

Internal Audit Service progress report on implementation of the strategic internal audit plan: 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well and the majority of the planned audits are now in progress or complete, although a small number have been superseded by other sources of assurance. 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. Small amendments to the plan have been reported to the Committee in September 2016 and January 2017 but there has been only one change since then. Following work by PricewaterhouseCoopers (PwC) to document the framework of controls by which the Council oversees the work of the Lancashire Pension Fund, we have recently begun work to address compliance with the shareholder agreement and the referral of matters reserved for the council to the council for decision. We previously reported that this work would not be undertaken.
- 2.2. For completeness, the original plan is set out in Appendix B and each piece of audit work planned for 2016/17 has been accounted for, with a note of the assurance on each that, in our opinion, can be provided at this point.

3. Internal Audit Service resources

- 3.1. The Committee was informed in January 2017 that the resources available to the service had been agreed and all of the auditor and senior auditor posts had recently been filled. Following the departure of one of the two audit managers in December, that vacancy has also been filled and a new audit manager will start work at the Council on 3 April 2017.
- 3.2. The service has also recruited a graduate trainee internal auditor who will pursue qualification as a certified internal auditor with the Chartered Institute of Internal Auditors on a two-year training contract, and she started work in the team on 27 March.

4. Findings arising from the internal audit work completed to date

- 4.1. The Committee's attention has previously been drawn to the existence of a number of areas of the Council's operations that are subject to too much turbulence to be audited, and areas where managers could not themselves provide assurance over the adequacy and effectiveness of controls. It has also been made aware of the limited assurance effectively provided by both PwC (in respect of the Council's financial position and capacity to make the necessary financial savings) and Ofsted (in respect of children's social care). The Internal Audit Service's own work has generated some positive assurance, but also only limited assurance over a key control in adult social care – professional supervision – and a key financial control – accounts receivable and debt management.

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- 4.2. In light of this information the Internal Audit Service will be able to provide no more than limited assurance overall for 2016/17, although the final outcomes of all the audit work for the year will be available only in June 2017.
- 4.3. However as was noted in January 2017, despite the instability arising from the changes taking place across the Council, there are some areas where strong control is exerted over the services being provided and systems operated. In particular, as previously reported, we have provided full assurance over the provision of school places.
- 4.4. One common theme across a number of areas though is inappropriate access to systems available to officers who no longer need it, or whose roles do not require it. This issue is known to the Council's management and it is being considered as part of the Council's wider development of improved ICT systems.
- 4.5. A brief summary of the assurance we have provided for each of the audits relating to 2016/17 and completed by the end of February 2017 is provided in the table below.

System	Assurance
Governance and democratic oversight	
Documentation of the Council's governance arrangements	Substantial (reported in January 2017)
Business effectiveness	
Preparation and use of the risk register	Substantial (reported in January 2017)
Service delivery: adult's services	
Case management: supervision and support to front-line social workers to ensure safeguarding of service users	Limited (reported in January 2017)
Service delivery: public health and wellbeing services	
Commissioning and oversight of commissioned public health service provision	Substantial (reported in January 2017)
Operation of the Health and Wellbeing Board	Substantial (reported in January 2017)
Service delivery: corporate commissioning	
Operation of the Better Care Fund	Substantial (see below)
Provision of school places	Full (reported in January 2017)
Service delivery: economic development	
Lancashire Enterprise Partnership: governance and accountability	Substantial (reported in September 2016)
Lancashire Enterprise Partnership: assurance framework	Substantial (reported in September 2016)
Service delivery: emergency planning	
Adequacy of the plans in place to address emergencies and civil contingencies	Substantial (reported in January 2017)

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System	Assurance
Service delivery: pension fund administration	
Accounting for the fund	Substantial (see below)
Service support: business systems	
Monitoring of the contract with BTLS	Substantial (reported in January 2017)
Business processes: financial processes	
Oracle general ledger	Substantial (see below)
Accounts receivable and debt management system (a centrally managed system with input across the council)	Limited (reported in September 2016)
Cash and banking (central functions)	Substantial (reported in September 2016)
Oversight of payroll payments	Substantial (see below)
Business processes: procurement	
Central procurement: compliance with legislation, financial regulations and standing orders	Substantial (reported in January 2017)

- 4.6. The matters arising from the audits completed since mid-December 2016 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.

Administration of the Better Care Fund: substantial assurance

- 4.7. The Better Care Fund (BCF) was designed to promote integrated and therefore more efficient and effective working between health and social care services. The pooled funding arrangements have been implemented and are operational, and serve as a first step in developing integrated working for the future.
- 4.8. The financial management arrangements in place within the Council are effective, including specifically the administration of receipts and payments from the pooled fund. We confirmed that the money allocated to each scheme in the BCF plan was correctly distributed, although the s75 agreement for 2016/17 has not yet been finalised and signed by all its counterparties.
- 4.9. Processes are in place to monitor the performance of service providers for schemes run by the Council. However the schemes being operated were initiated before the pooled funding arrangements were implemented and the way the partners are currently delivering services has not therefore changed yet as a result of the operation of the BCF.

Accounting for the Pension Fund: substantial assurance

- 4.10. We found no significant issues. However we noted that there were officers with access to the general ledger who no longer require this access since they have changed roles within the authority. We also noted that the balance on the sundry debtors account of £1.1 million had not been reconciled, as had been agreed during the previous audit.

Oracle general ledger: substantial assurance

- 4.11. We identified only one area where controls could be strengthened which is, again, the management of system users with access to the general ledger. Managers should notify ICT Services if staff transfer to another service or leave the Council but this does not always happen and staff retain access which they no longer need. This issue was also identified in the previous audit.

Oversight of payroll payments: substantial assurance

- 4.12. We found no significant issues relating to oversight by the Council of the payroll transactions processed by BTLS although, as noted below, there are a number of matters for the Council to address in providing BTLS with the information they need, accurately, and in a timely manner.

Payroll processing by BTLS: full assurance

- 4.13. We found no issues and only good practice in the systems by which BTLS processes the Council's payroll. However there are some problems in the data provided to BTLS by the Council. In particular it is clear that salary overpayments are routinely made as officers leave the organisation, partly due to late notification by the Council's managers of payroll adjustments as staff leave, and partly due to late adjustments to annual leave and other entitlements after officers have left. Further, the volume of these is resulting in delays within BTLS in raising invoices to former employees.