

Matters arising from internal audit work completed during the period to 30 September 2018

1 Introduction

- 1.1 This report highlights key 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 highlights the issues arising from the work undertaken during the period to 30 September 2018 by the Internal Audit Service under the audit plan for 2018/19.
- 1.2 Managers are now asked at the end of each quarter to confirm that all remedial actions arising from audit work have been completed by their due date, or else are incomplete or superseded. These statistics are also reported here.

2 Key issues

- 2.1 Although it is too soon to highlight any broad issues emerging from completed audit work, there will be more work to report to the committee's next meeting.
- 2.2 Audit work is progressing well and a number of audits are reported below. Risk and control frameworks are being developed with service managers and more detailed testing is planned for the second part of the year in a number of cases, and will be reported when all work is complete. More information is provided at section 3 below.
- 2.3 The committee will remain well aware that the council is currently addressing significant challenges. At this point last year work was under way to identify savings of approximately £67 million in 2018/19 and a gap remains in the budget for 2019/20 of £60.6 million. Although reserves are still available to bridge that gap, the £64.4 million remaining in available reserves will not fully support the projected difference between income and expenditure of £110.7 million in 2020/21.
- 2.4 All services are now being challenged to achieve savings of £135.3 million by 2022/23 and the interim chief executive and director of resources and her new Corporate Management Team are strongly focussed on achieving the necessary savings whilst also working to improve the council's framework of control.
- 2.5 Very clear evidence of the improvements that have already been achieved has been provided by Ofsted's recent assessment that the council's children's social care services have improved and, whilst they still require improvement, are no longer inadequate. Work is continuing across these services and also, with the council's partners in the NHS, to improve services for children with special educational needs and disabilities.
- 2.6 At this mid-year point, the head of internal audit is working with the interim chief executive and director of resources, and the director of finance, to reassess the council's framework of internal control and ensure that the audit plan will provide the assurance the committee and Council need for the current and future years.

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3 Progress against the internal audit plan

3.1 Excluding follow-up work and ad hoc grants, there are 90 audits on the audit plan for the year (a small number of which were carried into this year from last). These have progressed as follows, which is largely as would be expected at this point in the year.

| Stage of audit process | Number | Percentage |
|------------------------------------|-----------|---------------|
| Complete and reported to committee | 16 | 17.8% |
| At draft report stage | 7 | 7.8% |
| Progressing | 29 | 32.2% |
| Not yet started | 38 | 42.2% |
| Total number of audits | 90 | 100.0% |

3.2 Summaries of the findings of the 12 audits completed and reported during the last quarter are reported below. The results of our work on four audits carried forward from 2017/18 were reported in July 2018.

3.3 Draft reports are currently being prepared and discussed with managers on:

- Communication with staff across the council
- Medication practices across Disability Services
- Supervision and support to front-line social workers in the Public Health Patient Safety and Safeguarding team
- Core systems for managing capital projects – PPMS, PAMS and HAMS
- Contract monitoring: Community Services highways line-marking
- Operation of the 'Step up to Social Work' contract
- Information management: information storage and retention

3.4 We have also confirmed that the actions agreed to address external requests for information have been addressed.

4 The assurance available from completed audit work

4.1 A brief summary of the assurance provided for each of the audits relating to 2018/19 and completed to final report stage by 30 September 2018 is provided in the table below.

| Control area | Assurance |
|--|-------------|
| Service delivery: Adult Services and Health & Wellbeing | |
| Supervision and support to front-line in-house day services care providers | Moderate |
| Contract monitoring: reablement service | Moderate |
| Contract monitoring: crisis support service | Moderate |
| Contract monitoring: sexual health service | Substantial |
| Payroll claims and recovery of over/ underpayments to staff in Disability Services | Moderate |

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| Control area | Assurance |
|--|---------------------------------------|
| Service delivery: Education & Children's Services | |
| External residential placements process | Moderate |
| Contract monitoring: external residential placements | Moderate |
| Schools' Financial Value Standard (SFVS) self-assessments (reported in July 2018) | Moderate |
| Service delivery: Growth, Environment, Transport & Community Services | |
| Lancashire Renewables: governance and decision making | Moderate |
| Lancashire Renewables: expenditure | Substantial |
| Contract monitoring: waste landfill (reported in July 2018) | Substantial |
| Service support | |
| Recovery of costs/ available income from partner organisations (reported in July 2018) | Limited |
| Procurement of the new corporate banking contract | Substantial (Controls design only) |
| Business processes | |
| Oversight of payroll payments | Limited |
| Information management: compliance with the new General Data Protection Regulations | Substantial |
| Financial processes: VAT processing (reported in July 2018) | Substantial |

