

# Internal Audit Strategic Plan 2018-2021

Blackpool Council



# Internal Audit Strategic Plan 2018-2021

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## Introduction

The Internal Audit Strategic Plan sets out the medium term direction of the Internal Audit service. This three year plan outlines what the priorities of the service will be going forward and what actions will be taken to address these. The plan sets out how Internal Audit can continue to provide an adequate level of assurance whilst taking account of the resource limitations.

The Strategic Plan is supported by the Audit Charter, which sets out the roles and responsibilities of internal audit, the Annual Audit Plan which outlines the internal audit work which will be undertaken each year and the Quality Assurance and Improvement Programme which outlines service development actions.

The Council has faced significant financial reductions over the last few years compounded by the social issues in the town and increasing demand for services. All Council services have seen a reduction in the resource available to them and this in turn has an impact on the control environment. In addition the Council is taking more risks as it explores innovative solutions in order to bridge the funding gap and transform the organisation. It is important that the internal audit service continues to evolve to ensure that it continues to be an effective assurance provider in this transformational landscape.

## Alignment to the Council Priorities

A key role of internal audit is to ensure that the Council has robust systems and controls in place to meet its priorities. This is best demonstrated through the annual audit planning process where the risks identified as part of the audit needs assessment and attendance at Directorate Management Teams are mapped against the Council's priorities and Strategic Risk Register.

Once all risks have been identified these are ranked as high, medium and low. A resource calculation is then undertaken to establish the number of audit days available for the delivery of the audit plan based on the team structure.

The Annual Internal Audit Plan is approved by the Corporate Leadership Team and Audit Committee prior to the start of each financial year. The delivery of the plan helps to create a culture of accountability, ensures that risk management processes are embedded and contributes to the Council's governance framework.

The intention for the three year period of this plan is to increase the level of risk-based audits and advisory / consultancy work and reduce the level of compliance audit work to better align to the priorities of the Council. This approach places an emphasis on emerging risks and the implications of changes but also ensures that core financial procedures continue to be applied consistently and correctly.

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## Provision Arrangements

The Council has a statutory requirement to ensure that an Internal Audit service is provided. It is intended to maintain in-house provision of the Internal Audit service over the coming years. Benefits of maintaining an in-house service include:

- Detailed knowledge of the activities of the Council.
- Speed of response and flexibility.
- Value for money.
- Track record of delivering an effective in-house service meeting internal audit standards.
- High quality advice and consultancy.
- Commitment to the Council and support for the delivery of its priorities.

The in-house team continues to look at ways in which it can drive efficiency. It is recognised that wherever possible smarter working may enable further efficiencies to be identified and this is considered at the annual service improvement event. Other options to provision could be shared service arrangements and these have previously been explored by the team.

The Internal Audit service undertakes Internal Audit work for some external customers. It is intended that the team will maintain these existing arrangements where possible as a source of income to the service. Additional work of this nature will be considered in the future to the extent that completion of the annual audit plan is not compromised.

Joint working is also undertaken with Fylde Borough Council on the shared services between the two authorities. These joint working arrangements help maximise the available audit resource between the authorities and reduce the audit burden on the clients being audited. It is intended that these arrangements will continue in the future.

## Specialist Audit Areas

The majority of members of the Internal Audit Team have worked at the authority for over three years in various capacities. This gives the service a sound knowledge of the Council's business, structure, operations and culture.

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In terms of specialist audit areas it can be challenging for a small audit team to ensure that all bases are covered, and filling any gaps can be expensive. The broad objective is to continue to build on the teams existing knowledge, skills and experience and to develop expertise in new areas to enable the team to continue to meet the changing needs of the organisation.

Where the need for particular skills or resources are identified which the in-house team cannot provide, consideration will be given to buying-in the necessary expertise if possible. Every effort would be made to factor skills exchange into these arrangements so that in-house expertise would benefit from the exercise.

