the development of the council's policy framework and policies and the appointment of a senior information risk officer. The cross-service Corporate Information Governance Group has also been reconvened.

Communication with the Community

The council effectively engages with the community in a number of ways:

- High profile communication campaigns to encourage communities to take up services or help change behaviours
- Use of traditional and new media channels to keep residents informed of activities
- Encouraging members to use social media to engage with their communities
- Webcasting of council and committee meetings
- Member representation on neighbourhood management boards across Lancashire

4. Review of effectiveness

The council conducts an annual review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of the council's Management Team who have responsibility for the development and maintenance of the governance environment, the chief internal auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectors. The council is also required to review the effectiveness of its internal audit and this is undertaken by the county treasurer.

Statements of assurance have been completed and signed by members of the Management Team as to the effectiveness of the governance arrangements for which they are responsible, including the system of internal control. These statements of assurance cover all the principles set out in the council's Code of Corporate Governance. They reveal no significant areas of weakness in the council's corporate governance arrangements; all arrangements have been categorised as either good or adequate.

In her annual report, the chief internal auditor reports that whilst work has begun to strengthen the control framework for information governance, little action has been taken for some time to ensure that there is: general awareness amongst the council's staff of the need for information security;

how to guard this effectively; how to recognise that security has been breached; and what action to take if it has.

5. Programme of improvement on information governance issues

The council recognises the need to continue to improve its information governance arrangements and will put in place measures to ensure that staff are fully aware of the need for information security, how to guard information appropriately, and to report effectively any security breaches. It has recently reconvened its Corporate Information Governance Group and is reviewing the framework of control and guidance that will better secure the information it holds.

We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and we will monitor their implementation and operation as part of our next annual review.

Signed:

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Leader of Lancashire County Council

Chief Executive of Lancashire County Council

Date

Date

Audit and Governance Committee

Meeting to be held on 24 June 2013

Electoral Division affected: All

Internal Audit Plan for 2013/14

(Appendix A refers.)

Contact for further information:

Ruth Lowry, Chief Internal Auditor, (01772) 534898

Ruth.lowry@lancashire.gov.uk

Executive Summary

The Audit and Governance Committee considered a paper in March 2013 setting out the approach to establishing the plan of work to be undertaken by the county council's internal audit service for the coming financial year. It noted that the total planned resource is approximately **2,670 audit days**.

Appendix 'A' provides the same information to the newly constituted committee and sets out a list the work that will be undertaken under the annual audit plan for 2013/14.

Recommendation

The committee is requested to consider and approve the audit plan for 2013/14.

Background and advice

The council is required by The Accounts and Audit (England) Regulations 2011 ('the regulations') to conduct a review at least once in a year of the effectiveness of its system of internal control and to approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.

The regulations also require the findings of this review to be considered by a committee of the council or else by the council as a whole, and the Audit and Governance Committee fulfils this role.

The responsibility for implementing, maintaining and reviewing the system of internal control rests with the council, but the process by which the effectiveness of its system of internal control is reviewed and the governance statement is made includes obtaining assurances on the effectiveness of key controls. In practice, these assurances will be substantially drawn from the work of internal audit.

The audit plan is therefore focussed on providing these assurances to the chief executive and leader of the council who are jointly required to sign the annual governance statement.

Consultations

As part of the audit planning process the internal audit team has:

- Considered the county council's corporate and individual directorate/ service plans and budget reports;
- Met the senior management teams of the county council's directorates to discuss their risks and related controls; and
- Made its own assessment of the risks facing the county council.

Implications

Not applicable.

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

Paper	Date	Contact
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Not applicable.

Reason for inclusion in Part II, if appropriate: Not applicable.

Audit and Governance Committee meeting 24 June 2013

Internal audit plan for the year 1 April 2013 to 31 March 2014

1. Summary

- 1.1 The Audit and Governance Committee is invited to consider the outline annual internal audit plan for Lancashire County Council for 2013/14. The planned internal audit work will provide the assurance that the chief executive and leader of the council need that the risks to the council's objectives are being adequately and effectively controlled, and support an annual opinion on the effectiveness of the systems of governance, risk management and internal control across the council.
- 1.2 The Internal Audit Service plans to provide a total resource input to the county council of approximately **2,670 audit days**, including an allocation of 400 days for investigations (2011/12: 2,800 days). It is anticipated that approximately 700 days (2012/13: 750 days) will also be provided to external organisations within Lancashire including the pension fund, the Police and Crime Commissioner and a number of the district councils. However it is possible that internal audit resources may be further reduced during the year to meet the council's revised spending targets.

