

# **Lancashire County Council Internal Audit Service**

## **Annual report for the year ended 31 March 2018**

### **1 Introduction**

#### **Purpose of this report**

- 1.1 This report summarises the work that the county council's Internal Audit Service has undertaken during 2017/18 and the key themes arising in relation to internal control, governance and risk management across the council.
- 1.2 In June 2017 the then Audit and Governance Committee considered and approved an internal audit plan for 2017/18, and small amendments to the plan have been reported to the committee during the course of the year. The work for the year is now sufficiently complete to support the overall opinion on the frameworks of governance, risk management and internal control, although some pieces of work remain to be finalised and will be reported to the next meeting of the committee.

#### **The role of internal audit**

- 1.3 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 (PSIAS) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) require the head of internal audit 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 2017/18.
- 1.4 The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in Appendix C to this report.

#### **Interim progress reports**

- 1.5 I have provided summaries of the individual pieces of audit work completed throughout the course of the year in my progress reports to each meeting of the Audit, Risk and Governance Committee. Any audit reports will be provided to any members if they wish.

Ruth Lowry  
Head of Internal Audit  
Lancashire County Council

## 2 Summary assessment of internal control

### Overall opinion

- 2.1 I can provide limited assurance overall regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control.
- 2.2 In forming my opinion I have considered the work undertaken by the Internal Audit Service throughout the year as well as the work of external assurance providers. As explained in the plan for the year, there are a number of areas of the council's business where management had identified the need to continue to make service and control improvements and these were therefore excluded from the scope of audit work for the year as they would not have added value. Some of these are significant and have therefore also affected the assurance I am able to provide overall but the plans being implemented by managers across the organisation are building the foundations for better control. It is still too early to see the positive impact of this improvement work but evidence is expected in future years.
- 2.3 Descriptions of the audit 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 Appendices A and C. Appendix 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

- 2.4 Our work has been organised in accordance with the Internal Audit Service's planning principles and an understanding of the council's controls at the start of the year, which was set out as follows:

A framework for governance, risk management and control					
<b>Governance and democratic oversight</b>					
Corporate governance framework	Decision-making		Oversight and scrutiny		Policy setting
<b>Business effectiveness</b>					
Risk management	Performance monitoring and management	Organisational design	Financial governance and planning	Working in partnership with others	
<b>Service delivery</b>					
Development and corporate services	Commissioning	Operations and delivery			
		Adult services	Children's services	Community	Public health
Economic development Design & construction Planning & environment	Asset management	Social care Learning disabilities & mental health	Social care Adoption & fostering SEN & disability Traded services	Highways Public & integrated transport Waste management	Health equity, welfare & partnerships Wellbeing, prevention & early help Emergency planning
<b>Service support</b>					
Legal services	Core business systems development	Programme management	Business intelligence	Customer contact	
<b>Business processes</b>					
Financial systems and processes	Procurement	Facilities management		Human resources	
Budget monitoring	Contract monitoring and management	Information management		Payroll processing	
Investment		Business continuity		ICT systems	

## Summary of assurance provided by the Internal Audit Service

- 2.5 By agreement with the then Management Team the plan for 2017/18 included some audits that were intended to support managers in making further improvements in high-risk areas that were known to be problematic but without ongoing interventions. It was therefore to be expected that lower degrees of assurance would be provided by the Internal Audit Service this year but this focus has added value to the organisation.
- 2.6 A summary of all the assurance we have provided during the year to the end of March 2018 is set out 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 assurance.

2017/18 assignments relating to:	Total	Assurance			
		Full	Substantial	Limited	None
Governance and democratic oversight	0				
Business effectiveness	3	1	2		
Service delivery	16		10	6	
Service support	0				
Business processes	12	2	9	1	
<b>Total</b>	<b>31</b>	<b>3</b>	<b>21</b>	<b>7</b>	<b>0</b>
	100%	10%	68%	23%	-

- 2.7 Set out below is the assurance provided in 2016/17, when a greater proportion of audit work was directed to areas that were understood to be less problematic.

