

# Internal audit plan 2019/20

## 1. Introduction

- 1.1. This report sets out the internal audit plan for 2019/20. The Audit, Risk and Governance Committee is asked to consider and approve it under the committee's terms of reference.
- 1.2. The plan is supported by the Internal Audit Strategy for 2019/20 which sets out the relevant statutory and professional requirements, the planning principles and inputs to the process, and the audit approach employed by the Internal Audit Service.
- 1.3. The plan is also supported by a service charter, which defines the purpose, authority, scope and responsibility of internal audit activity, establishes the service's position within the organisation, and authorises access to all relevant records, personnel and physical properties.
- 1.4. The Internal Audit Service aims to achieve the core principles set out by the Chartered Institute of Internal Auditors and reiterated in Public Sector Internal Audit Standards, which are that the service:
  - Demonstrates integrity
  - Demonstrates competence and due professional care
  - Is objective and free from undue influence (independent)
  - Aligns with the strategies, objectives, and risks of the organisation
  - Is appropriately positioned and adequately resourced
  - Demonstrates quality and continuous improvement
  - Communicates effectively
  - Provides risk-based assurance
  - Is insightful, proactive, and future-focused
  - Promotes organisational improvement

## 2. The purpose of the audit plan

- 2.1. The council is responsible for a wide range of services across the county, and it is expected that the council's members and senior management 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 it to a corporately acceptable level, and which operate effectively and consistently in practice. The chief executive, Audit, Risk and Governance Committee, and ultimately the Council, need assurance that these controls are adequately designed and operating effectively. At the end of the financial year the chief executive and the leader will jointly sign an annual governance statement that is published with the council's financial statements.

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2.2. The head of internal audit is required by professional standards to provide an opinion addressing the council's frameworks of governance, risk management and control and thereby to provide assurance that the risks to the council's objectives are being adequately and effectively controlled. The Audit, Risk and Governance Committee is required by its terms of reference both to consider the head of internal audit's annual report and opinion and to review the council's annual governance statement. The committee should therefore consider and approve an internal audit plan designed to provide the assurance that the council, committee, leader and chief executive need.

2.3. Because the overall opinion covers a twelve month period, the evidence to support it must relate to the controls in operation for that period. The plan therefore chiefly addresses work for just one year, but projections may be made into audit requirements for future years. The work in any annual plan will rarely be fully complete at the end of the year but will be sufficient to inform the council's annual governance statement shortly after the year end.

### **3. Obtaining the evidence to support an overall opinion for 2019/20**

3.1. An internal audit plan designed to provide the evidence necessary to support an opinion on governance, risk management and control should arguably encompass the following:

- Coverage of the key components of each part of the opinion: aspects of the council's governance, risk management and control.
- Sufficient coverage of controls across the council's operations as a whole, so that a fair assessment may be made across the organisation.
- Coverage of the controls that serve to mitigate the council's most significant risks to an acceptable level, and particularly those that operate most widely across the council.
- Assessment of the actions being taken to develop improved controls in the areas of greatest unmitigated risk.

3.2. It will therefore be necessary as a minimum to audit aspects of the council's governance and risk management processes, as well as a range of control processes. However information will also be available from less formal sources than planned audit engagements and this will also inform the overall opinion.

3.3. A control framework applicable to the council's governance, risk management and control is shown on the following page. The internal audit plan is designed to address, proportionately, the coverage required across this controls framework for the whole organisation. It addresses each of the areas of the overall opinion, each of the areas of control set out in the control framework, and each of the major areas of service delivery. A number of individual audits address some common themes, including contract monitoring, safeguarding, health and safety, and improvement plans that may also inform a more corporate view. The plan also includes work to follow up all of the action plans agreed by managers as a result of audit work over the previous year.

