

## **Matters arising from internal audit work completed during the period to 31 March 2018**

### **1 Introduction**

- 1.1 This report highlights the issues that the Audit, Risk 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 sets out the issues arising from the work undertaken during the period to 31 March 2018 by the Internal Audit Service under the audit plan for 2017/18.
- 1.2 A full table of all the work on the audit plan for 2017/18 is included at Appendix B, setting out brief notes of the progress made and conclusions on each engagement. The audit work still in progress at this point will be finalised and reported to the Audit, Risk and Governance Committee on 30 July 2018.
- 1.3 The work completed to the end of March 2018 supports the overall opinion in the annual internal audit report which is set out in the separate annual report to this committee.

### **2 Progress as at the year end**

- 2.1 Audit work has progressed well and is either complete or is very nearly so at the year-end; a number of engagements remain to be finalised and will be reported to the committee at its next meeting in July 2018. Of the 58 audit engagements on the audit plan agreed in June 2017 after work on 11 audits has been deferred or cancelled, 31 have been reported, 12 reports are being prepared and discussed with management and 15 are in progress and/ or already nearing completion.

### **3 The assurance available from completed audit work**

- 3.1 A brief summary of the assurance provided for each of the audits relating to 2017/18 and completed by 31 March 2018 is provided in the table below. More information about the matters arising from each of the audits completed since December 2017 is set out in section 6 and progress reports in September 2017 and January 2018 provide more information about each of the audits completed earlier in the year.

<b>Control area</b>	<b>Assurance</b>
<b>Business effectiveness</b>	
Preparation and use of the corporate risk register.	Full
Oversight of the Lancashire Pension Fund.	Substantial
<b>Service delivery: adult services</b>	
Complex case forums decision making process (formerly 'panel decision making processes').	Limited
Direct payments to service users and their carers.	Substantial
Direct payment financial reviews.	Substantial
Service user financial assessments.	Substantial

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Control area	Assurance
<b>Service delivery: children's services</b>	
Safeguarding through recruitment: selection and vetting procedures.	Substantial
Information security within parts of Children's Services. (This audit addressed only the adequacy of the operational system's overall design, not its effectiveness.)	Substantial
Personal budgets for service users and direct payments to their carers.	Limited
Transition from children's to adult services.	Limited
<b>Service delivery: community services</b>	
Safeguarding in the provision of transport for children.	Substantial
Operation of the Highways Asset Management System (HAMS). (This audit addressed only the adequacy of the operational system's overall design and early operation, not its effectiveness.)	Limited
Registrar's income.	Substantial
<b>Service delivery: Customer Access Service</b>	
Customer Access Service management assurance processes.	Substantial
Blue badge applications.	Substantial
<b>Service delivery: public health and wellbeing</b>	
Making Safeguarding Personal.	Limited
<b>Service delivery: schools' financial management</b>	
Review of a sample of Schools Financial Value Standard (SFVS) self-assessments submitted by schools for 2016/17.	Substantial
<b>Service delivery: corporate commissioning</b>	
Health and safety of the council's properties. (This audit addressed only the adequacy of the operational system's overall design, not its effectiveness.)	Limited
<b>Business processes</b>	
Accounts payable: central controls.	Substantial
Accounts payable: service-based controls over payments – Caring and Responsive Transport (CART) payments to taxi operators.	Substantial
Accounts payable: service-based controls over payments – Repair and Maintenance Programme (RAMP) system payments.	Limited
Accounts receivable: service-based controls over receipts – Repair and Maintenance Programme (RAMP) system receipts.	Substantial
Accounts receivable and debt management: central controls.	Substantial
Management information and budgetary control.	Substantial
Treasury management.	Substantial
Information governance.	Substantial
Processing of payments by BTLS using information supplied by the council.	Full
Payments on account and over-payments.	Full

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Control area	Assurance
E-tendering. (This audit addressed only the adequacy of the operational system's overall design, not its effectiveness.)	Substantial
Purchase cards.	Substantial

- 3.2 Since April 2016 the Lancashire Pension Fund has been administered and its pooled assets managed by Local Pensions Partnership Ltd (LPPL). LPPL has appointed Deloitte LLP as its own internal auditor and, in addition to the work being undertaken by the council's Internal Audit Service, the council may take some assurance from Deloitte's work on the framework of governance, risk management and control operating over the council's Pension Fund. Deloitte disclaims any liability to the council for any reliance it may place on this work but have agreed that their conclusions may be reported to the Audit, Risk and Governance Committee.
- 3.3 Deloitte LLP has completed eight audits to date of the ten on its plan for the year. Deloitte's classification scheme differs slightly from that used by the Internal Audit Service, and an explanation of the assurance provided by both is set out in Appendix C.

