Lancashire County Council Internal Audit Annual Report for the year ended 31 March 2024

1 Introduction

Purpose of this report

1.1 This report summarises the work that the County Council's Internal Audit Service has undertaken during 2023/24 and the key themes arising in relation to internal control, governance and risk management across the Council.

The role of Internal Audit

1.2 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) 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 2023/24.

1.3 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 B to this report.

Interim progress reports

1.4 Summaries of the individual pieces of audit work completed throughout the course of the year have been provided in progress reports to each meeting of the Audit, Risk and Governance Committee. Any 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. This is an improved assurance level from the assurance opinion provided last year.

2.2 In forming my opinion, I have considered the work undertaken by the Internal Audit Service throughout the year. The vast majority of audits conducted provided a positive assurance opinion and ascertained that for the areas under review the vast majority were operating as would be expected. The work of external assurance providers and information available from less formal sources than planned audit engagements were also taken into consideration. Audit work covered the full range of the Council's services.

2.3 In the main, the Council adapts well to the changing risk environment and for most of the 2023/24 financial year, the Council was operating as would be expected. The Council had a challenging start to the year as it worked to resolve the complex difficulties it faced following the implementation of the Oracle Fusion system. Although not all the issues with the operation of the system have been fully resolved, good progress has been made in addressing the key issues that impacted on the Council's control environment last year. The Council has been applying fixes and stabilising the system, making improvements to the overall control environment. The Council in the main have been able to operate their key

financial systems in a much more controlled and secure way than they could following the implementation of the system last year.

2.4   Descriptions of the audit work completed are set out below, and an explanation of the assurance provided by internal audit assignments in 2023/24 are set out in Appendix C.

2.5   It should be noted that this opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the Council and is not an absolute assurance of the effectiveness of internal control arrangements and the management of risk. Neither this report nor the work of Internal Audit should be taken as a substitute for management's responsibilities for the application of sound internal control practices. The purpose of this opinion is to contribute to the assurances available to the Council which underpin the assessment of the effectiveness of its governance framework, including the system of internal control, which are encapsulated in the Annual Governance Statement.

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:

A framework for governance, risk management and control					
Governance and democratic oversight					
Corporate governance framework		Decision-making	Oversight and scrutiny		Policy setting
Business effectiveness					
Risk management	Performance monitoring and management		Organisational design	Financial governance and planning	Working in partnership with others
Service delivery					
Growth, environment, transport & community services			Children's services & education	Adult services, health & wellbeing	
Economic development & planning	Programmes & project management	Community services	Children's services	School improvement & services	Adult Services / Public health
Service support					
Legal services	Skills, learning & development	Core business systems	Property management	Programme management	Business intelligence / Customer access
Business processes					
Financial systems & processes		Procurement	Facilities management		Human resources
Budget monitoring		Contract monitoring & management	Information management		Payroll processing
Investment			Business continuity		ICT systems

Summary of assurance provided by the Internal Audit Service

2.7 A summary of all the assurance provided during the year to the end of April 2024 is set out in the table below. This includes each Internal Audit assignment directed to provide controls assurance, but it excludes other work completed by the service such as participation in working groups. The work commenced and completed is therefore considered sufficient and wide-ranging enough to support the annual audit opinion.

Year	Total	Assurance provided				
		Substantial	Moderate	Limited	None	N/A
2023/24	**86**	**24**	**28**	**9**	**1**	**24**
2022/23	**88**	32	24	8	0	24
2021/22	**45**	10	16	2	0	17
2020/21	**22**	3	4	2	0	13
2019/20	**63**	20	21	14	0	8
2018/19	**45**	18	10	9	0	8

2.8 A summary of the audits completed in the year is set out below showing the assurance level for each audit assignment. The audits are grouped according to the Committee meeting at which they were presented.

24 July 2023

Control area	Assurance	
0-19 Healthy Child Programme	🟢	Substantial
On-Street Parking Enforcement and Appeals	🟢	Substantial
Building Schools for The Future (BSF) - Contract Monitoring	🟢	Substantial
Refugee Resettlement from Other Countries	🟢	Substantial
Pension Fund Treasury Management	🟢	Substantial
Domestic Abuse Strategy	🟢	Substantial
Absence Management	🟡	Moderate
Workforce Wellbeing	🟡	Moderate
Office 365 Review	🔴	Limited
Premises Compliance	🔴	Limited
Older People Care Services Financial Management	🔴	Limited
Grant certification and special Investigations		
Liverpool Combined Authority Local Energy Hub – Q4 2022/23		
Community Renewal Fund		
Biodiversity Net Gain Grant		
Woodhill House Care Home		
Early Years Funding - Kirkland and Catterall St Helen's Church of England Primary School		
Programme Management Office		

