



**LANCASTER
CITY COUNCIL**

Promoting City, Coast & Countryside

**LANCASTER CITY COUNCIL
INTERNAL AUDIT
BUSINESS AND STRATEGIC PLAN**

2009/10 TO 2011/12

SUBMITTED TO AUDIT COMMITTEE 30/06/09

PREPARED BY THE INTERNAL AUDIT MANAGER

May 2009

Revision History

Date of this revision:

| Revision Date | Summary of Changes | Version |
|---------------|--------------------|---------|
| May 2009 | Initial Draft | 0.01 |
| | | |

Distribution

| Name | Title |
|------|-------|
| | |
| | |

Approvals

| Name | Date Approved | Link to Approval Minutes | Version |
|------|---------------|--------------------------|---------|
| | | | |
| | | | |

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

- Provide the Council with independent assurance regarding the effectiveness of its systems of Governance and Internal Control
- Support the Council's improvement programme
- Help the Council secure and demonstrate value for money throughout its activities

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 | | | | |
|-----------------------------------------------------------------------------------------------------------------------|--------------|-------------|------------------------------|---------------------|
| | 2008/09 Plan | | 2009/10 to 2011/12 | |
| Work Area | Plan Days | Actual Days | 2009/10 Plan Days (see note) | 2011/12 Target Days |
| Assurance work, covering: | | | | |
| o Core Financial systems | 100 | 28 | 90 | 100 |
| o Core Management arrangements | 125 | 127 | 75 | 115 |
| o Other systems, projects and management arrangements (based on quarterly review of risk and the assurance framework) | 250 | 284 | 225 | 265 |
| o Follow-up work | 45 | 67 | 50 | 50 |
| Sub-Total, Assurance Work | 520 | 506 | 440 | 530 |
| Ad-hoc advice | 60 | 62 | 60 | 60 |
| Support (general and project support) | 45 | 84 | 45 | 45 |
| Efficiency & VFM | 100 | 0 | 50 | 100 |
| Investigations contingency | 35 | 76 | 125 | 35 |
| Planning & Monitoring | 60 | 77 | 60 | 60 |
| Non-audit duties | 10 | 89 | 60 | 10 |
| General contingency | 40 | 0 | 40 | 40 |
| Totals | 870 | 894 | 880 | 880 |

Note: The allocation of planned days for 2009/10 is distorted by a) an ongoing investigation requiring significant resources and b) the Internal Audit Manager's ongoing involvement in the Fair Pay Project, reflected in "Non-audit duties".

| Customers and Stakeholders |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> ➤ 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 and coordinating 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)

The work of Internal Audit in reviewing key financial and managerial systems and controls plays a major part in the Council's annual review of its governance arrangements. The Internal Audit Manager, in a management group including the Section 151 Officer, Monitoring Officer and the Corporate Director (Finance & Performance), takes a leading role in the coordination of the annual governance review, which results in the drafting of the annual Governance Statement.

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, reviewing the Corporate Plan and individual Service Business Plans 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
- Consideration of the Corporate Risk Register
- 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 | Planned days provided 2009/10 (note 1) | Target days provided 2011/12 |
| Internal Audit Manager | 44-47 | 167 | 169 |
| Principal Auditor | 38-41 | 184 | 184 |
| Senior Auditor x2 | 14-34 | 374 | 377 |
| Assistant Auditor (0.81 fte) | 14-34 | 145 | 150 |
| Bought in resources (note 2) | | 0 | 0 |
| Total resources | | 870 | 880 |

Notes

1. The number of planned days to be provided in 2009/10 is affected by the Internal Audit Manager and one Senior Auditor having carried forward unused annual leave entitlement as at 31st March 2009 (7 days).
2. There are no standing arrangements or plans to buy in additional internal audit resources; this position will be reviewed during the year in the context of demands for audit work and the Service's budget for consultancy services.

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 2007/08 audit and is due to be reported to Audit Committee on 30 June 2009.

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 considered in the annual “Use of Resources” Key Line of Enquiry (KLOE) regarding Internal Control.

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 2009/10. In total, the service has been allocated £9,400 for training in 2009/10.

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

Development Areas

- Need to consider and address the potential impact of the recession, regarding:
 - The robustness of financial systems;
 - The increased potential for fraud and corruption;
 - The requirements to achieve efficiencies and savings.
- 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 Assessment.
- Contributing to the work of the newly formed Programmes and External Funding Team
- Increased focus on efficiency, VfM and business improvement. To play a leading role in a review of the Council's Value for Money strategy and corporate efficiency arrangements.
- Continuing focus on the governance and performance of the Council's main partnerships, connected with corporate priorities and the CAA.

| 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"> ➤ Internal Audit Manager's role as Deputy s151 Officer and involvement in operational matters (e.g. the Fair Pay Project) could cause a conflict of interest. | <ul style="list-style-type: none"> ➤ Where there is call for internal audit review and opinion on any area in which the Internal Audit Manager has fulfilled an operational role, this will be managed and reported by the Principal Auditor. |
| <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"> ➤ Nature and scope of IA involvement in key areas of proactive work to be clearly defined and agreed. |
| <ul style="list-style-type: none"> ➤ Lack of skills to undertake specific pieces of work. ➤ Potential staff retention issues resulting from Fair Pay. | <ul style="list-style-type: none"> ➤ Continuing development of staff through the EDPA process. Review of the competency framework. ➤ Review of IA's positioning and service delivery. ➤ Active management of staff development issues. |

