

Strategic internal audit plan: 2015/16, 2016/17 and beyond

1. This paper explains the work the Internal Audit Service plans to undertake during 2016 and 2017. The work set out here will be subject to amendment as its scope is developed with managers to reflect changes across the council as further decisions are made about the future shape of the organisation and the services it provides. It therefore addresses the audit years 2015/16 and 2016/17, and recognises that some planned audit work may extend beyond this.
2. Although its services are facing further significant reconfiguration and some will cease, the council continues to provide a wide range of services across the county. Senior managers will be aware both of the risks to achieving their service objectives and the risks inherent in their work, and each of these risks should be managed by controls designed to reduce the risk to a corporately acceptable level. However, as was reported to the Audit and Governance Committee in September 2015, the organisation's operating structure will change again and its redesigned control frameworks will therefore also change. The chief executive, leader, Audit and Governance Committee, and ultimately the Council, need assurance that these controls have been adequately designed and are operating effectively in practice.
3. Using the principles and the documents set out below, the outline of an audit plan for 2016 and 2017 has been drafted, although the resources available to the service have not been finalised and this must shape the work that can be undertaken in practice. Management Team has agreed the principles and outline of this plan, but further input from directors and heads of service will also be necessary to shape it in more detail, to guide what is actually achievable and to identify management sponsorship. Input is now sought from the Audit and Governance Committee.
4. The Audit and Governance Committee's terms of reference require it to: monitor the operation of the council's corporate governance, risk management and internal control arrangements; review and approve the council's annual governance statement; and approve, but not direct, the annual internal audit plan. The committee's views on this plan will therefore be welcome.

Definition of internal auditing

5. "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
6. "The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control."

*The Institute of Internal Auditors, and
Public Sector Internal Audit Standards, 2013*

Relevant regulations

7. Internal audit: "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance." *Regulation 5. (1)*
8. Review of internal control system: "A relevant authority must, each financial year (a) conduct a review of the effectiveness of the system of internal control ... and (b) prepare an annual governance statement." *Regulation 6. (1)*

Accounts and Audit Regulations 2015

Internal audit work during 2015/16

9. In the context of the significant challenges currently facing the council, the Audit and Governance Committee and Management Team have previously agreed that the Internal Audit Service will not complete a full programme of work to support an overall opinion on the council's framework of governance, risk management and control for 2015/16. It was agreed that the Internal Audit Service would instead provide assurance only over the council's main financial systems as set out below, and support the Finance Service's work on key projects. This approach will enable no overall assurance to be given by the Internal Audit Service on the council's governance, risk management and control processes. However management's own assessment and the work of external regulators will inform the council's review of the effectiveness of its system of internal control and the annual governance statement that will be published in June 2016.
10. The Internal Audit Service will not complete a risk-based programme of work to support an overall opinion on the council's framework of governance, risk management and control for 2015/16 but will focus its assurance work solely on the council's centrally managed key financial systems:
 - The general financial ledger;
 - Cash and banking;
 - Accounts payable system;
 - Accounts receivable and debt management system;
 - Payroll;
 - Treasury management; and
 - VAT.
11. Work on the central accounts payable and payroll systems is almost complete, and work on treasury management, the general ledger and VAT system has begun; cash and banking will be reviewed once these audits are complete. Work on the accounts receivable and debt management system will start towards the financial year end and will continue into 2016/17.

Internal audit work during 2016/17

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

- Coverage of the key components of each part of the opinion. So it will be necessary to audit:
 - Governance;
 - Risk management; and
 - Control.
- Sufficient coverage of 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.
- Coverage of the controls that operate most broadly to mitigate the council's most significant risks in the greatest number of individual instances.
- Assessment of the actions being taken to develop improved controls in the areas of greatest unmitigated risk: those logged on the risk register.
- Follow-up of the actions agreed by management to mitigate risks identified through the audit process.

13. The Internal Audit Service will also work with managers to analyse other areas of risk recorded on the risk register and develop additional action plans to address these. Whilst such work will inform the overall opinion, it will not be necessary to support the opinion, which could be formed without it.

14. Because the overall opinion covers a twelve month financial period, the evidence to support it must therefore relate to the controls in operation for that period. However the plan will be directed in the light of prior knowledge and earlier years' audit results, as well as follow-up work in the current year.

15. Where it is known that assurance will be provided to the council by another body (for example the Care Quality Commission or Ofsted), the Internal Audit Service will not duplicate work in that area but will take it into account if it is relevant to the overall opinion on governance, risk management and control.