- 4.2 The Lancashire Pension Fund is 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 choose to take some assurance from Deloitte's work on the framework of governance, risk management and control operating over the pension fund. Deloitte disclaims any liability to the council for any reliance it may place on this work but has agreed that its conclusions may be reported to the Audit, Risk and Governance Committee.
- 4.3 Deloitte has completed one of the last two planned audits relating to 2017/18, on the second phase of oversight of business and transformation change, and also additional work on the organisation's readiness for the introduction of the General Data Protection Regulations. One planned audit on investment operations has not yet been completed but is being progressed.

| Control area | Assurance |
|--|--------------------------------------|
| Lancashire Pension Fund | |
| Oversight of business transformation change (Phase II) | Effective with scope for improvement |
| GDPR readiness assessment | Effective with scope for improvement |

- 4.4 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 'B'. Deloitte's classification "effective with scope for improvement" might

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reasonably be regarded as similar to the "moderate" assurance provided by the Internal Audit Service.

Grant certification and testing

- 4.5 In addition to providing assurance to the council some audit work is required by various central government departments, to provide them with assurance over the council's use of grant funding and attainment of funding conditions.
- 4.6 Work has been completed to provide assurance to the Department for Transport that the conditions set for the council's use of funds granted in 2017/18 in relation to local transport capital funding and highways maintenance have been met. (These amount to £38.820 million in total.)
- 4.7 Continuous audit work is required by the Ministry for Housing, Communities and Local Government's Troubled Families Unit to certify 10% of the outcomes being claimed by the council under the Troubled Families programme. The numbers are increasing and it is expected that approximately 700 outcome claims will be audited for the Troubled Families Unit during the current year.

5 Issues arising from completed audit work

- 5.1 The matters arising from each of the completed audits are set out in the narrative below.

Supervision and support to front-line in-house day services care providers

(Moderate assurance)

- 5.2 A number of areas of good practice were identified in the arrangements we examined. In particular, as care support workers and their team managers work in close proximity on a daily basis, staff receive continuous informal supervision and support, and this is complemented by other regular informal supervision and support including team meetings, peer supervision, and 'circles of support' that reflect on operational practice.
- 5.3 All formal supervision meetings are documented, and whilst the standard was variable, there were some good examples of thorough supervision that included: reflecting on and reviewing practice and performance; discussion of persons supported; setting priorities and objectives in accordance with service objectives; identifying training and continuing development needs; and ensuring that staff are working within professional codes of conduct.
- 5.4 However supervision meetings are not always undertaken as regularly as the service's policy stipulates, and checks by middle managers to monitor the quality and frequency of supervision are inconsistently applied. The current supervision policy is also out of date and would benefit from being condensed or simplified.

Contract monitoring: reablement service

(Moderate assurance)

- 5.5 Reablement support is available at all times and aims to enable a service user to regain their skills and capabilities quickly after an illness, whilst allowing them sufficient time to regain their independence and prevent the need for ongoing social care support. The council has contracts in place with three service providers, with an annual value of approximately £3.2 million.
- 5.6 Whilst there is no formally defined contract management strategy, contract monitoring ensures that providers meet their contractual requirements. Work has begun to draw up a strategy which will ensure that roles and responsibilities are

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more clearly defined, and in particular that the Contract Management team, Commissioning, Care Navigation and Finance work collaboratively to avoid duplication or omissions in managing the contracts. A monitoring toolkit will be developed for the Contract Management team.

- 5.7 Contract review meetings are held in accordance with the service specification but are not always attended by representatives from the operational Reablement or Care Navigation teams which will be required in future to ensure that representatives attend to ensure that any issues are understood and addressed.
- 5.8 Actual service provision by two providers has fallen short of the hours commissioned from them. A review of the actual hours provided relative to the contracted hours will reassess the hours that will be commissioned and consider whether a process is required to carry forward unused support hours.

