



**LANCASTER
CITY COUNCIL**

Promoting City, Coast & Countryside

**LANCASTER CITY COUNCIL
INTERNAL AUDIT
BUSINESS AND STRATEGIC PLAN
2008/09 TO 2010/11**

SUBMITTED TO AUDIT COMMITTEE 25/06/08

PREPARED BY THE INTERNAL AUDIT MANAGER

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Revision History

Date of this revision:

Revision Date	Summary of Changes	Version
May 2008	Initial Draft	0.01
13 June 2008	Second Draft – Considered by Management Team	0.02

Distribution

Name	Title

Approvals

Name	Date Approved	Link to Approval Minutes	Version

Draft

Introduction

This Strategy fulfils the requirement in Standard 7 of the 2006 CIPFA Code of Practice¹ to have an audit strategy. The strategy is the high level statement of how the Internal Audit service will be delivered and developed in accordance with its approved terms of reference (Audit Charter) and how it links to the Council's organisational objectives and priorities.

The Strategy is designed to complement and dovetail with the wider Financial Services' Business Plan which forms the basis for Service level monitoring and reporting on performance.

The Strategy sets out the short and medium term objectives of the Internal Audit function and describes how internal audit will be organised and managed in order to meet those objectives and make an effective contribution to the Organisation.

Service Purpose

To help improve, and provide independent assurance as to, the effectiveness of the Council's operations.

Strategic Aims & Objectives

- ◆ To continue to develop the scope and robustness of Internal Audit's assurance work.
- ◆ To support the Council achieving value for money in service delivery.
- ◆ To contribute to improving standards of internal control and governance within the authority and its key partnerships.
- ◆ To meet and exceed existing and emerging professional standards

¹ Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006

Situational and Risk Analysis

Services provided				
	2007/08 Plan		2010/11 Target	
Work Area	Days	%	Days	%
Assurance work, covering:				
o Core Financial systems	100	11.9	100	11.5
o Core Management arrangements	120	14.3	125	14.4
o Core Operational systems, including ICT systems (now covered under other headings)	70	8.3	-	-
o Other systems, projects and management arrangements (based on quarterly review of risk and the assurance framework)	200	23.8	250	28.7
o Follow-up work	70	8.3	45	5.2
Sub-Total, Assurance Work	560	66.6	520	59.8
Ad-hoc advice	60	7.2	60	6.9
Support (general and project support)	65	7.7	45	5.2
Efficiency & VFM	30	3.6	100	11.5
Investigations contingency	35	4.2	35	4.0
Planning & Monitoring	45	5.4	60	6.9
Non-audit duties	5	0.6	10	1.1
General contingency	40	4.7	40	4.6
Totals	840	100.0	870	100.0

Customers and Stakeholders

- The Audit Committee
- Chief Financial (s151) Officer
- Chief Executive
- Corporate Directors, Service Heads and Service Managers
- Council
- The Executive Function (Cabinet)
- The Overview & Scrutiny Function (Review Boards)
- The External Auditor (KPMG)
- Other Review Agencies (e.g. BV Inspectorate, Benefit Fraud Inspectorate, Audit Commission)

Internal Audit Opinion

Internal Audit opinion will be formed through:

- Continued development of the Council's Internal Control and Corporate Governance (IC&CG) Framework.
- Identification of other potential sources of assurance in the coming periods
- Liaison with other assurance providers, especially the Council's external auditors in planning assurance activity
- Clear identification of the extent and objectives of assurance work in operational audit plans and in individual assignments
- Adopting a clear and consistent approach to providing an assurance opinion in each individual audit report, these being combined to inform a clear and evidence-based annual internal control opinion.
- Assurance work planned on the basis of existing/updated and new risk assessments as necessary, structured consultation with Directors and Service Heads, plus outstanding/ongoing areas of concern as identified in previous reviews of the IC&CG framework

Opinion work will seek to cover the full range of internal control and corporate governance considerations. The scope of Internal Audit plans will include all significant systems, these being covered on a risk-basis. Annual Plans will provide for regular coverage of key core systems, which will include:

- Financial (Creditors, Debtors, Payroll, Council Tax, Non-Domestic Rates, Housing Rents, Treasury Management)
- Corporate (performance management, risk management, HR management, information management, communications, emergency & business continuity planning, etc)

Identifying and accommodating significant local and national issues

Emerging local and national issues that might warrant Internal Audit attention will primarily be identified by Internal Audit's contributing to the development, updating and monitoring of the Assurance Framework and corporate Risk Registers and through consultation with Directors and Service Heads. This will seek to ensure that significant risks are adequately identified, assessed and evaluated in terms of the level of assurance deemed necessary and already available, and will involve:

- Tracking corporate policy/priority developments and the decisions taken by the authority's decision-making bodies (Council, Cabinet and the various statutory and regulatory committees)
- Regular consultation with Service managers and the Corporate Management Team
- Regular liaison with other review bodies, especially the Council's external auditor
- Liaison with/considering the approach and work programmes of other internal review bodies, for example Overview & Scrutiny
- Close working relationship with the corporate risk management function to identify significant emerging/developing risks
- Maintaining a professional focus and taking advantage of opportunities for professional updates/development, including CPD where appropriate.

In line with the above, annual Internal Audit Plans will provide for a programme of work to be developed on a rolling basis to reflect significant risks and assurance needs identified through the review of the Assurance Framework.

Internal Audit coverage of such issues may involve any one, or a combination of the following:

- A specific piece of Internal Audit assurance work
- Efficiency/VfM or Support work directed at improving existing arrangements
- Contributing to corporate groups/projects (officer and/or Member based) established to consider the approach to such issues

Resources		
In-House team (4.81 fte), consisting of:	SCP	Days provided per annum (2008/09 to 2010/11)
Internal Audit Manager	44-47	160
Principal Auditor	38-41	180
Senior Auditor x2	14-34*	380
Assistant Auditor (0.81 fte)	14-34*	150
Sub-Total		870
Bought-in resources – to be reviewed during 2008/09		-
Total resources		870

Performance Measurement and Management

The service operates to the CIPFA Code of Practice for Internal Audit (2006) which is established as “proper practice” by the Accounts & Audit Regulations.

All aspects of the service are assessed directly by the Council’s external auditors as part of a three-yearly detailed review based on the Code of Practice. The most recent review was undertaken during the 2005/06 audit and reported to Audit Committee on 20 September 2006. A similar review is to be undertaken in June 2008 by the Council’s newly appointed auditors, KPMG for the 2007/08 audit year.

During years when a detailed review is not scheduled, the external auditor undertakes an overview of Internal Audit and comments on the extent to which he is able to rely on Internal Audit’s work. This will be supplemented by an internal self-assessment against the Code of Practice or alternatively through peer review by arrangement with another District Council.

Additionally, the effectiveness of Internal Audit and particularly its relationship with the Council’s Audit Committee is reviewed in the annual “Use of Resources” Key Line of Enquiry (KLOE) regarding Internal Control.

To monitor performance against key service objectives and the standards established in the Code of Practice, performance indicators have been developed as set out in the detailed Business Plan

Training and Development

An Internal Audit Competency Framework is in place, which sets out the knowledge, skills and behaviour expected of the various positions within the section. As well as ensuring ongoing review of performance and development, the framework, in tandem with job descriptions, informs the established Employee Development and Performance Appraisal process.

Any shortages of particular skills to accommodate specific pieces of audit work are addressed in considering the source and nature of bought-in resources.

In any work arrangement involving other parties, any opportunities for joint working and skills transference (both ways) to take place will be considered.

Internal Audit’s training plan is incorporated in Financial Service’s full training plan for 2008/09. In total, the service has been allocated £9,100 for training in 2008/09.