Control area	Assurance
<b>Lancashire Pension Fund</b>	
Benefit administration.	Effective
Oversight of administration business transformation (phase 1).	Effective with scope for improvement
General IT controls operating over the Altair and Access Dimensions systems.	Effective with scope for improvement
Financial closing and reporting. (This audit was refocussed from the planned work on core financial controls.)	Effective with scope for improvement
Governance. (Reported in January 2018.)	Effective with scope for improvement
Investment governance. (Reported in January 2018.)	Effective with scope for improvement
Oversight of LPPL's business and transformation change (phase 1). (Reported in September 2017.)	Effective with scope for improvement
Core systems and infrastructure migration (phase 1). (Reported in September 2017.)	Effective with scope for improvement

## 4 Amendments to the audit plan

- 4.1 In addition to the amendments already reported, the following changes have been made to the audit plan.
- 4.2 The Learning Disabilities, Autism and Mental Health Service has requested an audit urgently to assess the new system it has introduced to manage mental health safeguarding alerts, following an earlier audit by the Adult Safeguarding Board. The objective has been to understand whether all appropriate cases are being referred and then progressed in compliance with the revised safeguarding

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reporting and recording procedures on a timely basis. This work is almost complete and a report is being drafted.

- 4.3 Work to follow up the actions agreed in relation to the supervision and support to front-line social workers has been removed from the plan, and a comprehensive assessment will instead be made in the summer of 2018 by the principal social worker. The audit work addressing the development of the workforce in Adults Services has also been removed from the plan and may be undertaken in 2018/19 or later.
- 4.4 Work to follow up the council's emergency planning and civil contingency arrangements has become a wider engagement and has subsumed the audit work on emergency planning in individual services. We are considering the support given to individual service areas and the planning done by them under the Emergency Planning team's procedures.
- 4.5 The audit of the recruitment process from end to end was put on hold during the year whilst the Human Resources team carried out its own review of the current recruitment process. That review has not progressed but other work is now starting, bringing together the council's Human Resources and Communications teams, the Customer Access Service, and BTLS's Payroll and Recruitment team. The Internal Audit Service intends to be closely involved in this but no further audit work will be undertaken during 2017/18.
- 4.6 Compliance work to test the operation of the health and safety of the council's properties has been deferred, although an initial assessment has been made of the control framework.
- 4.7 Work on the council's cash and banking system has been impacted by sickness within the Internal Audit Service and, since in previous years no significant issues have been identified, this work has been cancelled for 2017/18. Compliance testing of the system will instead be undertaken as soon as possible within 2018/19.

## **5 Issues arising from completed audit work**

- 5.1 The matters arising from each of the audits completed since the last report to the committee are set out in the narrative below, and notes of the progress made on each audit on the plan for 2017/18 are set out in Appendix B.

### **Oversight of the Lancashire Pension Fund** (Substantial assurance)

- 5.2 A framework of controls is in place to ensure that the Pension Fund is properly governed, and the county council is able to appropriately oversee the Fund's activities through the Pension Fund Committee and the Lancashire Pension Board both of which include representation from the Fund's wider membership as well as the Council. The committee takes executive and strategic decisions whilst the board's role is to ensure that legal and regulatory requirements are complied with, due process is followed, and risks are identified and controlled. Both reviewed their terms of reference during 2017, and the committee approved those of the board.
- 5.3 The control framework includes a three-year strategic plan reviewed by the committee, a suite of policies including a governance policy, an actively maintained risk register reviewed by both the committee and board, notification of impending regulatory changes and confirmation of compliance with

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regulations, quarterly stakeholder meetings and training for committee members. The Fund's financial performance and the Lancashire Pension Partnership's compliance with key performance indicators are presented to the committee quarterly, and meetings of the stakeholders in the partnership are held quarterly.

- 5.4 Whilst the committee has not reviewed all its policies as intended and not all members take up all offers of training, the governance and oversight framework is actively managed and appropriately implemented.

