



**LANCASTER
CITY COUNCIL**

Promoting City, Coast & Countryside

LANCASTER CITY COUNCIL INTERNAL AUDIT STRATEGIC & BUSINESS PLAN

2010/11 TO 2012/13

PRESENTED TO AUDIT COMMITTEE 30/06/10

PREPARED BY THE INTERNAL AUDIT MANAGER

June 2010

Revision History

Date of this revision:

Revision Date	Summary of Changes	Version
June 2010	Initial Draft	0.01

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

- 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 support the Council in the implementation of its change and improvement programme and provide assurance on the effectiveness of new arrangements
- To support the Council in identifying efficiencies and 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 continue to develop the scope, robustness and effectiveness of Internal Audit's assurance and support work.

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

Situational and Risk Analysis

Services provided				
	2009/10 Plan		2010/11 to 2012/13	
Work Area	Plan Days	Actual Days	2010/11 Plan Days (see note)	2012/13 Target Days
Assurance work, covering:				
o Core Financial systems	90	85	90	90
o Core Management arrangements	75	56	150	100
o Other systems, projects and management arrangements (based on quarterly review of risk and the assurance framework)	225	164	135	260
o Follow-up work	50	91	70	60
Sub-Total, Assurance Work	440	396	445	510
Ad-hoc advice	60	66	65	65
Support (general and project support)	45	87	100	75
Efficiency & VFM	50	8	50	50
Investigations contingency	125	240	60	75
Planning & Monitoring	60	70	70	60
Non-audit duties	60	30	15	15
General contingency	40	0	40	40
Totals	880	897	845	890

Note: The total plan days for 2010/11 reflects the impact of a turnover vacancy in the Principal Auditor post from 01/06/2010.

The allocation of planned days for 2010/11 reflects the short/medium term objective of actively supporting the Council in the implementation of its change and improvement programme and to provide assurance on the effectiveness of new arrangements. This is specifically expressed in the increased allocations to “Core Management Arrangements” and to “Support” work.

As new structures and arrangements become established, the strategy is to gradually reduce support work and again raise the allocation of audit resources to independent assurance work.

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 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 through 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 approach 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 the efficiency of existing procedures and/or standards of governance and control
- 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:	Grade	Planned days provided 2010/11	Target days provided 2012/13
Internal Audit Manager	G8	175	175
Principal Auditor	G5	140	185
Senior Auditor x2	G4	380	380
Assistant Auditor (0.81 fte)	G3	150	150
Bought in resources (note 2)		0	0
Total resources		845	890

Notes

1. The plan days for the Principal Auditor in 2010/11 reflects the impact of a turnover vacancy in the post from 01/06/2010
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 was 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.

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 2010/11. In total, the service has been allocated £9,500 for training in 2010/11.

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

Development Areas

- Need to consider and address the potential impact of reduced financial resources on:
 - The robustness of financial systems;
 - The increased potential for fraud and corruption;
 - The requirements to achieve efficiencies and savings.
- Development of capacity and skills to be able to actively support the council's efficiency programme.
- 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.
- 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.

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"> ➤ Reviewing with the Head of HR the approach to disciplinary investigations, including 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 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 on by the Principal Auditor.

Risks	Mitigation options
<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.

Draft

Internal Audit Business Plan 2010/11

Service Purpose:

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To support the Council's improvement programme

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Link to Corporate Improvement	Service Actions	Performance Indicators	Business Risk	Mitigation	Lead Officer
Implementation of the councils' service restructuring.	Support implementation by providing ad-hoc advice, support and guidance to managers in areas including: <ul style="list-style-type: none"> ➤ Governance ➤ Risk management ➤ Financial control 	Number of days delivered in supporting services and managers.	Reduction in resources devoted to core audit programme could undermine value of assurance provided.	Regular review and monitoring through Audit Committee.	Internal Audit Manager
Efficiency programme and Value for Money strategy.	To contribute to delivering efficiencies through audit activity.	Number of specific pieces of audit work undertaken with the objective of identifying efficiencies. Inclusion of efficiency conclusions in other audit reports.	Capacity and skills required to undertake specific efficiency reviews.	Formally consider training and development needs in efficiency auditing and other associated skills	Internal Audit Manager
	To review the Council's VfM Strategy and research and recommend development as appropriate To provide assurance on the effectiveness of the Council's procedures and on its delivery of annual efficiency targets	Production of an Internal Audit report and recommendations for improvement by December 2010 Included in above.			Internal Audit Manager
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 2009/10 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. Review investigation and disciplinary procedures in consultation with the HR manager.	Internal Audit Manager / Head of Financial Services
	Undertake audit work sufficient to provide assurance that appropriate and robust internal financial controls are in place.	Individual reports on financial systems. Annual Internal Audit assurance statement			
	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 2010.			
Member and Committee development	Continue to develop the governance and internal control knowledge and skills of Members, particularly those on the Audit Committee	Training in governance and internal control to be provided to/accessible by Members. No. of courses in Member Development Plan delivered / positive feedback.	Low take-up of training opportunities	Provide training activities in the scheduled Audit Committee agendas. Development of working relationship with the Audit Committee Chair Provide committee members with a briefing on their role. Seek elected members' views on training.	Internal Audit Manager
	Continue to develop the Audit Committee's role in seeking assurance on matters of CG and IC	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

Link to Corporate Improvement	Service Actions	Performance Indicators	Business Risk	Mitigation	Lead Officer
HR Management	Contribute to improving staff attendance (reducing sickness absence) and increasing productivity (chargeability) levels	<p>No. days lost per staff member</p> <p>Corporate sickness target - average 9 days for 2010/11 (actual in 2009/10 was 3.0 days)</p> <p>Chargeability target 2010/11 – 88% (actual 2009/10 was 87.5%)</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