

INTERNAL AUDIT STRATEGY AND PLAN

2021/22 – 2023/24

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Annex A: Indicative Resource Allocation by Theme

1. Internal Audit Service

1.1 Internal Audit Strategy

- 1.1.1 The Internal Audit Strategy is a high level statement of how the Internal Audit Service will be delivered and developed in accordance with its charter/terms of reference and how it links with the Council's objectives and priorities.

1.2 Context and Definition of Internal Audit

- 1.2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines Internal Audit as follows:

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
Public Sector Internal Audit Standards 2017

- 1.2.2 Internal Audit delivers a statutory service which supports the s.151 Officer in his duties under the provisions of the Local Government Act 1972 and the Accounts and Audit Regulations 2015. Those regulations explicitly require the Council to *"undertake an effective internal audit of the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance"*
- 1.2.3 The service is delivered in line with the UK Public Sector Internal Audit Standards, which were updated in 2017, (PSIAS) and the Local Government Application Note, which was issued by the Chartered Institute of Public Finance and Accountancy.

2. Internal Audit Objectives and Outcomes

- 2.1 The mission of Internal Audit is *"to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight."*

Public Sector Internal Audit Standards 2017

- 2.2 Objectives and outcomes include supporting the organisation by:-

- Providing assurance that systems in place to deliver services are supported with adequate controls, governance and risk management.
- Alerting managers to control weaknesses or poor procedures (including excessive controls) that could result in loss, wastage and poor value for money.
- Providing advice to ensure that appropriate risk management, governance and control frameworks are designed into service developments.
- Engaging with the Audit Committee through appropriate reporting, providing support and guidance on the operation of the audit function and raising key control, risk management and governance issues.

3. Audit Opinion

- 3.1 Under the Accounts and Audit Regulations, Internal Audit provides part of the assurance on the Council's Annual Governance Statement. The s.151 Officer is therefore responsible for ensuring that the Internal Audit Plan coverage is sufficient to meet this obligation. Internal Audit issues an opinion with relevant audit reports, based on the findings of each audit, in particular the extent of any high risk control weaknesses. An overall opinion on the adequacy of the control environment is formed at the audit year-end. This reflects the individual audits and their materiality to the control environment as a whole. It is reported to the Audit Committee to support its role, including the approval of the Annual Governance Statement.

4. Local and National Issues and Risks

4.1 How issues and risks will be identified

- 4.1.1 A risk-based approach is adopted to compiling the audit plan. This means high-risk areas are targeted, to make the best use of the available audit resources.
- 4.1.2 Internal Audit will continue to liaise with internal and external partners to identify actual and emerging issues and risks facing local authorities and in which Internal Audit has a role. Liaison takes place through:
- 1:1s with the Director Finance and Transformation (s151 Officer)
 - Membership of the Information Governance Group
 - Periodic workshops with the Corporate Strategy Team (CST) to discuss strategic risks and emerging issues
 - Liaison with service area contacts regarding risk management
 - Liaison with the Chief Executive, Directors and City Managers
 - Liaison with the Monitoring Officer/Head of Procurement
 - Local joint working with Internal Audit functions in other local authorities and the wider public sector
 - Meetings with external auditors (Mazars LLP)
 - Meetings with Finance Officers
 - Member reporting and consultation through the Audit Committee
- 4.1.3 In addition intelligence gathering takes place through:
- Review of documents such as service plans, risk registers, benchmarking reports and previous audit reports.
 - Horizon scanning with reference to professional guidance documents, public sector news feeds and documents summarising current and emerging issues facing local government organisations.
 - Attendance at seminars and update training.

4.2 Risks and Issues 2021 and beyond

4.2.1 Based on the above sources of intelligence and recent audit work, the main areas of risk continue to include:-

- Medium Term Financial Plan impact of delayed delivery of savings, coupled with sector-wide uncertainty over the level of future funding.
- Increased volume and sophistication of attempted cyber attacks against the Council's IT network.
- Safeguarding – operational, financial and reputational risks arising from ongoing demand and funding pressures in a highly regulated service.
- Capacity and expertise to procure and manage complex contracts.
- Resilience during a period of rapid change.
- Uncertainty following the UK's exit from the European Union, with risks to the stability of supplier workforce and continuity of grant funding.
- Particular aspects of some fundamental financial systems, where work still needs to be completed to design out specific risks.
- Capacity to sustain continuous improvement and address previously identified control risks in service areas such as: understanding of, or compliance with, procedures; segregation of duties; and financial reconciliations.