Contract monitoring: crisis support service (Moderate assurance)

- 5.9 Crisis support is available at all times to prevent service users' unnecessary acute hospital admission or premature admission to residential care, to support their timely discharge from hospital, and to provide urgent care and support in crisis situations. There are contracts in place with three service providers, with an annual value of approximately £1.5 million.
- 5.10 The Crisis Service's Contract Management team operates a contract management plan which sets out what information is required from the three providers and when. The Commissioning team is also involved and there has been a consequent lack of clarity regarding the two teams' roles. Work is now beginning to ensure roles and responsibilities are more clearly defined, for example in monitoring providers' performance against key performance indicators.
- 5.11 Providers are not currently consistently submitting data on service user outcomes (a key performance indicator) and the council is therefore missing key intelligence that would allow officers to determine the overall effectiveness of crisis provision.
- 5.12 We identified an error in the contract monitoring spreadsheet which resulted in the value of wastage hours being under-reported. This information is fundamental in evaluating the number of hours required and to inform future commissioning decisions. Despite wastage hours being reported, additional hours have been purchased to cover potential shortfalls due to seasonal pressures, although these have been funded either by the Better Care Fund or the relevant Clinical Commissioning Group.

Contract monitoring: sexual health service (Substantial assurance)

- 5.13 Lancashire County Council and the Director of Public Health are statutorily responsible for providing sexual health services including testing and treating for sexually transmitted infections, some contraception, and sexual health promotion and disease prevention. The Department of Health funds this work and in 2017/18 the grant amounted to £7.84 million.
- 5.14 Two services are commissioned in Lancashire: an 'all age' service provided by Blackpool Teaching Hospitals NHS Foundation Trust, and a 'young people's' service provided by Lancashire Care NHS Foundation Trust. These providers support delivery of the sexual health Public Health Outcome Framework measures published by the Department of Health.

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- 5.15 Formal contract review meetings and the use of a set agenda ensure that the service specification is adhered to and service outcomes achieved. Monitoring these contracts requires collaboration between the Health, Equity, Welfare and Partnerships, Patient Safety and Safeguarding, and Financial Management teams. Work has begun to share and transfer knowledge between the teams as some of the tasks transfer between them.
- 5.16 There is a sound system of internal control which is adequately designed to ensure that the open access integrated sexual health contracts are monitored effectively, and controls are being consistently applied.

Payroll claims and recovery of over/ underpayments to staff in Disability Services (Moderate assurance)

- 5.17 Each month more than 60 managers in the Domiciliary and Short Break Services approve approximately 3,000 individual claims for payment. Around 10% of managers in the services approve over 100 claims per month.
- 5.18 Payment claims are input, approved and processed effectively using Oracle self-service functions and, whilst the input and approval aspects of the claims process can be both time consuming and resource intensive, the overall process is not adversely affected and claims are approved in line with corporate payroll processing deadlines. Procedures are in place to recover or reimburse any over- or under-payments identified.
- 5.19 Action will be taken to strengthen controls in some areas, including the provision of training and support, referral, monitoring and reporting of HR, ICT and Payroll issues, and the adaptation and introduction of processes to improve efficiency across the Disability Service.

External residential placements process (Moderate assurance)

- 5.20 The council has a statutory duty under the Children Act, 1989 to provide residential care placements to meet the needs of children and young people in its care. Placements are in council-run care homes or are procured from external providers. In August 2018 170 'children looked after' were in external agency residential care at an annual cost of over £41 million.
- 5.21 The director of children's services has taken action to meet placement needs cost-effectively and now chairs weekly placement review meetings with senior managers. Local service teams are required to review placements at 'track and challenge' meetings and the social care business improvement partner has worked with teams across the county to implement more robust review processes. The team in the East has implemented these processes and has identified a potential annualised saving of £2.94 million, and the same approach will be rolled out in the Central team.
- 5.22 Ofsted's recent re-inspection acknowledged that locality-based management structures can support closer oversight of practice. However senior managers are aware that this has led to inconsistency across the three areas where, for example, review processes and resource panel arrangements differ. Procedures and guidelines have been distributed through team and management meetings but have not yet been included in the Social Care Procedures Manual.
- 5.23 The Access to Resources team makes placements based on social workers' referrals, but referral decisions are not always recorded in the Liquidlogic

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Children's System (LCS). There is some evidence of review and approval by managers but this is not always evidence on LCS. Placement plans are produced but are not always agreed by the stakeholders in each case. Delays in submitting referrals to the Access to Resources team makes sourcing placements more difficult but, once informed, the team takes prompt procurement action. Individual placement agreements establish contracts between provider and council but most are unsigned.

