

## Internal Audit Service progress report on implementation of the strategic internal audit plan: 2015/16, 2016/17 and beyond

### 1. Introduction

- 1.1. In January 2016 the Audit and Governance Committee considered and approved a strategic internal audit plan for 2015/16, 2016/17 and beyond, and the Internal Audit Service has been working to that plan since then. The work scheduled for 2016/17 has progressed well and a number of audits are now complete. The Audit and Governance Committee's terms of reference require it to consider periodic reports of internal audit activity and outcomes, and this report provides a summary to support that task.

### 2. Amendments to the audit plan

- 2.1. The plan has been subject to amendment as the scopes of individual audits have been developed with further input from directors and heads of service. Since the committee's last meeting in September 2016 it has become clear that the volume and extent of work being undertaken by Newton Europe Ltd, the Department for Education and Ofsted relating to the quality of data supporting children's social care means that additional work by the Internal Audit Service will be unnecessary. Further, audit work on the controls to be operated by the Premises Compliance Team in strategic premises management will be deferred into 2017/18 as that team has not yet been formed due to the pressures imposed by the development and approval of the council's new property strategy. The audit of the council's oversight of the Pension Fund has also been removed from the plan because other work addressing this has recently been undertaken by PricewaterhouseCoopers. It is intended that this work be made available to the Pension Fund Committee and Pension Board when it is complete.
- 2.2. It was reported in September that the audit work planned on the measures in place to monitor and achieve the council's planned budget reductions, and the council's role as accountable body for external funding, had been removed from the plan. Whilst the audit of the council's accountable body role has been effectively addressed by other work specifically focussed on the Lancashire Enterprise Partnership (LEP) and the Better Care Fund (as there are no longer large numbers of disparate smaller funding streams requiring the council to establish and operate a standard control mechanism), each of the three audits addressing financial governance have now been removed from the plan. It is therefore important that the committee and Council are aware of PricewaterhouseCoopers' work. Their report on the council's financial position (the 'Statutory Services Budget Review') is already in the public domain and is available through the following link: <http://council.lancashire.gov.uk/documents/s96916/Appendix%20A%20SSBR%20Interim%20Report%20FINAL.pdf>
- 2.3. PricewaterhouseCoopers' report summarises the latest financial forecast (as at its publication on 23 September 2016) as follows:
- "The Council is forecast to have a cumulative deficit of £398m by the end of 2020/21 and an in year deficit that year of £148m. This is predicated on all savings plans being achieved with no slippage. We have reviewed the Council's savings portfolio and have identified that a significant proportion of planned savings are at risk of slippage. We have reviewed the underlying assumptions behind the

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Council's [medium term financial strategy] and found them to be in line with those being made by other similar authorities, however, its forecast budget gap may be understated as a result of risks relating to the delivery of savings within the forecast timescale."

### 3. Internal Audit Service resources

- 3.1. The committee was informed in September that the resources available to the service had been agreed and, since early December, all of the auditor and senior auditor posts have been filled. However one of the two audit managers has recently returned to a post in the Finance team and recruitment to this key vacancy is currently taking place.
- 3.2. The service is also in the process of recruiting a graduate trainee internal auditor who will pursue qualification as a certified internal auditor with the Chartered Institute of Internal Auditors.

### 4. Internal audit work completed

- 4.1. The audit plan recognised at the outset that there were areas of the council's operations that were subject to too much turbulence to be audited, and areas where managers could not themselves provide assurance that services and systems are adequately controlled. A number of these were listed in the audit plan presented to the committee in January 2016. However it is clear that, despite the instability arising from the changes taking place across the council, there are some areas where strong control is still exerted over the services being provided and systems operated.
- 4.2. A brief summary of the assurance we have provided for each of the audits relating to 2016/17 and completed by mid-December 2016 is provided in the table below.