2. The council's assurance requirements

- 2.1 The council provides a wide range of services across the county and its senior management teams are aware both of the risks to achieving their service objectives and the risks inherent in their work. Each of these risks should be managed by controls designed to reduce the risk to a corporately acceptable level and which operates effectively and consistently in practice.
- 2.2 The chief executive, Audit and Governance Committee, and ultimately the Council, need assurance that these controls have been adequately designed and are operating effectively. In due course the chief executive and the leader of the council will jointly sign an annual governance statement incorporating a statement on internal control, which will refer to the effectiveness of the system of internal control.
- 2.3 The assurance needed to make this statement is available from a variety of sources including external regulators, but also from the council's Internal Audit Service. To avoid duplication with other assurance providers and ensure that we maximise resources, we need to understand this framework of assurance; where assurance is required but not otherwise available, the Internal Audit Service may provide it, and this will form our annual audit plan.

3. The council's control framework

- 3.1 The Internal Audit Service groups controls under the following categories, and aims to provide assurance over each:
 - Corporate controls: These controls relate to the overall governance arrangements of the county council as a whole, and are therefore largely limited to corporate governance and risk management, information

governance, and the council's partnership arrangements with One Connect Ltd.

- 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. Very few risks are managed by a single corporate solution but similar controls may be implemented across a number of teams to address the same or similar risks.
- Service-specific controls: The controls designed to manage the risks arising from the provision of particular services and from individual service areas.
- 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 elements of the council's day to day operations that are operated in common across the whole organisation, such as financial and ICT services, and human resources.

3.2 These form the building blocks of our audit plan, and can be illustrated as shown below.



4. The planning process

4.1 The Internal Audit Service has discussed with directors and executive directors the risks they have identified both corporately and for their own service areas. We have sought to identify the areas with the greatest inherent risk, and where there is the greatest need for effective mitigation by strong controls as these are the controls over which the council needs greatest assurance.

- 4.2 Where services are provided by One Connect Ltd we will provide assurance over the controls the council relies upon in the same way as if the controls were operated by the county council itself, but will agree our plan with the chief operating officer and Board of the company as well as with the county council.
- 4.3 Internal Audit Service resources are focussed effectively on the council's risks and directed to deliver high quality advice to the council. The level of resources arguably supports the delivery of a service consistent with professional practice and it is vital that our resources are deployed as effectively as possible, and the audit plan is therefore focussed on the key areas of risk, which may alter during the course of the year. The plan is flexible and its individual assignments may be added to it, and will be removed from it over time.
- 4.4 Although the annual plan enables both managers and elected members to see the overall scope of internal audit work, work is on-going throughout the year. In particular at the end of 2012/13 a number of audit reviews were still in progress and some time has been spent on completing them, and further time will be spent on audits deferred from 2012/13 where that work is still appropriate. We continually reassess our resources against the council's priorities and we will amend the plan throughout the year as required.
- 4.5 The work currently planned requires more audit resources than are likely to be available as there is no contingency built in for staff sickness or turnover. However recent experience has been that the council's assurance requirements, and management teams' capacity to support the audit process, mean that elements of the plan will have to be re-prioritised or temporarily deferred. The audit plan will therefore be continually reviewed during the course of the year.

5. The county council context

- 5.1 The Internal Audit Service must be alive to changes affecting the whole of the county council as we undertake our work.
- 5.2 In particular, following elections in May 2013 a new administration and a new Audit and Governance Committee have been formed.
- 5.3 Other aspects of the county council's operational environment remain very similar to those set out in March 2012: cost savings, service re-organisation and re-structuring and system re-design as well as on-going service developments.
- 5.4 From 1 April 2013 the council has taken responsibility for public health in Lancashire, with its considerable associated resources and on-going operational activities, as well as the need to absorb these into the council's management structure.
- 5.5 The need for the council to make significant cost savings is continuing into the third year of its three-year financial strategy and beyond. The reduction in the council's workforce is also continuing, affecting many of the council's services and resulting in their reconfiguration and, in some cases, their transfer between directorates. Many of the risks associated with these services have changed to some degree and their corresponding control frameworks are being or have been re-designed. At the same time as the number of managers is falling, it is

likely that there will be a greater reliance on monitoring controls operated by managers and on detective controls, but fewer directly preventative controls.

