

Matters arising from internal audit work during the period

1 Introduction

- 1.1 This report highlights key issues that the Audit and Governance Committee should be aware of in fulfilling its role of providing independent oversight of the adequacy of the council's governance, risk management and internal control framework. It sets out the issues arising from the work undertaken by the Internal Audit Service during the period to 31 December 2014.
- 1.2 A full table of all the audit work currently planned, progressing and completed for 2014/15 is included at Appendix B, setting out brief notes of the progress made on each project and the outcomes where reviews have been completed. Brief notes on the outcomes of the reviews completed are set out in section 3 below.

2 Amendment to the internal audit plan for the year

- 2.1 The provisional audit plan for the year was considered by the Audit and Governance Committee in June 2014 and the Internal Audit team began that work as the previous year's work was completed. The committee considered the annual audit report for 2013/14 in September 2014, and the Management Team is keen to rectify the control weaknesses identified in that report and to ensure that the council's internal controls are adequately designed and operating effectively, and sought the Internal Audit Service's cooperation and support.
- 2.2 Therefore, since September 2014 at the Management Team's request, internal audit work has been strongly focussed on following up the action taken by the council's senior management teams to improve controls over the key areas of high and moderate risk identified during 2013/14. To facilitate this controls improvement and audit process at a time when management faces so many other challenging issues, the rest of the internal audit plan has been reduced in scale. The key focus of the team's work for the year will be on confirming that appropriate action has been taken to rectify the control weaknesses identified, and on re-auditing these controls as improvements are implemented.
- 2.3 One of the two Audit Managers has been seconded out of the team to work more directly with managers to ensure that appropriate control frameworks are implemented. Internal audit work will follow when the work is complete, to consider whether appropriate action has been taken to rectify the control weaknesses identified. Audit work therefore began early in January 2015 to address the corporate information governance arrangements, central procurement, initial assessment for direct payments in ASHW and the case file audit process within CYP.
- 2.4 In addition to this work, audits will be undertaken of the council's key financial systems and this work is on-going. However the Internal Audit Service is still working with management to ensure that remedial action is being taken to enhance internal controls over the accounts receivable system and the front end of the social care accounts payable system and further audit work will not take place on these areas until 2015/16.

Internal Audit Service progress against plan 2014/15

Audit and Governance Committee meeting 26 January 2015

- 2.5 Where work was begun in the first part of the year, this has been continued and has either been completed, or is subject only to a report being agreed. We have issued reports (some still in draft) on the areas noted in section 3 below and, where key controls have been assessed as less than adequate and effective, management action is being focussed to improve the control framework and we intend to re-audit these before the year end.
- 2.6 Work to assess financial controls in the county's schools will continue, and the Internal Audit Service will continue to provide a counter fraud and investigatory service to support management. Work has begun on the data collection exercise for the next National Fraud Initiative.
- 2.7 A revised audit plan is set out at Appendix B, listing each of the areas that will be subject to internal audit work in 2014/15, and which are regarded as key by the Management Team. The annual report for 2014/15 will be brought to the Audit and Governance Committee in June 2015 and the overall opinion will be framed in terms of the trajectory of controls improvement.

3 Work completed

- 3.1 The work begun in the first part of the year and now completed, and on which reports have been issued, is set out in the table below. Each area has been given a subjective weighting to indicate the degree of risk associated with it.

Audit area	Risk weighting	Assurance provided
Corporate controls		
Declarations of officers' interests, gifts and hospitality	Low (but with potential reputational risk)	Substantial (final).
Members' expenses and allowances	Low (but with potential reputational risk)	Substantial (draft).
Common controls: financial		
Expenses and allowances (work done in the first part of the year)	Low (but with potential financial risk)	Limited (draft).
Additional payments to staff	Low (but with potential financial risk)	Substantial (draft).
Service specific controls		
<i>Adult Services, Health and Wellbeing Directorate (ASHW)</i>		
Reablement	Moderate	Substantial (final).
Support planning	Moderate	Substantial (final).
<i>Public Health</i>		
Compliance with the scheme of delegation	Moderate	Substantial (draft).
<i>Directorate for Children and Young People (CYP)</i>		
Due diligence over the transfer	Low	Substantial (final).

Internal Audit Service progress against plan 2014/15

Audit and Governance Committee meeting 26 January 2015

Audit area	Risk weighting	Assurance provided
of children's centres		
Residential homes – follow-up of agreed action plan	Low	Not applicable: substantial assurance has already been given.
Re-referrals to social care – analytical support to management	Moderate	This work was not directed to assurance, but support has been provided to management to better understand the data relating to re-referrals.
Environment Directorate		
Use of highways contractors	Moderate (with potential reputational and financial risks)	Limited (draft).
Lancashire County Commercial Group		
Fleet Services	Low	Substantial (draft).