System	Assurance
<b>Governance and democratic oversight</b>	
Documentation of the council's governance arrangements	Substantial
<b>Business effectiveness</b>	
Preparation and use of the risk register	Substantial
<b>Service delivery: adult's services</b>	
Case management: supervision and support to front-line social workers to ensure safeguarding of service users	Limited
<b>Service delivery: public health and wellbeing services</b>	
Commissioning and oversight of commissioned public health service provision	Substantial
Operation of the Health and Wellbeing Board	Substantial
<b>Service delivery: corporate commissioning</b>	
Provision of school places	Full

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System	Assurance
<b>Service delivery: economic development</b>	
Lancashire Enterprise Partnership: governance and accountability	Substantial (Details provided in September 2016)
Lancashire Enterprise Partnership: assurance framework	Substantial (Details provided in September 2016)
<b>Service delivery: emergency planning</b>	
Adequacy of the plans in place to address emergencies and civil contingencies	Substantial
<b>Service support: business systems</b>	
Monitoring of the contract with BTLs	Substantial
<b>Business processes: Financial processes</b>	
Accounts receivable and debt management system (a centrally managed system but with input from across the council)	Limited (Details provided in September 2016)
Cash and banking (central functions)	Substantial (Details provided in September 2016)
<b>Business processes: procurement</b>	
Central procurement: compliance with legislation, financial regulations and standing orders	Substantial

- 4.3. The matters arising from these audits are set out in the narrative below, and notes of the progress made on each audit on the plan for 2016/17 are set out in the table in Appendix B.

**Documentation of the council's governance arrangements:** substantial assurance

- 4.4. All of the documentation that would be expected to be in place to underpin constitutional decision-making and delegation of powers exists, as does most of the wider documentation required by the CIPFA/ SOLACE publication 'Good governance in local government: framework 2016'.
- 4.5. Most of this documentation is readily accessible on the council's intranet site, and users of the site are consistently directed to the single web-page holding the whole constitution. However many of the documents contained within the constitution have not been demonstrably reviewed and updated regularly, in some cases for several years. Although the Democratic Services manager is responsible for prompting reviews of this documentation, the currency of some documents is reliant on officers with more specialist knowledge of some important areas, for example finance and procurement.
- 4.6. The head of service for Legal and Democratic Services intends to adopt a more systematic approach to ensure that each of the key documents in the council's governance framework is assigned clear ownership and subject to more rigorous information governance procedures.

**Preparation and use of the risk register:** substantial assurance

- 4.7. The process by which the corporate and service risk registers are prepared are still relatively new and, although there are differences in the extent to which it is understood by individual services, the arrangements are operating as intended overall. Risks and opportunities are being identified, recorded and scored and controls and mitigating actions are recorded in services' risk and opportunity registers.
- 4.8. A dedicated intranet site was created in October 2015 which provides clear guidance, advice and support to officers compiling the services' risk and opportunity registers. Additional briefings have been provided to officers who have requested them and specific queries are addressed by the information governance manager as they arise. There is clear sponsorship of the risk management arrangements by senior officers and members, and the corporate risk and opportunity register is presented quarterly to the Management Team, Cabinet Committee on Corporate Performance Improvement and Audit and Governance Committee.
- 4.9. Whilst risk management is not a new process, the need to record individual risks and their implications in service risk registers is new. Although the scoring methodology is generally understood and appropriately applied, moderation by the director of governance, finance and public services and the head of legal and democratic services results in some adjustments to risk scores as well as the addition of corporate risks not included in individual service risk registers. It is likely that feedback to heads of services on the decisions taken as the corporate risk and opportunity register is prepared would be beneficial.

**Case management: supervision and support to front-line social workers to ensure safeguarding of service users:** limited assurance

- 4.10. Controls designed to ensure staff are supported in maintaining their professional and personal development through management supervision are key to the quality of social care provided across the county.
- 4.11. The current supervision arrangements for social care across Adult Services are considered by management to be too bureaucratic to operate effectively and are inconsistent with the revised operational structure that incorporates advanced practitioners. Whilst they are comprehensive, the policies and procedures intended to support supervision meetings and managers' assessment of the adequacy and quality of supervision are regarded as unduly onerous and are not being consistently followed. They are therefore being amended and the revised arrangements will reflect the new staff structure and the revised operational framework. A revised supervision policy and suite of supporting documents have been drafted and are being piloted in draft form by several managers. In the east of the county teams working with Newton Europe Ltd have also developed new ways of working, including holding weekly wellbeing meetings and case progression meetings, and feedback from the teams there is positive.
- 4.12. However the supervision policy and procedures actually operated by staff within Adult Services for the current year remain the older ones and it is against these that we tested compliance.
- 4.13. To sample supervision documentation we requested copies of their three most recent supervision records from 30 social workers but obtained responses from only 23. Of these, two were unable to provide any supervision records as their

supervision was not documented, and two were recent new starters who had not yet had any supervision. However the content of the personal supervision records we were able to test was generally appropriate and included all the elements expected.