- 5.6 The new financial management system, Oracle Release 12, has now been introduced although additional modules of the system are still being implemented, and a number of operational systems are also changing. The integrated social services information system (ISIS) operated jointly by the Directorate for Children and Young People and the Adult and Community Services Directorate will be replaced during 2013/14 with significant implications for the work of both directorates, and with significant resource requirements to support the replacement project too.

6. The Internal Audit response

- 6.1 In a time of such fundamental change the Internal Audit Service must be prepared to be flexible in our planning and our approach to the council's assurance needs. We must be prepared to provide whatever other support, as well as assurance, is required.
- 6.2 All our work will continue to consider value for money and the value of the council's controls and we will, where appropriate, identify superfluous controls or controls of limited value.
- 6.3 We aim to provide integrated assurance across the whole council, recognising the relationships between different services and support functions to provide assurance to individual executive directors and to the council as a whole. This audit plan will build on that experience, and on our use of computer assisted audit techniques and compliance testing, to provide the assurance the council needs across its key controls and its service areas.
- 6.4 The planned overall deployment of audit resources on the council's controls is shown in summary on following page. A more detailed list of each audit review planned with the council's managers at this stage, and the proportion of audit resources to be spent on each area of control is shown in the annex to this document.

CONTROLS ASSURANCE		Estimated audit days
Corporate controls		
Risk management	20	165 (6%)
Corporate governance	115	
Information governance	30	
Cross-service controls		
Business continuity and emergency planning	25	95 (4%)
Schools' capital programme	30	
Reablement provision and commissioning	40	
Common controls		
Financial controls	375	642 (42%)
Human resource controls	40	
ICT controls	177	
Procurement controls	50	
Service-specific controls		
Adult and Community Services	274	1,334 (50%)
Benefits Service	90	
Customer Service Centre	30	
Public health	70	
Children and Young People	253	
Schools and sixth forms	250	
Environment	237	
Corporate Property Group	3	
Economic development	36	
Lancashire County Commercial Group	87	
Management of the Internal Audit Service		
Total internal audit plan		
Counter fraud and investigatory service		400 (15%)
Total internal audit resource for the county council		2,670

Types of audit work

- 6.5 To enable members to understand why particular audit assignments have been included in the plan, a brief note is provided against each assignment in Annex A.
- 6.6 The Internal Audit Service continues to follow our risk-based audit methodology, using a risk and control evaluation-based approach ('RACE-based') combined with compliance testing of key controls, computer assisted audit techniques ('CAATs') and follow-up work.
- Where assurance is required over a control system as a priority for the year, but may not have been provided previously, for example because the system is new or has been recently changed, we will undertake a 'RACE-based review'.
 - Where we have previously provided limited or no assurance over a control system, we will generally re-review this area as a 'RACE-based re-review'.
 - Where we have previously provided substantial assurance and management has agreed an action plan, we will 'follow up the agreed action plan'.
 - Where we plan to provide assurance over control systems that remain largely unchanged but are fundamental to the council's overall control we will undertake compliance testing.
 - Although we may use CAATs to support any of these areas of work, we will also plan to interrogate databases or use CAATs specifically to provide assurance over certain areas.
 - We also plan to support management where new control systems are being implemented and may provide 'critical friend audit/ advice'.
 - The council receives funding from external bodies (generally central government departments) on condition that internal audit provides a report that funding has been appropriately used, or certain conditions have been met. In these cases we undertake a 'grant certification audit'.

Controls to manage the risk of fraud

- 6.7 In addition to our audit work, the Audit Service provides support to the council's management team in managing the risk of fraud. It has for many years provided an investigatory service to support management in responding to instances of suspected fraud or impropriety. In recent years we have undertaken more proactive work to identify and pursue indications of potentially fraudulent activity, both through corporate systems testing and through additional testing of other areas particularly susceptible to fraud.
- 6.8 Our audit plan will integrate our assurance work (specifically our compliance testing) with our proactive counter fraud testing, particularly in areas susceptible to fraud and misappropriation of assets.

Risk management

- 6.9 The Internal Audit Service is also responsible for supporting management in managing the council's risks. In particular the Internal Audit Service will work during 2013/14 to revise the associated risk management guidance to managers.
- 6.10 The council's approach to risk management makes clear that managers – rather than the Internal Audit Service – are responsible for ensuring that risk is considered as part of any new service developments or improvements, and in on-going performance monitoring. However the synergy between internal audit and risk management is clear and the Internal Audit Service will be well placed to ensure that the assurance we provide to the council is focussed on controls over its greatest risks.

