

Audit Committee meeting 26 March 2012

Internal audit plan for the year 1 April 2012 to 31 March 2013

1. Summary

- 1.1 The Audit Committee is invited to consider the annual internal audit plan for Lancashire County Council for 2012/13. 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, and to support an annual opinion on the effectiveness of the systems of governance, risk management and internal control across the council.
- 1.2 The plan amounts to a total resource input to the county council of **2,800 audit days** (2011/12: 2,780 days). During 2010/11 and 2011/12 the Internal Audit Service reduced its audit input to the county council as a result of a reduction in staffing levels as part of the county council's drive to reduce its costs. The council is now clearly beginning to reduce the scale of its operations and its services are going through considerable change as a result; at this point a further reduction in audit resources is not considered appropriate.
- 1.3 Provisions have been made for sickness and unanticipated staff turnover on the basis of previous experience, and it is assumed that approximately 750 days (2011/12: 1,100 days) will also be provided to external organisations within Lancashire including the pension fund, the police authority and a number of the district councils.

2. The council's assurance requirements

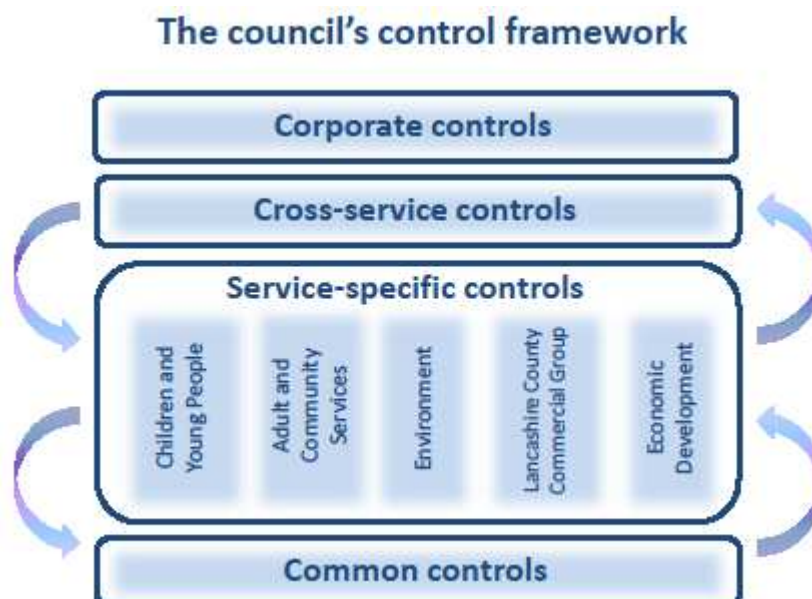
- 2.1 The council provides a wide range of services across the county and its senior management teams are aware both of the risks to achieving their service objectives and the risks inherent in their work. Each of these risks should be managed by controls designed to reduce the risk to a corporately acceptable level and which operates effectively and consistently in practice.
- 2.2 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.
- 2.3 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 Internal Audit Service may provide it, and this forms our annual audit plan.

3. The council's control framework

3.1 The plan recognises and aims to provide assurance over the following controls:

- **Corporate controls:** These controls relate to the overall governance arrangements of the county council as a whole, and are therefore largely limited to corporate governance and risk management, information governance, and the council's partnership arrangements with One Connect Ltd.
- **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. Very few risks are managed by a single corporate solution but similar controls may be implemented across a number of teams to address the same or similar risks.
- **Service-specific controls:** The controls designed to manage the risks arising from the provision of particular services and from individual service areas.
- **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 elements of the council's day to day operations that are operated in common across the whole organisation, such as financial and ICT services, and human resources.

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



4. The planning process

- 4.1 The Internal Audit Service has discussed with directors and executive directors the risks identified by Management Team and the council's senior management teams, following the county council's revised approach to risk management. 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 as these are the controls over which the council needs greatest assurance.
- 4.2 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. Where services are provided by One Connect Ltd we will provide assurance over the controls the council relies upon in the same way as if the controls were operated by the county council itself, but will agree our plan with the chief operating officer and Board of the company as well as with the county council.
- 4.3 On this basis, we have made an assessment of the assurance we need to provide to the council during 2012/13. Since audit resources are limited they must be prioritised to maximise their value in the council's now fast-changing environment. Input from Management Team has been sought specifically to ensure that we prioritise our resources most effectively.

5. The county council context

- 5.1 The Internal Audit Service must be alive to changes affecting the whole of the county council as we undertake our work. Having achieved planned savings of £73.7 million and additional savings of £10.7 million during 2011/12, the council is about to start on the second year of its three-year cost-saving programme, although the need for cost-saving is likely to continue for longer than this three-year period. It has already considerably reduced its workforce, and many of the council's services have already been affected and are being re-configured, some also being transferred between directorates. Many of the risks associated with these services are likely to have changed to some degree and it will have been necessary in many cases to re-design their corresponding control frameworks. The council requires strong assurance that its controls are adequately designed and operated effectively.

A changing corporate culture

- 5.2 The strong drive to change our organisational culture and to become an organisation more closely founded on trust is also continuing into 2012/13, and this too will fundamentally alter the way controls are designed and operated. At the same time as the number of managers is falling, it is likely that there will be a greater reliance on monitoring controls operated by managers and on detective controls, but fewer directly preventative controls.

A new strategic partnership

- 5.3 The council's strategic partnership with BT plc through One Connect Ltd is now operating and has already catalysed change in key corporate control areas – ICT, payroll, accounts payable and procurement – as well as in the way the council interacts with citizens and service users through its Customer Service Centre. The Internal Audit Service will continue to provide controls assurance over these areas in the coming year.

