



LANCASTER
CITY COUNCIL

Promoting City, Coast & Countryside

LANCASTER CITY COUNCIL
INTERNAL AUDIT
BUSINESS AND STRATEGIC PLAN
2007/08 TO 2009/10

PREPARED BY THE INTERNAL AUDIT MANAGER

May 2007

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 raise the level and robustness of Internal Audit's assurance work, thereby improving the evidence made available to those charged with governance in reviewing the Council's systems of Internal Control and Corporate Governance.
- ◆ To make an effective and demonstrable contribution to the Council's improvement programme.
- ◆ To contribute to improving standards of internal control and governance within the authority and its key partnerships.
- ◆ To provide an efficient and effective support and consultancy function to meet the needs and demands of the authority.
- ◆ 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					
2006/07 Plan			2009/10 Target		
Work Area	Days	%	Work Area	Days	%
Assurance work, covering:			Assurance work, covering:		
○ Financial systems	126	13.7	○ Core Financial systems	120	12.9
○ Management arrangements	150	16.3	○ Core Management arrangements	120	12.9
○ Operational systems	153	16.6	○ Core Operational systems, including ICT systems	80	8.6
○ Computer and ICT systems	50	5.4	○ Other systems, projects and management arrangements (based on quarterly review of risk and the assurance framework)	230	24.8
○ Contracts	5	0.5			
○ Major projects	0	0.0			
Sub-Total, Assurance Work	484	52.5		550	59.2
Ad-hoc advice	100	10.8	Ad-hoc advice	70	7.5
Support (general and project support)	85	9.2	Support (general and project support) Also derived from quarterly review of the Plan	75	8.1
Efficiency & VFM	60	6.5	Efficiency & VFM	40	4.3
Investigations contingency	35	3.8	Investigations contingency	35	3.8
Follow-up work	70	7.6	Follow-up work	70	7.5
Planning & Monitoring	45	4.8	Planning & Monitoring	45	4.8
Non-audit duties	5	0.5	Non-audit duties	5	0.5
General contingency	40	4.3	General contingency	40	4.3
Totals	924	100.0	Totals	930	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 (Audit Commission)
- Other Review Agencies (e.g. BV Inspectorate, Benefit Fraud Inspectorate, Audit Commission)

Internal Audit Opinion

Internal Audit opinion will be formed through:

- Development of an Assurance Framework for the Council and continued development of the Internal Control and Corporate Governance (IC&CG) Framework, taking account of the anticipated revised Code of Corporate Governance (April 2007?)
- 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, 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, Treasury Management)
- Corporate (performance management, risk management, HR management, information management, communications, emergency & business continuity planning, etc)

Operational (ICT systems, systems supporting service provision, 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. 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.

Appendix A

In line with the above, annual Internal Audit Plans will provide for a programme of work to be developed on a rolling quarterly 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
- 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 (4.8 fte), consisting of:	SCP	Days provided per annum (2007/08 to 2009/10)
Internal Audit Manager	44-47	169
Principal Auditor	38-41	173
Senior Auditor x2	14-34*	382
Audit Assistant (0.8 fte)	14-34*	146
Sub-Total		870
Bought-in resources (budget £18k 2006/07)		60
Total resources		930

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 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.

Internal Audit has no Best Value Performance Indicators. 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 2007/08. In total, the service has been allocated £9,100 for training in 2007/08.

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

Development Areas

- A clearer assurance framework leading to improved and better evidenced provision of assurance from internal audit work
- Use of Resources, CPA and CAA – contributing to an annual improvement in the Council's Use of Resources assessment, re-categorisation under CPA and the introduction of Comprehensive Area Assessments.
- Internal focus on performance management and contributions to (as well as adopting and implementing) the new arrangements.
- Increased focus on corporate governance, especially in light of Accounts and Audit Regulation changes and the emerging requirements for the Authority to produce a combined statement on Corporate Governance and Internal Control.
- Standards of Conduct. A need to promote the Council's standards and policies and provide greater assurance as to their effectiveness
- Integration of Risk Management with Business Planning and increased expectations and requirements from client services.
- Staffing considerations - creating opportunities to explore different audit service delivery options and the scope for collaboration with other organisations and service providers. Need to build on performance measurement and management within the service.
- Overall balancing of available staff resources and skills against service delivery requirements and expectations. Gaining a clearer view and fair balance of what the Council expects from the service and what it can reasonably expect to deliver.

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"> ▪ IA plans to more clearly set out the boundaries of assurance and corporate "support" work. ▪ "Exit strategies" to be established for areas of significant involvement, for example, procurement, risk management, project management. ▪ Extent and timescale of IA involvement in any future corporate initiatives to be clearly defined at the outset.