Audit areas	Type of audit work	Planned days	% of plan
Corporate controls			
Risk management			
Risk management	Information gathering and assessment	20	
Corporate governance			
Corporate governance – on-going work with County Secretary and Solicitor's Group	Support to management	5	
Members' expenses and allowances	RACE-based re-review	20	
Responses to complaints - compliance with time limits and adequacy of responses	RACE-based review	20	
Corporate performance monitoring	RACE-based review	30	
Performance data quality and monitoring of OCL by LCC	RACE-based review	30	
Funds flow between LCC and OCL	Compliance testing	8	
Officers' declarations of interests, gifts and hospitality	Follow-up of agreed action plan	1	
Advance consideration of the legal implications of decisions.	Follow-up of agreed action plan	1	
Information governance			
Information governance	Information gathering and assessment	30	
Risk management and corporate governance total		165	6%
Cross service controls			
Business continuity planning	RACE-based review	25	
Schools capital programme; commissioning and monitoring by CYP and delivery by Environment.	RACE-based review	30	
Reablement - provision and commissioning	RACE-based review	40	
Cross service controls total		95	4%
Common controls			
Financial controls			
Accountable body; the relationship and liaison between finance business partners and operational staff	Follow-up of agreed action plan	10	
Grant award and monitoring arrangements (grants given by LCC to other organisations)	RACE-based review	30	
VAT	Compliance testing	15	
Expenses, including follow up of issues raised in 2012/13	Compliance testing	10	
Accounts payable including i-supplier	Compliance testing	30	
Payroll, including any service-specific issues	Compliance testing	40	
Capital accounting	RACE-based review	20	
Budgetary control	RACE-based review	30	
Accounts receivable	Compliance testing	30	
Cash and banking	Compliance testing	30	
General ledger including journals and reconciliations	Compliance testing	30	
Treasury management	Compliance testing	30	
Expenses	Database interrogation/ CAATs testing	20	

Audit areas	Type of audit work	Planned days	% of plan
Payroll data analysis	Database interrogation/ CAATs testing and follow-up of findings	20	
Advice as new processes are embedded after transformation	Critical friend audit/ advice	30	
	Financial controls total	375	14%
Human resource controls			
Leave and absence management	RACE-based review	20	
Hierarchies on the Oracle/ HRP system	Follow-up of agreed action plan and compliance testing	15	
Long term sickness absence	Follow-up of agreed action plan	5	
	Human resource controls total	40	1%
Procurement controls			
Contracts and sourcing modules	RACE-based review	15	
Procurement controls across the council	Compliance testing	35	
	Procurement controls total	50	2%
ICT controls			
Email usage	Compliance testing	12	
Team mailboxes	RACE based review	20	
Access databases	RACE based review	20	
Data protection legislation	RACE based review	5	
IT assets	Compliance testing	15	
Change management	Compliance testing	15	
Password security	Compliance testing	15	
Database security	Compliance testing	10	
Network user management	Compliance testing	15	
Incident management	Compliance testing	15	
Backup arrangements	Compliance testing	15	
Database security	RACE-based re-review	5	
Password standards	RACE-based re-review	5	
Security of mobile devices	RACE-based re-review	5	
Network access	Follow-up of agreed action plan	3	
Help desk	Follow-up of agreed action plan	2	
	ICT controls total	177	7%
	Common controls total	642	24%
Service-specific controls			
Adult and Community Services Directorate			
Social care supervision	RACE-based review	20	
Commissioning arrangements	RACE-based review	30	
Transitional arrangements between children's and adult social care	RACE-based review	40	
Care Panel decisions	RACE-based review	20	
Hospital discharge model and social care support	RACE-based review	20	
Capital programme management	RACE-based review	20	
Social care case referrals management	Compliance testing	15	
Non residential care system	Compliance testing	10	
Payment and monitoring system	Compliance testing	10	

