

# **Lancashire County Council Internal Audit Service**

## **Annual report of the head of internal audit for the year ended 31 March 2020**

### **1 Introduction**

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

- 1.1 This report summarises the work that the county council's Internal Audit Service has undertaken during 2019/20 in relation to governance, risk management and internal control across the council.
- 1.2 In May 2019 the Audit, Risk and Governance Committee considered and approved an internal audit plan for 2019/20, and small amendments to the plan have been reported to the committee during the course of the year. The work for the year supports an overall opinion on the frameworks of governance, risk management and internal control.
- 1.3 All the work planned for the year has been completed as far as possible and assurance over the services, systems and processes that operated during 2019/20 has been given wherever possible. As the council's senior managers have been engaged in addressing the issues raised by the coronavirus pandemic during March, not all of the assurance given here has been discussed with them. Although all the work reported here has been discussed with their teams. This has allowed the council to take information from the internal audit work that has been done during the year, but the senior management team may choose to return to some of the work reported here in future, and additional audit work may be undertaken to reinforce it.

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

- 1.4 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 2019/20.
- 1.5 The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in annexes to this report.

#### **Interim progress reports**

- 1.6 I have provided summaries of the audit work completed during the course of the year in my progress reports to the meetings of the Audit, Risk and Governance Committee in October 2019 and January 2020. However

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since the majority of the work has not been reported before, all the audit work completed under the plan for the year has been included in this report.

1.7 Any individual audit reports will be provided to any members if they wish.

## 2 Summary assessment of internal control

### Overall opinion

2.1 I can provide moderate 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 and information available from less formal sources than planned audit engagements. Audit work has covered the full range of the council's services and each element of the control framework.

2.3 The work undertaken and reported here predates the impact of Covid-19 on the organisation and the wider community. Audit work on the council's emergency planning during recent years has indicated that the council has controls and governance arrangements in place to respond to emergencies, and so it has proved in the last month of the year and beyond.

2.4 However this report addresses the range of controls that were operating before the introduction of the wide-ranging organisational changes required to respond to the coronavirus pandemic. It sets out the baseline from which the organisation has departed to address the pandemic, and is informed by its governance, risk management and control frameworks prior to March 2020.

2.5 Annexed to this report are:

- A summary of the work set out in the audit plan for the year with the assurance provided by each audit engagement (Annex A)
- A more detailed summary of the findings of each engagement (Annex B)
- An explanation of the categories of assurance provided (Annex C)
- An explanation of the scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report (Annex D)

### The council's control framework

2.6 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 on the next page:

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A framework for governance, risk management and control						
<b>Governance and democratic oversight</b>						
Corporate governance		Decision-making		Oversight and scrutiny		Policy setting
<b>Business effectiveness</b>						
Risk management	Performance management	Organisational design	Financial governance and planning		Working in partnership	
<b>Service delivery</b>						
Growth, Environment & Transport		Education & Children's Services	Adult Services and Health & Wellbeing		Resources	
<b>Service support</b>						
Legal services	Skills, learning & development	Core ICT systems	Property management	Health & safety	Programme management	Customer access
<b>Business processes</b>						
Financial systems & processes		Procurement		Facilities management	Human resources	
Information management		Contract monitoring & management			Payroll processing	
Business continuity				Investment	ICT systems	

### Summary of assurance provided by the Internal Audit Service

2.7 A summary of all the assurance provided during the year is set out in the table below. This includes each engagement directed to providing controls assurance, but it excludes work for example on the certification of grant funding claims and participation in working groups, since this has not been directed at providing assurance. For comparison the summaries of audits completed in the previous three years are also included.

2019/20 engagements relating to:	Total	Assurance provided			
		Substantial*	Moderate*	Limited	None
Governance	3	1	1	1	
Business effectiveness	1	1			
Service delivery	34	8	15	11	
Service support	8	3	4	1	
Business processes	9	7	1	1	
<b>2019/20</b>	<b>55</b>	<b>20</b>	<b>21</b>	<b>14</b>	<b>-</b>
	100%	36%	39%	25%	-
<b>2018/19</b>	<b>77</b>	<b>25</b>	<b>39</b>	<b>13</b>	<b>0</b>
	100%	32%	51%	17%	-
<b>2017/18</b>	<b>51</b>	<b>5</b>	<b>34</b>	<b>12</b>	<b>0</b>
	100%	10%	67%	23%	-
<b>2016/17</b>	<b>31</b>	<b>3</b>	<b>24</b>	<b>4</b>	<b>0</b>
	100%	10%	77%	13%	-

\* The categories of assurance were amended between 2017/18 and 2018/19 but, for comparison, full assurance has been equated to substantial assurance and, where substantial assurance was previously given, this has now been recorded as moderate.

**Wider sources of assurance available to the county council**

- 2.8 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>. Two reports address Ofsted's work in 2019: the Children's Services inspection undertaken in June, and the Children's Service's focussed visit (on permanence) undertaken in November.
- 2.9 Some assurance has been taken from the work undertaken by Deloitte over the operation of the Local Pensions Partnership Ltd group. The firm has completed four audits of various aspects of the partnership's activities in accordance with the plan for the year updated in February 2019, two of which relate to LPP's its work on administering the Fund or investing on its behalf.

