

Internal Audit Service progress report on implementation of the strategic internal audit plan: 2015/16, 2016/17 and beyond

1. Introduction

- 1.1. In January 2016 the Audit and Governance Committee considered and approved a strategic internal audit plan for 2015/16, 2016/17 and beyond, and the Internal Audit Service has been working to that plan throughout 2015/16 and the year to date. All work in respect of 2015/16 has now been completed, and work is taking place across a number of the planned audits for 2016/17. The Audit and Governance Committee's terms of reference require it to consider periodic reports of internal audit activity and outcomes and this report provides a summary of the Internal Audit Service's work under the strategic internal audit plan.
- 1.2. As was noted in January, the plan may be subject to amendment as the scopes of individual audits are developed with further input from directors and heads of service. At this point an audit of the operation of the revised scheme of delegation to officers has been added to the plan, supporting work on the council's governance arrangements; and the audit of the measures in place to monitor and achieve the council's planned budget reductions has been removed because the Committee will be able to take assurance from work now completed by PricewaterhouseCoopers.
- 1.3. The resources available to the service have now been agreed. Recruitment is under way to fill four auditor vacancies, as well as a senior auditor post that will become vacant as the current post-holder takes up a post within the ICT Service. A further update will be reported verbally to the committee at its meeting.
- 1.4. Public Sector Internal Audit Standards and the Internal Audit Service's quality assurance and improvement programme require that an external quality assessment be conducted at least once every five years by a qualified, independent external assessor. The Standards expect the Audit and Governance Committee to discuss the form of that external assessment and the qualifications and independence of the external assessor, including any potential conflict of interest, and it should consider and agree the scope of the external assessment. More information is provided at Section 3 below.

2. Internal audit work completed

- 2.1. Work relating to 2015/16 was reported to the committee in May 2016, but the audits of accounts receivable and debt management, and cash and banking were incomplete at that point. A summary of the matters arising from these audits and other audit work now completed is provided below. The agreed programme of work for 2016/17 and notes of the progress against each audit are also set out in the table in Appendix B.

System	Assurance
Business processes: Financial processes	
The general financial ledger	Substantial (2015/16)
Accounts payable system	Substantial (2015/16)
Accounts receivable and debt management system (a centrally managed system but with input from across the council)	Limited (Work for 2016/17 incorporating testing of transactions processed in 2015/16).

Internal Audit Service progress report

Cash and banking (central functions)	Substantial (Work for 2016/17 incorporating testing of transactions processed in 2015/16).
Payroll	Substantial (2015/16)
Treasury management	Substantial (2015/16)
VAT	Substantial (2015/16)
Service delivery: Economic development	
Lancashire Enterprise Partnership: governance and accountability	Substantial (2016/17)
Lancashire Enterprise Partnership: assurance framework	Substantial (2016/17)

Accounts receivable and debt management system

- 2.2. There have been significant improvements in the application of debt collection strategies within the Oracle financial system and in the work of the Debt Management Team, particularly in the automation of reminder letters and workflow emails and the development, implementation and monitoring of new collection strategies since July 2015. Furthermore, the Debt Management Team now has access to Oracle reports that provide full details of all debts owed to the council. There are good practices in place relating to reporting to senior management and the Cabinet Committee on Performance Improvement (CCPI), monitoring of collection trends and performance data, the preparation and authorisation of write off and credit notes, and receipting of income collected against outstanding invoice debt.
- 2.3. However although long-term corporate debt (that over 180 days old) had begun to fall by the end of 2015/16, significant manual intervention by the Debt Management Team is required to enable managers in services across the council to manage the debt they raise. Further, problems specific to adult care services have caused debts relating to care services to increase by £2.8 million over the year from £10.2 million to £13.0 million.
- 2.4. The aged debt reports that can be generated from Oracle by the Debt Management Team enable that team to monitor the council's debt position. However automated reports are not available to budget holders to monitor either their service's debt overall or the debt on individual invoices. This has been a long-standing issue and it is intended that automated reporting for budget holders will be progressed during 2016/17. In the meantime the Debt Management Team is developing detailed reports for a number of budget holders and intends to roll these out further to other services during the year.
- 2.5. In respect of adult care services specifically, there are significant delays in inputting care package details into the social care system and completing financial assessments. This leads to invoices for high values being raised against individuals for care over long periods. (Our sample included cases in which invoices were raised 22 months after the care packages began).
- 2.6. The complex nature of the debt recovery process is acknowledged, and the interdependencies of a number of key areas are well understood by the teams involved in taking action to reduce the council's overall debt position.

