

**Lancashire County Council
Internal Audit Service**

**Annual report of the Head of Internal Audit
for the year ended 31 March 2015**

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1 Introduction

Purpose of this report and the role of internal audit

- 1.1 Internal auditing is defined by the Chartered Institute of Internal Auditors as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes". Driven by this, the Public Sector Internal Audit Standards require the head of internal audit to provide an opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control, and a report to those charged with governance, timed to support the annual governance statement.
- 1.2 This report summarises the work that the county council's Internal Audit Service undertook during 2014/15 and is made in accordance with the Public Sector Internal Audit Standards issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors. Except for the issue set out in the following paragraph, the Internal Audit Service conforms to these Standards.
- 1.3 The draft internal audit plan for 2014/15 was approved by the Audit and Governance Committee in June 2014 and revised in September 2014 at management's direction. However this revised plan was not capable of providing the evidence to support an overall assessment as required, and I cannot therefore provide an overall opinion on the council's framework of governance, risk management and control.

Interim reports

- 1.4 The matters reported in previous years and, in particular the issues I reported last year, have been the subject of Management Team's discussions during 2014/15 and discussions with the council's senior management.
- 1.5 I have also reported summaries of the audit work undertaken to the Audit and Governance Committee as it has been completed during the year.

Ruth Lowry
Head of Service Internal Audit
Lancashire County Council

2 Summary assessment of governance, risk management and internal control

Opinion

- 2.1 On the basis of our programme of work for 2014/15, I cannot provide an overall opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- 2.2 For a number of reasons, by 2013/14 controls across a range of systems and services were either inadequately designed for their current purposes or were ineffectively operated in practice. For some years, management and staff resources have been reduced, services restructured, and operating processes redesigned. However members of the senior management team, and the council's statutory officers in particular, were obliged during 2013/14 and 2014/15 to focus their attention instead on the matters exposed as two of the council's procurement processes were reviewed, the remuneration of the Chief Executive Officer of its joint venture company was discovered, the council's former Chief Executive and all of the senior managers seconded to the council's joint venture company left the organisation, and the relationship with its strategic partner was renegotiated. During 2014/15 the council's Management Team and senior management was itself restructured under the new Chief Executive, and it then focussed its attention on re-structuring the rest of the organisation. This work has continued into 2015/16.
- 2.3 The level of assurance I provided therefore gradually deteriorated in the years prior to 2013/14, and I provided only limited or no assurance over the majority of the control systems audited during 2013/14. At the Management Team's request internal audit work during 2014/15 has been directed towards re-assessing key areas of control weaknesses and following up the actions agreed by management to improve controls across a number of systems and services identified in earlier years' reviews. A senior member of the team was also seconded out of the Internal Audit Service from September 2014 onwards to support management in assessing the actions taken in key risk areas.
- 2.4 I can however provide substantial assurance that appropriate efforts have been made to rectify the controls over a number of areas of high and moderate risk. If the relevant control systems continue in all other respects to operate as they did at the time of our original work, then we would now be able to provide substantial (rather than limited) assurance over the adequacy and effectiveness of their controls. However our work has been restricted to testing only management's actions to rectify those control issues we originally reported.
- 2.5 I can also provide substantial assurance that the controls over two high risk financial systems – general ledger and treasury management – as well as the payroll and central accounts payable systems, are adequately designed and operating effectively.