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A framework for governance, risk management and control						
<b>Governance and democratic oversight</b>						
Corporate governance	Decision-making	Oversight and scrutiny	Policy setting			
<b>Business effectiveness</b>						
Risk management	Performance management	Organisational design	Financial governance and planning	Working in partnership		
<b>Service delivery</b>						
Growth, Environment & Transport		Education & Children's Services	Adult Services and Health & Wellbeing	Resources		
<b>Service support</b>						
Legal services	Skills, learning & development	Core ICT systems	Property management	Health & safety	Programme management	Customer access
<b>Business processes</b>						
Financial systems & processes		Procurement	Facilities management	Human resources		
Information management		Contract monitoring & management		Payroll processing		
Business continuity				Investment	ICT systems	

- 3.4. A detailed list of each audit in the plan is provided at Appendix B to this report, setting out how they fit into this framework. It should be noted that the plan will almost certainly be subject to some change during the year as the council's priorities alter and as the work set out here in outline is scoped in more detail. The committee will be informed of any significant changes as progress is reported during the year.
- 3.5. An ICT audit service provider was appointed in 2018 and a programme of ICT audit work began in 2018/19. The plan of ICT audit work for 2019/20 is included in the plan set out at Appendix B.
- 3.6. The county council is the administering authority for the Lancashire Pension Fund and the plan therefore incorporates the need to provide assurance over the operation of the fund. It is administered and its pooled assets are managed by Local Pensions Partnership Ltd (LPP) which has appointed Deloitte as its own internal auditor. In addition to the work being undertaken by the council's Internal Audit Service, the council may take some assurance from Deloitte's work. Although Deloitte disclaims any liability to the council and the Pension Fund for any reliance they may place on this work, the firm has agreed that its conclusions may be reported to the council's Audit, Risk and Governance Committee and Pension Fund Committee.
- 3.7. An indication of the scale of work by control area and service is also provided by the table on the following page. The type of work is shown as:
- '1' for phase one/ consultancy work
  - '2' for phase two/ compliance testing
  - '1+2' for a full risk and control evaluation
  - 'F' for follow-up work.

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Control category and service area	Number of audits by type				
	'1+2'	'1'	'2'	'F'	Total
Governance and democratic oversight	1	1	-	-	2
Finance	1	1			2
Business effectiveness	3	-	-	2	5
Strategy and Performance	1				1
Corporate Services	1				1
Finance				2	2
Pension Fund	1				1
Service delivery	36	9	5	40	90
Adult Services	13	1	1	9	24
Public Health	5	1		2	8
Patient Safety & Safeguarding	3			6	9
Corporate Parenting		1			1
Children's Social Care	6	4	4	6	20
Education & Skills	1	2		2	5
Growth, Environment and Planning	2				2
Highways and Transport	4			10	14
Waste Management & Lancashire Renewables				3	3
Finance	1			1	2
Pension Fund	1			1	2
Service support	8	3	-	4	15
Corporate Services	2			1	3
Finance	1			2	3
Public Health	1				1
Strategy and Performance	3	3		1	7
Property Services	1				1
Business processes	4	-	8	12	24
Strategy and Performance	1			3	4
Corporate Services				3	3
Finance	3		5	3	11
Pension Fund			1	2	3
BTLS			2	1	3
<b>Total</b>	<b>52</b>	<b>13</b>	<b>13</b>	<b>58</b>	<b>136</b>

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### **4. The context of the audit work for the year**

- 4.1. For the first time in some years, in 2018/19 favourable overall assurance was given on the council's frameworks of governance, risk management and control. The council's managers are themselves now content to give assurance overall that these frameworks are in place and operating effectively. Inevitably there are a number of areas that are subject to further improvement as well as additional cost-saving activity, but this is to be expected in any normal organisation. The challenges that have faced the council in recent years are now regarded as surmountable.
- 4.2. The audit plan has therefore been constructed to include potentially any area of the council's operations and any service, system or process. Full audits have been planned across each control area and each of the main service directorates.
- 4.3. Where improvement work is under way the audit team's responses, with management's agreement, range from providing input as new policies and control frameworks are developed, auditing the implementation of improvement plans, and maintaining a watching brief until plans have been implemented and the service, system or process can be audited in future.
- 4.4. Work is being undertaken by the council in particular to finalise and implement a digital strategy and a data strategy that will eventually have far-reaching impacts across its services and on its ability to monitor and manage its work. These strategies and their effects will be audited in future years rather than in 2019/20 but will be of interest as they develop. They will also facilitate changes to some of the council's basic business processes and controls, for example in relation to its human resource processes.
- 4.5. We will also, and crucially, retain a close interest in the council's financial position and the achievement of its planned savings. Whilst the Programme Office is subject to an external review we do not plan to audit it or the processes it will eventually operate to monitor and support the achievement of savings, but we will seek to understand the council's financial position throughout the year.
- 4.6. In February the Council agreed a budget for 2019/20 with a £10.245 million funding gap covered by reserves, which is significantly lower than the reserve requirement of £42 million included in the 2018/19 budget. After some years in which large gaps have been forecast between the council's resources and its projected expenditure, it is now anticipated that available reserves will be more than sufficient to support the council's expenditure until at least 2022/23. The forecast gap in funding by 2022/23 is £47.2 million and work is continuing to identify further savings which will address the structural funding gap and reduce the need for support from reserves in 2020/21, and beyond, achieving a financially sustainable position for the longer term.

