Audit and Governance Committee meeting 24 June 2013

Internal audit plan for the year 1 April 2013 to 31 March 2014

1.   Summary

1.1   The Audit and Governance Committee is invited to consider the outline annual internal audit plan for Lancashire County Council for 2013/14. The planned internal audit work will 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 support an annual opinion on the effectiveness of the systems of governance, risk management and internal control across the council.

1.2   The Internal Audit Service plans to provide a total resource input to the county council of approximately **2,670 audit days**, including an allocation of 400 days for investigations (2011/12: 2,800 days). It is anticipated that approximately 700 days (2012/13: 750 days) will also be provided to external organisations within Lancashire including the pension fund, the Police and Crime Commissioner and a number of the district councils. However it is possible that internal audit resources may be further reduced during the year to meet the council's revised spending targets.

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 and Governance 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 will form our annual audit plan.

3.   The council's control framework

3.1   The Internal Audit Service groups controls under the following categories, and aims to provide assurance over each:

- 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.

The council's control framework

4. The planning process

4.1 The Internal Audit Service has discussed with directors and executive directors the risks they have identified both corporately and for their own service areas. 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   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   Internal Audit Service resources are focussed effectively on the council's risks and directed to deliver high quality advice to the council. The level of resources arguably supports the delivery of a service consistent with professional practice and 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, which may alter during the course of the year. The plan is flexible and it individual assignments may be added to it, and will be removed from it over time.

4.4   Although the annual plan enables both managers and elected members to see the overall scope of internal audit work, work is on-going throughout the year. In particular at the end of 2012/13 a number of audit reviews were still in progress and some time has been spent on completing them, and further time will be spent on audits deferred from 2012/13 where that work is still appropriate. We continually reassess our resources against the council's priorities and we will amend the plan throughout the year as required.

4.5   The work currently planned requires more audit resources than are likely to be available as there is no contingency built in for staff sickness or turnover. However recent experience has been that the council's assurance requirements, and management teams' capacity to support the audit process, mean that elements of the plan will have to be re-prioritised or temporarily deferred. The audit plan will therefore be continually reviewed during the course of the year.

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.

5.2   In particular, following elections in May 2013 a new administration and a new Audit and Governance Committee have been formed.

5.3   Other aspects of the county council's operational environment remain very similar to those set out in March 2012: cost savings, service re-organisation and re-structuring and system re-design as well as on-going service developments.

5.4   From 1 April 2013 the council has taken responsibility for public health in Lancashire, with its considerable associated resources and on-going operational activities, as well the need to absorb these into the council's management structure.

5.5   The need for the council to make significant cost savings is continuing into the third year of its three-year financial strategy and beyond. The reduction in the council's workforce is also continuing, affecting many of the council's services and resulting in their reconfiguration and, in some cases, their transfer between directorates. Many of the risks associated with these services have changed to some degree and their corresponding control frameworks are being or have been re-designed. 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.

5.6   The new financial management system, Oracle Release 12, has now been introduced although additional modules of the system are still being implemented, and a number of operational systems are also changing. 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 be replaced during 2013/14 with significant implications for the work of both directorates, and with significant resource requirements to support the replacement project too.

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 will build 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 planned overall deployment of audit resources on the council's controls is shown in summary on following page. A more detailed list of each audit review planned with the council's managers at this stage, and the proportion of audit resources to be spent on each area of control is shown in the annex to this document.

CONTROLS ASSURANCE	Estimated audit days	
Corporate controls		
Risk management	20	
Corporate governance	115	165 (6%)
Information governance	30	
Cross-service controls		
Business continuity and emergency planning	25	
Schools' capital programme	30	95 (4%)
Reablement provision and commissioning	40	
Common controls		
Financial controls	375	
Human resource controls	40	642 (42%)
ICT controls	177	
Procurement controls	50	
Service-specific controls		
Adult and Community Services	274	
Benefits Service	90	
Customer Service Centre	30	
Public health	70	
Children and Young People	253	1,334 (50%)
Schools and sixth forms	250	
Environment	237	
Corporate Property Group	3	
Economic development	36	
Lancashire County Commercial Group	87	
Management of the Internal Audit Service		38
Total internal audit plan		
Counter fraud and investigatory service		400 (15%)
Total internal audit resource for the county council		2,670

Types of audit work

6.5 To enable members to understand why particular audit assignments have been included in the plan, a brief note is provided against each assignment in Annex A.

6.6 The Internal Audit Service continues to follow our risk-based audit methodology, using a risk and control evaluation-based approach ('RACE-based') combined with compliance testing of key controls, computer assisted audit techniques ('CAATs') and follow-up work.

- Where assurance is required over a control system as a priority for the year, but may not have been provided previously, for example because the system is new or has been recently changed, we will undertake a 'RACE-based review'.

- Where we have previously provided limited or no assurance over a control system, we will generally re-review this area as a 'RACE-based re-review'.

- Where we have previously provided substantial assurance and management has agreed an action plan, we will 'follow up the agreed action plan'.

- Where we plan to provide assurance over control systems that remain largely unchanged but are fundamental to the council's overall control we will undertake compliance testing.

- Although we may use CAATs to support any of these areas of work, we will also plan to interrogate databases or use CAATs specifically to provide assurance over certain areas.

- We also plan to support management where new control systems are being implemented and may provide 'critical friend audit/ advice'.

- The council receives funding from external bodies (generally central government departments) on condition that internal audit provides a report that funding has been appropriately used, or certain conditions have been met. In these cases we undertake a 'grant certification audit'.

Controls to manage the risk of fraud

6.7 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 corporate systems testing and through additional testing of other areas particularly susceptible to fraud.

6.8 Our audit plan will integrate our assurance work (specifically our compliance testing) with our proactive counter fraud testing, particularly in areas susceptible to fraud and misappropriation of assets.

Risk management

6.9 The Internal Audit Service is also responsible for supporting management in managing the council's risks. In particular the Internal Audit Service will work during 2013/14 to revise the associated risk management guidance to managers.

6.10 The council's 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 and 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.