Audit areas	Type of audit work	Planned days	% of plan
Direct payments initial assessments	RACE-based re-review	15	
Health and safety of lone workers	Follow-up of agreed action plan	1	
FACE (resource allocation within individual budgets)	Follow-up of agreed action plan	3	
Liquid Logic implementation	Critical friend audit/ advice	50	
	Liaison, planning and reporting	20	
Adult and Community Services Directorate total		274	10%
Benefits service			
Direct payments financial assessment	RACE-based review	30	
Assessment of service users' income, and collection of their contributions to their social care costs	RACE-based review	30	
Care and Urgent Needs Support Scheme administration of community care grants and crisis loans	RACE-based review	30	
Benefits service total		90	3%
Customer service centre			
Care Connect	RACE-based review	30	
Customer service centre total		30	1%
Public health			
On-going involvement and overview	Critical friend audit involvement/ advice	30	
To be determined - possibly commissioning arrangements	RACE-based service/ control	40	
Public health total		70	3%
Children and Young People's Directorate			
Working Together with Troubled Families scheme	RACE-based review	20	
Children's centres performance monitoring	RACE-based review	15	
Capital programme management	RACE-based review	25	
Early intervention programme	RACE-based review	25	
Targeted youth support	RACE-based review	25	
Personnel file documentation	Follow-up of agreed action plan	4	
Case file audit process	RACE-based re-review	10	
The role of the Independent Reviewing Officers	RACE-based re-review	15	
Health and safety of lone workers	Follow-up of agreed action plan	1	
Direct payments initial assessments	RACE-based re-review	15	
Emergency payments to families	Follow-up of agreed action plan	2	
Partnership working with the NHS to support children with mental health needs	RACE-based re-review	10	
School budget formula and pupil forecasting	Follow-up of agreed action plan	1	
Children's trusts	Follow-up of agreed action plan	3	

Audit areas	Type of audit work	Planned days	% of plan
Children's residential homes	Follow-up of agreed action plan	1	
Sure Start Children's Centres - follow-up deferred to Spring 2013 when actions likely completed.	Follow-up of agreed action plan	3	
Education Funding Agency grant certification	Grant certification audit	8	
Liquid Logic and ContrOCC system implementation	Critical friend audit/ advice	50	
	Liaison, planning and reporting	20	
Children and Young People's Directorate total		253	9%
Schools			
Financial controls in schools	Individual school audits	125	
Follow-up of limited or nil assurance audits.	Follow-up of school audit visits	40	
Pupil referral units	Schools thematic reviews	30	
Schools opening their own bank account	Schools thematic reviews	30	
Online payments	Schools thematic reviews	25	
Schools total		250	9%
Environment Directorate			
Capital programme management	RACE-based review	20	
Controls over one-team working, focused on the Highways Service.	RACE-based review	40	
Disposal of scrap metal - issues arising from 2012/13	RACE-based review	20	
Waste contract performance measures	RACE-based review	40	
Schools' premises management framework	RACE-based re-review	10	
Corporate premises management framework - overall arrangements	RACE-based re-review	10	
Development control - section 106	RACE-based re-review	20	
Highways asset management including corporate manslaughter	Follow-up of agreed action plan	3	
Health and safety of lone workers	Follow-up of agreed action plan	3	
Winter Highways Maintenance System follow-up	Follow-up of agreed action plan	3	
Grant audit: Citizen Rail	Grant certification audit	8	
Grant audit: CIVINET	Grant certification audit	8	
Grant audit: ENVIREO	Grant certification audit	8	
Grant audit: Growth Point	Grant certification audit	8	
Grant audit: Interreg IVB SusStations (NWE)	Grant certification audit	8	
Grant audit: Local Transport Capital grant	Grant certification audit	8	
	Liaison, planning and reporting	20	
Environment Directorate total		237	9%

Audit areas	Type of audit work	Planned days	% of plan
Corporate Property Group			
Premises management framework for LCC	Follow-up of agreed action plans	3	
Corporate Property Group total		3	0%
Lancashire County Commercial Group			
Capital programme management	RACE-based review	20	
Working Time Directive compliance	RACE-based review	12	
Building cleaning	RACE-based review	10	
Accessible transport	RACE-based review	10	
Payroll and additional payments – local arrangements	RACE-based review	15	
Food stocks in schools	Compliance testing and follow-up of agreed action plan	3	
Health and safety of lone workers	Follow-up of agreed action plan	1	
Saffron system	Follow-up of agreed action plan	1	
Catering income	Follow-up of agreed action plan	2	
Bus Service Operators Grant	Grant certification audit	8	
	Liaison, planning and reporting	5	
Lancashire County Commercial Group total		87	3%
Economic development			
Superfast broadband implementation and grant funding	RACE-based review	20	
Intensive Business Start Ups grant	Grant certification audit	16	
Economic development total		36	1%
Service-specific controls total		1,330	50%
Investigations and counter fraud work			
	Special investigations	275	
	Counter fraud work	125	
Investigations total		400	15%
Audit control			
Planning, management, control, reporting, external audit liaison, Audit Committee	Planning and management	38	
Audit control total		38	1%
Total audit plan for the year		2,670	100%

Agenda Item 19

(NOT FOR PUBLICATION: By virtue of paragraph(s) 1, 2, 7 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

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