Cash and banking

- 2.7. The council's income identification and allocation process is being carried out effectively and has been significantly improved by moving to greater automation and the use of fewer manual processes than formerly. At the end of 2015/16 unidentified and unallocated receipts amounted to only £9,254, which is trifling.
- 2.8. However we also reviewed the application of controls over the Streamline card payment system within the three of the council's offices that take payments for services. We found weaknesses in the design of controls and inconsistencies in practice at all three locations, particularly with regard to card data security and the processing of refunds. Since the Streamline card payment system accounts for only 0.12% (£16 million) of the council's total cash income this has not affected our opinion on the council's overall control of its cash.
- 2.9. We also reviewed the reconciliation of the Parent Pay system operated in the county's schools to the council's financial system. None of the three schools we visited were fully reconciling the funds receipted on Oracle to their Parent Pay settlement records and the Oracle records for one of the schools held transactions that did not relate to that school, which it had not investigated.

Lancashire Enterprise Partnership: governance and accountability

- 2.10. The operation of the LEP is heavily circumscribed by central government and the council is compliant with those requirements.
- 2.11. Strategic priorities for the partnership, and specific targets and outcomes for individual schemes, are agreed and approved by the LEP Board. Performance against these targets will be collated through the Performance Committee but this committee is in its infancy and has met only three times to date. However, an agreed meeting schedule and work programme are in place and key LEP initiatives such as City Deal are already the subject of on-going review. Performance against targets is reported and monitored by members of the LEP for each funding stream and, although this is not consistent across all streams, work is ongoing to develop a full performance monitoring framework under the remit of the Performance Committee.
- 2.12. Membership of the Performance Committee has been strengthened to include two additional LEP directors including the LEP chair and, at the request of the LEP Board, the Leader of Preston City Council on behalf of Lancashire's local authorities has joined the committee and provides a non-LEP director perspective.
- 2.13. A two-year funding agreement covering the period 2016/18 is in place between the LEP and county council regarding core economic development officer support and company secretarial services. However, no formal partnership agreement has been established to require a contribution by the council's partners to the LEP's administrative costs or a contribution of staff resource to carry out administrative duties around legal and financial management. Furthermore, there is no agreement between the LEP's partners to share the risk of financial loss to the council in the event of any clawback of funding.

Lancashire Enterprise Partnership (LEP): assurance framework

- 2.14. A formal assurance framework for the LEP was required by the former Department for Business, Innovation and Skills (BIS), which has been recently restructured to form the new Department for Business, Energy and Industrial Strategy. This was

approved by the LEP Board on 17 March 2015 and audited by the North West Office of BIS in early 2016, being reported to the LEP Board in April 2016. This work identified just two minor administrative points, one of which has already been implemented. The LEP was also randomly selected to undergo a review of its Assurance Framework by Government's Internal Audit Office which identified one minor administrative point that has since been rectified.

3. External validation of the Internal Audit Service's internal quality self-assessment

- 3.1. Public Sector Internal Audit Standards and the Internal Audit Service's own quality assurance and improvement programme require an external quality assessment to be conducted at least once every five years by a qualified, independent assessor external to the organisation. The last such review was undertaken in mid-2012 and reported in September 2012: another is due by September 2017.
- 3.2. In May 2016 it was intended that the county council's Internal Audit Service would participate in the peer review process being conducted by a number of the authorities across the North West region. However the Committee is now asked to consider the likelihood that it will receive stronger and more independent assurance regarding the Internal Audit Service's compliance with professional standards from one of the institutes responsible for those standards.
- 3.3. It is proposed that the council commissions the Chartered Institute of Internal Auditors (CIIA) to undertake an external assessment of its Internal Audit Service, validating the service's own self-assessment against the International Professional Practices Framework, the Public Sector Internal Audit Standards and the Local Government Application Note. Whilst the Chartered Institute of Public Finance and Accountancy (CIPFA) could also provide such an assessment, the head of internal audit has for the last ten years been a member of that institute's technical Internal Audit Panel. The CIIA is in every way independent of the county council and its officers and the assessor expected to undertake the review has undertaken other work in the public sector including a review of at least one other county council.
- 3.4. It is intended that this review will be carried out during September 2017 to give sufficient time for the newly restructured service and its staff to complete a full year's operation and report to the council on its work for 2016/17.