Internal audit plan 2018/19

1. Introduction
   1. This report sets out the internal audit plan for 2018/19. The Audit, Risk and Governance Committee is asked to consider and approve it under the committee's terms of reference. The Internal Audit Strategy for 2018/19 sets out the principles supporting this plan.
2. The purpose of the audit plan
   1. The council is responsible for a wide range of services across the county, and its members and senior management should 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 operate effectively and consistently in practice. The chief executive, Audit, Risk and Governance Committee, and ultimately the Council, need assurance that these controls have been adequately designed and are operating effectively. At the end of the financial year the chief executive and the leader of the council will jointly sign an annual governance statement that is published with the council's financial statements.
   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 of the council need.
   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 the year's work will be sufficiently complete and reported by the time the council prepares its annual governance statement shortly after the year end.
3. Context
   1. The Council continues to face an unprecedented period of financial constraint and a significant financial gap. It has set a budget for 2018/19 that uses approximately £42 million of reserves to meet the gap between available funding and planned expenditure. In 2019/20 it is currently projected that a further £88.6 million of reserves will be used, leaving funding gaps of £98 million in 2020/21 and £144 million in 2021/22. It is critical that further savings are delivered, and these will be identified through challenges to each of the council's services over the coming months.
4. Obtaining the evidence to support an overall opinion for 2018/19
   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.
  1. 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.
  2. A control framework applicable to the council's governance, risk management and control is shown in the diagram shown below. The internal audit plan will be designed to address, proportionately, the coverage required across this controls framework to cover the whole organisation.



* 1. The proposed plan addresses each of the areas of the overall opinion the Council requires and each of the areas of control set out in the control framework, and covers each of the major areas of service delivery. Recognising that much of the council's work is undertaken by external providers, it includes audits across a number of services of the ways they monitor contracts to ensure services are delivered as intended. An ICT audit service provider will be appointed in June 2018 and a programme of ICT audit work will be developed over the summer.
  2. 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.
  3. A detailed list of each audit in the plan is provided at Appendix B to this report, setting out how the proposed work fits into the framework set out above. It should be noted that this plan will almost certainly be subject to change during the year as the council's circumstances 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.

Areas of lighter coverage, subject to controls improvement

* 1. There are a number of areas where management will continue during 2018 and 2019 to make further control improvements. The plan will therefore need to be flexible and may be amended during the year, and audit work will be intentionally lighter in its scope in the areas subject to significant ongoing improvement work. As was the case last year, a number of areas of the council are still subject to further improvement. Significant areas include:
* actions to stabilise and secure the council's financial position, including further cost-cutting measures and service reductions following a process of service challenges during the year
* children's social care, and provision for young people with special educational needs and disabilities
* adults' social care, as the service continues to reconfigure and consolidates the way it operates
* recording and managing the financial transactions associated with both children's and adult's social care, using the ContrOCC system
* the transition of service users between children's and adult's social care support services
* implementation and operation of an ICT strategy
* asset management, using still relatively new systems to manage highways and property assets.

1. The assurance we will provide
   1. The assurance we will provide falls into four categories, which have been amended slightly from those used in 2017/18 and earlier. These categories are now established as substantial, moderate, limited and no assurance.

* Substantial assurance: the framework of control is adequately designed and/ or effectively operated.
* 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.

1. Internal Audit Service resources
   1. The plan takes account of the internal audit resources available. The service employs 16 staff and a supernumerary trainee as follows:



* 1. 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 some 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.

1. Funding and grant certification work
   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.
   2. The Department for Work and Pensions 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.
   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.
2. The Internal Audit Service's responsibilities in relation to fraud and investigations
   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.
   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.
   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.