4.2.2 Other issues that could affect the pattern of demand for audit work include:-

- Specific risks in relation to the delivery of Council and City Plan objectives.
- Change to the shape of services as they are re-configured post-Covid-19.
- Lessons learned from national issues, such as financial stress and governance failures at other councils.
- The evolving national anti-fraud agenda.
- Any further changes to delivery models, such as wholly owned companies, partnerships and joint ventures, which introduce uncertainty and risk until they are embedded.
- Work arising from the clearer documentation of governance processes in the new Code of Local Governance. In particular, the need to embed a more comprehensive assurance framework, linking the outputs from Internal Audit with those of other sources of assurance.

4.2.3 The Council also faces opportunities that could impact on audit plans, for example by changing the 'shape' of front-line service delivery:-

- Post Covid-19 service reviews and reconfiguration
- Integration of health and social care
- Digital transformation
- Devolution

4.3 Risk and Audit Planning

- 4.3.1 The audit plan is formed by allocating time to review fundamental financial systems (which support key numbers in the accounts), corporate processes (such as ICT), anti-fraud work and contractually committed days to schools and external clients. The remainder is then allocated to strategic risks/projects and services, then further allocated to specific establishments, systems and developments, based on a judgement of relative risk.
- 4.3.2 The scope of each audit is similarly informed by a judgement of risk, with additional testing performed on those controls that carry the greatest risk.

5. How the service will be provided

- 5.1 The service will be provided internally by the Internal Audit Service core staff, supplemented, as appropriate, by call off contractors and/or agency staff.
- 5.2 Audits are performed in accordance with professional standards to achieve conformance with the PSIAS standards. Staff are professionally trained (CCAB, AAT or IIA) and encouraged to undertake continuous professional development with training needs identified through the Council's staff appraisals (PPD) process, 1:1 supervisory meetings and ongoing review of work in the context of audit quality assurance procedures. Audit work is assigned taking account of experience and knowledge of subject areas. Auditors exercise a reasonable level of skill, care and diligence in their work and at all times seek to comply with the Council's policies and procedures.
- 5.3 Some key developments are currently underway to improve the efficiency and effectiveness of the service. Some of these were put on hold in 2020/21 due to the impact of Covid-19 on capacity, but they will now be further progressed and embedded:-
- Placing greater emphasis on strategic risks (and projects to address those risks) in the way resources are allocated.
 - Looking at key operational risks in systems and establishments, as risk registers become more mature, rather than focusing more exclusively on the financial control risks.
 - Continuing the trend towards more proactive audits and consultancy assignments. For example advising on the control aspects of system developments at the design stage, rather than relying on retrospective audits to identify gaps and inefficiencies that could have been avoided.
 - Consideration of recruiting bank staff to provide additional capacity to address workload peaks and short term gaps in staffing.
 - Deployment of trainees who have been recruited within the Finance Directorate, to provide resilience and succession planning.
 - Utilising the benefits that were identified from previous work to develop closer working with the audit sections of neighbouring councils. These include pooling training opportunities and jointly auditing grant schemes.

5.4 The overall strategy is to:-

- Continue the trend of shifting audit resources from fundamental system audits to departmental and strategic risks. This is achievable on the basis that, whilst there are some important specific issues outstanding with the fundamental systems, these are well understood (and improving), whilst the basic operation of most systems is adequate or better.
- Maintain flexibility in the detailed audit plan, in recognition of a dynamic environment where limited audit resources may need to be realigned between changing priorities.
- Continue to utilise the skills of Fraud Investigation Officers to support relevant aspects of the audit plan, in particular reactive and proactive work in relation to internal frauds, fraud risk awareness and prevention.
- Collaborate with internal partners (such as the Transformation Team and Information Governance Officers) and with external partners (such as neighbouring councils) wherever possible. This makes the most efficient use of limited resources to deliver a sufficient level of assurance to senior management and to Members through the Audit Committee.
- Buy in support where the in-house team lacks specific skills, notably in relation to the specialist area of IT technical risks.
- Review procedures for starting and ending audits to drive further efficiency in the process where there is an inherent risk of audits getting 'stuck'.