2016/17 assignments relating to:	Total audits	Assurance			
		Full	Substantial	Limited	None
Governance and democratic oversight	1		1		
Business effectiveness	4		3	1	
Service delivery	16	1	14	1	
Service support	1		1		
Business processes	9	2	5	2	
<b>Total</b>	<b>31</b>	<b>3</b>	<b>24</b>	<b>4</b>	<b>0</b>
	100%	10%	77%	13%	-

## Wider sources of assurance available to the county council

- 2.8 Assurance has been taken from the work undertaken by Deloitte LLP over the operation of the Local Pensions Partnership. The firm has completed eight audits of various aspects of the partnership's activities, in accordance with the plan for the year drafted in February 2017. Two further audits for 2017/18 are still ongoing and the assurance provided by them will be reported when available, along with further work for 2018/19.

- 2.9 The reports provided by Ofsted during the year form important sources of external assurance and may be found on Ofsted's web-site here:  
<https://reports.ofsted.gov.uk/local-authorities/lancashire>

### **Management's responses to our findings**

- 2.10 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 our work during 2017/18 indicates that the plans agreed in 2016/17 are largely being addressed, although some work is still ongoing.
- 2.11 For 2018/19 we are discussing a more collaborative approach with management to enable us collectively to take more assurance in future that action is being taken as agreed, and improvements are being achieved as intended.

## **3 Key issues and themes**

- 3.1 The committee's attention has previously been drawn to the existence of a number of areas of the council's operations where managers could not themselves provide assurance over the adequacy and effectiveness of controls, and that are subject to considerable improvement work. Although a lot of work has been done in recent years to improve systems and controls in these areas, managers acknowledge that improvement plans will take more time to implement before they are satisfied that the controls they operate are adequate and effective to mitigate the risks to the council's objectives.
- 3.2 Significant areas of the council in which work continues to drive further improvement include:
- actions to stabilise and secure the council's financial position, including further cost-cutting measures and service reductions
  - children's social care and services for children with special educational needs and disabilities, as action is taken in response to work with Ofsted
  - adults' social care, as the service continues to work with Newton Europe and the Local Government Association to reconfigure the way it operates, and is restructured
  - recording and managing the financial transactions associated with both children's and adult's social care, using the interface between the social care and financial systems
  - the transition of service users between children's and adult's social care support services
  - implementation and operation of an ICT strategy
  - asset management, following the implementation of new systems to manage both highways and property assets.
- 3.3 The Internal Audit Service's own work has generated positive assurance over some important areas including the council's management of direct payments

to adult service users and service users' financial assessments, and aspects of children's safeguarding. However we have given more limited assurance over other elements of adult social care – the coverage of the complex case decision-making process and 'Making Safeguarding Personal' programme in particular – and the administration of children's direct payments and the transition of service users from children's to adult services.

- 3.4 Other planned audit work has been deferred during the year whilst further action has been taken by management to understand the issues and plan the improvements still required. In particular this has affected work on the corporate recruitment process, supervision and support to front-line social workers, use of the Care Portal to pay care providers and the development of the Adult Services workforce.
- 3.5 Improvement plans have been developed across the organisation and these are supported by the new corporate Operational Plan. However it is still too early, as evidenced by the directors' assurance statements, to give more than limited assurance that internal control is adequate and consistently effective in supporting the council's objectives.

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

- 4.1 In making its annual governance statement the council considers the head of internal audit's opinion in relation to its frameworks of governance, risk management and control. The council's annual governance statement should therefore reflect the continuing challenges presented by its financial position and projections; its continuing drive to make extremely challenging cost reductions; the effects of cost reductions on its ability to operate adequate and effective controls to properly manage the risks to its objectives. It should clearly also refer to the council's ongoing work with Ofsted, and work to improve its core ICT systems.

## **5 Organisational independence**

- 5.1 The Internal Audit Service has access to and support from the council's Corporate Management Team and is able to operate independently within the organisation so is properly able to fulfil its responsibilities. In accordance with its charter the service remains independent of the council's other functions and, with the exception of its support to management in relation to counter fraud and investigatory work, no member of the Internal Audit Service has any executive or operational responsibilities.
- 5.2 The Internal Audit Service's work programme and priorities are determined in consultation with the Corporate Management Team, the council's senior managers and the Audit, Risk and Governance Committee, but remain decisions for the head of internal audit. The head of internal audit has direct access to and freedom to report in her own name and without fear or favour to all officers and members.