16. A programme of work for 2016 and 2017 is set out in the table at the end of this document.

Other potential areas for audit work during 2016, 2017 and beyond

17. As has been noted above, further work will be necessary to scope the audit work in this plan, and the resources available to the Internal Audit Service have not yet been finalised. There are also a number of areas where management is intending to make control improvements during 2016 and 2017, and where assurance may be helpful as these improvements are made. The plan set out below will therefore need to be flexible and may be amended during the year, but any significant

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amendments will be shared with the Audit and Governance Committee for its consideration.

18. The following areas may be added to the plan during 2016 and 2017, or could be considered for inclusion in following years' plans, subject to both audit resources and management teams' assurances that control improvements have been made:

- Revised corporate performance monitoring following implementation of a new approach from April 2017;
- Revised quality assurance systems for both adults' and children's social care case management;
- Alignment of children's and adults' social care, and the transition of care users between them;
- Compliance with revised operating policies arising from both the Care Act and in relation to children with special educational needs and disabilities;
- Initial triage and resolution of social care cases by the Customer Access Service;
- Provision of public health advice to the county's clinical commissioning groups;
- The implementation and operation of the council's ICT new strategy;
- Processing payments to suppliers of social services through Controcc, the finance module of Liquidlogic's social care software;
- Delivery of the capital programme by services across the Programmes and Project Management, Corporate Commissioning and Community Services teams;
- Highways asset management following the implementation of software provided by Symology;
- Property asset management following the implementation of software provided by Technology Forge;
- Property programme and project management supported by the implementation of Cora Project Vision software;
- The operation of Oracle Financial's project and costing modules;
- The waste management company service, following amendment to its governance arrangements and organisational structure.

Key documents

The council's corporate risk register

19. A corporate risk register has been drafted but the process supporting it is still being developed to ensure that it is robust and sustainable, and to ensure that the register is an adequate reflection of the organisation's most significant risks being addressed at a given point in time. In due course this will serve as an

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active log of the most significant matters requiring management attention because the risks recorded are deemed not to be sufficiently mitigated and not yet under effective control.

20. It is relevant to the audit plan in recording areas where the Internal Audit Service should assess the adequacy and effectiveness of the actions proposed to mitigate the council's most significant risks, and the progress being made in their implementation.

A log of the council's mitigated risks

21. Where risks have been mitigated, or are believed to have been so, they may not be recorded in the risk register and must be identified through other means, in particular through a sound understanding of the organisation and its operations. Where management understands controls to be in place over significant risks, particularly those over the greatest risks or operating in a large number of individual instances, the Internal Audit Service should provide assurance that these controls are indeed adequately designed and operating effectively.
22. A document is being developed within the Internal Audit Service that will seek to record significant areas of governance, risk and control across the council. This will log the matters that may never be identified as problems by any management team because they are deemed to be under adequate and effective control, and are therefore unlikely to appear in any risk register. It will therefore complement the risk registers prepared by the council's management teams. It will though, require input from management teams to ensure that it properly captures, at least in overview, the risks and controls across the council's normal business. The Internal Audit Service will update this on an on-going basis, and at least annually as part of its audit planning process.
23. This will never completely capture every possible risk and control, but is a means to assess the areas that could be included in the audit plan when read alongside the council's risk register.

The council's annual governance statement

24. In addition to setting out a definition of internal auditing, Public Sector Internal Audit Standards require the head of internal audit to "deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement." The annual governance statement will also be informed by other sources including management's own assurances regarding governance, risk management and control. Where the senior management team is aware that controls require strengthening and is working to achieve that improvement, additional assurance from the Internal Audit Service may not be helpful, but the annual governance statement will reflect management's own assurances. It is on this basis that internal audit work for 2015/16 has been restricted to the key financial systems.

The council's framework for governance, risk management and control

25. In light of the council's revised organisational structure and new corporate strategy, it is appropriate to reconsider the framework within which this work is set. A provisional framework is proposed below:

A framework for governance, risk management and control
Governance and democratic oversight corporate governance framework, democratic processes
Business effectiveness risk management, performance monitoring, organisational design working with other organisations
Service delivery children's, adult's, community, public health & wellbeing services, corporate commissioning, economic development, emergency planning
Service support programmes & project management, design & construction, communications, business systems, customer access
Business processes financial processes, investment, payroll, human resources, ICT, procurement, business continuity, health & safety

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The work set out below is intended to obtain the evidence required to provide assurance over the council's key financial systems for 2015/16 and to draw an overall opinion for 2016/17, although it is likely that some elements of the work set out below will continue into 2017/18. Individual elements within the plan may be amended but, taken as a whole, the resulting plan should address the principles set out above.

