

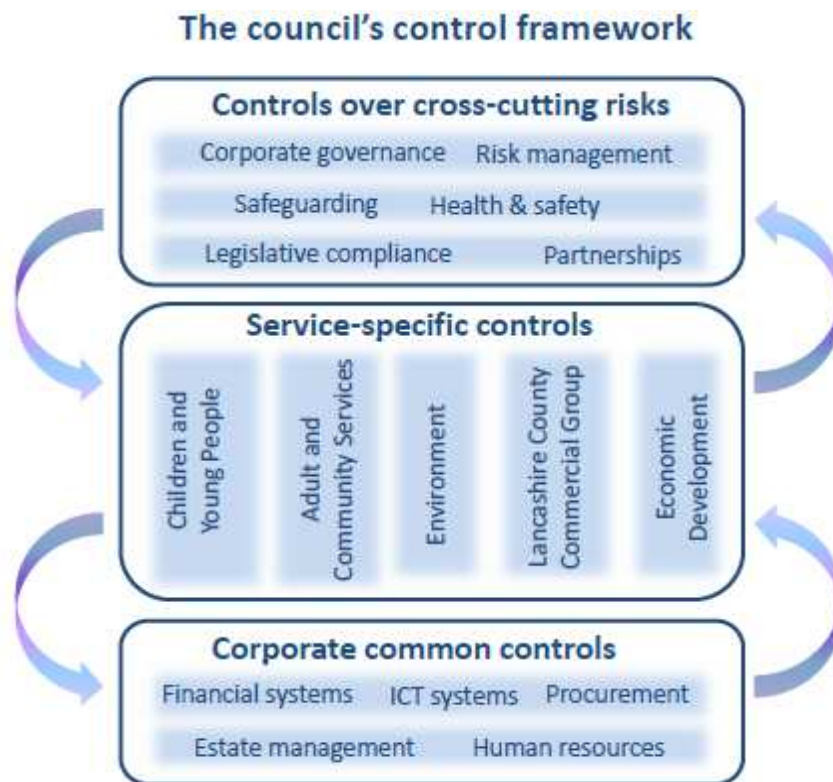
Audit Committee meeting 21 March 2011

Internal audit plan for the year 1 April 2011 to 31 March 2012

1. Executive summary

- 1.1 The Audit Committee is invited to consider the annual internal audit plan for Lancashire County Council for 2011/12. It is intended to provide the assurance that the chief executive and leader of the council need that the risks to the council's objectives are being adequately and effectively controlled.
- 1.2 The plan amounts to a total resource input to the county council of **2,780 audit days** (2010/11: 3,260 days). This represents a reduction in audit input of 14%, arising from the reduction in Audit staffing as part of the county council's drive to reduce its costs. However this level of input is still considered acceptable to provide the assurance the council needs. Provisions have been made for sickness and unanticipated staff turnover on the basis of previous experience, and it is assumed that 1,100 audit days will also be provided to external organisations within Lancashire including the pension fund, the police authority and a number of the district councils.
- 1.3 The council provides a wide range of services across the county and its senior management teams will be aware both of the risks to achieving their service objectives and the risks inherent in their work. Each of these risks should be managed by controls designed to reduce the risk to a corporately acceptable level and which operates effectively and consistently in practice.
- 1.4 The chief executive, Audit Committee, and ultimately the Council, need assurance that these controls have been adequately designed and are operating effectively. In due course the chief executive and the leader of the council will jointly sign an annual governance statement incorporating a statement on internal control, which will refer to the effectiveness of the system of internal control.
- 1.5 The assurance needed to make this statement is available from a variety of sources including external regulators, but also from the council's internal Audit Service. To avoid duplication with other assurance providers and ensure that we maximise resources, we need to understand this framework of assurance; where assurance is required but not otherwise available, the Audit Service may provide it, and this forms our annual audit plan.
- 1.6 The plan recognises and aims to provide assurance over the following controls:
 - Cross-cutting controls: These controls manage the risks arising from the council's over-arching business objectives that cut across all service areas.
 - Corporate 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.

- 1.7 These form the building blocks of our audit plan, and can be illustrated as shown below.