### **Direct payment financial reviews**

(Substantial assurance)

- 5.5 Individuals receiving a personal social care budget to meet the care needs set out in their support plan can choose to receive this funding through direct payments, and these payments can be made through a prepaid card or a separate bank account. Since service users may need to employ carers, some of the direct payment can be used to pay an independent company to manage the carers' employment and pay any invoices.
- 5.6 All direct payments are subject to a risk assessment and reviews are generally completed at least annually for adults, or every six months for children. Within the Financial Assessment, Review and Direct Payment Service there are four area-based teams of assessment staff who perform care assessments and direct payment reviews, and a team that administers the review process centrally.
- 5.7 Whilst there will always be a number of reviews outstanding at any time, there are delays in completing reviews and a backlog of overdue reviews within the Financial Assessment Service. For the period from April to November 2017 the average number of outstanding direct payment visits for adults and children was 1,900 per month. Performance monitoring arrangements are in place and this backlog is recognised and is being addressed.
- 5.8 Procedures are in place and financial assessment officers use process checklists to ensure consistency when checking support plans, financial and employment information, assessed charges and any surplus funding.
- 5.9 In respect of the recovery of surplus funds held by service providers, consideration should be given to specific targeted review of certain types of agreements such as those held with managed bank account providers, as previous exercises have proved that significant monies could be recovered.
- 5.10 Established procedures are in place for officers to raise concerns in respect of safeguarding or misuse/ mismanagement issues and, where required, cases are escalated with involvement from managers, operational workers or, in cases of potential fraud, the Internal Audit Service.

### **Service user financial assessments**

(Substantial assurance)

- 5.11 Where a local authority charges adult service users for their social care it must carry out a financial assessment in accordance with Care Act regulations of what the user can afford to pay and provide them with a written record of that assessment. So, when chargeable services are arranged by the county council the financial assessment team is notified and contacts the individual to arrange a financial assessment. The assessor obtains information regarding the individual's income, savings, investments, expenses and expenditure, from which they calculate how much the individual should contribute towards the cost of their care.

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This should be reassessed, normally annually, to take account of any changes in circumstances.

5.12 Financial assessments are undertaken in accordance with guidance and regulations, and are generally completed on or before the scheduled date.

5.13 Whilst there will always be a number of reviews outstanding at any point in time, the Financial Assessment Service is aware of delays in completing reassessments and there is a backlog of overdue reviews. This means both that service users may be subject to unnecessary charges, and that income due to the council is not collected. A reassessment team will be established within Exchequer Services from 1 April 2018.

### **Information security within parts of Children's Services**

(Substantial assurance)

5.14 Both the Fostering, Adoption, Residential and Youth Offending Team and Safeguarding, Inspection and Audit Service actively promote the council's information security policies. They refer to critical policies, such as information handling, in their own procedures and induction checklists, and require all officers to complete information governance e-learning annually. Each service has an information governance champion to provide advice and guidance and we found a robust process of reporting and responding to data breaches by managers. However despite this a number of data breaches have occurred.

5.15 The majority of breaches are attributed to a failure by individual officers to follow policies and procedures, and we understand that more stringent application of disciplinary action has now been adopted.

### **Personal budgets for children's service users and direct payments to their carers**

(Limited assurance)

5.16 Personal budgets can be requested by the parents and carers of children and young people who have been assessed as needing an education, health and care plan, to fund services to support the outcomes for them. As has already been reported in respect of direct payments to adults, a personal budget can be administered through direct payments.

5.17 The Resource Allocation System (RAS) is not being used as required to assess the client's level of need and to generate an indicative budget: we found that the system had been used in only six cases out of 20. Where the system is not used, social workers are making their own assessment of need which, whilst it may be appropriate for the service user, may be inequitable and inconsistent with the assessments made for others.

5.18 Where assessments are carried out (whether using RAS or not) they are not always recorded on the Liquidlogic Children's System (LCS). Although service users' case files are updated on LCS during the assessment process, the content and information recorded varies greatly. This is much the same as was reported in January 2018 in respect of direct payments to adult service users.

5.19 There is no formal guidance or training programme in place to ensure that Children's Services' staff are aware of the procedures for setting up personal budgets managed through direct payments. Although a flowchart detailing key tasks and other information is available on the Adult Services' intranet, Children's Services' staff cannot access this.