Service area	Operational area of activity	Audit work	Planning principle
Governance and democratic oversight			
Corporate governance framework	Documentation of the council's governance arrangements	Review of the ownership, completeness and currency of documentation the council is required to hold, publicise and periodically review setting out its governance arrangements.	Key component of opinion
	Effective oversight of corporate governance by the Audit and Governance Committee	Assessment of the constitution and operation of the Audit and Governance Committee against professional guidance and current best practice.	Key component of opinion
Business effectiveness			
Risk management	Preparation and use of the corporate risk register	Assessment of the principles and practical operation of risk management arrangements to produce a corporate risk register and respond to the issues it records.	Key component of opinion
Financial governance	Delivery of the council's financial strategy and budget reductions	Risk and control assessment of the measures in place to monitor and achieve planned budget reductions.	Controls to mitigate a significant risk
	Oversight of the Lancashire Pension Fund	Assessment of the governance framework to achieve corporate oversight by the council of the Fund, whose assets are owned by the council.	Controls to mitigate a significant risk
	Acting as accountable body for funding	Evaluation of the controls that manage the risks in taking on the role of accountable body, taking a sample of the most significant funding streams.	Coverage of controls across the organisation
Performance monitoring	Corporate performance monitoring	Support to management in establishing a revised framework for monitoring and managing achievement of the council's key strategies.	Support to management to improve controls

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Service area	Operational area of activity	Audit work	Planning principle
Service delivery			
Children's services	Escalation of matters of strategic or political importance through to the Operations and Delivery management team and beyond if appropriate	Compliance testing of the escalation as appropriate of issues arising within individual caseloads or social care teams. This work could be replicated in other service areas but will be piloted here first.	Controls to mitigate a significant risk, and supporting work relating to risk management
	Identification of, and responses to, external feedback on children's services and schools	Assessment of the potential sources of feedback and operational services' responses to these including escalation of the information to senior management.	Controls to mitigate a significant risk
	Data held on LCS (Lancashire Children's Services system provided by Liquidlogic)	Compliance testing of the completeness and accuracy of the data records held on LCS.	Controls to mitigate a significant risk
	Oversight of schools' financial management	Risk and control evaluation of the arrangements to oversee schools' financial management.	Coverage of controls across the organisation
Adults' services	Data held on LAS (Lancashire Adult Services system provided by Liquidlogic)	Compliance testing of the completeness and accuracy of the data records held on LAS.	Controls to mitigate a significant risk
	Case management: supervision and support to front-line social workers to ensure safeguarding of service users	Risk and control evaluation of supervision and support arrangements under the new team management arrangements, with full compliance testing.	Controls to mitigate significant risks in a number of individual instances
	Case management: assignment of officers to cases	Risk and control evaluation of assignment of cases and workloads, with compliance testing following implementation of new team working arrangements.	Controls to mitigate significant risks in a number of individual instances
	Case management: timely completion of action to statutory and advisory deadlines	Compliance testing of the timeliness of case management action against the deadlines set in legislation and the council's policies.	Controls to mitigate significant risks in a number of individual instances
	Delegation of responsibilities to accredited social workers.	Compliance testing of the accreditations awarded to social workers to facilitate their taking on enhanced responsibilities for case management decisions.	Coverage of controls across the organisation