Background

- 2.6 Annex A provides a summary of each assurance assignment the team has undertaken during the year and the level of assurance we have given for each. I have provided more detailed summaries of individual audits throughout the
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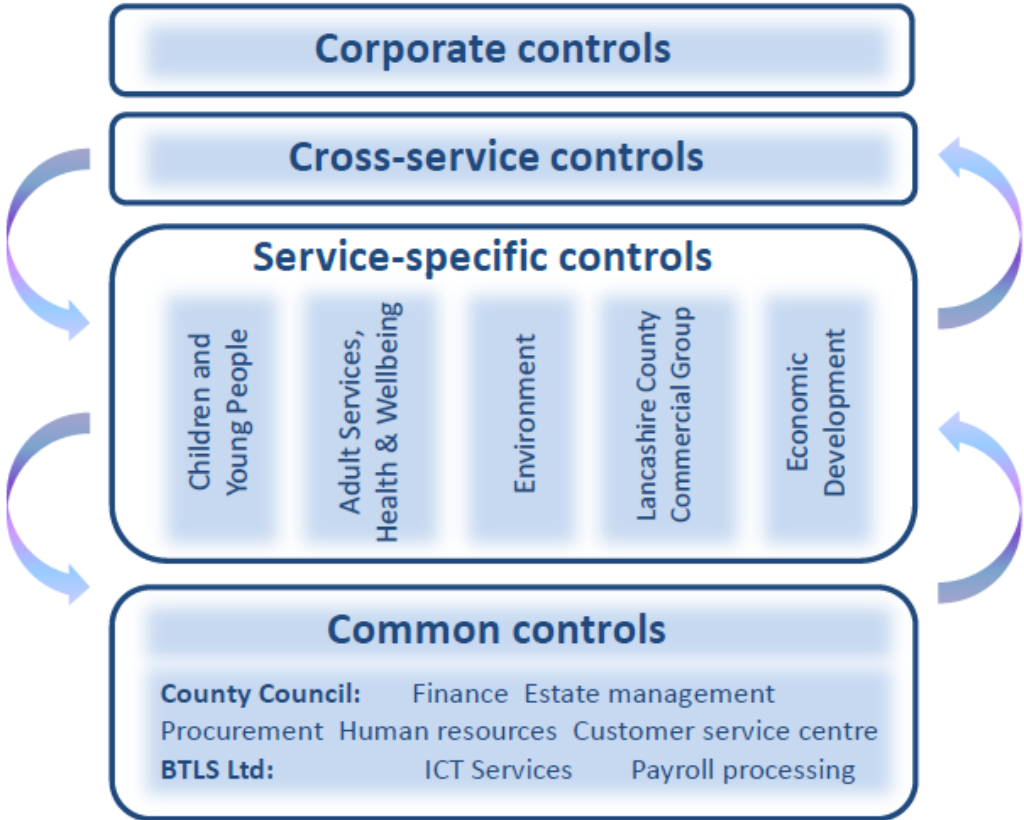
course of the year in my progress reports to each meeting of the Audit and Governance Committee, and Annex B provides details of the findings of each assignment throughout the year at the time our work was completed. An explanation of the levels of assurance the Internal Audit Service provides are set out in Annex C, and of the scope of our work in Annex D.

The council's control framework

2.7 The Internal Audit Service's understanding of the council's controls as follows:

- Cross-cutting controls: These controls manage the risks arising from the council's over-arching business objectives that cut across all service areas.
- Cross-service controls: These are the controls that support the council's work across some or all of its service areas, either where two or more teams provide a single service, or where risks are common to a number of (or all) service teams.
- Common controls: These are the controls that under-pin the council's work whatever service is being provided and in whatever service or directorate. They manage the risks of its day to day operations that are operated in common across the whole organisation.
- Service-specific controls: The controls designed to manage the risks arising in individual service areas.

The council's control framework



- 2.8 Our work on controls is aligned with this framework and, in addition to following up management's action plans, we have undertaken work on a small number of other areas, with a particular focus on the council's financial controls.

3 Summary of the assurance provided by the Internal Audit Service

- 3.1 A summary of the assurance the Internal Audit Service has provided during the year is set out below. This includes each internal audit assignment directed to providing assurance over either control systems or the actions taken by management, but it excludes work for example on the certification of grant funding claims and participation in working groups, which has not been directed at providing controls assurance. A table of all the audit work completed for 2014/15 is included at Annex A.
- 3.2 The Internal Audit Service aims to focus only on areas of risk to the council but nonetheless covers a range of the council's activities, some of which represent greater risk than others overall. A subjective assessment has been made of the risk associated with each area audited, and the assurance provided over areas of high, moderate and relatively low risk is as follows:

2014/15 assurance	Total	Full	Substantial	Limited	None
System controls assurance					
High risk	2	0	2	0	0
Moderate risk	10	0	9	1	0
Low risk	10	0	8	2	0
Total	22	0	19	3	0
Assurance that action has been taken					
High risk	6	0	6	0	0
Moderate risk	6	0	5	1	0
Low risk	1	0	1	0	0
Total	13	0	12	1	1

Wider sources of assurance available to the county council

- 3.3 Assurance has been provided to the council by Grant Thornton as the council's external auditor for the year. Grant Thornton issued its annual audit letter relating to 2013/14 in October 2014, and gave a qualified opinion on the annual financial statements, but qualified its opinion on the council's value for money arrangements. A copy of the report is available at: <http://mgintranet/ieListDocuments.aspx?CId=728&MId=3009&Ver=4> (item 9). The external auditor's annual audit letter for 2014/15 is expected to be available in September 2015.