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

- 3.1 Each of the issues raised by internal audit work would normally be discussed with the relevant service managers as well as with members of the council's Corporate Management Team, and action plans would normally be agreed. However management's strong focus on addressing the impact of Covid-19 on Lancashire's communities has meant that work completed at the end of this year has not been subject to such discussion.
- 3.2 Until the middle of March 2020 management's own assessment of the status of the actions arising from audit work was as follows, but no further information has been sought or provided since then.

Actions agreed in 2017/18, 2018/19 and 2019/20 and now due							
Action status	As at March 2020					March 2019	
	Total		Risk rating			Total	
			High	Medium	Low		
Complete	396	76%	21	225	150	267	73%
Superseded	39	7%	8	23	8	46	13%
Incomplete	26	5%	4	16	6	11	3%
Awaiting responses	61	12%	3	32	26	39	11%
<b>Total</b>	<b>522</b>	<b>100%</b>	<b>36</b>	<b>296</b>	<b>190</b>	<b>363</b>	<b>100%</b>
Arising in: <b>2017/18</b>	196	38%	18	117	61		
<b>2018/19</b>	269	52%	17	155	97		
<b>2019/20</b>	57	11%	1	24	32		

- 3.3 During the year, managers have reported that all the actions agreed prior to 2018/19 have been addressed or superseded. Our work to obtain evidence that the actions have been completed indicates that, until March 2020, action was generally being taken as intended.

## **4 Key issues and themes**

- 4.1 The organisation's senior management team has stabilised following permanent appointments to each of the most senior and statutory posts during 2018/19.
- 4.2 During the year a number of areas were subject to ongoing necessary improvement as well as additional cost-saving activity, and the council as a whole embarked on an 'improvement journey'; this is characteristic of any normal, ambitious organisation.
- 4.3 Even before the onset of Covid-19 there were still considerable demands on the council's resources that put the improvement of its services, systems and processes at risk. The need to support service improvements and cost savings with improvements in ICT systems in particular remains, and will be particularly challenging in the coming year as the council prepares for the return of the ICT Service from BT Lancashire Services Ltd.
- 4.4 Until March 2020, the council's financial position was beginning to stabilise. At that point the 2019/20 revenue forecast outturn was projected to be £788.7 million, which represented an under-spend of £13.5 million, or 1.68% of the budget. In the longer term a deficit was projected of £33.3 million in 2023/24 but the council held sufficient uncommitted reserves to cover this. Work was continuing to identify further savings, address the structural funding gap and reduce the need for support from reserves in the long term. However it is unclear at this point what the council's financial position and prospects will be, nor what state its services will be in, when it emerges from the coronavirus pandemic.
- 4.5 Again, despite the challenges facing managers across the council the Internal Audit Service has been welcomed and supported in undertaking our work during 2019/20. We have withdrawn from work in some areas where necessary whilst further action has been taken by management to understand the issues and plan the improvements still required but, overall, until March 2020 we have had access to services in every directorate.
- 4.6 The assurance we have provided is largely favourable (since we have given substantial or moderate assurance over 75% of the services, systems or processes we have audited) and I have therefore been able to give moderate assurance overall for the year.

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

- 5.1 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 for 2019/20 should therefore reflect its positive response to the continuing challenges presented by its financial position and projections; its continuing drive to make 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; and work to improve its core ICT systems.

## **6 Organisational independence**

- 6.1 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 has been able properly 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 work and investigation, no member of the Internal Audit Service has any executive or operational responsibilities.
- 6.2 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. I have direct access to and freedom to report in my own name and without fear or favour to all officers, and to members of the Audit, Risk and Governance Committee.

## **7 Internal audit performance**

- 7.1 The Internal Audit Service's establishment is currently fully staffed by a team with growing experience. The service continues to work hard to reflect on its work and to improve its practice to meet both professional standards and our auditees' expectations.

### **Completion of the internal audit plan 2019/20**

- 7.2 The outputs of our audit work have been reported during the year 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.
- 7.3 We have provided assurance through 55 individual audit engagements (2018/19: 77), as well as a number of other pieces of work that have not resulted in assurance opinions, and information about these is set out in Annexes A and B. This represents 65% of the original plan approved in May 2019 because, although a small number of audits were added during the year, other audits have been deferred, curtailed and removed around the end of the year in response to the onset of the coronavirus pandemic.

### **Client satisfaction**

- 7.4 The Internal Audit Service has requested feedback from its auditees throughout the year as each audit engagement has been completed. This has again provided positive feedback about the conduct of our audit work and just a few helpful indications of practical matters for the team to consider in conducting its work.
- 7.5 We have received feedback on 19 of the audit engagements completed for the county council and a further three for our external clients relating to 2019/20, making 22 in total (2018/19: 33). Although surveys were sent for most completed audits we have not solicited feedback on the audits completed at the end of the year.
- 7.6 Although we therefore have limited information, our auditees have again told us in every case that, overall, they were satisfied with the way we conducted our work with them.

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7.7 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 or good in 86% of our audits (2018/19: 98%). Where we have received less favourable feedback we have discussed this both with our auditees and within the service.

**8 Quality assurance and improvement programme**

8.1 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	5-yearly
Audit engagement quality	✓		✓
Professional and operational framework		✓	✓

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

**External review**

8.3 The findings of the last 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. We have worked to address the few matters raised to improve the operation of the service, although continue to critically assess the potential to make further improvements.

8.4 The review 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**

8.5 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 engagement. The audit managers assess the quality of each audit concurrently as it progresses, and a post-audit file review process has been undertaken. These reviews 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, like last year, some learning points have been drawn out and shared with the team.