

# AUDIT COMMITTEE

## Internal Audit Strategic & Annual Plans

27 June 2007

### 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 2007/08

This report is public

#### RECOMMENDATIONS

1. That the Internal Audit Strategic Plan be approved.
2. That the Internal Audit Annual Operational Plan for 2007/08 be approved.

#### 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 The Code of Practice for Internal Audit <sup>1</sup>specifies that *"the Head of Internal Audit must produce an audit strategy; this is the high-level statement of how the internal audit service will be delivered and developed in accordance with its terms of reference and how it links to the organisational objectives and priorities."*

The Code also specifies that *"the Head of Internal Audit should prepare a risk-based plan designed to implement the audit strategy"*

#### 2.0 Proposal Details

##### Internal Audit Strategic and Business Plan 2007/08 to 2009/10

- 2.1 In recent years, Internal Audit has not produced a discrete strategic plan, the strategic position and development of the service being included within Financial Service's annual Business Plans. The publication of the 2006 Code of Practice is specific about Internal Audit having a strategy document and this was reinforced by an Audit Commission recommendation to that effect during its 2006/07 review of Internal Audit.

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<sup>1</sup> Code of Practice for Internal Audit in Local Government in the United Kingdom (CIPFA 2006)

- 2.2 The Internal Audit Business and Strategic Plan (attached at Appendix A) has been developed using the Council's template for its service business plans, but extended to incorporate two further elements of internal audit strategy as set out in the Code of Practice, viz:
- How the Internal Audit Manager will form and evidence his opinion on the control environment to support the annual Statement on Internal Control;
  - How internal audit will identify and address significant local and national issues and risks
- 2.3 As well as meeting the Audit Commission's recommendation to have an internal audit strategy, the document also addresses a number of other issues resulting from the Commission's review, as follows:
- *Re-defining internal audit's role and involvement in risk management, to help with embedding risk management and to enable internal audit to fulfil a clear audit role in terms of risk management.*
  - *Clarifying how internal audit will provide assurance and ensure that appropriate levels of compliance testing are employed.*
  - *Clarifying the prioritisation of agreed actions resulting from internal audit reports.*
  - *Developing quality assurance including the setting and monitoring of performance measures.*

### **Internal Audit Annual Plan 2007/08**

- 2.4 The draft Internal Audit Annual Plan attached at Appendix B is designed, as required by the Code of Practice, to implement the internal audit strategy. To this extent, the plan differs from those prepared in previous years in the following ways:
- Being more explicit about which elements of work are intended to provide assurance to support the overall annual opinion on the internal control environment;
  - Being more explicit about the resources to be devoted to other "support" work aimed at helping the Council's ongoing improvement programme;
  - Providing for a quarterly rolling programme of audit work to be operated within the plan which will provide greater flexibility and responsiveness to changes in the risk environment, and any emerging demands for internal audit assurance work.
- 2.5 This approach to the annual plan will be supported by a more detailed programme of audit assignments and this will be reported to each meeting of the Audit Committee. The approach is designed to enable greater flexibility in selecting, scoping and budgeting for specific audits, thus giving more effective audit coverage and assurance. As this is a new and untested approach, it is intended to review its effectiveness through the year, and review the position prior to preparing the next set of Internal Audit plans.
- 2.6 The annual plan for 2007/08 is based on available resources of 840 audit days, this being delivered by the in-house team of 4.8 FTE staff plus consultancy services (estimated at 60 days work).

### **3.0 Details of Consultation**

- 3.1 No specific consultation has been undertaken in compiling this report.

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

4.1 The proposal is that the Committee approves both the draft Internal Audit Strategic and Business Plan 2007/08 to 2009/10 and the Internal Audit Annual Plan for 2007/08. No alternative options are identified.

#### **5.0 Conclusion**

5.1 Audit Strategy and Planning are key elements in the provision of an effective internal audit service, as demonstrated by their prominence in the Code of Practice. The proposed internal audit strategy and annual plan seek to establish 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**

None arising from this report.

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

The s151 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**

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