2. The planning process

- 2.1 Management Team and the council's senior management teams have documented the key risks to the council in the corporate risk register, and the Audit Service has discussed these risks and those identified by individual services with directors and executive directors. We have sought to identify the areas with the greatest inherent risk, and where there is the greatest need for effective mitigation by strong controls. These are the controls over which the council needs greatest assurance.
- 2.2 Elements of the plan directed at specific services have been discussed with executive directors and their senior management teams, and corporate systems have been discussed with individual system owners as well as with the county treasurer.
- 2.3 On this basis, we have made an assessment of the assurance we need to provide to the council during 2011/12. Since audit resources are limited they must be prioritised to maximise their value in the council's now fast-changing environment. Input from the Management Team has been sought specifically to ensure that we prioritise our resources most effectively.

3. The county council context

- 3.1 Even more so than in any other recent year, the council is facing unprecedented challenges and change. The need to make savings of £71.6 million in 2011/12 and £179.1 million over the next three years will have a

fundamental impact on the council and this must be reflected in the work of the Audit Service.

- 3.2 Necessary reductions are already being made to the council's establishment, members of staff are taking voluntary redundancy and being redeployed, and services are being reconfigured: this will have a considerable impact on the council's services and their related risks, and must alter the way corresponding controls are operated. It will be necessary to redesign control frameworks as resources are reduced and services change, and the need for assurance over the council's underlying controls will rarely have been greater.
- 3.3 The council's strategic partnership with BT plc is expected to begin formally in early April 2011 and this will catalyse change specifically in key corporate control areas – ICT, payroll, procurement and accounts payable – as well as in the way the council interacts with citizens and service users through its Customer Service Centre. The Audit Service will continue to provide controls assurance over these areas in the coming year, through access to the partnership joint venture company.
- 3.4 At the same time there is a strong drive to change our organisational culture and to become an organisation more closely founded on trust. This too will fundamentally alter the way controls are designed and operated, and brings with it an implicit acceptance of greater risk. It is likely that there will be a greater reliance on the monitoring controls operated by management and on detective controls, but fewer directly preventative controls: the council's managers must be aware of and manage this change, and the Audit Service must be alive to these changes as we undertake our work.

4. The Audit response

- 4.1 In a time of such fundamental change the Audit Service must be prepared to be flexible in our planning and our approach to the council's assurance needs. We must be prepared to provide whatever other support, as well as assurance, is required.
- 4.2 All our work will continue to consider value for money and the value of the council's controls and we will, where appropriate, identify superfluous controls or controls of limited value. We will also support management in specific pieces of work to assess areas where costs may be reduced.
- 4.3 We have for some time now aimed to provide integrated assurance across the whole council, recognising the relationships between its different services and support functions to provide assurance to individual executive directors and to the council as a whole. This audit plan builds on that experience, and on our use of computer assisted audit techniques and compliance testing, to provide the assurance the council needs across its key controls and its service areas.
- 4.4 The Audit Service also provides management with a counter fraud service and our audit plan integrates our assurance work (specifically our compliance testing) with our proactive counter fraud testing, particularly in areas susceptible to fraud and misappropriation of assets.

- 4.5 We therefore intend to ensure that we continue to use our resources as effectively as possible, providing the council with the assurance it needs as well as additional consultancy and counter fraud support.

5. Deployment of audit resources

- 5.1 This audit plan is stated in terms of estimated days input. However neither the resources available nor the exact time that will be taken for any single piece of audit work is capable of exact estimation. The plan therefore represents only a best estimate of the audit resources and the ways in which they will be deployed.

A reduced but flexible audit plan

- 5.2 The resources available to the Audit Service have been reduced over recent years but the balance has shifted slightly towards more highly qualified staff, to ensure that we can focus more effectively on the council's risks and deliver a higher quality of advice to the council. As part of the continuous drive to secure value for money and in response to the current budget constraints, Audit resources will be reduced by 14% in 2011/12.
- 5.3 At this point reduced resources do not prejudice our ability to deliver a service consistent with CIPFA's definition of internal audit in its Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006. However it is vital that our resources are deployed as effectively as possible, and the audit plan is therefore focussed on the key areas of risk to ensure maximum benefit from the level of audit resource.
- 5.4 We have considered each of the risks on the corporate risk register in constructing our audit plan and to some degree it reflects each of the council's greatest risks and their related controls. However although the Management Team has assigned the Equal Pay Review one of the highest risk scores on the risk register as at January 2011, we do not propose to undertake any further work on this project. Nor have we allocated any time to the audit of controls over the council's emergency management procedures, which have also been scored amongst the council's highest risk areas but which are still subject to the roll-out of business continuity planning.
- 5.5 Although the annual plan enables both managers and members to see the overall scope and value of the audit work, work is ongoing throughout the year. A small number of audit reviews therefore inevitably straddle the year end as work continues to complete them, and some time will be spent on this work.
- 5.6 We have not included any allocation for contingencies and any additional work will be undertaken at the expense of other planned areas of work. However, since the plan is at best an estimate it will be sufficiently flexible to change during the year. We will continually reassess our resources against the council's priorities, including the shared services agenda, and we will amend the plan throughout the year as required.