Corporate controls

Declarations of officers' interests, gifts and hospitality: substantial assurance

- 3.2 Registration of interests, gifts and hospitality offered to and accepted by officers forms part of the council's wider framework of corporate governance. We have reviewed this area previously and provided only limited assurance over the controls in place. Although controls could be further improved overall, we are able to provide substantial assurance over the processes operated by the County Secretary and Solicitors team.
- 3.3 However the council's governance would be improved by the requirement that certain officers (for example those in posts responsible for procurement) state positively either that they have no personal interests, or else declare them.

Members' expenses and allowances: substantial assurance

- 3.4 The Council approved a new Code of Conduct in 2012 in accordance with provisions in the Localism Act 2011. Under this Code members are required to declare any disclosable pecuniary or non-pecuniary interests that relate to public duties and take steps to resolve any conflicts in a way that protects the public interest. The Members' Allowances Scheme sets out the allowances payable to councillors, the expenses they may claim and how claims should be made and is approved by the Council annually, taking into account the recommendations of the Independent Remuneration Panel (IRP).
- 3.5 The Members' Allowance Scheme requires councillors to retain receipts for three years in addition to the current financial year and to produce these when required by claim processing officers and internal or external auditors. However this has not yet been undertaken. Random sampling will be introduced by claim checkers after January 2015, once councillors have been informed of this intention and reminded of the requirement to retain receipts.

Internal Audit Service progress against plan 2014/15

Audit and Governance Committee meeting 26 January 2015

Financial controls

Expenses and allowances: limited assurance

- 3.6 Although there has been an improvement in control since the last audit of expenses in October 2013, when we were able to provide no assurance, there are still areas for significant improvement, in particular ensuring all staff and authorising managers are aware of and apply the council policies. In some cases non-compliance has resulted in significant overpayments. For example the maximum limits have been exceeded for overnight accommodation and evening meals, and 17 individuals in CYP's Residential Care Service have been overpaid excess travel allowances totalling more than £23,100 over the period 2011 to 2014.
- 3.7 A draft policy for the recovery of overpayments to employees relating to salary, allowances, overtime and expense claims is to be considered by Management Team and the trades unions through the Joint Negotiating and Consultative Forum process with a view to a policy being agreed by Employment Committee. Although all employment contracts state that the council is able to recoup overpayments, the method, timing, circumstances and obligations of the employee have not yet been fully defined. When overpayments are found to have been made they are not always pursued or pursued promptly.

Additional payments to staff: substantial assurance

- 3.8 Employees access the Oracle Self Service system to input claims for hours worked in addition to their basic contracted hours and these claims are then validated and authorised by managers. In 2013 we completed a review of the controls over the processing of additional salary payments and found that both overpayments and underpayments had been made to some council employees due to incorrectly completed claims, including employees within the Domiciliary Service (in ASHW) and Care Services (within LCCG).
- 3.9 Small errors are still occurring when processing additional payment claims, although the number of errors has reduced. Generally, employees and managers seem to have a better understanding of the payment claims process and the Oracle system, although the intranet guidance for additional payments claims remains limited and completion of the e-learning modules, although recommended, is not compulsory. However we are now able to provide substantial assurance over the processing of additional payments within the Domiciliary Service and Care Services.
- 3.10 We also reviewed the planned overtime payments made to staff in ASHW who provide capacity to assist the NHS in discharging patients from its acute trusts. We have provided substantial assurance that the payments to staff are effectively controlled, but it is not clear that the risk that staff work excessive hours is adequately managed, or that reimbursement is properly achieved from the NHS.
- 3.11 The Internal Audit Service has also recently been made aware that potentially significant incorrect additional payments have been made, monthly, to a number of employees over recent years within ASHW's Adult Disability Provider Services. Managers in the service are still working to consider and address this.

Adult Services, Health and Wellbeing Directorate (ASHW)

Internal Audit Service progress against plan 2014/15

Audit and Governance Committee meeting 26 January 2015

Reablement: substantial assurance

- 3.12 The Reablement Service exists to help people re-learn valuable life skills that have been lost due to a period of illness or incapacity. Support plans are developed with the service users and put in place for a period of up to six weeks to encourage individuals to do more for themselves and to become as independent as possible, thereby minimising the need for long-term homecare packages. The involvement of service users in their own service plans is key, and we found that this is achieved and that service users' needs are appropriately captured and addressed.