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- 5.20 Like direct payments to adults, direct payments made to children's carers must be supported by a signed 'FIN107' agreement to comply with the scheme's financial terms and conditions. These agreements should be retained on case files but we found none on LCS. There is no evidence that financial terms and conditions are routinely discussed and agreed with clients.
- 5.21 Where support staff are employed by or on behalf of service users' carers we could not verify that information from the Disclosure and Barring Service (DBS) is obtained for all. In some cases information has clearly been requested but no records of any DBS references are held on LCS.
- 5.22 Visits by financial assessment officers to review care packages were not always carried out within the six months stipulated in guidance, and visits and cancellations were not recorded on LCS. However, the head of exchequer services has confirmed that, in support of revenue savings agreed by Cabinet in October 2017, financial assessments are now carried out through desktop assessment and visits are made only in exceptional circumstances. Our recent audit of financial assessments covered this area in more detail.

### **Transition from children's to adult services.**

(Limited assurance)

- 5.23 Transition to adulthood is a key milestone for all young people. Across the county the Transitions Service supports approximately 900 young people between 14 and 25 years of age who have complex needs and are highly likely to meet criteria for adult social care support. The service delivers statutory services for children and young adults including those with special educational needs and disabilities.
- 5.24 Although the Transitions Service maintains a five year forecast of transitions cases, this does not support timely planning as it does not set out what stage of the process the young person is at, or what action will be required and when. The service is often not involved until a young person's seventeenth year and support plans are frequently not in place until after their eighteenth birthday, and as a result the most cost efficient packages of care are not always provided.
- 5.25 Concerns have also been raised by senior managers in both Children's and Adult Services about the lack of the engagement of all stakeholders, and carers and parents have complained about the council's ineffective communication. Although some information is available on the public-facing internet this is limited in scope and does not clearly communicate the transition process.
- 5.26 Although a policy and guidance are in place, different versions of the same documents are recorded on the Children's and Adults Services intranet webpages and it is unclear whether they both comply with all current policy and legislation. The policy and guidance are unclear on the roles and responsibilities of those responsible for transitions work and the lack of clarity has led to key tasks not being completed.
- 5.27 For example duplicate payments have been made where payments to young people or their carers have not been ended on Liquidlogic Children's System (LCS) when they have also later been set up on Liquidlogic Adult System (LAS). Locality board meetings held to discuss transition cases do not always take place and are inconsistently recorded.

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5.28

### **Health and safety of the council's properties (premises compliance)**

(Limited assurance)

- 5.29 The Asset Management service's Compliance Team was formed in February 2017 when responsibility for corporate oversight of premises was passed to the service. The team conducts a quality assurance process to ensure that the authority can demonstrate that it complies with a range of legislative and regulatory requirements and that the register of property assets is utilised to inform risk-based inspection planning. At the same time a 'continuous compliance' approach is being developed to reduce reliance on annual returns and so reduce the risk of non-compliant premises. As part of this approach premises managers will maintain information on the new Property Asset Management System (PAMS), which will be reviewed by the Compliance Team.
- 5.30 At the time of our audit there was not a complete, definitive list of properties that ought to fall under the inspection regime and, although inspections were being carried out, it was not clear that they covered the riskiest properties across the county. Managers have since informed us that both these issues have now been addressed and that inspections are now prioritised according to risk, based on the vulnerability of property occupants. A number of other actions are also being taken or are planned to improve the inspection regime, including requests for amendments to PAMS to support the introduction of continuous compliance. We have not audited the current inspection programme's effectiveness or progress, but will audit the new approach in 2018/19 once it has been embedded.
- 5.31 The objective that the council's property portfolio is compliant with health and safety legislation and statutory building regulations is therefore at risk, but action is being taken by this relatively new team to develop and implement new planning, inspection and reporting procedures that will be put in place over the coming months.

### **Accounts payable: central controls**

(Substantial assurance)

- 5.32 The council uses the Oracle system to process invoices and payments and users are required to raise and approve requisitions for expenditure on this system wherever possible using its i-Procurement module. Exchequer Services match invoices to approved requisitions and process them for payment: invoices made without purchase orders are manually batched and authorised before Exchequer Services process the payments. Payments can also be made using the PRO system where invoices are not provided (for example for business rates on the council's properties).
- 5.33 Our testing of 40 i-procurement invoices, 40 manual invoices and 20 payments with no invoices found no inappropriate purchases and none that did not relate to council services. All payments in excess of £50,000 were held and verified before being processed, and duplicate payment software is being used effectively. Controls over retrospective orders will be improved when new guidance is approved and released very soon.
- 5.34 However controls over manual invoice batches do not comply with the council's procedures. Further, although improved procedures for changing suppliers' bank account details have been implemented, we are aware of one instance where a



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fraud of £23,000 has been perpetrated against the council as a result of an officer's failure of to follow those procedures correctly.