The corporate and service-specific perspectives

- 5.7 The council's cross-cutting risks and its corporate common controls are managed both corporately and through service-specific controls. Our work on

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cross-cutting and common controls therefore provides assurance both to the council as a whole and to individual executive directors, and our audit plan can be viewed from both a corporate and a service perspective.

From the corporate perspective the planned overall deployment of audit resources on the council's controls can be shown as follows:

CONTROLS ASSURANCE		Estimated audit days
Controls over cross-cutting risks		
See the separate table on page 7 below		480
Service-specific controls		
Adult and Community Services	260	1,200
Children and Young People	272	
Environment	165	
Lancashire County Commercial Group	120	
Economic development and Regenerate	33	
Schools	350	
Corporate common controls		
Financial controls	287	635
ICT controls	200	
Human resource controls	32	
Property management controls	66	
Procurement controls	50	
Management of the Audit Service		50
Total audit plan		2,365
Counter fraud and investigatory service		415
Total resource for the county council		2,780

- 5.8 Our detailed compliance testing of corporate common controls will provide individual executive directors with assurance from audit days deployed not only on service-specific audit work but also from our work on the cross-cutting and corporate controls that are operated within individual services. The same plan can therefore be re-cast for individual service areas as follows:

CONTROLS ASSURANCE	Estimated audit days				
	Service-specific	Cross-cutting	Common controls	Counter fraud	Total days
Adult and Community Services	260	50	57	-	367
Children and Young People	272	48	57	-	377
Environment	165	63	57	15	300
Lancashire County Commercial Group	120	65	82	-	267
Schools	350	20	-	-	370
Economic development & Regenerate	33	-	-	-	33
Other cross-cutting work	-	254	-	-	254
Other corporate common controls	-	-	362	-	362
Other counter fraud work	-	-	-	400	400
Management of the Audit Service					50
Total	1,200	500	615	415	2,780

6. Controls over cross-cutting risks

- 6.1 There are a number of areas of control that are applicable across all or most of the council's work. They are generally corporately owned areas of policy and strategy rather than transactional processes, for example our corporate governance arrangements and the frameworks we operate to safeguard our vulnerable service users.
- 6.2 These are not generally areas where a single audit review can address each of the risks and related controls in a single year. The work will be broken down and some elements of it will be included in audit plans each year. We intend to allocate approximately 480 days to these audits during 2011/12 as follows, and a brief explanation of the proposed scope of our work is also provided below:

CONTROLS ASSURANCE		Estimated audit days	
Area of cross-cutting control	Follow-up	New control areas	Total
Risk management and corporate governance	3	42	45
Asset management	-	80	80
Customer Service Centre	5	20	25
Health and safety of staff	26	-	26
Information governance	5	37	42
Integration of services	-	35	35
Legislative compliance	2	55	57
Public health and safety	15	-	15
Reablement	16	-	16
Safeguarding	26	-	26
The accountable body role	3	-	3
Transfer of services to the strategic partner	-	60	60
Transport	5	-	5
Working with partners	-	45	45
Total chargeable days available	106	374	480

Risk management and corporate governance

- 6.3 We will continue our on-going involvement and support to the development of risk management and good governance across the council.
- 6.4 It is possible that a new scheme of delegation to officers will be proposed during the year to support the council's new ways of working. It is unlikely that it will be implemented in time for an audit review to be appropriate during the year but we will work with management as necessary as this new scheme is developed. We will also follow up our prior years' work on members' allowances and staff declarations of interest and of offers of gifts and hospitality.
- 6.5 In conjunction with our counter fraud work we will review and map the council's capacity to respond to allegations of fraud or other misconduct (including allegations relating to non-financial matters).

Asset management

- 6.6 The council controls a considerable number and value of assets, and we propose to assess and test the way in which inventories of ICT assets, property and vehicles are accounted for and controlled across key areas of the council, including detailed compliance testing within individual service areas.

Customer Service Centre

- 6.7 The Customer Service Centre is fundamental to the way in which a growing number of the council's services are provided, and is increasingly integral to a number of diverse operational systems, for example emergency social care, street lighting and NOW cards. It has been transformed in recent years, as services, staff and budgets have been transferred under its management, and as it has relocated from one location to two.