Support planning: substantial assurance

- 3.13 Self-directed support enables service users to take control of the on-going personal social care support they receive, based on the budget allocated to them and the range of universal and informal supports available to ensure their safety. The preferred route is for the service user to work with community support planners, other service providers, family or friends to develop the most appropriate support.
- 3.14 Key to support planning are the quality and timeliness of the customer journey and the support plans produced, consideration of the service users' preferences, appropriate utilisation of universal services and informal support arrangements, and effective monitoring arrangements. We found that service users are involved in support planning and clear, robust, person-centred plans document the assistance required by service users, their support preferences and their individual capabilities.

Public Health

Compliance with the scheme of delegation: substantial assurance

- 3.15 The council's scheme of delegation gives authority to chief officers to take decisions on the day-to-day operations of the council. Although we have provided substantial assurance overall on this area, we found a lack of clarity regarding the implementation of the council's procurement rules, including the procedures to be followed where a variation to an existing contract is required, or where contracts may be awarded to a single source supplier without seeking competitive tenders. A high proportion of decisions (three of ten sampled) were made retrospectively, and the decisions taken are not routinely reported to the public health management team.

Directorate for Children and Young People (CYP)

Due diligence over the transfer of children's centres from the NHS: substantial assurance

- 3.16 This review was carried out at the request of the Head of Quality and Continuous Improvement to provide assurance over the use of funding prior to the transfer in October 2014 of management responsibility for the centres from Lancashire Care NHS Foundation Trust to the council's Quality and Continuous Improvement Service.

Internal Audit Service progress against plan 2014/15

Audit and Governance Committee meeting 26 January 2015

- 3.17 We have provided substantial assurance that the funding has been spent to support valid, eligible activities that meet the core offer of children's centre services. In addition, testing of the expenditure and income did not suggest that there had been any accrued surplus funds or that funding had been used to support non-core activities.

Residential homes – follow-up of agreed action plan

- 3.18 Further assurance is not applicable, as substantial assurance has already been given over this area. However we have undertaken work to determine the progress made implementing the actions agreed in January 2013.
- 3.19 Some actions have been taken as intended, and others are reliant on wider control improvements, in particular revised social care supervision arrangements, and the development of revised financial procedures for these establishments.

Schools and colleges

School audit visits

- 3.20 During the year to date we have completed audits of the county's schools with the results as follows:

School type	Number of audits	Level of assurance			
		Full	Substantial	Limited	None
High school	8		6	2	
Primary school	6		6		
Total	14		12	2	

- 3.21 We have also followed up the actions agreed with eight schools where we have previously provided only limited or no assurance and action has generally been taken as agreed.

Environment Directorate

Use of highways contractors: limited assurance

- 3.22 Lancashire Highways Service is responsible for designing, building and maintaining roads, buildings and other public and environmental assets on behalf of the county council. The services are generally provided by in-house teams located across the county although contractors are used for some specialist services and to provide extra capacity during periods of high demand. Procurement notices are issued to update managers on contract arrangements which have been established by the Procurement Service and staff must follow the council's Procurement Rules.
- 3.23 Non-contract spend is analysed and areas where corporate contracts could be put in place are identified annually, but no further work was undertaken to develop this and place additional corporate contracts accordingly during 2014.
- 3.24 We found a general lack of evidence that procurement exercises have taken place as required where corporate contracts are not already in place: evidence could not be located due to restructuring, office moves, and the lack of a formal filing system. Where corporate contracts are in place we found that the first preferred supplier is frequently not used, with no explanation or evidence that the preferred suppliers had been contacted and been unable to undertake the

Internal Audit Service progress against plan 2014/15

Audit and Governance Committee meeting 26 January 2015

work. Further, some corporate contracts, such as traffic management, require mini tenders to be undertaken with selected suppliers if the order is above a specific threshold. For each of the three cases we sampled the required mini tender was not undertaken.

- 3.25 Actions have been agreed to address the issues – for example training for staff in the highways depots, and more effective oversight by managers – and, if these are implemented, controls in this area will be audited again before the end of the year.

Lancashire County Commercial Group

Fleet Services: substantial assurance

- 3.26 Fleet Services manages and maintains over 950 vehicles and 1,000 plant items for the county council as well as maintaining additional vehicles on behalf of external partners such as Burnley Borough Council. The service also issues, maintains and monitors the usage of all fuel cards allocated to fleet vehicles, departments and named individuals for obtaining fuel from garage forecourts.
- 3.27 The RAMP (Repair And Maintenance Programme) system records all vehicle and plant items, their location, service dates, repairs, end of life and disposal/sale. It is also designed to record orders and invoices for vehicle and plant item purchases and related expenditure. Invoice data is transferred from RAMP into the Oracle accounts payable system for payment.
- 3.28 Good practices have been established, especially for servicing fleet vehicles and in relation to the accuracy of vehicle and plant item details entered in to RAMP (Repair And Maintenance Programme). However there are some areas where controls should be improved, in particular, around the use of the RAMP system to process payments.