4 Key issues and themes

- 4.1 The council's Management Team continues to take the issues raised in 2013/14 very seriously and has responded robustly to make improvements. In particular, information governance has seen considerable improvement during the past year, as was reported to the Audit and Governance Committee in April 2015.
- 4.2 The last 12 months have seen continued efforts to achieve significant cost-savings and to reconfigure the council's services. This work is on-going and will continue throughout 2015/16 as the council continues to face the need for further cost savings, service re-organisation and re-structuring and system re-design. In particular the benefits arising from the replacement of the old social services information system, as well as the introduction of the Oracle financial and human resources/ payroll systems, are still to be fully achieved. All of these suites of systems will in due course support improved controls in social care, financial control, and control over the council's establishment, but continue to present challenges for the coming year.
- 4.3 The reduction in the council's workforce and re-structuring of all of the council's services continues, and is absorbing a considerable amount of senior management time. Many of the risks associated with the council's services have changed to some degree and their corresponding control frameworks are now being re-designed by new heads of service under the new organisational structure. During 2015/16 the Internal Audit Service will work to support management and in particular a number of members of the team will be seconded into the finance teams. It will not therefore undertake work that will support an overall opinion in 2015/16.

5 Implications for the annual governance statement

- 5.1 In making its annual governance statement the council is required to consider the Head of Internal Audit's report in relation to internal control, risk management and corporate governance. The council should therefore reflect the challenges it faced during 2014/15 and earlier, the challenges it still faces in implementing a new organisational structure, risk and controls framework, and the strenuous efforts it has made to address these.
- 5.2 It should also reflect the intention that the Internal Audit Service will provide support to management during 2015/16 rather than assurance over the adequacy and effectiveness of the council's framework of governance, risk management and control.

6 Internal audit quality assurance and improvement

- 6.1 In order to place reliance on the work of the Internal Audit Service and in conformance with the Public Sector Internal Audit Standards, it is important that the council receives assurance regarding its quality. The Internal Audit Service therefore undertook a self-assessment in 2012 against the professional standards in place during at the time (the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006). This self-assessment was verified externally by the Council's external auditor, and the Audit Commission's findings were reported to the Audit and Governance Committee in September 2012.
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6.2 The Audit Commission concluded that:

'the Council's Internal Audit function meets each of the eleven standards for Internal Audit set out in the CIPFA Code of Practice for Internal Audit in Local Government.

'Our review has also concluded that the Internal Audit function demonstrates many of the characteristics of best practice as set out in the CIPFA Statement on the role of the Head of Internal Audit and The Excellent Internal Auditor. In particular, the Internal Audit work programme includes proactive fraud awareness work, thematic and corporate reviews to promote good governance across the organisation, and the annual plan is based on a comprehensive risk assessment process.'

6.3 Like the rest of Lancashire County Council, the Internal Audit Service will be subject to further restructuring, and a full externally validated reassessment against the Public Sector Internal Audit Standards published in 2013 will be necessary in due course.

A Summary of internal audit assurance assignments 2014/15

A.1 The work completed during the year is set out in the table below. Each area audited has been given an overall relative risk weighting to indicate the degree of risk associated with it, although this is a subjective assessment.

Control areas and audit reviews	Audit nature and scope	Risk weighting	Key area	Audit complete	Assurance – over controls, or actions
Corporate controls					
Working in strategic partnership					
Funds flow between LCC and BTLS	Review of remedial action	High	✓	✓	Substantial – actions
Performance data quality and monitoring BTLS by LCC	Review of remedial action	High	✓	✓	Substantial – actions
Corporate governance					
Declarations of officers' interests, gifts and hospitality	Re-review of earlier work	Low (but with potential reputational risk)		✓	Substantial – controls
Members' expenses and allowances	Re-review of earlier work	Low (but with potential reputational risk)		✓	Substantial – controls
Responses to complaints	RACE-based review	Low (but with potential reputational risk)		✓	Substantial – controls
Information governance					
Overall corporate arrangements and action	Review of remedial action	High	✓	✓	Substantial – actions
Common controls					
Financial controls					
Accounts payable (excluding social care payments)	Compliance testing	Moderate		✓	Substantial – controls
Accounts receivable and debt recovery	Review of remedial action	Moderate	✓	x	Limited – actions
Budget monitoring and control	RACE-based review	Moderate		✓	Substantial – controls
Capital accounting	RACE-based review	Moderate		✓	Substantial – controls