- 6.8 Early in 2011/12 it will transfer into the strategic partnership and discussions with the director of customer access indicate that audit plans will need to be flexible, but it is likely that work will be beneficial to assess the controls over at least one of the services now managed within the Customer Service Centre. For example there will be significant reputational risk associated with the introduction of the council's new telephony system, and we will also follow up the work undertaken in 2010/11 on the Acorn customer relationship management system.

Information governance

- 6.9 We will follow up the work we completed in 2010/11 on the overall governance arrangements relating to information management, and intend to build upon this work firstly by assessing the extent to which the action plan agreed by management has been implemented. We then intend to assess how the requirements of the information governance framework are being implemented, by reviewing the directorates' information risk registers and testing compliance with policy and procedures for key risks areas, and we will undertake additional work with the directorates to understand controls over the way that data is shared with our partners.

Integration of services

- 6.10 We undertook work during 2010/11 on the ways that LCCG and the Environment Directorate are beginning to more closely integrate their services into a 'one team' approach. We intend to continue this as the process of redesigning services on a combined basis continues.

Legislative compliance

- 6.11 As a major employer of staff pursuing a wide variety of activities with implications that are addressed by a range of legislation, the council must ensure that it is fully aware of changes and additions to this legislation. We will follow up our work on the council's compliance with the European Working Time Directive and related Regulations in British law, but will also consider the controls in place by which the council identifies new legislation applicable to the council's services, and ensures that all services comply as appropriate.

Transfer of services to the strategic partner

- 6.12 Discussions are on-going with the county treasurer and the director of special projects to ensure that appropriate audit input is available as services transfer to the council's strategic partner but it is not yet clear what input will be required during 2011/12. We have allocated time for on-going support to the project and to facilitate whatever assurance may be required in relation to the services transferring into the partnership.

Working with partners

- 6.13 We plan to consider how a sample of services and systems operate that rely on cross-organisational working with, for example, the NHS, Police, and Probation Service. This work will be focussed on the Directorates for Adult and Community Services and Children and Young People.

Other follow-up work

- 6.14 We will not undertake additional work on all of the areas we audited last year, but will follow up our findings and assess whether management's action plans have been implemented in relation to:
- The health and safety of staff (particularly in relation to lone workers, and specific health and safety issues arising within catering and engineering services);
 - The health and safety of the public (specifically petroleum safety, and the council's responsibilities in relation to highways safety);
 - The reablement service;
 - Safeguarding controls (relating to Criminal Record Bureau checks, the Safeguarding Board, transportation arrangements, the work of the Children and Young People's compliance team, vulnerable adults and their finances);
 - Transportation charges; and
 - The council's role as accountable body.

7. Controls over service-specific risks

Adult and Community Services Directorate

- 7.1 We will continue to focus on the directorate's drive to deliver positive outcomes for service users in an innovative, efficient and effective manner within increasingly constrained resources. Given the difficult budget position, the directorate is seeking to work differently and supporting a clear policy of prevention, early intervention and personalisation. We propose to provide assurance over a number of initiatives already underway within the directorate to achieve these objectives.
- 7.2 We intend to build upon the work we have undertaken over the last two years to review the arrangements to introduce self directed support. In particular the

development of ISSIS to facilitate the individual budget process and the operation of the resource allocation model.

- 7.3 We also propose to review the effectiveness of the newly introduced Intake Teams in screening service users appropriately and referring them to support services either within the directorate or provided by external agencies.
- 7.4 In December 2010 the council opened public consultation about the future of adult social care in light of the budget savings which must be made. As part of this process raising the 'fair access to care services' criteria currently used by the council forms a key element of the proposals and we will review the effectiveness of any potential changes to these criteria.
- 7.5 Additional areas we propose to review include the preferred provider payment scheme and the adequacy and effectiveness of the partnership arrangements in place with the NHS for mental health service provision. We also intend to extend our previous work on domiciliary services and day care services to provide assurance that financial and operational procedures are being adhered to and, where appropriate, that regulatory requirements are being met.