## **6 Internal audit performance**

- 6.1 Following confirmation of the structure of the service during the previous year the service's establishment is currently fully staffed.

### **Completion of the internal audit plan 2017/18**

- 6.2 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.
- 6.3 As set out at paragraph 2.6 above, at this point we have provided assurance through 31 individual audit assignment reports (2016/17, 31), as well as a number of other pieces of work that have not resulted in assurance opinions, and these are set out in Appendix B. This represents 53% of the total plan after some work has been deferred and removed and, at the same time as work on the audit plan for 2018/19 is begun, the remaining work for 2017/18 will be completed and reported to the committee in July 2018.

### **Client satisfaction**

- 6.4 The Internal Audit Service has requested feedback from its auditees throughout the year as each audit assignment has been completed. This has provided very positive feedback about the conduct of our audit work and a few helpful indications of practical matters for the team to consider in conducting its work.
- 6.5 We have received feedback on 52% of the audit engagements completed for the county council, although surveys have only just been sent for the most recently completed audits. Because in some cases more than one auditee has responded, we have received 33 surveys relating to 2017/18 from all our auditees including from our external client organisations.
- 6.6 Our auditees have told us in every case that, overall, they were satisfied with the way we conducted our work with them. We also seek more detailed feedback in relation to our audit planning, the audit process and reporting, our behaviour, and our management and service to our auditees. Our auditees have judged our performance across all categories to be very good in 52% of our audits, and a mix of very good and good in a further 45% of audits. We were judged as fair in some areas on just one audit (and even in that case the auditee also commented that, "I thought it was well planned and staff had a great understanding".)

## **7 Quality assurance and improvement programme**

- 7.1 The Internal Audit Service has established and regularly reviews a quality assurance and improvement programme. PSIAS requires that all aspects of internal audit activity are considered by a combination of ongoing internal monitoring, periodic self-assessments or internal assessments by others with sufficient knowledge, and independent external review at least once every five years.

Type of review	Internal review		External review
	Ongoing	Periodic	At least 5-yearly
Frequency			
Audit assignment quality	✓		✓
Professional and operational framework		✓	✓

- 7.2 Following this framework, the Internal Audit Service's quality assurance and improvement programme consists of internal ongoing monitoring of audit assignment quality, periodic internal assessment of the professional and operational framework, and external review.

### External review

- 7.3 The findings of the external quality assessment undertaken by the Chartered Institute of Internal Auditors were reported to the committee in January 2018. This confirmed that the Internal Audit Service 'generally conforms' to the full range of standards set out in the International Professional Practice Framework, PSIAS and Local Government Application Note. Work has continued to address the few matters raised to improve the operation of the service and an assessment of progress against the action plan will be provided to any member who wishes to see it.
- 7.4 The review has confirmed that the Internal Audit Service can say that its work has been in accordance with the International Professional Practices Framework, PSIAS and the Local Government Application Note.

### Internal review

- 7.5 The Internal Audit Service has designed procedures and an audit methodology that conform to PSIAS and are regularly reviewed. Every auditor in the team is required to comply with these or document the reasons why not, and to demonstrate this compliance on every audit assignment. The audit managers assess the quality of each audit concurrently as it progresses, and during the year a post-audit file review processes was also set out to test conformance with the service's working practices and the quality of work undertaken. The first post-audit file reviews were undertaken during February 2018 and they indicate that there is good evidence of compliance with our audit methodology and input from the audit managers to support the work of the auditors, although some learning points have been drawn out and shared with the team.

## **A Audit assurance levels and classification of residual risks**

Please note that these definitions have been reviewed and will be revised for 2018/19.

### **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/ have resulted in failure to achieve the service objectives.

### **Classification of residual risks requiring management action**

All actions agreed with management are stated in terms of the residual risk they are designed to mitigate.

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

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

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

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