Control areas and audit reviews	Audit nature and scope	Risk weighting	Key area	Audit complete	Assurance – over controls, or actions
Cash and banking (centrally, and individual establishments)	Compliance testing	Moderate		✓	Substantial – controls
Expenses and allowances	Compliance testing	Low (but with potential financial risk)		✓	Limited – controls
General ledger	Compliance testing	High		✓	Substantial – controls
Payroll	Compliance testing	Moderate		✓	Substantial – controls
Payroll additional payments	Compliance testing of specific services	Low (but with potential financial risk)		✓	Substantial – controls
Treasury management	Compliance testing	High		✓	Substantial – controls
VAT	Compliance testing	Low		✓	Substantial – controls
Human Resources controls					
Hierarchies in Oracle HR/ payroll system	Review of remedial action	Moderate	✓	✓	Substantial – actions
ICT controls					
Network user management	Compliance testing of network user access	High	✓	✓	Substantial – actions
Procurement controls					
Central procurement	RACE-based review	High	✓	✓	Substantial – actions
Service specific controls					
Adult Services, Health and Wellbeing					
Initial assessment for direct payments	Review of remedial action	High	✓	✓	Substantial – actions
Reablement	RACE-based review	Moderate		✓	Substantial – controls
Social care supervision	Review of remedial action	Moderate	✓	✓	Substantial – controls
Support planning	RACE-based review	Moderate		✓	Substantial – controls
Public Health					
Scheme of delegation	RACE-based review	Moderate		✓	Substantial – controls

Control areas and audit reviews	Audit nature and scope	Risk weighting	Key area	Audit complete	Assurance – over controls, or actions
Children and Young People					
Case file audit process	Review of remedial action	Moderate	✓	✓	Substantial – actions
Direct payments to children with disabilities	Review of remedial action	High	✓	x	Not applicable
Emergency payments to families	Review of remedial action	Low	✓	x	Not applicable
Partnership working with the NHS to support children with mental health needs	Review of remedial action	Moderate	✓	x	Not applicable
Independent Reviewing Officers	Review of remedial action	Moderate	✓	✓	Substantial – actions
Due diligence over the transfer of children's centres from the NHS	Work at the request of management	Low		✓	Substantial – controls
Residential homes	Follow-up of agreed action	Low		✓	Substantial – actions
Working Together with Troubled Families	Follow-up of agreed action	Moderate	✓	✓	Substantial – actions
Working Together with Troubled Families	Grant certification	Not applicable		✓	Not applicable
Schools and sixth forms					
School reviews	Reviews of financial controls in schools	Moderate		✓	See table in Appendix B below for individual schools' assurance
Follow-up of school reviews	Follow-up of agreed action	Low		✓	
Schools with new bank accounts	RACE-based review	Low		✓	Limited – controls
Environment					
Capital programme management	Review of remedial action	Moderate	✓	✓	Substantial – actions
Capital programme management	Compliance testing of capital cost codes	Low		✓	Substantial – controls
Highways and property asset management project	Support to the project	Not applicable		On-going	Not applicable
Procurement of Highways contractors	Re-review	Moderate (with potential reputational and financial risks)		✓	Limited – controls

Control areas and audit reviews	Audit nature and scope	Risk weighting	Key area	Audit complete	Assurance – over controls, or actions
Grant audit: Citizens Rail	Grant certification	Not applicable		✓	Not applicable
Grant audit: CIVINET	Grant certification	Not applicable		✓	Not applicable
Grant audit: Interreg IVB SusStations	Grant certification	Not applicable		✓	Not applicable
Grant audit: Local Sustainable Transport	Grant certification	Not applicable		✓	Not applicable
Grant audit: Local Transport Capital	Grant certification	Not applicable		✓	Not applicable
Lancashire County Commercial Group					
Fleet services	RACE-based review	Low		✓	Substantial – controls

B Detailed findings of internal audit assurance assignments

- B.1 Brief information is provided below about the findings of each piece of work completed during the year. Where services have been re-assessed the audit opinion is on the basis that the process continues in all other respects as it did when first assessed.

Corporate controls

Funds flow between LCC and BTLS: substantial assurance

- B.2 The monthly payroll report is used to identify the appropriate charges to BTLS and, in future, it will also be reviewed to identify significant changes from month to month so that payments of arrears, pay awards or bonuses can be identified and validated.
- B.3 Evidence is available of challenges being made by the LCC Client Manager in respect of BTLS charges raised for goods and services. There are new governance arrangements between the two organisations, and monthly and quarterly review meetings will enable this issue to be addressed.
- B.4 Charging guidance will also be made available on the intranet for LCC requisitioners, including the requirement that staff contact the LCC Client Manager if they are uncertain about any ICT procurement issue.