New IT systems

- 5.4 A new financial management system, Oracle Release 12, will be introduced at the start of the year and this new IT platform will be supported by fundamental changes to the whole range of key financial systems and processes and to the way budgets are managed across the council. This will be followed during the course of the year and subsequently by changes too to a number of operational systems. In particular, the integrated social services information system (ISSIS) operated jointly by the Directorate for Children and Young People and the Adult and Community Services Directorate will also be replaced during the course of the year with significant implications for the work of both directorates, and with significant resource requirements to support the replacement project too. Similarly, the Corporate Electronic Records Management System (CERMS) is also likely to be replaced during the year affecting information management processes across the authority.

Service reorganisation and re-structuring

- 5.5 A number of services have been subject to reorganisation and relocation within the county council's organisational structure and these changes will be consolidated and continue throughout the year. For example, following its integration into one team during 2011/12, the Highways Service was fully transferred into the Environment Directorate, and the new operational processes facilitated by this newly integrated service are still being developed. Other service teams have been relocated within the One Connect Ltd structure and are subject to similar change to working practices to realise cost efficiencies and stimulate performance improvements; examples include the Human Resources 'Ask HR' service, and ICT Services. Other similar moves will continue during the year, for example as the Procurement Centre of Excellence and Care Connect (which assesses social care cases at the first point of contact) are established.

On-going service development

- 5.6 Other service-specific developments are continuing too, for example: work within the Environment Directorate supporting the council's waste management strategy and private finance initiative; the impact of personal care budgets and fee banding within the Adult and Community Services Directorate; the council's work with families and the need to make savings associated with early intervention services in the Directorate for Children and Young People, as well as the delivery of the schools financial strategy at the same time as academies

are forming; and preparation for the council's new responsibilities in relation to public health.

6. The Internal Audit response

- 6.1 In a time of such fundamental change the Internal 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.
- 6.2 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.
- 6.3 We aim to provide integrated assurance across the whole council, recognising the relationships between 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.
- 6.4 The Internal Audit Service 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.
- 6.5 During 2011/12 the Internal Audit Service also took on responsibility for overseeing the council's risk management process. The council's revised approach to risk management makes clear that managers – rather than the Internal Audit Service – are responsible for ensuring that risk is considered as part of any new service developments or improvements, and in on-going performance monitoring. However the synergy between internal audit and risk management is clear. In taking the 'annual snapshot' for Management Team and the Audit Committee of the council's greatest current risks, and discussing this with senior management across the council, the Internal Audit Service will be well placed to ensure that the assurance we provide to the council is focussed on controls over its greatest risks.
- 6.6 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 support to management on risk management and counter fraud work.

7. Deployment of audit resources

- 7.1 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 flexible audit plan

- 7.2 The resources available to the Audit Service have been reduced over recent years but we have focussed ever more effectively on the council's risks and sought to deliver high quality advice to the council. As part of the continuous drive to secure value for money and in response to the current budget constraints, Internal Audit resources were reduced in 2011/12 and current vacancies within the team will not be filled.
- 7.3 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. 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 audit resources available.
- 7.4 We have discussed the council's key current risks and ongoing underlying risks with members of the Management Team and senior leadership team. The audit plan therefore reflects the need to provide assurance that the controls over the council's greatest risks are adequately designed and effectively operated.
- 7.5 Although the annual plan enables both managers and members to see the overall scope of internal 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, but we intend to minimise this work as far as possible. 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 and we will amend the plan throughout the year as required.
- 7.6 The planned overall deployment of audit resources on the council's controls is shown in summary on following next page. A more detailed list of each audit review planned with the council's managers at this stage is shown in the annex to this document.

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Internal audit plan for the year 1 April 2012 to 31 March 2013

CONTROLS ASSURANCE		Estimated audit days
Corporate controls		
Governance, including legislative compliance	48	73
Information governance	10	
Working in strategic partnership with One Connect Ltd	15	
Cross-service controls		
Business continuity and emergency planning	30	120
Partnership working	10	
Reablement	25	
Transition from children's to adult services	20	
Transport (accessible transport, and safeguarding)	35	
Service-specific controls		
Adult and Community Services	279	1,502
Children and Young People	314	
Environment (including grant certification)	328	
Lancashire County Commercial Group	90	
Economic development	72	
Customer Service Centre	37	
Public health	32	
Schools and sixth forms	350	
Common controls		
Financial controls	308	650
ICT controls	181	
Human resource controls	92	
Procurement controls	58	
Controls over the estate	11	
Management of the Internal Audit Service		75
Total internal audit plan		
Counter fraud and investigatory service		345
Support to management on risk management		35
Total internal audit resource for the county council		2,800

- 7.7 An allocation of 75 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 external auditor; and
 - Attendance, support, and reporting to the Audit Committee and Standards Committee as required.

Risk management

- 7.8 The Internal Audit Service is also responsible for supporting management in managing the council's risks. The council's approach to risk management was revised in January 2012 and in particular the Internal Audit Service will work during 2012/13 to revise the associated risk management guidance to managers.

Controls to manage the risk of fraud

- 7.9 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.
- 7.10 This work will account for approximately 345 days of the Audit Service's resources during 2012/13. This is a further reduction on previous years' allocations and we will again take a supportive role, working with managers across the council as they undertake investigative work themselves where possible rather than transferring this work to the Internal Audit Service.