The team has the following skills and capacity with regard to the main areas of specialism:

- **Financial Audit** - The team includes qualified and finalist accountants, enabling the team to carry out quality reviews in financial audit areas and provide professional and informed advice on financial systems, procedures, statements and reports.
- **Financial Control Assurance Testing (FCAT)** - The service has a well-established FCAT programme for ongoing testing of the key controls in the Council's major financial systems which is reviewed each year to ensure that it is fit for purpose. The objective is to provide assurance that controls are operating satisfactorily. This work relies heavily on the use of IDEA file interrogation software and it is intended that further use will be introduced in the future. All team members have received external training to increase proficiency in this area.
- **Computer Audit** - This is an area of exposure in terms of the team's technical computer audit knowledge. Whilst some basic computer knowledge is available in the team, more advanced requirements would need to be bought in until adequate skills are developed in-house. Arrangements are being made across Lancashire Authorities to procure such a service if required.
- **Contract and Procurement Audit** - The team has experience in the delivery of contract and procurement audits. Other audit staff have also been involved in tendering and selection procedures for major Council contracts to ensure that the process is objective.
- **Counter Fraud Work** - The Head of Audit and Risk has undertaken specialised training in fraud detection and investigation techniques and is assisted in the delivery of counter fraud work by the Corporate Fraud Team. A pro-active anti-fraud plan is in place and reviewed on an annual basis.
- **Project Support** - As part of the service's regular advice work, audit provide support to key Council projects. This generally involves advising on project management controls and facilitating risk workshops in conjunction with the Risk and Resilience Team.
- **School Visits** - Internal Audit undertake a rolling annual programme of school visits to all maintained schools in Blackpool. This focuses on compliance with key financial transaction controls.
- **Advice and Consultancy** - The audit team is able to provide advice to management on risk, control and governance issues as required.

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## Reporting Lines

The Internal Audit service is part of Risk Services along with Corporate Fraud, Risk and Resilience, Health and Safety and Equality and Diversity. The Head of Audit and Risk has a direct reporting line to the Section 151 Officer. A direct regular reporting line to the Chief Executive is not considered essential, however it is important that access is available and that as a minimum the Chief Executive and Head of Audit and Risk meet annually to discuss the forthcoming Internal Audit plan and its contents. The Head of Audit and Risk is able to contact the Chief Executive directly should an issue where this is appropriate arise.

As the Head of Audit and Risk has some operational responsibilities for the management of other areas in Risk Services, any audit assurance work related to these areas is managed by the Audit Manager with no involvement from the Head of Audit and Risk. On these occasions the scope of the work and agreement of the report are undertaken in conjunction with the Head of Audit and Risk's line manager (Section 151 Officer), to help avoid the risk of conflicts of interest.

Internal Auditors are not tasked with reviewing any systems for which they have previously held operational responsibility. This is applied for a three year period to ensure that objectivity is not compromised.

The Head of Audit and Risk is an attendee of the Council's Audit Committee. It is intended that the Head of Audit and Risk or the Audit Manager is present at all meetings of the Audit Committee to advise members on internal control issues and to report on audit work undertaken. In line with best practice published by the Chartered Institute of Public Finance and Accountancy, the Head of Audit and Risk has the right to meet with members of the Audit Committee in private, though it is expected that this right will only ever be exercised in exceptional circumstances.

The Head of Audit and Risk provides the Section 151 Officer with copies of all audit assurance statements and priority one recommendations for presentation and discussion by the Corporate Leadership Team to ensure that senior managers are fully aware of issues identified as part of audit work.