Performance data quality and monitoring of BTLS by LCC: substantial assurance

- B.5 There are new governance arrangements in place between LCC and BTLS. A client manager has been appointed and regular monthly and quarterly review meetings have been scheduled, attended by appropriate representatives of both LCC and BTLS, to facilitate performance monitoring. The Cabinet Committee for Performance Improvement (CCPI) meets on a regular basis and will be provided with a six-monthly report on BTLS performance.
- B.6 A new key performance indicator (KPI) has been defined but needs to be ratified for processing payroll changes, and work is on-going to further develop KPIs covering the payroll and ICT functions. The ICT KPIs cover only one aspect of the ICT service provided at present and an additional non-contracted ICT KPI has therefore been set, initially as a monitoring exercise.
- B.7 It is also intended that limited data access will be given to LCC's client manager to validate BTLS's performance, but this is still under negotiation.

Corporate governance

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

- B.8 Registration of interests, gifts and hospitality offered to and accepted by officers forms part of the council's wider framework of corporate governance. 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.
- B.9 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

- B.10 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).
- B.11 The Members' Allowance Scheme also 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 such checking has not previously been required. Random sample checks of members' claims from 1 April 2015 have been introduced since councillors were informed that such checks would take place, and have been reminded of the requirement to retain receipts.

Responses to complaints: substantial assurance

- B.12 A new Customer Feedback System was implemented on 1 October 2014, which is used by Adults and Children's Services for complaint handling and it is envisaged that the system will also be used for corporate complaints in the future. From April 2015, management of all complaints came under one team which will facilitate a single management overview. A strategic overview of social care complaints is provided through appropriate scrutiny committees, and of corporate complaints through the Cabinet Committee for Performance Improvement.

Information governance

Overall corporate arrangements and action against plans set out in the Information Governance Framework: substantial assurance

- B.13 A number of key actions have been taken that have considerably improved controls over the council's information governance. Staff have been appointed to key information governance roles; a series of governance groups are in place; a comprehensive information governance framework has been developed, including detailed guidance, policies and procedures; a training programme developed; responsibility for ensuring compliance with information governance standards vested with Heads of Service, who have been designated as Information Asset Owners; and a range of spot checks programmed by the Head of Information Governance to ascertain the extent to which the new controls have been implemented.

Financial controls

Accounts payable – central system: substantial assurance

- B.14 We have tested the centrally operated controls over the requisitioning, goods receipt and payments processes and can provide substantial assurance over their operation for the whole year.

Accounts receivable and debt recovery: limited assurance

- B.15 Remedial action was not complete before the year end and therefore no detailed audit work was undertaken in 2014/15. However it is clear that robust action is in hand; for example a document setting out a revised income and debt management policy, processes and responsibilities was finalised and shared with all heads of service during May 2015.

Budget monitoring and control: substantial assurance

- B.16 The data recorded in the Oracle Financials system is accurate although the system's reporting function makes examination of details difficult for budget holders. Forecasting is thorough and effective, and is subject to a number of reviews. However it is clear that finance staff still play a very significant role in the forecasting process and whilst this is appropriate for high risk budgets, it runs counter to the current strategy of placing strong reliance on budget holders. In future the number of budget holders will be significantly reduced, focussing attention primarily on high risk budgets and members of the Finance team will work closely with budget holders to understand their budgets.

Capital accounting: substantial assurance

- B.17 Some minor actions were agreed to improve the control environment, relating to the need to reconcile the separate databases of property assets that support the property maintenance and estates function, and the financial accounting function for fixed assets.

Cash and banking: substantial assurance

- B.18 The income identification and allocation process is effective and has improved significantly after a number of performance and process improvements over the last year. Efficiencies have been made by automating manual processes, introducing new ways of working and making better use of the technology available.
- B.19 Our testing of controls over cash income handling, income upload and banking processes at a sample of remote establishments is also complete and has raised no significant issues. However it would be helpful to establishments if written procedure notes could be provided. We also note that ideal segregation of duties is always difficult to achieve where there are few staff in place.

Expenses and allowances: limited assurance

- B.20 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.
- B.21 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.

General ledger: substantial assurance

- B.22 Overall, there are effective and comprehensive controls in place over the operation of the general ledger. We identified few issues, but note the need to revoke a limited number of inappropriate system user access rights, to adhere to the journal naming convention, and to improve the format and frequency of some control account reconciliations.