16 October 2023

Control area	Assurance
Declarations Of Interest	🟡 Moderate
Pension Payroll Processing	🟡 Moderate
ICT External Assurances Report	🟡 Moderate
Accounts Payable Central Controls	🟡 Moderate
Accounts Receivable	🟡 Moderate
Becon - Building Maintenance Repairs	🟡 Moderate
Older Peoples Finances – Cravenside Home	🔴 Limited
Older Peoples Finances – Broadfield House	🔴 Limited
Direct Payments	🔴 Limited
Grant certification	
Bus Service Operators Grant 2022/23	
Core Growth Hub Grant Funding to Local Enterprise Partnerships	

29 January 2024

Control area	Assurance
Highways S278 Agreements	🟢 Substantial
Budget Savings – Governance	🟢 Substantial
Management of the Council's Property Portfolio	🟢 Substantial
DWP Searchlight System	🟡 Moderate
Safeguarding's Service Redesign and Implementation	🟡 Moderate
Adequacy of the Safeguarding Board	🟡 Moderate
Councils' Response to The Consultancy Work on The Use Of Employment Agencies	🟡 Moderate
Payroll System	🟡 Moderate
Fostering Payments	🟡 Moderate
Digital Services Procurement	⚫ No Assurance
Governance Risk and Resilience Framework	N/A
School Financial Controls Audits	**Assurance**
St. Mary's RC Primary School	🟢 Substantial
Walton-le-Dale High School	🟢 Substantial
Wellfield Academy	🟡 Moderate
Wilsons Endowed School	🟡 Moderate
Barnacre Road Primary School	🟡 Moderate
Morecambe Bay Primary School	🟡 Moderate
Grant certification	
Grants from the Department of Transport to Support Capital Expenditure	
Supporting Families Programme Q1	
Supporting Families Programme Q2	

Control area	Assurance
Supporting Families Programme Q2	

22 April 2024

Control area	Assurance	
Delivery Of Change Governance	🟢	Substantial
Occupational Health	🟢	Substantial
Use Of Council Buildings Under Flexible Working	🟢	Substantial
Management of Grants for Drug And Alcohol Services	🟢	Substantial
Transition From Children's to Adult Services	🟡	Moderate
Academisation	🟡	Moderate
Section 17 Payments	🟡	Moderate
Case Audits	🔴	Limited
Management of the Timeliness of Assessments	🔴	Limited
School Financial Controls Audits	**Assurance**	
Newtown Nursery School	🟢	Substantial
Unity College	🟢	Substantial
Flakefleet Primary School	🟢	Substantial
Dalton St Michael's Primary School	🟢	Substantial
Clayton-Le-Woods Church of England Primary School	🟡	Moderate
St Anthony's Catholic Primary School	🟡	Moderate
Weeton Primary School	🟡	Moderate
Elm Tree Community Primary School	🟡	Moderate
Grant certification		
Department for Education (DfE): Skills Bootcamp Grant Scheme Wave 3		
Liverpool Combined Authority Local Energy Hub – Q2 2022/23		
Liverpool Combined Authority Local Energy Hub – Q3 2022/23		

Progress against the 2024/25 internal audit plan

2.9   The Audits detailed in the table below have been completed since the last Audit Risk and Governance Committee meeting on 22 April 2024.

2.10   The Internal Audit work plan that was approved by the Audit Risk and Governance Committee in April 2024 contained 95 audit assignments that the Internal Audit service planned to complete throughout the 2024/25 financial year. These included a variety of audit assignments ranging from full risk and control evaluation audits, grant audits, school audits and consultancy reviews to be completed across the whole Council.

2.11   Since the last Internal Audit progress report was provided to the Audit Risk and Governance Committee in April the service has finalised and issued nine audit reports. There are also currently a further 18 reviews that are at a draft reporting stage or are being progressed.

Stage of audit process	24/25 plan Number	%
Complete and reported to committee	9	9%
Draft report stage	3	3%
Progressing	15	16%
Not started	68	72%
Total number of audits	**95**	

July 2024

Control area	Assurance
Accounts Receivable	🟢 Substantial
Commissioning Framework	🟢 Substantial
Treasury Management	🟢 Substantial
Schools Financial Value Standard	🟢 Substantial
Lancashire County Pension Fund Governance	🟢 Substantial
Role of the Responsible Officer for Adult Services	🟡 Moderate
Highways Developer Support	🟡 Moderate
Flexible working arrangements	🟡 Moderate
Oracle R12 data anonymisation	🔴 Limited
Grant certification	
Department for Education (DfE): Skills Bootcamp Grant Scheme Wave 4 + Wave 3 residual	
Bus Service Operators Grant 2023/24	
Core Growth Hub Grant: Funding to the Business Growth and External Funding Team.	
Follow up Audits	
Occupational Health	
CCTV systems	
Payment Card Industry Data Security Standard (PCIDSS)	
Cyber Security: Baseline Technical Controls	
Mobile Working and Device Review	

2.12 Presently there are currently five audits that are at the draft reporting stage, which are currently being discussed and agreed with managers.