6. Resources and Skills Required to Deliver the Strategy

6.1 Available Resources

6.1.1 The Internal Audit staffing structure will comprise 9 frontline audit posts (including deployment of a trainee). One post is part time and two posts are currently vacant, with plans in place to recruit to one post and consider an internal secondment to cover the second. Some posts, e.g. Trainees cannot contribute fully to the plan due to lack of experience and time out for their training courses. Taking all of this into account, the baseline resourcing is circa 8.1 FTE, which provides circa **1,350 audit days** (about 60 of which are contractually committed to external clients), and this is reduced in 21/22 due to the vacancy situation.

6.1.2 The structure also includes a Fraud and Compliance Team (FACT) which initially operated as a stand-alone specialist team, working in parallel to the audit team. However, there are synergies where investigators can work collaboratively with auditors to support aspects of the audit plan in relation to fraud. It is therefore proposed that circa **75 days** of additional capacity can be utilised from the FACT, primarily to support proactive and reactive anti-fraud audit work. However, this is contingent on the demand for reactive investigations and a further **20 days** is allocated in 21/22 to complete ongoing post-assurance work in relation to Covid-19 business grants.

6.1.3 Call off contracts or agency arrangements will be used to augment in-house capacity by buying-in services at a set price. Contracts will be re-procured and a further attempt made to develop a bank of flexible staffing. There is a business case to use these external resources to address pressures in specific circumstances as well as pooling skills. For example:-

- Delivering specialist services such as IT audits.
- Backfilling to address any additional demand from and external clients.
- Cover for unexpected shortfalls due to prolonged staff absence or vacancies.

We propose to buy in **110** days in 21/22, partly to cover off the vacancy situation, then reduce to **50** days (but with budget capacity to purchase slightly more to cover contingencies for any further vacancies or prolonged absences). Further days may also be purchased to backfill any additional work from external clients, which would be funded from part of the extra income raised.

6.1.4 Taking all these factors into account, the expected resource level is:-

	21/22	22/23	23/24
Baseline days – audit staff	1,180	1,350	1,350
Utilisation of FACT officers	95	75	75
Bought in support	110	50	50
Total days available	1,385	1,475	1,475
Less external clients	(60)	(50)	(50)
Available to Hull City Council	1,325	1,425	1,425
Expected Total	1,325	1,425	1,425

These figures include audit planning and risk management activities which were previously 'off-plan' (apart from a notional 25 days for the assurance value previously attributed to the risk management activity). This has added 150 days (125 net) to the above figures as compared with previous years.

6.2 Levering Additional Resources through Collaboration

6.2.1 Internal Audit is committed to working with/alongside other services and bodies both within and outside of the Council in order to deliver an increasingly efficient and effective service.

6.2.2 Collaborative and joint working benefits both the Internal Audit Service and the Council as a whole by making more effective use of available resources and reducing duplication. An example is working with Information Governance Officers, to minimise duplication of effort in providing assurance on the arrangements in place. Another example involves working with neighbouring councils to audit each other's Grant Claims, (where permitted), on a triangular basis and re-cycling the income to purchase backfill support.

6.2.3 Regular liaison meetings are held between Internal Audit and the external auditor. Audit plans are shared and agreed to ensure appropriate coverage and timing, sharing of information and avoidance of duplication.

6.3 Sufficiency of Resources

6.3.1 The s.151 Officer and the Assistant City Treasurer (Audit and Fraud) believe this is sufficient to deliver a minimum plan, having regard to the skills and flexibility of our staff. However, the resourcing of Internal Audit remains exceptionally light in comparison with other councils and there is a risk that only limited scope will be provided in the event of significant non-delivery, material diversion from the plan, or additional emerging risks.

6.3.2 There is a further risk that any non-delivery could result in the external auditor performing additional work, at significant cost to the Council, especially in relation to his Value for Money Opinion, which is based partly on a self-assessment. Current regulations do not permit the external auditor formally to place reliance on internal audit work in relation to the accounts; however any gaps in internal audit coverage could impact on his assessment of risk, which indirectly could lead to additional work being required at greater overall cost.

6.4 Skills

6.4.1 Delivery of this strategy requires skills such as:-

- The ability to liaise with key stakeholders across the organisation.
- The ability to work with minimal supervision.
- The ability to prioritise resources and to re-focus assignments to provide maximum service flexibility where unplanned work requirements and issues emerge.
- The ability to acquire technical knowledge and apply it in a range of scenarios.

