

Internal audit plan 2020/21

1. Introduction

- 1.1. This report sets out the provisional internal audit plan for 2020/21. The Audit, Risk and Governance Committee is asked to consider and approve it under the committee's terms of reference.
- 1.2. It should be noted that the plan has already been impacted by the effect on the organisation of the coronavirus pandemic. As the work for 2019/20 was completed, the auditors were withdrawn from internal audit work and were redeployed to support the council's operational response to the pandemic. As the council recovers from its initial emergency response and regains the capacity to support audit work, the internal auditors will take up their normal roles again and it has been assumed that work will continue for the rest of the year. The impact of a second wave of the virus has not been modelled, but clearly could affect this plan.
- 1.3. The plan is supported by the Internal Audit Strategy for 2020/21 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.
- 1.4. 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.
- 1.5. 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.

- 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 of audit requirements in 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 2020/21

- 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 in the diagram on the following page. The internal audit plan is normally designed to cover, proportionally, the whole of this controls framework but, this year, is focussed only on key areas of service delivery. A number of individual audits address key risks relating to

safeguarding of service users in particular. It also addresses each of the areas of the overall opinion and some work is planned to cover each type of control. It is not intended that the auditors will follow up all of the action plans agreed by managers as a result of audit work over previous years but, subject to further discussion with the council's senior managers, managers' own assessment of the action they have taken will be reported to the committee.

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

- 3.4. A detailed list of each audit in the plan is provided at Appendix B to this report, setting out how each fits into this framework and including the work that will be undertaken by the council's external ICT audit service provider. It should be noted that the plan will almost certainly be subject to some change during the year as the council's priorities alter, as the work set out here in outline is scoped in more detail, and if another wave of the coronavirus pandemic affects the council's work. The committee will be informed and consulted on any significant changes as progress is reported during the year.
- 3.5. 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.

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3.6. An indication of the scale of work by control area and service is also provided by the table below. 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

Control category and service area	Number of audits by type			
	'1'	'2'	'1+2'	Total
Governance and democratic oversight	1		4	5
Corporate Services	1		3	4
Finance			1	1
Business effectiveness	1		6	7
Strategy and Performance			3	3
Corporate Services	1		1	2
Finance			1	1
Public Health			1	1
Service delivery	4	6	22	32
Adult Services and Health & Wellbeing			6	6
Adult Services		1	5	6
Adults Disability and Care Services			2	2
Public Health			1	1
Education & Children's Services	2	1	1	4
Children's Social Care	2	4	2	8
Education & Skills			1	1
Growth, Environment and Transport			1	1
Growth, Environment and Planning			1	1
Finance			2	2
Service support	1	1	7	9
Strategy and Performance			3	3
BTLS	1	1	4	6
Business processes		4	3	7
Finance		4	3	7
Total	7	11	43	60

4. The context of the audit work for the year

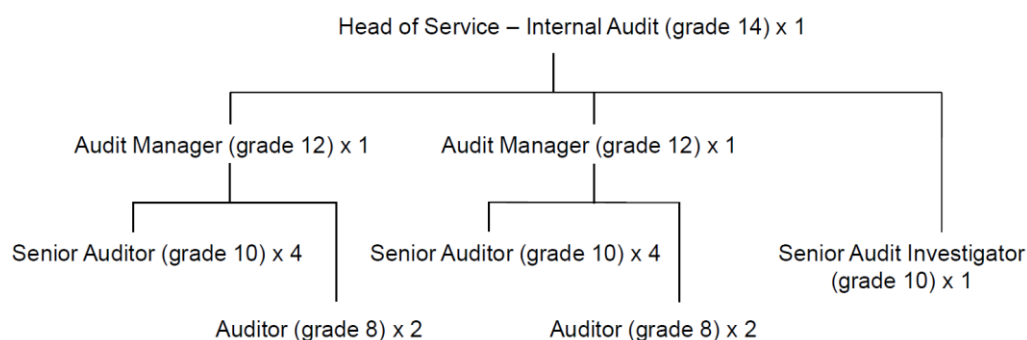
- 4.1. The single most influential factor on the year's work will be the coronavirus pandemic and the council's response to it. This has necessitated wide-ranging changes to many of the council's services, systems and processes, and to the way staff operate. It has also meant that internal audit work has been suspended for the first quarter and possibly for most of the first half of the year, and therefore that fewer than normal internal audit resources are available for the current year.
- 4.2. It is not yet clear at what point the council's key services, and the staff supporting its key systems and processes, will have the capacity to be audited. In the meantime, most of the internal auditors have been redeployed to support other services.
- 4.3. However favourable overall assurance was given in both 2018/19 and 2019/20 on the council's frameworks of governance, risk management and control. The council's Corporate Management Team and Senior Leadership Team is now fully staffed and, other than normal turnover, all posts are filled on a permanent basis. The organisation has been well-placed to respond with resilience to the pandemic, and flexibly as the situation developed.
- 4.4. As may be expected in any normal, ambitious organisation a number of service areas are still subject to ongoing improvement as well as additional cost-saving activity. The council as a whole has now also embarked on an 'improvement journey' that will continue despite its ongoing activity to respond to and recover from the pandemic. The capacity to continue this corporate development has recently been increased by the appointment of a director of organisational development and change.
- 4.5. Work is also being undertaken by the council in particular to implement a digital strategy and a data strategy that will eventually have far-reaching impacts across services and on the council's ability to monitor and manage its work. These strategies and their effects will be audited in future years rather than in 2020/21 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.
- 4.6. The work set out in this plan is therefore designed to respond to the challenges the council has faced in responding to the pandemic that began during March 2020 and is likely to continue for much of the coming year, as well as to the council's underlying business as usual. It addresses some of the specific risks and controls arising as a consequence of the emergency, whilst also covering key controls within the council's services, systems and processes as they continue, with varying degrees of disruption.
- 4.7. Possibly the single biggest risk to the council as the immediate disruption of the pandemic passes is its financial position. Although central government departments have provided a number of tranches of additional funding, this is less than the projected cost to the council of supporting the response in 2020/21 and there is significant uncertainty regarding both the impact of the pandemic on the cost of services in future years and on future funding settlements. We will seek to understand the council's financial position, and its plans once again to stabilise this and to address the structural funding gap and the need for support from reserves in the long 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.
 - 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. It has been assumed that six staff will begin audit work again from the end of August 2020 and that the rest will start again from the end of September 2020. However if the organisation regains the capacity to be audited sooner than this, the staff will return more quickly.
- 6.3. 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 will be required by these organisation and will account for approximately three full-time equivalent staff, being undertaken by individuals across the service.

7. Funding and grant certification work

- 7.1. The Internal Audit Service is required by certain central government departments to certify aspects of the way funding has been spent. This provides little direct assurance to the county council but is necessary.
- 7.2. The Ministry for Housing, Communities and Local Government requires the Internal Audit Service to test funding claims submitted by the Troubled

Families Programme and we continue to working with the Children and Family Wellbeing Service to process the council's funding claims.

- 7.3. We are aware of the need to certify other funding claims but, although we seek to understand what funding may be subject to such certification, new requirements may emerge during the year and these will be accommodated.

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 for internal audit and investigations work, and information arising from the investigation of allegations of fraud or impropriety may also indicate potential lapses in controls or of the culture of the organisation. 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.