

# AUDIT COMMITTEE

## Internal Audit Strategy and Risk Based Plan 18 June 2014

### Report of Internal Audit Manager

#### PURPOSE OF REPORT

To seek the Committee's approval for a proposed three-year Internal Audit Strategic Plan and Annual Operational Plan for 2014/15

**This report is public**

#### RECOMMENDATIONS

1. That the Internal Audit Strategy and Risk Based Plan for 2014/15 is approved.
2. That the action taken by the Internal Audit Manager, in consultation with the Audit Committee Chairman, to arrange the provision of 50 days of internal audit service to the Lake District National Park Authority, is endorsed.

#### 1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *"To approve Internal Audit strategic plans and the Annual Internal Audit Plan"* (the Constitution, part 3 section 8, TOR 11).
- 1.2 Proper practices for Internal Audit in local government<sup>1</sup> specify that *"The chief audit executive (the Internal Audit Manager) must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."*
- 1.3 The standards also specify that *"The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities."*

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<sup>1</sup> Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN) (CIPFA 2013)

## **2.0 Proposal Details**

### **Internal Audit Strategy**

- 2.1 The requirements of the new standards are less prescriptive than previously in relation to the need for a strategic plan. In accordance with the new standards, rather than having a separate strategic plan, a strategy statement has been incorporated in the Risk Based Internal Audit Plan, which is attached to this report as Appendix A.
- 2.2 There is an ongoing strategic theme for internal audit to support the council's change programme by contributing to the implementation of new service structures and the conduct of service reviews.
- 2.3 As the organisation responds to the continuing financial pressures it is experiencing and new structures, systems and working practices are introduced, there is an ongoing need to ensure that standards of governance, internal control and conduct in the organisation are maintained. Internal Audit's strategy is both to promote these standards and to provide independent assurance on the effectiveness of arrangements.

### **Risk Based Internal Audit Plan 2014/15**

- 2.4 The draft Risk Based Internal Audit Plan (section 2 of Appendix A) has been developed along similar lines to recent years and retains the following features:
- being explicit about which elements of work are intended to provide assurance to support the overall annual opinion on the internal control environment;
  - being explicit about the resources to be devoted to other "consultancy" work aimed at helping the Council's ongoing improvement programme; and
  - providing for a rolling programme of audit work to be operated within the plan which will provide a suitable level of flexibility and responsiveness to changes in the risk environment, and any emerging demands for internal audit assurance work.
- 2.5 The annual plan for 2014/15 is based on estimated available resources of 690 days, this being delivered by the in-house team of 3.81 FTE staff. The Internal Audit Manager's role as Deputy Section 151 Officer has been estimated as requiring 10 days. This gives a net allocation to audit activity of 680 days.
- 2.6 As with established practice, the Internal Audit Manager continues to consult with Chief Officers, the statutory officers, service managers and Management Team generally to inform and develop the detailed programme. As indicated in the strategy statement, it is anticipated that the scope and objectives of audit work during the year will once again be greatly influenced by the financial pressures affecting the council. In recognition of this, the draft plan incorporates an allocation of 50 days to support corporate service reviews (a feature introduced to the audit plan during 2013/14). In all categories of work, the plan will be managed flexibly to ensure that audit effort is targeted as effectively as possible.
- 2.7 The draft plan also includes 50 days relating to the provision of an Internal Audit service to the Lake District National Park Authority (LDNPA). This arrangement has built on the provision of ad-hoc audits to the Authority in the past two years and the provision of an extended service for 2014/15 has been discussed with the Audit Committee Chairman. The Committee is asked to endorse the action taken by the Internal Audit Manager, in consultation with the Chairman, to make these arrangements.

2.8 As more detailed programmes of work are developed, these will be publicised both to Members of the Audit Committee and to Chief Officers and senior managers as well as the plan being formally reported to and monitored by each meeting of the Audit Committee.

### **3.0 Details of Consultation**

3.1 No specific consultation has been undertaken in compiling this report. Management Team, the statutory officers and senior managers are being consulted in detail in the preparation of Internal Audit's detailed work programme for 2014/15. The Audit Committee Chairman has been consulted in negotiating the provision of an internal audit service to the LDNPA for 2014/15.

### **4.0 Options and Options Analysis (including risk assessment)**

4.1 The proposal is that the Committee approves the Risk Based Internal Audit Plan for 2014/15. Members are invited to comment on the proposed plan, but no specific alternative options are identified.

4.2 Members are asked to endorse the action taken to arrange the provision of internal audit services to the LDNPA. This arrangement will generate income of £14k to offset the net cost of providing the Council's internal audit service.

### **5.0 Conclusion**

5.1 Audit strategy and planning are key elements in the provision of an effective internal audit service. The proposed risk-based plan seeks to maintain a firm platform for the ongoing effectiveness and improvement of the Council's internal audit service.

#### **CONCLUSION OF IMPACT ASSESSMENT**

**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

This report has no direct impact on these areas.

#### **FINANCIAL IMPLICATIONS**

The 2014/15 net budget for the Internal Audit service is £190,700. Arrangements to provide an internal audit service of 50 days to the LDNPA will generate income of £14,000 to offset against the budgeted net cost.

#### **SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer has been consulted and has no further comments

#### **LEGAL IMPLICATIONS**

None arising from this report

#### **MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

#### **BACKGROUND PAPERS**

**Contact Officer:** Derek Whiteway  
**Telephone:** 01524 582028  
**E-mail:** [dwhiteway@lancaster.gov.uk](mailto:dwhiteway@lancaster.gov.uk)  
**Ref:** aud/ctte/aud/140618/IAPlans