Payroll: substantial assurance

- B.23 The LCC payroll processes approximately 42,000 individual BACS payments to employees of the county council and the county's schools each month, amounting to approximately £44 million. We can provide substantial assurance over the processes controlling payroll payments, including payments to starters and leavers, and the statutory and voluntary deductions made from them.
- B.24 Given the scale of the payments processed, it is to be expected that minor errors will arise due to human error by both managers and the payroll processing team. The errors we found as a result of testing, relating to honoraria payments, were trifling in both number and value but overpayments have been referred to payroll for recovery. We understand that the entire honorarium process is to be reviewed during 2015/16 to improve efficiencies and ensure that over- or under-payments are eliminated in future.
- B.25 As with other elements of the Oracle system, there are issues with regard to access rights to the Oracle HR/ Payroll system. We found that 29 individuals had inappropriate access rights to the system, and 30 others had access to data that should no longer be held relating to employees of an external organisation. Following the audit, access to the accounts of these users has been revoked or disabled as appropriate.

Payroll additional payments: substantial assurance

- B.26 We have provided substantial assurance that additional payments to staff through the payroll but beyond their normal salary payments are effectively controlled. However it is not clear that the risk that staff work excessive hours is adequately managed, or that reimbursement is properly achieved from the NHS where appropriate. The council is also aware of an issue relating to allowances for officers working shifts in its Adult Disability Provider Services and is working to resolve this because its financial implications are significant. It is estimated on basis of work done by management to date that these over-payments amount to £2.3 million.

Treasury management: substantial assurance

- B.27 We have provided substantial assurance over the council's treasury management function. We found no issues to report in terms of reported treasury management activity, cash flow forecasting, approval of treasury management transactions (other than a limited number of minor sign-off issues), or segregation of duties over key investment transactional controls.

VAT: substantial assurance

- B.28 We have provided substantial assurance over this area with no significant issues emerging, although there are a number of coding errors each month, anomalies in the system that need to be resolved, and a need to ensure that self-billing arrangements are compliant with HMRC's record-keeping requirements.

Human resources controls

Hierarchies in the Oracle HR/ Payroll system

- B.29 A project team is working to ensure that the establishment hierarchies for the year 2015/16 are correct in the Oracle HR/ Payroll system. This work is taking place alongside additional projects to ensure that the council transitions from its old management structure to its new structure, and the Internal Audit Service has been represented at recent project meetings. The team involved was clearly committed to ensuring that the council was ready to operate its new structure from 1 April 2015 and this objective was achieved.

ICT controls

Network user management: substantial assurance

- B.30 BTLS has taken significant steps to cleanse and reduce the number of active network users and to ensure that user accounts are disabled as officers leave the council's employment. As at 24 March 2015, there were 107,540 log-in accounts, but 94,626 had been disabled, leaving fewer than 13,000 active accounts. The impact of permanently deleting these disabled accounts is now being considered. Sample testing indicates that leavers' user accounts are now being routinely disabled in accordance with weekly reports from the Human Resource Service.
- B.31 BTLS's ICT Services and the council are also considering the implementation of an identify management system which has the potential to significantly strengthen the efficiency and effectiveness of controls over users' access to the council's network and individual systems, although it is clear that this would require significant resources.

Procurement controls

Central Procurement: substantial assurance

- B.32 A procurement board has been established, a procurement strategy has been approved by Cabinet and a contracts register has been set up. Further, guidance is now available to staff on the Procurement intranet, which covers the relevant council and EU rules. However we also identified some minor instances of non-compliance with the council's Procurement Standing Orders, largely relating to record-keeping, sign-off and the timing of approvals.

Service specific controls: Adult Services, Health and Wellbeing Directorate

Initial assessments for direct payments: substantial assurance

- B.33 Good progress has been made in ensuring that, when direct payment cases are reviewed, due consideration is being given to the capacity of the service users, and mental capacity assessments are being performed as appropriate. In the

majority of cases, direct payments are not being made directly to service users who lack the appropriate capacity to take on the employer responsibilities attached to them. However the controls in place to ensure that an appropriate direct payment agreement document is signed and retained, following completion of a mental capacity assessment, are not yet fully effective.

Reablement: substantial assurance

B.34 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.

Social care supervision: substantial assurance

B.35 Overall, action has been taken as intended to improve controls over supervision arrangements, although more time is clearly needed to enable these control improvements to become embedded. In particular, a revised supervision policy framework was developed for use within Adult Social Care from 1 October 2014: the policy statement and associated documents are easily accessible to staff and the policy is starting to be applied. However, there has been limited time for supervisors to fully embed the revised procedures into practice.

Support planning: substantial assurance

B.36 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.

B.37 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.

Service specific controls: Public Health

Scheme of delegation: substantial assurance

B.38 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.