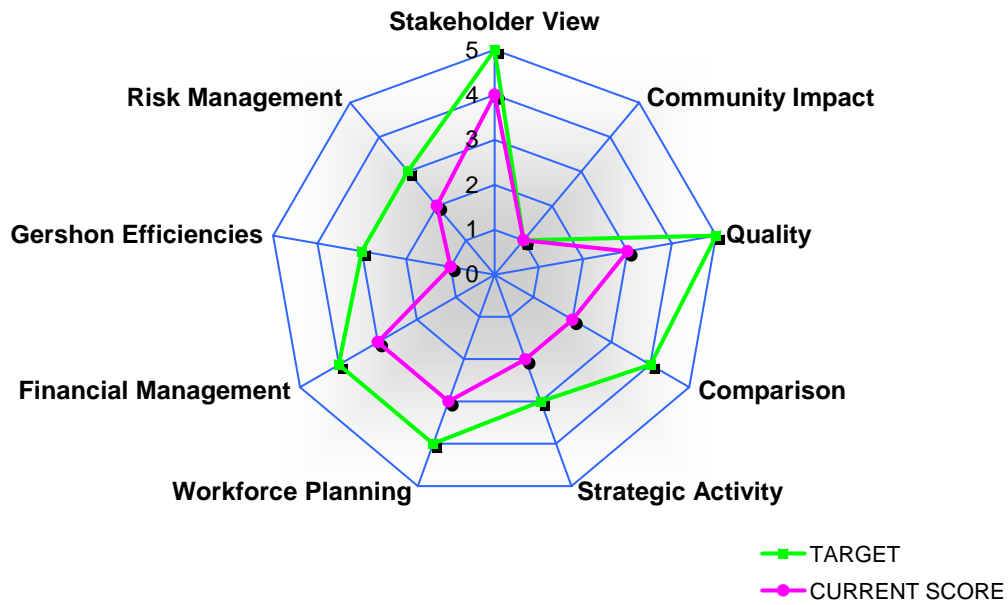
Appendix A

Risks	Mitigation options
<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 plans to incorporate a quarterly rolling programme of work related to an agreed and regularly updated assurance framework. ▪ IA Manager to consult more widely and actively in developing IA plans ▪ Development of the Audit Committee's role to provide more visible support for IA's role.
<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. ▪ Investigation and 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"> ▪ 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

Value For Money

Internal Audit's Value For Money profile, employing the corporate framework is displayed below, with the fully detailed report attached as Appendix A.

Value for Money Measurement : Internal Audit



The Business Plan contains proposed actions to improve performance under each area where a deficiency currently exists. "Stakeholder View" and "Quality" are currently identified as the most significant elements for the service and priority will be given to improving in these areas.

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2007/08

SERVICE OBJECTIVE	To raise the level and robustness of Internal Audit’s assurance work, thereby improving the evidence made available to those charged with governance in reviewing the Council’s systems of Internal Control and Corporate Governance.			Major Risk Issues to Register?	No
CORPORATE PRIORITY	To deliver value for money, customer focused services.				
Objectives	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications
To provide wider ranging and clearer assurance opinions to Audit Committee	Quarterly reporting to audit committee of audit assurance opinions	39 – 55 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 2008			Covered by existing plan provision for audit planning & monitoring
	Increased level of resources devoted to assurance work	490 audit days planned 2007/08	Implement revised annual plan approach involving quarterly rolling programme of audit assignments Manage Internal Audit’s withdrawal from managerial role in risk management and project management		490 audit days out of total available budget of 840 (58%) to be devoted to assurance work.
	Quarterly updates of assurance opinions issued in audit reports	Quarterly updates to Performance Management Group	Revision of approach to providing internal audit opinions in published reports and establishing a mechanism for monitoring progress.		Covered by existing plan provision for audit planning & monitoring

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2007/08

SERVICE OBJECTIVE	To make an effective and demonstrable contribution to the Council's improvement programme.				Major Risk Issues to Register?	No
CORPORATE PRIORITY	To continue to improve the Council.					
Objectives	Target	Target / Measurement Details	Specific Supporting Tasks or Actions	Responsible Officer	Resource / Budget Implications	
Successful implementation of the LAMP project management methodology	Positive post-implementation review	Post-implementation reviews and assurance opinion	Reviews to be undertaken at October 2007 and March 2008	Principal Auditor	Included in budget for audit of Core Management Arrangements	
Improvement in arrangements to secure efficiencies and Value For Money (VfM)	Improved assessment under the VfM section of the Use of Resources judgement	Via Use of Resources judgements	Internal Audit self-assessment against the Use of Resources criteria for VfM	Internal Audit Manager	Covered by budget for Consultancy Work (Efficiency & VfM)	

Draft

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2007/08

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 value for money, customer focused services.					
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 2006/07 and 2007/08 financial years	Through Use of Resources judgements by external audit	Development and implementation of a clear Assurance Framework covering significant risks Development of the Audit Committee's role to provide more visible support for IA's role	Internal Audit Manager	Covered by budget for Support Work and Audit Management	
To improve the effectiveness of the Council's risk management arrangements.	Risk Registers in place Framework established for identification and monitoring of significant risks (Assurance Framework)	Through Financial Services PRT meetings and supporting arrangements, and quarterly reporting to Audit Committee.	Clarification of Internal Audit's ongoing role in risk management and withdrawal from any active managerial role.		Covered by budget for Support Work	
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.			Covered by budget for Core Management Arrangements	

INTERNAL AUDIT STRATEGIC & BUSINESS PLAN – 2007/08

SERVICE OBJECTIVE	To provide an efficient and effective support and consultancy function to meet the needs and demands of the authority.			Major Risk Issues to Register?	No
CORPORATE PRIORITY	To deliver value for money, customer focused services.				
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 quarterly review process, involving consultation with Service Heads and Management Team Monitoring of activity and budgets via Audit Committee	Establish arrangements for quarterly review of Internal Audit Plan and resources linked to developing Assurance Framework	Internal Audit Manager	Budget 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 – 2007/08

SERVICE OBJECTIVE	To meet and exceed existing and emerging professional standards				Major Risk Issues to Register?	No
CORPORATE PRIORITY	To deliver value for money, customer focused services.					
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 2007/08 audit Self-assessment or peer review thereafter Covered by annual internal audit report to Audit Committee	Implementation of the Internal Audit Strategy Implementation of actions arising from the 2006/07 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 Investigation of alternative service delivery options, including collaboration with other LA's and services provided by consultancy bodies	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	Implementation 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	