



**LANCASTER
CITY COUNCIL**

Promoting City, Coast & Countryside

LANCASTER CITY COUNCIL INTERNAL AUDIT STRATEGIC & BUSINESS PLAN

2011/12 TO 2013/14

SUBMITTED TO AUDIT COMMITTEE 29/06/11

PREPARED BY THE INTERNAL AUDIT MANAGER

June 2011

Revision History

Date of this revision:

Revision Date	Summary of Changes	Version
June 2011	Initial Draft	0.01

Distribution

Name	Title
All employees and elected members via the Intranet	

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 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					
	2010/11 Plan			2011/12 to 2013/14	
Work Area	Plan Days (Original)	Plan Days (Revised) (see note)	Actual Days	2011/12 Plan Days	2013/14 Target Days
Assurance work, covering:					
o Core Financial systems	90	90	123	50	50
o Revenues & Benefits Shared Service				85	85
o Core Management arrangements	150	85	98	110	110
o Other systems, projects and management arrangements (based on quarterly review of risk and the assurance framework)	135	200	165	105	105
o Follow-up work	70	70	71	70	70
Sub-Total, Assurance Work	445	445	457	420	420
Ad-hoc advice	65	65	66	65	65
Support (general and project support)	100	58	60	30	30
Efficiency & VFM	50	12	2	30	30
Investigations contingency	60	30	27	30	30
Planning & Monitoring	70	65	55	55	55
Non-audit duties	15	15	16	15	15
General contingency	40	0	0	40	40
Totals	845	690	683	685	685

Note: The 2010/11 audit plan was revised in January 2010 to reflect staffing changes made in the section, resulting in the removal of one Senior Auditor post (1 FTE) from the establishment.

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

This is reflected in the allocation of planned days for 2011/12, a notable addition to the plan being audit work related to the Revenues and Benefits Shared Services arrangements being implemented with Preston City Council.

Customers and Stakeholders

- The Audit Committee
- Chief Financial (s151) Officer and the Monitoring Officer
- Chief Executive, Deputy Chief Executive, Service Heads and Service Managers
- Council
- The Executive Function (Cabinet)
- The Overview & Scrutiny Function
- 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 Management Team, 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 led by the Deputy Chief Executive and including the Section 151 Officer and the Monitoring Officer, 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 Service Heads, the statutory officers and Management Team generally.

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 (3.81 fte), consisting of:	Grade	Planned days provided 2011/12	Target days provided 2012/13
Internal Audit Manager	G8	170	170
Principal Auditor	G5	182	182
Senior Auditor	G4	185	185
Assistant Auditor (0.81 fte)	G3	148	148
Bought in resources (note 1)		0	0
Total resources		685	685

Notes

1. There are no standing arrangements or plans to buy in additional internal audit resources; this position is 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 is to be supplemented by an internal self-assessment against the Code of Practice.

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 2011/12. In total, the service has been allocated £9,700 for training in 2011/12.

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

Development Areas

- Implementation of a robust internal audit service to the Revenues & Benefits Shared Service with Preston City Council.
- Need to continue 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.
- Increased focus on efficiency, VfM and business improvement.
- Review of internal audit's service delivery in relation to Government proposals to revise local public audit. Also to support any changes in requirements regarding the operation of the Audit Committee.

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.
<ul style="list-style-type: none"> ➤ Lack of skills to undertake specific pieces of work and support new corporate initiatives. ➤ Increasing pressure on internal audit following the government's review of local public audit. 	<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. ➤ Active involvement in developing new audit arrangements, including those of the Audit Committee.