Service specific controls: Directorate for Children and Young People

Case file audit process: substantial assurance

- B.39 The Victoria Climbié Inquiry Report recommended that directors of social services ensure that senior managers inspect, at least once every three months, a random selection of case files and supervision notes. The county council has established a case file audit framework to fulfil this requirement and ensure that positive outcomes for vulnerable children and young people in Lancashire are achieved through high quality social care practice and compliance with procedures. The framework was revised in July 2014 and sets out the number of case file audits that managers and the CYP Audit Team are expected to complete each month and, to support the process, details of completed file audits are reported to the Directorate Leadership Team quarterly.
- B.40 Each of the agreed actions has now been addressed. It was intended that the requirement for case file audits would be designed into the new Lancashire Care System (LCS) provided by Liquidlogic, but discussions are still ongoing with the developers because LCS does not currently meet this requirement. However, a robust interim system and a toolkit have been introduced which could be built into LCS in the future.

Direct payments and emergency payments to families

- B.41 It has become clear that the processes and controls in these two areas have altered so significantly since we undertook our original audit that the actions raised are no longer relevant. The audit of emergency payments to families was reported in November 2011 and on direct payments for children with disabilities in December 2012.

Partnership working with the NHS to support children with mental health needs

- B.42 The issues are complex, involving the NHS clinical commissioning groups and trusts as well as the council and requiring action over the long term. We are aware that action has been taken since we reported in July 2013, but also that the issues have not yet been resolved. In January 2014 the council's and NHS commissioners attended the Scrutiny Committee, with Child and Adolescent Mental Health Services (CAMHS) providers to provide an update on the action being taken to improve CAMHS services in Lancashire and to provide information on wider developments of emotional health and wellbeing services for children and young people. The Head of Policy, Information and Commissioning (Start Well) has recently taken a further report to the Scrutiny Committee.

Independent Reviewing Officers: substantial assurance

- B.43 The role of the independent reviewing officer (IRO) involves chairing a child looked after's review, monitoring a child's case on an ongoing basis to identify any areas of poor practice, and raising any concerns around service delivery generally, not just in relation to individual children. The Government has established statutory guidance regarding IROs' caseloads and the frequency of

contact with children looked after, and also gives the IRO the authority to convene a review whenever they deem one necessary.

- B.44 The Service agreed to implement two high priority actions in this area. The first was that the 'starred recommendations' log would be continuously updated to ensure that all actions are easily identifiable, implemented in a timely manner and are reported to senior management as part of a quarterly quality assurance report. The second was that the caseloads of any IROs who leave or who are absent on long-term sickness would be reallocated with immediate effect by the Quality and Review Managers, and that this would be checked by producing and reviewing regular caseload reports. The testing we have undertaken confirms that both sets of actions have been addressed.
- B.45 Most of the other actions have also been addressed, although the Service still struggles to meet the timescales in statutory guidance for reviews of children looked after and child protection cases and the reporting required to support these, as well as timely reporting to the families involved in child protection conferences.

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

- B.46 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.
- B.47 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: substantial assurance

- B.48 We have followed up the actions agreed in January 2013. Some actions have been taken as intended whilst others are reliant on wider control improvements, in particular revised social care supervision arrangements, and the development of revised financial procedures for these establishments.

Working Together With Troubled Families Programme: substantial assurance

- B.49 We have followed up the action taken to rectify controls that were previously not operating effectively and significant steps have been taken to implement the majority of the agreed actions. The Information Governance team has confirmed that consent from families to their inclusion on the programme is required, and managers have confirmed that families are now only discussed where they have given their explicit consent to this. It was also agreed that consent would be obtained from any new families taken onto the programme from 23 January 2015 onwards, but the programme has now finished and no new families have been taken on since January.

Service specific controls: schools

School audit visits

B.50 We have completed audits of the county's schools with assurance results as follows:

School type	Number of audits	Level of assurance			
		Full	Substantial	Limited	None
High school	8	-	6	2	-
Primary school	14	-	12	-	2
Nursery/ special school	3	-	-	-	3
Total	25	-	18	2	5

B.51 We have followed up the actions agreed during 2012/13 and 2013/14 with a number of the schools where we provided only limited or no assurance to assess whether improvement is being made to the controls over their finances. Each of the schools whose actions we have followed up has implemented appropriately improved controls.

B.52 We have issued five school audit reports with no assurance during the year. In four of these cases this work was initiated because we have also conducted a disciplinary investigation at the school. All schools that receive no assurance are reported to the council's School Improvement Challenge Board (SICB) so that appropriate support may be provided by the council to these schools.