- 5.24 At the time of our work, the council owed providers £563,000 on 136 provider invoices and credit notes, primarily because invoice details do not match individual provider agreements or do not show a care plan line item for a variety of reasons, including cases that have bypassed the Access to Resources team.

Contract monitoring: external residential placements (Moderate assurance)

- 5.25 Overall, contract management of external residential placements is generally well managed by the Access to Resources team, although policy is not consistently or fully complied with by the social care teams. The Access to Resources team maintains process guidance and a comprehensive spreadsheet to manage placements. An external provider framework is in place and providers charged in line with it. The Access to Resources team conducts annual provider inspections but had completed only 18 at the time of our work, because a visiting officer had been only recently appointed. The team acknowledges that the number of inspections is not yet sufficient and they are reactive rather than proactive, and so is developing an inspection programme to cover all providers annually. They also obtain assurance over providers from Regulation 44 and end of placement reports, although these are not always provided promptly. The service's managers have agreed to collate and evaluate all sources of information to obtain an overview of provider performance that will support the inspection programme.
- 5.26 Early in 2018 the Access to Resources team introduced a process for reviewing placement adequacy but this is not yet being followed: managers have agreed that this will be done in future. However we confirmed that concerns raised about providers are logged and investigated, and action has been taken where necessary.

Lancashire Renewables Ltd: governance and decision making

(Moderate assurance)

- 5.27 Lancashire Renewables Limited (LRL) operates waste treatment facilities at Farington and Thornton. Since the termination of the private finance initiative contract in 2014 it has been jointly owned by Lancashire County Council (the major shareholder) and Blackpool Council.
- 5.28 Articles of association and a service level agreement (SLA) between the company and the two councils set out the company's governance arrangements including board and management structures, business planning, decision making, reporting and risk and performance management. The company's board is chaired by the deputy leader of the county council and includes five county councillors and one member of Blackpool Council. The director of community services acts as its chief executive. The board meets quarterly, supported by regular reports from the chief executive, general manager and finance officer on business progress, value for money and financial assessments.

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- 5.29 Operational practice has varied from that stipulated in the SLA in some respects. The SLA, and good practice, require the company to publish an annual business plan setting out operational strategies and performance targets but, while managers submit a comprehensive report to the board on performance against key targets, no business plan is yet in place. The chief executive will develop a business plan covering the company's objectives. The chair has reported to the Cabinet Committee on Performance and Improvement annually rather than quarterly as stipulated by the SLA, so the committee's requirements for reports will be clarified.
- 5.30 Similarly, LRL does not yet maintain and manage a register of its own strategic and operational risks as required both by the SLA and good practice. The risks to council from its ownership of the company are reported in the Waste Management Service risk register, but the company's own risks are not recorded. A register will therefore now be developed following the council's approach, and will be regularly monitored.

Lancashire Renewables Ltd: expenditure (Substantial assurance)

- 5.31 In 2017/18 LRL raised 2,646 orders worth £25.8 million and from April to June 2018/19 it raised 700 orders worth £5.3 million. We assessed the adequacy and effectiveness of controls to ensure this spending is authorised and legitimate. Our work did not address how LRL awards contracts and establishes preferred suppliers whilst the board is working to align its processes with the council's contract and procurement rules.
- 5.32 We confirmed that there are effective and appropriate processes in place to authorise orders, receipt goods and services, validate invoices and make payments. We also confirmed that purchases are in line with expectations for a business of this kind. The ordering process is documented and shared in staff training, and is available on the intranet. Orders are raised and approved on the CODA financial system, with appropriate separation of duties imposed through access permissions.

Procurement of the new corporate banking contract

(Substantial assurance)

- 5.33 The council's contract with NatWest Bank to process financial transactions expires on 31 March 2019 and it is intended that a new five-year contract (with an option to extend to 10 years) will be awarded in December 2018, at an approximate annual cost of £72,000 per year.
- 5.34 The Cabinet has given approval to proceed with the procurement and the process is being managed by the Procurement Service to ensure compliance with legislation and the council's policies: progress is reported to the chief executive and the director of finance. Key documents, including the contract specification, are being drafted. Some controls are dependent on whether a new provider wins the contract, and cannot be fully formulated until the contract has been awarded but the need for a transition programme and system testing is recognised by the Exchequer Service.
- 5.35 The Internal Audit Service has provided assurance over the adequacy of the procurement process controls' design, but not their effectiveness in practice at this stage.