Control area
Quality Assurance Framework
Financial Controls in Schools
Accounts Payable - ordering and payment system
Discharge to Assess and Provider Payments
Direct Payments (follow up)

Wider sources of assurance available to the County Council

2.13   In April 2024 Council's external Auditors Grant Thornton provided the Audit Risk and Governance Committee with an Interim Auditor's Annual Report relating to the 2022/23 financial accounts. In this they have reported on several matters that significance, which impacted the Council in 2022/23. These relate to the implementation of the Oracle Fusion system, which impacted on the running of the Council, payment of suppliers, the preparation of the 2021/22 and 2022/23 Statement of Accounts. These are the same issues which were identified and reported on in last year's Internal Audit annual report.

In the report External Audit recognised that the Council has already made good progress in addressing a number of the risks identified during 2023/24 and have engaged CIPFA to complete a lessons learnt assessment to ensure the Council can avoid the issues encountered in future digital implementation programmes.

2.14   The reports provided by Office for Standards in Education, Children's Services and Skills (Ofsted) during the year form important sources of external assurance and may be found on Ofsted's web-site: Office for Standards in Education, Children's Services and Skills

2.15   Reports provided by Care Quality Commission (CQC) during the year also form important sources of external assurance regarding the Council's Older Peoples Care services and may be found on CQC's web-site: Care Quality Commission

2.16   Assurance over the operation of the Pension Fund has been obtained from work conducted directly by Lancashire County Council's Internal Audit Service and by KPMG for the Local Pension Partnership (Investments) Ltd (LPPI). Further assurance was also received from LPPI's AAF 01/20 Type II Service Auditor's Assurance Report. The Local Pensions Partnership (Administration) Ltd, (LPPA) Internal Audit Service has supported LPPA in its achievement of Audit and Assurance Faculty (AAF) technical standard 01/20.

Management's responses to our findings

2.17   Each of the issues raised during the year has been discussed with the relevant service managers as well as with members of the Council's Corporate Management Team. Action plans have been agreed and audit work during 2023/24 indicates that the plans agreed in previous years are largely being addressed, although some improvement work is still ongoing.

2.18   The Internal Audit Service 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. Over the last year Internal Audit has been receiving regular management assurance from Heads of service and Directors who are named as action owners as to the status of the management actions. This management assurance combined with the follow up audit assignments demonstrates that in general good progress is made across the Council in implementing agreed management actions. The table below shows the number of Management Actions agreed and their current status, along with a summary of when the actions were agreed.

Action status	Total as at 12 June 24 – Lancashire County Council					
			Risk rating			
	Total		Critical	High	Medium	Low
Complete	172	68%	1	21	89	61
Incomplete	5	2%	0	2	2	1
Progressing	32	13%	0	13	12	7
Superseded	21	8%	0	2	14	5
Awaiting Management Response	4	2%	0	0	1	3
Implementation Date not due	19	7%	0	1	11	7
Total	253	100%	1	39	129	84
Incomplete Management Actions by year						
2021/22	0	0.0%	0	0	0	0
2022/23	1	0.4%	0	1	0	0
2023/24	2	0.8%	0	1	1	0
Total	3	1.2%	0	2	1	0

3 Key issues and themes

3.1 The Oracle Fusion system is on its way to being able to operate as the Council intended, with many benefits expected from the software still to be realised. As user roles are being developed, the system's functionality should soon be ready for the Council to fully utilise it. Internal Audit has already identified some improvements and efficiencies in areas such as Accounts Payable and Accounts Receivable. The Council is transitioning from system stabilisation to benefits optimisation, and further improvements, efficiencies, and other benefits are anticipated to be realised over the next year.

3.2 The County Council's overall approach to managing financial risks continues to be to identify and acknowledge risks early and build the impact into financial plans while continuing to develop strategies which will minimise their impact. This approach operates in parallel with the identification and setting aside of sufficient resources to manage the financial impact of the change risks facing the organisation. The Council continues to undertake medium-term financial planning which has driven the annual budget-setting and monitoring process. As we have seen in previous years the positive medium-term financial position is sustained with the delivery of challenging budget savings to be delivered across the Council.