Directorate for Children and Young People

- 7.6 A number of budget reductions have been announced by the directorate for 2011/12 onwards. One proposal involves reducing the number of children's residential homes from 15 to 10, and reducing the overnight break services, and the Residential Services team is currently undergoing a restructure to ensure that the remaining service is delivered effectively. We therefore plan to review the control environment operated by the central Residential Services team and by individual homes. We will also act as a critical friend to challenge areas of the greatest expenditure, and have allocated additional time to assist the directorate's management with similar value for money audits where appropriate.
- 7.7 During 2010/11 we have performed audit of agency placements and special educational needs transport charges both of which will contribute to the directorate's budget savings. We will follow-up the agreed action plan agreed by management and will continue to provide advice and support to management.
- 7.8 The Early Years team are developing a new commissioning agreement for the county's Children's Centres, which will cover a three year period commencing on 1 April 2011. We will review the monitoring arrangements in place over all Children's Centres and in particular those Children's Centres operated by third parties.
- 7.9 In previous years the directorate has made a significant number of grant payments to third parties. During our work in 2010/11 we identified some control weaknesses surrounding such grant payments and, whilst the number of grants is expected to drop dramatically in 2011/12, we will audit payments made to third parties to ensure that these have been processed and approved correctly. We will also review the controls in place to ensure that the council is receiving the services that the payments are intended to provide.
- 7.10 Our audit plan includes a review of how the council monitors both the quality of education provided by the county's schools and their financial position. Our

audit will review the processes in place to ensure failing schools are identified and the appropriate support is provided.

Environment Directorate

- 7.11 As the waste PFI project moves towards full service commencement, risks around the quality of data being received from the contractor must be properly managed by the council as part of robust contract management. Various senior managers who were closely involved have moved to other posts or will be leaving the council shortly and will no longer be closely involved with the project. We intend to examine ongoing contract management arrangements, and in particular data quality management and use of the payment mechanism.
- 7.12 From April 2011 the administration of concessionary travel will move to upper-tier authorities and the county council will be wholly responsible for the scheme directly receiving government funding within its general formula grant as part of the local government settlement. We will review the new arrangements to assess their fitness for purpose.
- 7.13 Arising from previous concerns in this area, we will undertake a review of the system for dealing with street-works notices issued to utility companies in respect of their work on the public highway (with specific reference to the risk of bribery). In addition to reviewing the Exor computer application we intend to examine the supervisory arrangements and measures in place to protect the county council from fraud, and its staff from false allegations.
- 7.14 We continue to work with the directorate in relation to the Accrington Eco Station project and wider European Interreg programme for which the county council is the lead partner.
- 7.15 As in previous years, we will review a sample of final accounts during the year relating to significant capital schemes to provide assurance that valuation certificates have been paid correctly, and project managers have supporting evidence for the amounts paid.

Lancashire County Commercial Group

- 7.16 Our audit plan has been designed to provide assurance over the key risk areas for each of the three service groups within LCCG.
- 7.17 Within the Operational Services Group we intend to audit the key controls at each of the three Highways Area Offices. Our audit will focus on how individual jobs are managed and also how the service manages workloads.
- 7.18 During 2010/11 we identified some concerns regarding the use of sub-contractors and we therefore plan to audit this area. We will focus on the controls surrounding the selection and overall use of sub-contractors and will also ensure that the council's Standing Orders are being applied.
- 7.19 Within Care Services we have previously audited the care planning and medication processes within residential homes for the elderly. The service is about to implement new processes covering both of these areas to allow greater control and improve management information. We will review these new processes to ensure that the control environment is adequate and that the new controls have been successfully embedded.

- 7.20 During 2010/11 we performed investigations relating to catering income and in 2011/12 we will audit both the controls operated centrally by Catering Services and also the controls operated by the catering establishments. This may include some unannounced visits.
- 7.21 As in previous years we will continue to review and certify the six monthly Bus Service Operators Grant (BSOG) claims.

Schools

- 7.22 The Management Team gave 'failure in performance in schools and other educational settings' one of the highest risk scores. We have therefore included a short specific review of the way the council monitors the financial and operational performance of the county's schools. We again plan to spend 350 days overall on schools in the coming year, of which 250 days will be on new visits to schools and a further 30 days following up our prior year's work. We will also spend approximately 50 days on thematic reviews of schools, and there will be a strong linkage this year between our focus on schools and on proactive counter fraud work.
- 7.23 We will meet the Schools Sounding Board in March and will use this feedback together with discussions with directors to guide and prioritise the schools audit work. We are also awaiting the Department for Education's proposals for the replacement for the Financial Management Standard in Schools (FMSiS) which may affect the scope and approach of our audit work.

8. Corporate common controls

- 8.1 The council's work is underpinned by controls that manage the risks of its day to day operations that are operated in common across the whole organisation. These controls fall into a number of key areas: financial and ICT controls, controls over the council's estate, human resources controls, and procurement.