The Head of Audit and Risk will continue to report the results of internal audit work to elected members and senior officers on a regular basis. Reports will be made on at least a quarterly basis, including an annual summary of work performed. The reports will include the following:

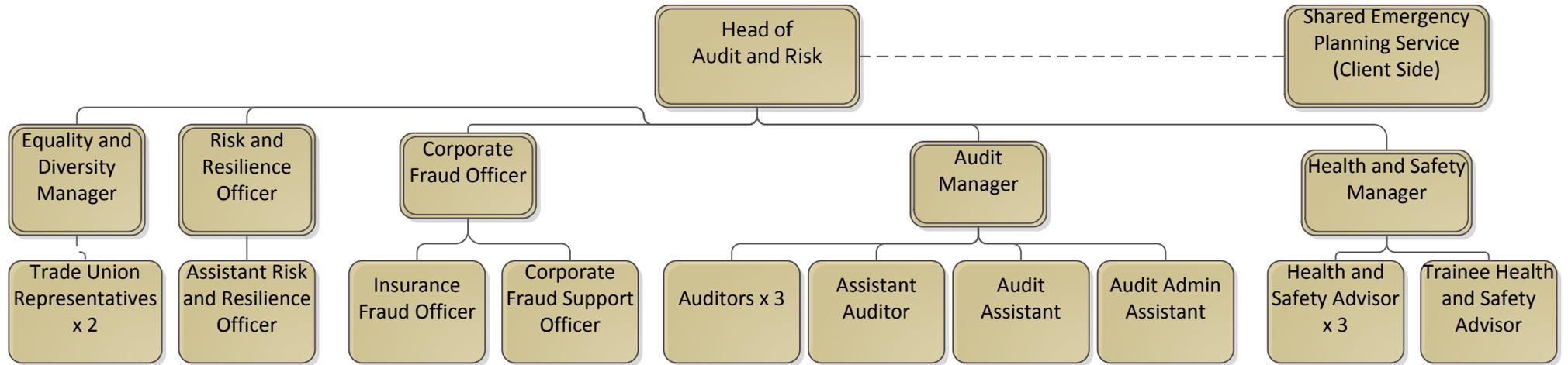
- Delivering an audit opinion to support the Council's annual statement on internal control, in accordance with the Accounts and Audit Regulations.
- Providing regular assessments of the adequacy and effectiveness of the Council's systems of internal control based on the work of Internal Audit.
- Report significant control issues and potential for improving risk management and control processes.
- Information on the status and results of the annual audit plan and the sufficiency of internal resources.
- Results of any external inspections of the Internal Audit service and any actions for improvement arising.

Should any other officer or external organisations wish to see a copy of an audit report then this request must be made to the Head of Audit and Risk who will determine whether this is appropriate. On occasion this will also be referred to the Section 151 Officer for a final decision.

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## Structure

The Internal Audit Team forms part of Risk Services which is overseen by the Head of Audit and Risk and the current structure is as follows:



It is recognised that the composition of the team may need to be revised over the next three years to ensure that the team is able to effectively respond to the increasing requirements for risk based auditing and advice. Therefore, resource planning and looking at increased integration across the wider Risk Services is a key priority over the medium term.

There is also a need to be mindful of the increasing workload faced by the service and ensure workforce planning to minimise any negative impact on staff resilience.

## Training and Qualifications

The team's objectives in relation to the prioritisation of training objectives are as follows:

- Team members are qualified to do the job.
- Team members are competent to do the job.
- Team members have a high level of job satisfaction.

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The prioritisation of training given to address these objectives is:

- All team members are appropriately qualified for the role they carry out.
- The service has expertise (and cover) in all areas of its remit.
- Team members are trained to meet core competencies.
- Team members are able to adopt new working methods.
- The service is able to adapt to developments in internal auditing.

Training is available to all members of the team within the constraints of the budget. The Council also provides a suite of corporate training which members of staff are encouraged to attend where relevant to their work. The Council's individual performance assessment process highlights any training that is necessary or desired by staff.

The Head of Audit and Risk is a member of the Chartered Institute of Internal Audit and also holds an MSc in Audit Management and Consultancy. The Audit Manager is ICAEW qualified. These two posts will continue to require a full professional qualification (CMIIA / CCAB).

The Auditor role also requires a professional qualification or in the final stages of completing a professional qualification. The Assistant Auditor and Audit Assistant posts require an intermediate level professional qualification (Certificate in Internal Audit or AAT). The Audit Admin Assistant role does not require a formal qualification however working towards an intermediate qualification is encouraged.