3.3 The Council has continued to see rising demand for services post covid, while also dealing with significant changes to the rate of inflation as well as national challenges such as increased costs in areas such as Home to School Transport. Despite these challenges the Council has delivered a positive financial performance in the 2023/24 financial year. Although it is envisioned that further savings beyond 2024/25 will continue to be required the Council is in a stronger financial position than many other Councils. A Local Government Association survey, found one in five Councils thought it "likely or fairly likely" they would have to issue a section 114 notice this year or next.

3.4 The services of the Executive Director for Adult Services are shared with the Lancashire and South Cumbria Integrated Care Board (ICB), with an 80% commitment to the ICB and 20% to Lancashire County Council through a secondment agreement. This arrangement holds significant potential benefits for

residents and the NHS/local authorities if it leads to improved integration between health and social care in the County. However, seconding the lead officer to a different organisation presents a risk to the Council, particularly as Adult Services transition to a Care Quality Commission inspection regime.

3.5   An Internal Audit review of the control framework surrounding these revised leadership arrangements provided substantial assurance that the controls designed to ensure strategic responsibility and accountability for planning, commissioning, and delivering social services for all adult client groups are working effectively.

3.6   There are clear benefits to collaborating with the NHS under the joint funding arrangements. Nevertheless, these arrangements also present challenges for the Council, particularly regarding the Adult Services Directorate's ability to recover income due from the NHS under the joint funding arrangements. This poses a significant risk to the Adult Services budget. Ongoing work between the organisations aims to reach a reasonable resolution, which will include other areas where a shared approach to funding with the NHS is required.

4   Organisational independence

4.1   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, as such the Internal Audit Service does not have any executive or operational responsibilities.

4.2   The Internal Audit Service's work programme and priorities are determined in consultation with the Compliance and Assurance Board, the Council's Directors and Executive Directors, senior managers and the Audit, Risk and Governance Committee, but any decisions on audit activities remains with the Head of Internal Audit. The Head of Internal Audit has direct access to and freedom to report in their own name and without fear or favour to all officers and members.

4.3   The Internal Audit Service has a stable and experienced Audit team, which has seen very little staff turnover in recent years. The most notable recent change occurred in 2022/23 with the establishment of a new Investigation Service, however the impact and value added to the Council was mainly received in 2023/24.

4.4   The Investigation Service investigate allegations of financial crime being committed against the Council and to instigate appropriate recovery action where necessary. In 2023/24 the team has established new working relationships underpinned with formal memorandum of understanding with Lancashire Constabulary, DWP, and HMRC. With the establishment of these new working relationships the Council is now able to complete joint investigations and share intelligence with the agencies both legally and efficiently. This is a significant improvement to the Council's ability to combat financial crime, including fraud, corruption and other criminality and demonstrates the Council's continued zero tolerance approach to fraud and corruption.

4.5   During the year, there have been no matters arising which have impacted on the independence of the Internal Audit service and there have been no inappropriate scope or resource limitations on internal audit work.

5   Internal audit performance

5.1   The Internal Audit Service is currently carrying two vacancies one is a Trainee Auditor and the other a Senior Financial Investigator. The recruitment of the Senior Financial Investigator has already commenced and the recruitment for the trainee Auditor is planned to commence shortly.

Lancashire County Council: Internal Audit Service
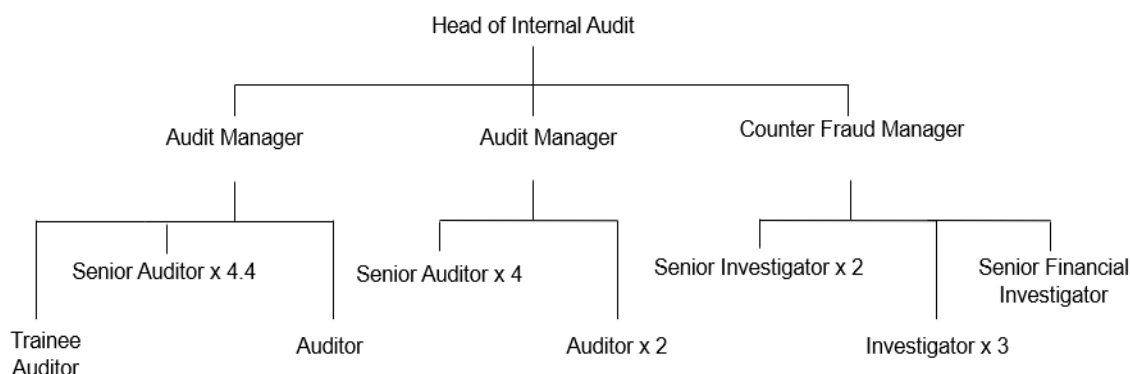
5.2   At the Start of the 2023/24 financial year the Internal Audit Service set itself five key performance indicators (KPIs) to help the service measure its performance throughout the year. These KPIs and results can be found in the table below.