### **5. The assurance we will provide**

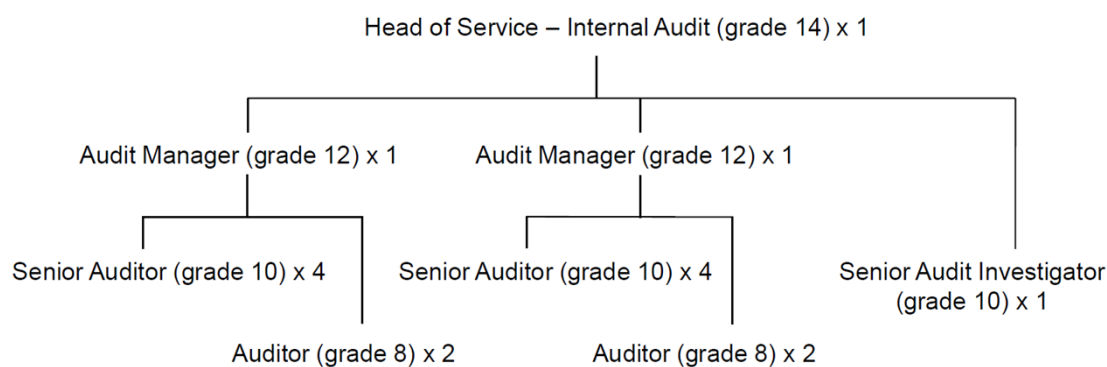
- 5.1. The assurance we will provide falls into four categories: substantial, moderate, limited and no assurance.
  - Substantial assurance: the framework of control is adequately designed and/ or effectively operated.

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- Moderate assurance: the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.
- Limited assurance: there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.
- No assurance: there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

### 6. Internal Audit Service resources

- 6.1. The plan takes account of the internal audit resources available. The service employs 16 staff in the structure set out below:



- 6.2. The Internal Audit Service also provides an out-sourced internal audit function to the Office of the Police and Crime Commissioner and Lancashire Constabulary, Lancashire Fire and Rescue Service and Rossendale Borough Council, as well as additional support to some of the other district councils. This work accounts for a little more than three full-time equivalent staff but is undertaken by individuals across the service.

### 7. Funding and grant certification work

- 7.1. The Internal Audit Service is required under the funding requirements of certain central government departments to certify certain aspects of the way funding has been spent. This provides little direct assurance to the county council but is necessary to secure elements of its funding.
- 7.2. The Ministry for Housing, Communities and Local Government requires the Internal Audit Service to test funding claims submitted by the council's Troubled Families Programme and we are working with the Children and Family Wellbeing Service to process the council's funding claims under this programme.
- 7.3. We are also aware of the need to certify funding claims in relation to capital improvements to the county's highways and various strands of economic development. However although we seek to understand what funding may be subject to such certification, new requirements occasionally emerge during the year and these will be accommodated.

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### **8. The Internal Audit Service's responsibilities in relation to fraud and investigations**

- 8.1. In addition to our audit work, the Internal Audit Service provides support to the council's management team in managing the risk of fraud. It provides a small investigatory service (one senior audit investigator) to support management in responding to instances of suspected fraud or impropriety, and also undertakes proactive work to identify and pursue indications of potentially fraudulent activity, both through corporate systems testing and through additional testing of other areas particularly susceptible to fraud.
- 8.2. There are some synergies in the skills required of both internal audit and investigations work, and the information arising around the investigation of allegations of fraud or impropriety may also indicate potential lapses in controls or of the culture of the organisation which are of interest to the Internal Audit Service.
- 8.3. 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.