Internal Audit Business Plan 2009/2010

Service Purpose:

To provide the Council with independent assurance regarding the effectiveness of its systems of Governance and Internal Control

To support the Council's improvement programme

To help the Council secure and demonstrate value for money throughout its activities

| Link to Corporate Improvement | Service Actions | Performance Indicators | Business Risk | Mitigation | Lead Officer |
|------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| Value for Money strategy and efficiency programmes | <p>To review the Council's VfM Strategy and research and recommend development as appropriate</p> <p>To provide assurance on the effectiveness of the Council's procedures and on its delivery of annual efficiency targets</p> | <p>Production of an Internal Audit report and recommendations for improvement by September 2009</p> <p>Included in above.</p> | | | Internal Audit Manager |
| Working in partnership | Lead on the roll-out of the approved partnership evaluation framework and toolkit | Completion of work programme for 2009/10 (covering 8 major partnerships) | Lack of resources corporately to support development / management of partnerships could create additional calls on IA time. | Clarify and agree nature and scope of IA staff involvement / contribution. | Principal Auditor |
| Development of corporate project and programme management and the use/management of external funding | <p>To contribute to the development of the Programmes and External Funding Team</p> <p>To provide independent assurance on the effectiveness of management of key programmes and projects</p> | Production of Internal Audit reports as appropriate | Demands on IA time may become too onerous and divert resources from other work programmes. | Clarify and agree nature and scope of IA involvement / contribution. | Principal Auditor |
| Performance management and risk management | <p>Contribute to ongoing corporate development of the Council's performance management framework.</p> <p>Appraise integration of risk management within Escendency.</p> | <p>Escendency updated and being used from PRT Qtr 1 2009/10</p> <p>Through Financial Services PRT meetings and supporting arrangements.</p> | | | <p>Lead Officers for Service– Internal Audit Manager</p> <p>(Mgmt Team, Corporate Strategy. but also all other services.)</p> |
| | To support and promote the development and implementation of the Council's Risk Management Strategy. | <p>Annual update of Risk Management Policy and Strategy documents</p> <p>Other targets to be considered in view of performance mgmt framework developments, insurance impact, and Use of Resources.</p> | | | <p>Lead Officers Internal Audit Manager / Risk & Insurance Manager</p> <p>(Internal Audit & Risk Mgmt Steering Group)</p> |
| High standards of Corporate Governance (CG) and Internal Control (IC). | Undertake audit work sufficient to provide assurance as to the effectiveness of arrangements to deliver high standards of CG | Assurance statement provided by Internal Audit for 2008/09 year, and action plan agreed as appropriate. | IA resources diverted away from assurance work on to responsive tasks, e.g. investigations | Consider availability of consultancy budget and other ways of resourcing responsive work. | Internal Audit Manager / Head of Financial Services |
| | Undertake audit work sufficient to provide assurance that appropriate and robust internal financial controls are in place. | <p>Individual reports on financial systems.</p> <p>Annual Internal Audit assurance statement</p> | | | |
| | To promote and provide assurance on the standards of CG, in support of the Council's requirement to produce an Annual Governance Statement | Positive assurance report and annual governance statement reported to Committee June 2009. | | | |

| Link to Corporate Improvement | Service Actions | Performance Indicators | Business Risk | Mitigation | Lead Officer |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| Member and Committee development | To improve the governance and internal control knowledge and skills of Members, particularly those on the Audit Committee | <p>Training in governance and internal control to be provided to/accessible by Members.</p> <p>No. of courses in Member Development Plan delivered / positive feedback.</p> | Low take-up of training opportunities | <p>Consider building training activities into the scheduled Audit Committee agendas.</p> <p>Development of working relationship with the Audit Committee Chair</p> <p>Provide committee members with a briefing on their role.</p> <p>Seek elected members' views on training.</p> | Internal Audit Manager |
| | Develop the Audit Committee's role in seeking assurance on matters of CG and IC | Establishment of a work programme for the Audit Committee and/or evidence of members being proactive in relation to their assurance responsibilities. | Limited time available for members to take a proactive role. | Consider alternatives to providing information in a formal setting. | Internal Audit Manager |
| HR Management | Contribute to improving staff attendance (reducing sickness absence) and increasing productivity (chargeability) levels | <p>No. days lost per staff member</p> <p>Sickness target - average 10 days for 2009/10 (actual 2008/09 was 2.2 days)</p> <p>Chargeability target 2009/10 – 87% (actual 2008/09 was 85.8%)</p> | <p>Lack of skills to undertake specific pieces of work.</p> <p>Potential staff retention issues resulting from Fair Pay.</p> | <p>Continuing development of staff through the EDPA process. Review of the competency framework.</p> <p>Review of IA's positioning and service delivery.</p> <p>Active management of staff development issues.</p> | Internal Audit Manager |