### **Treasury management**

(Substantial assurance)

- 5.35 Despite recent reductions in its reserves, and therefore also investments, the council held investments at 30 November 2017 of £472.1 million in total, consisting of £107.8 million in bank and local authority deposits and £364.3 million in bonds. In the four months from 1 August to 30 November a total of £351 million investments matured, and new investments of £298 million were made. As at 30 November, the council's total borrowing amounted to £1,189.6 million and the net financing charges for 2017/18 are budgeted at £36.7 million although the current forecast is to spend £3.9 million less than this.
- 5.36 The council's Treasury Management Strategy, Policy and the associated procedures contained in Treasury Management Practices are reviewed annually and approved by councillors. The Treasury Management Strategy is being properly applied, with adequate supporting records and documentation for each investment decision. A daily cash flow forecasting exercise identifies the funds available for investment, or the borrowing requirement. Monthly meetings are held between senior officers in the treasury management team and the director of finance to monitor key areas of treasury management activity and performance.

### **Payroll processing: processing of payments by BTLS, using information supplied by the council**

(Full assurance)

- 5.37 Approximately 39,500 BACS payments to employees amounting to approximately £43 million are processed each month by the BTLS Payroll Service.
- 5.38 BTLS continues to operate a strong control environment over processing the council's payroll. Payroll transactions are processed correctly including payments for sickness, maternity and honoraria. However while leavers are processed correctly once BTLS has been informed, delays in notifying BTLS mean that the resulting payroll errors require further remedial action.
- 5.39 Access to the payroll master file is appropriately restricted and BTLS plans to undertake a full review of access rights. There is robust exception reporting and verification measures are in place to identify and address anomalies or errors arising during the payroll clearance process.

### **Payroll processing: payments on account and over-payments**

(Full assurance)

- 5.40 BTLS is responsible for raising invoices where overpayments have been made to the council's current and former employees. The Payroll Service has introduced measures to reduce numbers of overpayments and payments on account by raising awareness of the correct process with council managers and heads of service.
- 5.41 Overpayments continue despite this though, mainly due to late notification by managers of salary changes, particularly of employees leaving the council. Operational managers and heads of service have been reminded of key processes and the implications of non-compliance through direct contact by BTLS and HR bulletins published on the intranet.

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5.42 Comparing the nine months to December 2016 to the same period in 2017 there was a 26% reduction in the number of overpayments from 277 to 204, and the value decreased from £286,000 to £219,000. Over this same period the number of payments on account fell by 5% from 764 to 727 although the value increased from £669,000 to £856,000.

5.43 As at February 2018, outstanding payroll-related debt was as follows:

Age of debt	Number of invoices		Value of debt		Being paid in instalments
Under one year old	192	51%	£231,076	38%	40%
Between one and two years old	60	16%	£101,519	17%	32%
Over two years old (to April 2009)	125	33%	£268,636	45%	27%
<b>Total</b>	<b>377</b>	<b>100%</b>	<b>£601,231</b>	<b>100%</b>	

### Purchase cards

(Substantial assurance)

- 5.44 The county council operates a corporate purchase card scheme both for itself and on behalf of the Office of the Police and Crime Commissioner, and the scheme is now also being rolled out to schools.
- 5.45 The card is a corporate charge card provided to staff to facilitate paperless electronic ordering and payment of goods, and is settled in full at the end of each monthly statement period. Cards are available to all services that have access to Oracle Financials that regularly order items that are not on the Central Purchasing Team's catalogue and expenditure is expected to amount to £500 per month or more.
- 5.46 There is an appropriate policy and supporting guidance for users that is easily accessible on the intranet. Cards are issued in compliance with the acceptance criteria and users confirm that they understand their responsibilities and need to comply with the card use policy.
- 5.47 The Procurement Information Management and Systems Team monitors the use of cards, trends and total expenditure on a monthly basis to confirm that the expenditure on the card justifies its use. Card holders' managers and budget holders monitor that expenditure is for business purposes.