Future Development and Risk Analysis (To be focused on a three year horizon)

Development Areas

- Further review and development of the assurance framework leading to improved and better evidenced provision of assurance from internal audit work and other assurance sources.
- Use of Resources and Comprehensive Area Assessment (CAA) – contributing to an annual improvement in the Council’s Use of Resources assessment and the Council’s contribution to Comprehensive Area Assessments.
- Increased focus on efficiency, VfM and business improvement. Need to clarify the nature and scope of Internal Audit staff involvement and establish clearly the boundaries between proactive work and the independent assurance function
- Continuing and increasing focus on the governance and performance of the Council’s main partnerships, connected with the introduction of the CAA.
- Staffing considerations – continuing to review service delivery options and the scope for collaboration with other organisations and service providers. Continue to develop performance measurement and management within the service.

Risks	Mitigation options
<ul style="list-style-type: none"> ▪ Requirement to cover responsive work (investigations, etc) affects ability to deliver planned work. 	<ul style="list-style-type: none"> ▪ Consider alternative approaches to resourcing responsive work ▪ Review potential uses of existing consultancy budget.
<ul style="list-style-type: none"> ▪ Too great an involvement in corporate development areas could undermine IA’s independence and devalue the assurance function. 	<ul style="list-style-type: none"> ▪ IA plans to more clearly set out the boundaries of assurance and corporate “support” work. ▪ Nature and scope of IA involvement in proactive work to be clearly defined.
<ul style="list-style-type: none"> ▪ Lack of status/profile within the organisation, hindering the ability to make a meaningful and effective contribution. 	<ul style="list-style-type: none"> ▪ IA Manager to consult more widely and actively in developing and implementing IA plans.
<ul style="list-style-type: none"> ▪ Lack of skills to undertake specific pieces of work. 	<ul style="list-style-type: none"> ▪ Continuing development of staff in line with the adopted competency framework and EDPA process. ▪ Further evaluation of alternative service delivery options, including collaboration with other LA’s and services provided by consultancy bodies.
<ul style="list-style-type: none"> ▪ Loss of reputation/standing through an inability to demonstrate standards of performance. 	<ul style="list-style-type: none"> ▪ Further development of a clear performance management framework, emanating from the IA Strategy, including a manageable range of meaningful performance indicators ▪ Comparison with other providers through benchmarking activities, market testing of particular service elements, and through ongoing professional updates ▪ Revised customer feedback arrangements

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2008/09

SERVICE OBJECTIVE	To continue to develop the scope and robustness of Internal Audit’s assurance work.				Major Risk Issues to Register?	No
CORPORATE PRIORITY	To deliver cost effective services that provide value for money.					
Objectives	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications	
To continue to develop the reporting of assurance opinions to Audit Committee	Quarterly reporting to audit committee of audit assurance opinions	35 – 45 reports and assurance opinions reported to Audit Committee		Internal Audit Manager		
	Annual Internal Audit Assurance Statement based on combined results of audit assurance work	Annual report submitted to Audit Committee in June 2009			Covered by existing plan provision for audit planning & monitoring	
	Consolidate the level of resources devoted to assurance work	520 audit days planned 2008/09	Review and develop annual plan approach involving rolling programme of audit assignments		520 audit days out of total available budget of 870 (60%) to be devoted to assurance work.	
			Definition of the nature and scope of IA involvement in proactive work.			
Quarterly updates of assurance opinions issued in audit reports	Quarterly updates to Audit Committee and Performance Management Group		Covered by existing plan provision for audit planning & monitoring			

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2008/09

SERVICE OBJECTIVE	To support the Council achieving for value for money in service delivery.				Major Risk Issues to Register?	Yes
CORPORATE PRIORITY	To deliver cost effective services that provide value for money.					
Objectives	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications	
To contribute to achievement of the Council's Annual Efficiency Targets	Financial KPI NI 179 Value for money – total net value of on-going cash-releasing VFM gains	£1.046M cashable savings achieved in 2008/09	Contribute to development and implementation of Council's strategy for achieving VFM targets.	Internal Audit Manager	Covered by budget for Efficiency & VfM.	
Improving the Council's Use of Resources judgement, particularly in the area of Value For Money	Improved Use of Resources judgement	Via Use of Resources judgements	Internal Audit self-assessment against the Use of Resources criteria for Internal Control	Internal Audit Manager	Covered by budget for Efficiency & VfM and/or Support Work	
			Definition of the nature and scope of IA involvement in proactive work.			