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Service area	Operational area of activity	Audit work	Planning principle
Public health & wellbeing services	Commissioning and oversight of commissioned public health service provision	Risk and control evaluation of joint working with the NHS and voluntary sector to provide services within Lancashire.	Coverage of controls across the organisation
	Operation of the Health and Wellbeing Board	Assessment of the constitution and operation of the Board against professional guidance, local requirements and current best practice,	Coverage of controls across the organisation
with Corporate commissioning	Operation of the Better Care Fund	including assessment of the governance arrangements for the council's use of the Better Care Fund.	Coverage of controls across the organisation
Corporate commissioning	Commissioning, design and monitoring of the capital programme	Risk and control evaluation of the revised procedures to oversee the whole capital programme, including elements managed by the council for the Lancashire Economic Partnership.	Controls to mitigate a significant risk
	Provision of school places	Risk and control evaluation of the allocation of school places.	Coverage of controls across the organisation
	Operation of the Premises Compliance Team in strategic premises management	Assessment of risk and controls in relation to the council's property assets.	Coverage of controls across the organisation
Economic development	Lancashire Economic Partnership: governance and accountability	Assessment of the constitution and operation of the Partnership against guidance and local requirements, to ensure the success of the partnership and the effective use of its individual funding streams (Lancashire Enterprise Zone, City Deal, Boost Business Lancashire, Growing Places Fund, Growth Deal Programme).	Controls to mitigate a significant risk
		Establish and assess the assurance framework for the programme, including assurance available from other areas of audit work and any work by other organisations.	Maximising the value of audit work in other control areas
Emergency planning	Adequacy of the plans in place to address emergencies and civil contingencies	Risk and control evaluation of the adequacy of emergency planning, including involvement of appropriate partners and adequacy of testing.	Controls to mitigate a significant risk

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Service area	Operational area of activity	Audit work	Planning principle
Pension fund administration	Administration of the fund to serve its members	Risk and control evaluation, with annual compliance testing, whilst the council has no other source of assurance over this.	Controls to mitigate significant risks in a number of individual instances
	Accounting for the fund	Risk and control evaluation, with annual compliance testing, whilst the council has no other source of assurance over this.	Controls to mitigate a significant risk
	Fund investment management	Assessment with management of the assurance framework and available assurance over the Fund's investments.	Controls to mitigate a significant risk
Service support			
Business systems	Monitoring of the contract with BTLS	Risk and control evaluation of contract monitoring, with compliance testing.	Coverage of controls across the organisation
Business processes			
Financial processes	Treasury management	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk
	Oracle general ledger	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk
	Accounts receivable and debt management: central controls	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk
	Accounts receivable and debt management: feeder system controls	Risk and control evaluation of the controls in place, with annual compliance testing of a sample of feeder systems.	Controls to mitigate a significant risk
	Cash and banking: central controls including checks over completeness and compliance in other locations	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk
	Oversight of payroll payments	Risk and control evaluation of the council's monitoring and oversight of BTLS's processes, with annual compliance testing.	Controls to mitigate a significant risk

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Service area	Operational area of activity	Audit work	Planning principle
	Payroll payments processed by BTLS	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk
	Accounts payable: central controls	Risk and control evaluation of the controls in place, with annual compliance testing.	Controls to mitigate a significant risk
	VAT	Risk and control evaluation of the controls in place, with periodic compliance testing.	Coverage of controls across the organisation
Investment	Implementation of the treasury management strategy, including refinancing the council's debt	Compliance testing of operational policies and procedures, and work with management to understand the nature of the representations being given to lenders and credit rating agencies.	Controls to mitigate a significant risk
	Compliance with borrowing limits and any other restrictions on investment	Evaluation of the in-service compliance programme and management's responses to its findings.	Controls to mitigate a significant risk
Procurement	Central procurement: compliance with legislation, financial regulations and standing orders	Risk and control evaluation with annual compliance testing.	Controls to mitigate a significant risk
Payroll processing	Effectiveness of inputs to the system: the inputs required and how they are processed	Risk and control evaluation focussed on system inputs.	Controls to mitigate significant risks in a number of individual instances
	Processing of payments by BTLS, using information supplied by LCC	Risk and control evaluation, with annual compliance testing.	Controls to mitigate significant risks in a number of individual instances
Human resources (and finance)	Amendments to the council's establishment: completeness, accuracy and currency of records	Risk and control evaluation to ensure that the staff establishment, hierarchies and budgets are aligned, with full compliance testing.	Controls to mitigate a significant risk
ICT	General IT controls	External advice is required, and discussions with BTLS, to properly assess the ICT audit work that is appropriate and achievable.	Controls to mitigate significant risks
	IT security and continuity planning		
	Application controls including the new identity management system		

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Service area	Operational area of activity	Audit work	Planning principle
All	Completion of agreed action plans	Follow-up of work initiated during 2016/17. Action plans agreed in respect of earlier audit periods will not be pursued.	Follow-up as required by professional standards
Various funding streams	Various: predominantly relating to funding for the former Environment Directorate, plus the Working Together with Families Programme	Work must be undertaken to meet EU and central government departments' grant funding requirements where funding is given on condition that the Internal Audit Service provides assurance to these bodies that their funding has been spent as intended.	Requirement to comply with funding terms