## Performance Management and Quality Control

The Public Sector Internal Audit Standards were released in 2012 and set out the framework which needs to be followed by the team. The Internal Audit team carried out a self-assessment against the standards that confirmed that the majority of requirements have already been met. This was followed up by an external peer review in 2016 which confirmed that the service is compliant with the Public Sector Internal Audit Standards and made some recommendations for future development which are incorporated into the Quality Assurance and Improvement Programme. This is considered by the Corporate Leadership Team and Audit Committee each year.

The Internal Audit Team will be measured against a number of performance indicators to demonstrate how it meets its value, vision and objective. These include:

- % of Audit Plan Delivered
- % of Reviews Delivered by Deadline
- % of Reviews Delivered in Resource
- % Positive Customer Satisfaction Surveys
- % Positive Head of Audit and Risk Quality Reviews

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These reflect the desire of the service to deliver a quality product that is well received by customers and that the team itself can be proud of. Service performance will be given appropriate visibility through the quarterly reporting mechanisms. This will include regular reporting to Audit Committee and Corporate Leadership Team.

Performance management is a major focus of the service and any issues are addressed through the Individual Performance Appraisal process and monthly one to ones with all members of the team.

Delivering a quality service is fundamental to the success of the team and therefore a robust quality control process is in place. This includes a review of work done at key stages of each audit review by the Audit Manager and Head of Audit and Risk to ensure that all issues are identified and the quality of audit work performed is high. The Head of Audit and Risk also undertakes a quality check on completion of each review. On the rare occasions where the work delivered fails to meet customer expectations, the Head of Audit and Risk will meet with the service to resolve any concerns.

## Quality Assurance and Improvement Programme

The Internal Audit Team prides itself on being at the forefront of local government internal audit and is committed to the continuous improvement of the service. A number of approaches are used to ensure that the service continues to deliver effectively and efficiently and the outcome of these exercises is incorporated into the annual Quality Assurance and Improvement Programme which is approved by the Corporate Leadership Team and Audit Committee. Steps taken to improve quality include:

- **Business Planning** - Internal Audit contributes to the Resources Directorate Business Plan and sets challenging actions for improvement each year.
- **Service Improvements Days** - The Internal Audit Team holds an annual service improvement day where the team develop further innovative practice to improve efficiency.
- **Continuing Professional Development** - . Attendances at relevant seminars serve to be useful in identifying developments in the internal audit profession.
- **Team Briefings** - Team briefings are held monthly, where service improvement is a standard agenda item.
- **Customer Satisfaction Surveys** - After each completed audit assignment a customer satisfaction survey is issued to the client to obtain feedback regarding work completed. The findings are used to inform service delivery and contribute to the identification of improvements.
- **Benchmarking** - Periodic benchmarking is undertaken with other local authorities and CIPFA.

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## Strengths, Weaknesses, Opportunities and Threats

As part of the strategic planning process the team undertook an analysis of the strengths, weaknesses, opportunities and threats facing the service. The outcome from this exercise is as follows:

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Approachable, flexible, courteous and professional staff with a strong team ethos.</li> <li>• Good organisational knowledge.</li> <li>• Good mix of skills and experience across the team.</li> <li>• Embedded risk based approach to internal audit both in terms of the internal audit plan and bespoke advice and consultancy assignments.</li> <li>• High quality and diplomatic audit reports which apply an appropriate level of professional judgement based on facts and evidence.</li> <li>• Maintain a level of independence and achieve professional audit standards.</li> <li>• Value for money service.</li> <li>• Well regarded service with good customer feedback.</li> </ul>	<ul style="list-style-type: none"> <li>• The limited number of fully qualified staff in the service.</li> <li>• The small size of the internal audit team to provide assurance to a unitary authority with a diverse range of risks.</li> <li>• Resource constraints prevent some demands for internal audit support being met.</li> <li>• Reduced capacity in the team results in limited opportunity for staff development and succession planning.</li> <li>• Lack of in-house specialist IT audit.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Expand the remit of external work undertaken by the team through a business development framework to increase income and review of service charges.</li> <li>• Maximise training and development opportunities.</li> <li>• The introduction of an independent member to the Audit Committee to enhance the level of challenge.</li> <li>• More proactive involvement in key Council projects to advise on risk mitigation.</li> <li>• Attendance at relevant audit groups across the North West to share</li> </ul>	<ul style="list-style-type: none"> <li>• Further budget cuts which may impact on the ability to provide a sufficiently resourced internal audit team and erode the control environment across the organisation.</li> <li>• ICT failures as all audit working papers are held electronically.</li> <li>• Inability to respond to all customer requests for audit support resulting in reputational damage.</li> <li>• Inability to recruit should members of the team leave.</li> <li>• Unable to provide an appropriate level of assurance to the Council.</li> </ul>