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2008/09

SERVICE OBJECTIVE	To support the Council achieving for value for money in service delivery.			Major Risk Issues to Register?	Yes
CORPORATE PRIORITY	To deliver cost effective services that provide value for money.				
Objectives	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications
To provide support and consultancy services that meet the Council's needs and demands.	Budget for consultancy work allocated and employed effectively	Demand for support & consultancy work identified through consultation with Service Heads and Management Team and clearly programmed. Monitoring of activity and budgets via Audit Committee	Consultation with Service Heads and Management Team. Contributing to the development of the Council's Efficiency/Vfm Strategy	Internal Audit Manager	Budget for Efficiency/VfM and for Support work. Monitoring covered by budget for audit management (planning & monitoring)
	Results/outcomes of involvement evaluated and reported	Reporting to Audit Committee both during and after completion of assignment			

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2008/09

SERVICE OBJECTIVE	To contribute to improving standards of internal control and governance within the authority and its key partnerships.				Major Risk Issues to Register?	No
CORPORATE PRIORITY	To deliver cost effective services that provide value for money.					
Objectives	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications	
Continued improvement in standards of Internal Control	Consolidation or improvement in Use of Resources judgements for 2008/09 financial years	Through Use of Resources judgements by external audit	Development and implementation of a clear Assurance Framework covering significant risks	Internal Audit Manager	Covered by budget for Support Work and Audit Management	
	Improved Annual Governance Statement for 2008/09	Comparison of Annual Governance Statements	Development of the Governance Framework used to produce the Statement. Obtaining assurance statements/evaluations of the Council's key partnerships			
Improved standards of internal control and governance in key partnerships	Assurance opinions on arrangements relating to a number of key partnerships	Via publication of audit reports.	Tracking of implementation of Partnership Development & Evaluation Toolkit.		Covered by budget for Core Management Arrangements and/or Efficiency/VfM	
Contribute to ongoing corporate development of the Council's performance management framework.	Escendency updated and being used from PRT Quarter 1 2008/09	Through Financial Services PRT meetings and supporting arrangements, and quarterly reporting to Audit Committee.	Appraise integration of risk management within Escendency		Covered by budget for Support Work	

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2008/09

SERVICE OBJECTIVE	To contribute to improving standards of internal control and governance within the authority and its key partnerships.				Major Risk Issues to Register?	No
CORPORATE PRIORITY	To deliver cost effective services that provide value for money.					
Objectives	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications	
To improve the effectiveness of the Council's risk management arrangements in service planning and delivery.	Risk Registers in place Annual update of the Risk Management Policy and Strategy Other targets to be considered in relation to performance management framework developments	Through Financial Services PRT meetings and supporting arrangements and quarterly reporting to Audit Committee	Appraise integration of risk management within Escendency See Risk & Insurance Manager's action plan.	Internal Audit Manager (in liaison with Risk & Insurance Manager)	Covered by budget for Support Work	

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2008/09

SERVICE OBJECTIVE	To meet and exceed existing and emerging professional standards				Major Risk Issues to Register?	No
CORPORATE PRIORITY	To deliver cost effective services that provide value for money.					
Objectives	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications	
To improve Internal Audit's standards in relation to the established Code of Practice and in relation to other internal audit establishments and external providers	Improved and positive external audit assessment of Internal Audit	External Audit assessment of Internal Audit due as part of 2008/09 audit Self-assessment or peer review thereafter Covered by annual internal audit report to Audit Committee	Implementation of the Internal Audit Strategy Implementation of any actions arising from the 2007/08 external audit review of Internal Audit Development of a clear performance management framework, including a manageable range of meaningful PIs Ongoing comparison and benchmarking with Lancashire Districts internal audit services Review of customer feedback arrangements.	Internal Audit Manager	Covered by budget for Audit Management	
To improve individuals' capabilities and standards as auditors	Evidence of developing skills and experience throughout the section	Development assessed and reviewed via EDPA process	Review of supervisory roles and of assignment review process (as set out in the Internal Audit Competency Framework) as a contribution to EDPA	Internal Audit Manager	Covered by budget for Audit Management	