KPI Title	Description	Target	2023/24 Performance			
1 Audit workload *	The number of audit assignments completed or commenced in the quarter.	75%	Q1	Q2	Q3	Q4
			30%	45%	76%	94%
2 Timely productions of draft report. **	Percentage of draft reports issued on or before the draft target deadline.	80%	50%	83%	53%	40%
3 Timely agreement and issue of the final report. **	Percentage of final reports issued within 5 weeks of draft report.	80%	61%	100%	93%	96%
4 Positive customer satisfaction. **	Percentage of audit feedback questionnaire provide positive feedback.	80%	99.7%	100%	100%	97%
5 Management actions agreed. **	Percentage of required Management actions agreed to be implemented.	90%	100%	100%	100%	100%

* Accumulative target for the year
** Target per quarter

5.3   The team has exceeded the annual target for KPI one, which relates to the delivery of the audit plan. Apart from the KPI target for the timely production of draft reports, the team has, in the main, exceeded the targets set for the remaining KPIs each quarter.

5.4   The results of our performance against the KPIs has shown that setting an accurate target date for the completion of an audit and then delivering against that target is proving challenging for the service. There is a balance that needs to be achieved between setting a target that is both achievable and challenging.

5.5   There is no one set formula that could be used to set the target date as each audit is planned and scoped out in a bespoke way to reflect the risks that are specific to the area under review. Therefore, each audit has different unique factors that will impact on the time the audit may take.

5.6   Once a target completion date is set, delivering against that target is also challenging. There are often unforeseen external factors, which may delay the completion of an audit and are often out of the control of the auditor. Therefore, predicting when an audit may be finished and delivering to that deadline is difficult. It is, however, something we will continue to work on to improve. As a service, we are currently in the process of buying specialist Internal Audit software. It is anticipated that one of the benefits of this software is that it will aid the service in monitoring our delivery against our KPI's, including the delivery of timely draft reports.

Client satisfaction

5.7   Internal Audit invites feedback on the quality of service provided by issuing a 'satisfaction questionnaire' at the end of each audit. This is an important process in terms of identifying how the audit was received by the service area. It is also an important means of identifying aspects of the audit process that can be improved.

5.8   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 provided positive feedback across all these areas. There were no common themes in the responses received that highlighted any particular areas for concern.

5.9   A sample of comments received in response to the questionnaire is included below:

> *The Auditor was very clear about what was needed and responsive to queries. They took the time to really understand what we do.*

> *Very professional approach, the communication was very good which made the whole process go smoothly.*

> *Their approach was very methodical and they were very clear on what information they required which made providing the correct information and evidence a lot easier.*

> *The Auditor and Audit Manager were really helpful when I first contacted them and alerted them to the problem at the school. They were both very professional, responded quickly and really nice to work with. The follow up information and report was also very speedy and efficient.*

> *The Auditor was very thoughtful of the time constraints of my team and understanding when we had to take a few days to provide information due to staff leave.*

> *The collaborative approach to the audit was very much appreciated they Supported us at short notice with an additional request.*

6   Quality assurance and improvement programme

6.1   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
Frequency	Ongoing	Periodic	At least 5-yearly
Audit assignment quality	✓		✓
Professional and operational framework		✓	✓

6.2   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

6.3   The findings of the last external quality assessment (EQA) undertaken by the Chartered Institute of Internal Auditors were reported to the committee in April 2023. This confirmed that the Internal Audit Service 'generally conforms' to the full range of standards set out in the International Professional Practice Framework. Another external review is due to be completed in 2028/29, with a self-assessment planned for 2024/25 the findings of both will be reported to this committee.

6.4   The CIIA recently produced new Global Internal Audit Standards. These standards underpin the UK Public Sector Internal Audit Standards (PSIAS) which are mandated by CIPFA for local government bodies in the UK. The changes to the Global standards will mean that changes will need to be made to UK PSIAS. CIPFA will be updating the PSIAS and providing guidance as to how the changes should be implemented later this year. Following receipt of this guidance the planned self-assessment will be completed based on the updated requirements.

Internal review

6.5   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. 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. As was confirmed by the results of the EQA.