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information and good practice. <ul style="list-style-type: none"><li>• Review the compliance testing regime and consider whether this is appropriately focused.</li></ul>	
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## Key Priorities

In order to continue to develop the service the following key priorities have been identified over the three year period:

- Develop resource planning to ensure that the team is appropriately structured to deliver the increasing risk focused demands on the service.
- Ensure that all staff in the team are appropriately qualified and have a broad range of experience.
- Clearly align the work of internal audit to the Council's strategic direction and transformation process.
- Keep up to date with the changing landscape at the Council and adapt the way in which the internal audit service is delivered accordingly.
- Maintain efficient and high quality work which meets customer expectations and audit standards.
- Continue to raise the profile and the value added by internal audit across the Council and with external customers.
- Maximise income generation opportunities through the continuous exploration of opportunities such as shared services and external work.
- Ensure that adequate IT audit provision is available within the team.
- Embrace the digital strategy through the maximisation of IT hardware and software opportunities.
- Strengthen the integration with the wider Risk Services to enhance auditor knowledge and experience and deliver a cohesive risk management and assurance service to the Council.

## Risk Management

To ensure the delivery of the Strategic Internal Audit plan and the continuation of the internal audit service a risk assessment has been undertaken to identify all risks and the likelihood and impact on them occurring. Where additional controls need to be implemented to reduce the risk these have been identified and will be actioned throughout the life of the Strategic Audit Plan. The outcome of this exercise is captured in the following risk register:

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Risk	Gross Risk Score			Controls and Mitigations	Net Risk Score			Further Actions required	Risk Owner
	I	L	GS		I	L	NS		
Unable to retain experienced staff/ reduced staff morale.	4	4	16	IPAs and one to ones in place.  Work allocated at the appropriate level / grade.	4	3	12	Map out existing skills and experience in the team and identify opportunities for development and additional responsibilities.	Audit Manager
Increased budget pressures / loss of income.	4	4	16	Actively seek opportunities for income generation.  Encourage staff to take unpaid leave.  Monthly budget monitoring.	4	3	12	Ensure delivery of budget targets on an annual basis.  Freeze vacancies should they occur in the team.  Consider restructuring if further savings are required.	Head of Audit and Risk
IT failure / hardware and software not maintained / cyber-attack resulting in the loss of sensitive data / data breach	5	5	25	All data stored on the corporate network.  Business continuity plan in place.  Liaison with the Corporate IT service to discuss requirements.  Upgrade service specific software as required.  Corporate IT refresh kit programme.  Mandatory training completed.	5	2	10	Ensure that all team members complete cyber security and data protection training.    Update the retention schedule.	Audit Manager    Head of Audit and Risk
Inability to deliver a quality service	4	3	12	Workforce development.	3	3	9	Implementation of the strategic	Head of Audit