Financial control systems

- 8.2 Financial control is a key element of the council's overall control environment and the core financial systems under-pinning the operations of the council must therefore be considered in our risk-based audit plan. We have identified the core financial systems and agreed them with the county treasurer and the Audit Commission. They include the payroll system, accounts payable, accounts receivable, treasury management, VAT, expenses, controls over the general ledger, budgetary control and monitoring and cash and banking (which we will link to our proactive work on managing the risk of fraud).
- 8.3 We have gained a thorough understanding of these systems and have previously documented them. During 2011/12 we intend to concentrate predominantly on compliance testing the key controls, using both traditional systems-based testing and work using computer assisted audit techniques. We will ensure that our testing includes transactions relating to all of the council's services (as well as to the accountancy service's external clients).
- 8.4 Whilst the focus of our work will be more heavily weighted towards a programme of controls testing, we still intend to provide the resources to consider any new systems and system developments as they are brought into

operation. In 2011/12 this will involve particularly the move to the Oracle HR/ payroll system.

ICT systems and controls

- 8.5 In addition to the planned review of various aspects of the council's information governance arrangements, we also intend to provide assurance over the effective operation of the newly introduced acceptable use policy for internet and e-mail use. We will analyse usage of the internet and e-mail by staff to identify trends that may be indicative of poor control and management, or potential incidents of policy or legislative breaches.
- 8.6 With the transfer of ICT Services into the strategic partnership, we plan to consider areas that under-pin the operation of this service, focussing on the management of risks which potentially impact on the day to day operations of the council. The areas we propose to review this year include a review of the physical and environmental controls of the council's data centre, a review to consider the management and security applied to key databases used by the council, together with reviews of vulnerability management and the council's current incident management arrangements.
- 8.7 Further discussions with the outgoing and new interim director of ICT are required to fully scope and agree the work we will undertake this year.

Management of the council's estate

- 8.8 The assurance over the management of the council's estate this year will be provided by a combination of our cross-cutting work on asset management, which includes the council's estate, together with service specific reviews within the Property Group.
- 8.9 We propose to continue the two year plan we started last year to provide assurance over the premises management framework developed by the Property Group. This review will focus on the operation of the framework for both delegated and non-delegated budgets, specifically considering the basis on which the annual statements of compliance with corporate policy requirements will be made by the designated premises managers.
- 8.10 We will continue to review contractor's final accounts on a sample basis to provide assurance that both contractors and the staff within the Property Group are compliant with the Group's control requirements.

Human resources controls

- 8.11 During 2011/12 as the council's workforce reduces, the redeployment and voluntary redundancy processes will become increasingly important. We propose to undertake compliance testing on both of these processes to ensure there is an adequate control environment.

Procurement

- 8.12 Our work in 2010/11 raised a number of issues relating to expenditure both under contractual arrangements and expenditure not addressed by contracts. In addition, an investigation identified related control weaknesses at a highways depot. We therefore plan to examine compliance with the council's procurement

rules and wider controls to avoid improper practice, financial risk, and general inefficiency.

9. Other areas within the audit plan

9.1 An allocation of 50 days has been set aside to cover other management and tasks in support of the internal audit service to the Authority:

- Liaison with the senior management teams, chief executive and Management Team;
- Liaison with the Audit Commission; and
- Attendance, support, and reporting to the Audit Committee and Standards Committee as required.

Controls to manage the risk of fraud

9.2 In addition to our audit work, the Audit Service provides support to the council's management team in managing the risk of fraud. It has for many years provided an investigatory service to support management in responding to instances of suspected fraud or impropriety. In recent years we have undertaken more proactive work to identify and pursue indications of potentially fraudulent activity, both through the corporate systems testing referred to above, and through additional testing of other areas particularly susceptible to fraud. Three members of staff hold CIPFA's investigative practices qualification, and we have developed a programme of preventive activity, including plans for enhanced publicity across the council of its whistle-blowing procedures.

9.3 This work will account for approximately 415 days of the Audit Service's resources during 2011/12. This is a reduction on previous years' allocations and it is likely that we will take a more supportive role, working increasingly with managers across the council as they undertake investigative work themselves rather than transferring this work to the Audit Service.

9.4 Our proactive work during 2011/12 will include coordinating the council's investigations of data identified by the Audit Commission's National Fraud Initiative. Due to the nature of the data, internal audit will lead some of these investigations, whilst others can be undertaken by individual services.