Schools with new bank accounts: limited assurance

B.53 We have reviewed the adequacy and effectiveness of the council's controls over schools which have recently chosen to have their own bank accounts. There are a number of weaknesses in these controls and the Head of Finance (Capital and Schools) will facilitate a review of the council's overall financial control framework over schools during 2015/16.

B.54 In particular, training is available from the Westfield Centre for officers involved in administering school bank accounts, but this is not mandatory and is not always accessed. Training has previously been provided by the Schools Finance team, but this has not been available recently. The school's bank account mandate ought to make reference to the fact the Lancashire County Council is the ultimate owner of the funds, but the Accounting and Budgeting team does not check that this is the case prior to approving any bank account: none of the mandates at the four schools we examined incorporated this reference. Schools are required to undertake bank reconciliations on a monthly basis and submit them to the Accounting and Budgeting team. However these reconciliations are not verified against actual bank statements until the end of the year and any errors cannot be promptly identified.

B.55 At all four schools that we visited there was inadequate segregation of duties. Whilst it is acknowledged that in certain schools there are too few staff to separate their duties adequately, this should be identified as part of the application process, thereby allowing other appropriate arrangements to be made.

Service specific controls: Environment Directorate

Capital programme management – programme monitoring: substantial assurance

- B.56 The capital monitoring system (CMS) is used to facilitate monitoring of the council's capital programme. Project and Programme Managers have access to CMS to enable them to monitor their respective programmes. CMS interfaces with the Oracle financial system and the Management Information for County Engineering (MICE) system and data from these systems and others provides the financial information relating to specific projects.
- B.57 Significant effort has gone into improving monitoring controls over the council's capital programme. Although this work will continue, a number of key actions have been completed. For example, a comprehensive list of capital projects has been produced and officers will continue to carry out reconciliations and reviews to ensure programme records remain consistent and current. Officers have been using the multi-year reporting facility on the CMS since January 2015 and records are being updated to reflect schemes falling into 2015/16. The CMS has been fully reconciled to the Oracle financial system.
- B.58 A schedule has been produced setting out the officers responsible for each programme, and monitoring meetings are held periodically depending on the size and scale of the programme. Information is used by officers in the Commissioning Team to monitor budgets and expenditure and to discuss these with the relevant programme managers.

Capital programme management – use of cost codes: substantial assurance

- B.59 In light of the importance to effective monitoring of the capital programme of the cost codes used in the programme's feeder systems, we have satisfactorily tested the controls ensuring that capital programme costs are fully, promptly and accurately charged to the correct 'live' codes on the CMS, Oracle financial system and the related capital cost capture feeder systems.

Highways and property asset management project

- B.60 The Internal Audit Service has been represented on the project board and the project is continuing into 2015/16.

Procurement of highways contractors: limited assurance

- B.61 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.
- B.62 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.
- B.63 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 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.

- B.64 Since our work was completed, the Head of Service for Highways and the Head of Procurement have provided assurance that the issues raised by our initial audit work and investigation have been, or are being, addressed.

Service specific controls: Lancashire County Commercial Group

Fleet Services: substantial assurance

- B.65 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.
- B.66 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.
- B.67 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.

C Audit assurance levels and classification of agreed actions

Audit assurance

Full assurance: there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ has resulted in failure to achieve the service objectives.

Actions proposed by the Internal Audit Service

All actions proposed by the Internal Audit Service and agreed by management are stated in terms of the residual risk they are designed to mitigate.

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

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

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

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

D Scope, responsibilities and assurance

Approach

- D.1 The scope of internal audit encompasses all of the council's operations, resources and services including where they are provided by other organisations on their behalf.

Responsibilities of management and internal auditors

- D.2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.
- D.3 However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to management as they have become known to us, without undue delay, and have worked with management to develop proposals for remedial action.
- D.4 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.
- D.5 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

Basis of our assessment

- D.6 My opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken and completed during the period in accordance with the plan approved by the Audit and Governance Committee. Sufficient, reliable and relevant evidence has been obtained to support the recommendations made.

Limitations on the assurance that internal audit can provide

- D.7 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Further, there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.

- D.8 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Access to this report and responsibility to third parties

- D.9 This report has been prepared solely for Lancashire County Council. It forms part of a continuing dialogue between the Internal Audit Service, the chief executive, Audit and Governance Committee and management of the council. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- D.10 This report may be made available to other parties, such as the external auditors and BT Lancashire Services Ltd. No responsibility is accepted to any third party who may receive this report for any reliance that may be placed on it and, in particular, the external auditors must determine the reliance placed on the work of the Internal Audit Service.