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Risk	Gross Risk Score			Controls and Mitigations	Net Risk Score			Further Actions required	Risk Owner
	I	L	GS		I	L	NS		
which meets the changing needs of the organisation.				Keeping abreast of new developments. Annual service improvement day.				audit plan particularly in relation to future resource planning.	and Risk
Inadequate working conditions / work related pressure resulting in staff absence.	3	4	12	DSE assessments completed. Staff Working / Liaison Groups attended. Monthly one to ones with manager. Adherence to HR policies and procedures.	3	3	9	-	-
Major incident preventing access to the internal audit office.	4	4	16	Business continuity plan in place. Major Emergency Plan in place. Ability to work from home. All working papers held electronically enabling flexible working.	2	4	8	Ensure that all team members take their laptops home in the evening.  Ensure that an annual test of the business continuity plan takes place.	Audit Manager  Head of Audit and Risk
Team members are not qualified.	4	4	16	Robust recruitment arrangements in place. Professional qualifications being undertaken by unqualified staff.	4	2	8	Explore the use of mentoring within the team.  Widen the areas of work all team members are involved in to broaden experience.	Audit Manager

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Risk	Gross Risk Score			Controls and Mitigations	Net Risk Score			Further Actions required	Risk Owner
	I	L	GS		I	L	NS		
				IPAs and one to ones held. Robust quality assurance processes.				Identify further knowledge sharing opportunities.	
Elected Members unduly influence the work of internal audit / change of Audit Committee Membership.	3	4	12	Effective relationship with Audit Committee. Independent Audit Committee Member. Professionally qualified staff and adherence to professional standards. Regular Audit Committee modular training and induction programme. Comprehensive meeting agenda and minutes.	3	2	6	-	-
Inadequate communications.	4	3	12	Regular team meetings. Use of technology to share information. Involvement in audit planning and assignment planning.	3	2	6	Increased use of technology, such as Microsoft 365, to share information.	Audit Manager
Inability to meet customer obligations	3	3	9	Workforce planning.	3	2	6	-	-

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Risk	Gross Risk Score			Controls and Mitigations	Net Risk Score			Further Actions required	Risk Owner
	I	L	GS		I	L	NS		
and service demands.				<p>Training.</p> <p>Contingency built into the audit plan.</p> <p>Option to use agency staff to address unexpected staff shortages.</p>					
Over reliance on paper resources.	2	3	6	<p>All staff are issued with a mobile device (laptop).</p> <p>Electronic working papers are held.</p> <p>Ability to scan paper records onto the electronic working papers.</p>	2	2	4	<p>Continue to ensure that the team has access to appropriate mobile technology.</p> <p>Review the potential of larger monitors to help with the analysis of spreadsheets.</p>	Head of Audit and Risk
Unable to provide an adequate internal audit service in line with statutory requirements / internal audit work does not comply with professional standards.	4	4	16	<p>Qualified Head of Audit and Risk and Audit Manager.</p> <p>Team members actively undertaking professional qualifications.</p> <p>Team involvement in audit planning.</p> <p>Mandatory training completed on i-pool.</p>	3	1	3	<p>Refresher training needs identified through the IPA process.</p>	Audit Manager

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Risk	Gross Risk Score			Controls and Mitigations	Net Risk Score			Further Actions required	Risk Owner
	I	L	GS		I	L	NS		
				<p>Code of Ethics signed by all staff on an annual basis.</p> <p>Quality assurance and management review procedures an integral part of the audit process.</p> <p>Detailed working papers maintained evidencing findings.</p>					
The service does not offer value for money.	4	2	8	<p>Cost effective provision compared with alternative suppliers.</p> <p>High quality risk based audit.</p> <p>Knowledge and understanding of the organisation.</p> <p>Demonstrated compliance with audit standards.</p> <p>Provision of an advice and consultancy service.</p>	3	1	3	Ongoing promotion of the internal audit service.	Audit Manager
The work of internal audit does not align to the Council's priorities and transformation process.	3	2	6	<p>Audit planning linked to the Council's priorities and strategic risk register.</p> <p>Involvement of Directorate</p>	2	1	2	Continue to build the audit teams knowledge of the Council's priorities and initiatives being undertaken to address these.	Audit Manager

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Risk	Gross Risk Score			Controls and Mitigations	Net Risk Score			Further Actions required	Risk Owner
	I	L	GS		I	L	NS		
				Management Teams in the audit planning process.				Strengthen links with the Corporate Delivery Unit.	Head of Audit and Risk