- 4.14. Nonetheless supervision meetings are held too infrequently relative to the current policy, and supervision activity records are not adequately maintained or updated. Current supervision contracts are either lacking, or exist but are not reviewed.
- 4.15. The annual quality assessment and case audit process is intended to monitor the quality and frequency of supervisions undertaken by team managers, and confirm that team managers are undertaking case audits appropriately. However of the nine managers we contacted, four did not respond, three were new in post, and two were unaware of the current requirement to undertake case audits. Under the revised policies case audits will be replaced by a three-monthly best practice review.

**Commissioning and oversight of commissioned public health service provision:** substantial assurance

- 4.16. The Public Health team commissions a range of public health related services including mental health, sexual health and substance misuse services. Public health specialists commission and then monitor the activities of service providers under a range of contracts. As at June 2016 there were 36 contracts, nine with annual values over £1 million, and a further fifteen with annual values of between £100,000 and £1 million, managed by the Wellbeing, Prevention and Early Help service.
- 4.17. These contracts are well managed. For the contracts we tested, detailed specifications and signed contracts are in place, there is evidence of regular contact with service providers, and performance is reviewed and addressed where necessary.

**Operation of the Health and Wellbeing Board:** substantial assurance

- 4.18. The Lancashire Health and Wellbeing Board is a forum for key leaders from the health and social care services in Lancashire to work together to improve the health and wellbeing of the county's population and reduce its health inequalities. The board is a statutory body set up under the Health and Social Care Act 2012 and all the organisations specified in that act are represented. The board has been appropriately constituted and is acting in accordance with its terms of reference, in particular in relation to its development and review of the Health and Wellbeing Strategy.

**Provision of school places:** full assurance

- 4.19. The School Planning Team is part of the council's Asset Management Service and is responsible for ensuring that the council meets its statutory duty to provide sufficient primary and secondary school places in mainstream schools. Overall, the team operates robust controls to ensure that it meets its responsibilities and manages the risks to its service.
- 4.20. The team compiles, collates and analyses relevant data to plan and commission school places for the whole county, generating the council's school capital programme, and operates a comprehensive process to ensure that forecasting information is accurate. The strategy for the provision of school places is normally

reviewed on an annual basis but, this was not undertaken in 2015 whilst the team was restructured. The strategy is currently being redrafted and will be published in April 2017.

- 4.21. The team liaises with district councils and housing developers to ensure that education infrastructure is supported by housing development contributions or a community infrastructure levy agreement. It also completes the annual statutory return to the Department for Education addressing school capacity and places in the county.

**Adequacy of the plans in place to address emergencies and civil contingencies:** substantial assurance

- 4.22. We assessed the arrangements in place to respond to emergencies, ensure continuity of business and comply with the Civil Contingencies Act. The council is a 'category 1 responder' under the Act and is therefore central to the response to emergencies within the county and subject to the full set of civil protection duties defined by the Act. These duties include the assessment of risk, maintaining emergency response plans, ensuring as far as possible that the council is able to continue to perform its functions, communicating with the public, and advising and assisting business and voluntary sectors. The council's Emergency Planning, Resilience and Response Framework clearly defines the plans the council is putting in place to enable it to respond to incidents.
- 4.23. There are good practices already in place to ensure that emergency response plans are effective, viable, and up to date. There are some areas where compliance with the Civil Contingencies Act could be further enhanced but these have already been identified by management and action plans have been put in place.

**Monitoring of the contract with BTLS:** substantial assurance

- 4.24. On 1 April 2014 the council's partnership with British Telecommunications plc changed and became BT Lancashire Services Ltd (BTLS), a company wholly owned by BT providing ICT and transactional payroll services to the council. BTLS is contractually required to monitor and report its service delivery against performance targets defined within the service provision agreement introduced in April 2014.
- 4.25. The company's performance is managed within the council under a governance framework facilitated by the council's Client Services team and monitored effectively at an appropriately senior level within the council, including members of the Cabinet Committee on Performance Improvement. The financial position of the contract is monitored and payments are checked and paid in accordance with the contract terms.