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Information management: compliance with the new General Data Protection Regulations (Substantial assurance)

- 5.36 The General Data Protection Regulations (GDPR) impose strict new rules on how the council protects, controls and processes personal data and introduces severe financial penalties for breaches. The council took effective action to prepare for the introduction of GDPR in May 2018 and a new information governance framework records its strategy, policies, roles and responsibilities as well as a number of improvement actions.
- 5.37 All relevant policies, privacy notices and consent procedures were updated, and the new requirements were communicated to officers and members through staff notices, mandatory online training and team briefings. Information audits were carried out to identify and record the personal data the council processes, and the legal basis for this. Contracts with external data processors are being updated to reflect their new responsibilities. The Senior Information Risk Owner and Data Protection Officer are members of the Corporate Information Governance Group (CIGG), which oversees the ways in which the council controls information, and the ways in which information breaches are investigated.
- 5.38 The number of subject access requests and enquiries received increased significantly prior to GDPR implementation and the Information Governance Team's workload was further increased by a number of security incidents. Resources are being brought into the team to address this and compliance with statutory deadlines has recently improved significantly.

Information management: follow-up of actions to address requests for information

- 5.39 Our audit in 2017/18 of the council's compliance with the Freedom of Information Act and provision of personal data under subject access requests considered the adequacy and effectiveness of arrangements for managing the receipt of requests, and processing and disclosure of information in accordance with statutory requirements. We concluded that there was a generally sound system of internal control and controls were generally being applied consistently, but five actions were agreed to address some weaknesses: three have now been implemented, one is ongoing and one has been superseded.
- 5.40 As agreed, shorter deadlines are now given to services to respond to requests for information. The Norwel system is now used to produce management information on a monthly basis, and this information is then used to monitor and allocate workload in order to improve overall case management.
- 5.41 Work is still ongoing to identify, investigate and close cases recorded as outstanding on Norwel; but the action agreed to ensure that responses are handled more quickly is no longer required because this has been achieved through the more effectively operation of existing controls.

6 Managers' progress in implementing actions

- 6.1 As noted in July, the Cabinet Committee on Performance Improvement (CCPI) has adopted as a performance indicator on the corporate performance dashboard the 'proportion of the actions identified through audit work that were completed within the agreed timescale in the period'. The service has therefore begun to collate managers' assessments of whether action has been completed by the due date as that date passes.

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- 6.2 At the end of the current year the previous years' completed actions will be removed from this analysis but all will continue to be reported to the Audit, Risk and Governance Committee during this year so that the figures reported each quarter are comparable. As at the end of June 2018, 227 actions had been agreed during 2016/17 and 2017/18 and were due for completion. Over the last quarter a further 43 actions have become due and the status of all 270 is reported below.

| Numbers of actions agreed following audit work during 2016/17 and 2017/18 | | Total | Risk rating | | |
|---|-------------|------------|-------------|------------|------------|
| | | | High | Medium | Low |
| Complete | 70% | 190 | 17 | 95 | 78 |
| Superseded | 14% | 38 | 7 | 9 | 12 |
| Incomplete | 8% | 22 | 4 | 13 | 5 |
| Awaiting responses re status | 8% | 20 | 0 | 9 | 11 |
| Total | 100% | 270 | 28 | 136 | 106 |

- 6.3 Where actions have been superseded, it is often because some alternative action is being taken: we have not logged and are not monitoring the alternative action but understand that service are actively addressing the issues raised. However in some cases a service, system or process has changed to a point where the action is no longer relevant.

7 Amendments to the audit plan

- 7.1 The Internal Audit Service normally aims to follow up the action plans agreed by managers to address the risks identified through the audit process, to confirm that action has been taken. The plan for the year therefore includes an allocation of time for this work. However managers across the council are currently focussed on ensuring that actions are implemented and on reporting this through both the Audit, Risk and Governance Committee and Cabinet Committee on Performance Improvement. It is therefore proposed that, for this year only, that time is released to undertake additional audit work on other areas. For 2018/19, except where work has already been undertaken, no additional assurance will be sought that action has been taken.
- 7.2 As noted above at paragraph 2.6, the head of internal audit, interim chief executive and director of resources, and the director of finance, are working with the executive directors and other senior managers to reassess the council's framework of internal control and the audit plan for the year.
- 7.3 At this point there have otherwise been only very minor amendments to the plan. The work on public service vehicle operator licenses (Growth, Environment, Transport & Community Services service delivery controls) will be refocussed to address the council's compliance with heavy goods vehicle operator licence conditions instead.