**Procurement:** substantial assurance

- 4.26. The council spends approximately £340 million each year on centrally procured goods and services, and currently has over 420 contracts in place. There is regular scrutiny of procurement activity by the Procurement Board, made up of directors from across the Council, and by the Cabinet Committee on Performance Improvement.
- 4.27. Over the last two years the council's central Procurement Service has increasingly taken over responsibility for procurement across the council and, although a small number of operational teams still undertake their own procurement exercises, these

are considerably fewer than previously. The Procurement Service has established procedures to ensure that all procurement follows the council's rules and strategy, in particular that all procurement is properly approved and controlled through the use of the Oracle e-tendering system. The control exerted by the central team and the procedures it has imposed is effective.

- 4.28. The procurement rules were revised in 2016 to align them with the Public Contract Regulations 2015. Whilst compliance with the procurement rules and strategy is achieved by the Procurement Service and for large value exercises generally, this has not always been the case for lower value exercises in the operational teams. The Procurement Service has engaged with the services involved to develop processes for the lower value exercises that ensure the procurement rules are properly followed and evidenced as such.

### **ICT services**

- 4.29. Key elements of the service management framework for the council's ICT services, provided by BTLS, are subject to a programme of assessment within BTLS. This programme identifies and reports any non-conformances with the Service Management System, recommends improvement measures and ensures that their progress to completion is monitored. Some key areas are regularly assessed and the findings enable BTLS to provide some assurance to the council that risks arising from its use of information and communications technology are being managed on its behalf by BTLS. The following assurance can be provided by BTLS.

### ***ICT Service Management System***

- 4.30. The ICT Service Management System is independently assessed annually as part of BTLS's ISO 9001:2008 certification: this is a certified quality management system that allows organisations to demonstrate their ability to consistently provide products and services that meet the needs of their customers. It covers key aspects of running the service including management of the training, skills and competency of staff, control of documentation and records and how internal assessments are planned and conducted. The certification process involves an end-to-end audit of key processes involved in the delivery of the ICT service including:

- Incident management – how faults reported by the customer are recorded and rectified;
- Change management – how changes to services are assessed, planned, actioned and recorded;
- Knowledge management – how the documentation and information required to operate the services is created, maintained and controlled;
- Problem management – how persistent faults are identified, assessed and rectified.

- 4.31. BTLS was assessed against ISO 9001:2008 most recently in December 2016 and no major or minor nonconformities were identified. One opportunity for improvement was found and the key processes provided by BTLS for the county council were therefore certified until June 2017.

### ***Public Sector Network (PSN)***

- 4.32. The PSN is a government network which allows public sector organisations to work together, reduce duplication and share resources. In order to use this facility an

organisation must achieve 'PSN compliance' which demonstrates that its security arrangements, policies and controls are sufficiently rigorous to allow it to interact with the PSN and those connected to it. BTLS therefore submits an annual PSN application to the Cabinet Office, including a comprehensive description of the BTLS network and the policies and processes that maintain its security.

- 4.33. Since its inception BTLS has undertaken this exercise annually and has maintained PSN compliance each year. The latest certificate will confirm PSN compliance until January 2017.
- 4.34. The PSN compliance submission must also contain details of a recent independently conducted penetration test to identify any network vulnerabilities and any remedial actions required to address these. The most recent penetration test was conducted in July 2016 and the result met the required PSN standards.

***NHS Code of Connection***

- 4.35. N3 is the national broadband network for the English National Health Service (NHS), connecting all NHS locations and services. All non-NHS organisations that require a connection to the N3 network must complete a Logical Architecture Document (LCA) as part of the Information Governance Statement of Compliance (IGSoC) process. The county council is currently compliant with the requirements of the code of connection and elements of the IGSoC are the responsibility of BTLS. ICT Services contributed to the completion of the LCA by providing a comprehensive description of the technical security controls which they have in place to protect access to N3 and personal data.