6.4.2 The strategy therefore requires a staffing complement of appropriately graded, experienced and qualified staff, who are able to provide a cost effective and quality audit service, and have the capacity to undertake reviews of a more strategic nature. This is commensurate with the staffing structure in place and appropriate training has been requested through the Service's training plan to address identified gaps.

7. Outline Plan and Themes

7.1 An outline plan is proposed based on the following principles:

- Top slicing a quantum of time for annual audits of fundamental systems, sufficient to underpin the Annual Governance Statement and avoid the need for any additional external audit work.
- Top slicing a quantum of time for audits of key corporate systems and risks, e.g. ICT, procurement, etc. These also underpin the Annual Governance Statement as well as addressing key risks.
- Top slicing a block of time for corporate anti-fraud work.

- Top slicing a block of time for school audits. This has reduced over time with Academy conversions and there is a working assumption in the plan that this will now be minimised.
- The remainder to be allocated to strategic risks and associated projects, for which consultation with Directors and City Managers indicates a growing demand, together with departmental audit work, such as establishment audits. Audit work on departmental fraud investigations and other unplanned demands will also come from these allocations, rather than from separate pooled allocations. This is proposed to ensure that Assistant Directors continue to take ownership of the audit activity and risk management in their respective areas.

7.2 Annex A provides an overview of the planned components within each audit theme and indicative time allocations based on existing Internal Audit knowledge. Consultation is currently being undertaken with City Managers, Directors, key partners and other stakeholders to develop a detailed and profiled programme of audits for 21/22 in the context of this overview.

8. Performance Management

- 8.1 Internal Audit presents regular performance reports to managers and the Audit Committee with reference to a selection of performance indicators in respect of cost, coverage, progress against the audit plan, levels of opinion, extent of implementation of recommendations and compliance against the PSIAS Standards.
- 8.2 The Internal Audit Service is required to undergo an annual review of effectiveness, which takes the form of a self assessment against PSIAS requirements. The PSIAS also require a five yearly external assessment which was last undertaken in 2018 and reported to the Audit Committee.
- 8.3 Internal Audit also monitors progress in relation to its contribution to directorate and corporate priorities through the Council's business planning process. This is discussed periodically at meetings of the Finance and Transformation Directorate Management Team.
- 8.4 In addition, more details performance measures are discussed at 1:1's between the Head of Audit & Fraud and the s.151 Officer. Those measures confirm that the audit fieldwork is generally efficient and timely, but there are often delays in getting on site to commence work, and then in finalising audits following draft reports. Work is therefore being undertaken to seek to address those delays (notwithstanding they often arise due to factors outside of auditors' direct control), as well as to review the coding of non-chargeable (off plan) time.

Annex A

Internal Audit Indicative Resource Allocation by Theme 2020/21 – 2023/24

Theme	Overall Objective	Audit Allocation (Days and %)		
		21/22	22/23	23/24
Fundamental Systems	<i>To provide an overall opinion on the adequacy of the control environment in respect of the Council's key systems to underpin the annual governance statement and accounts.</i>	170 13%	185 13%	185 13%
Strategic Risks and Projects	<i>To provide assurance on the mitigation of strategic risks and to assist Service Areas in respect of specific Strategic Projects requested by the Corporate Directors.</i>	275 21%	275 20%	275 20%
Corporate Systems	<i>To provide assurance on the robustness and effectiveness of corporate systems, covering aspects of ICT, risk management, performance management, governance, procurement and project management.</i> <i>To discharge defined roles in respect of external funding verification.</i> <i>To audit other cross-cutting risks, e.g. corporate contracts.</i>	125 9%	175 12%	175 12%
Schools	<i>To provide assurance to governing bodies and s.151 officer about the operation of systems and procedures and management of risks in schools.</i> <ul style="list-style-type: none"> • School audits • Pre-transfer audits (re converting Academies) • Follow up audits <i>Also includes cross cutting reviews of services to schools.</i>	30 (Est) 2%	30 (Est) 2%	30 (Est) 2%
Anti-fraud and corruption	<i>To undertake proactive and reactive work in respect of anti-fraud and corruption activity through the ongoing development of the policy framework, increasing awareness and responding to and supporting reported instances, referrals and data matches.</i>	100 8%	100 7%	100 7%

Theme	Overall Objective	Audit Allocation (Days and %)		
		21/22	22/23	23/24
Departmental Audits	<p><i>To review risk based themes across key business areas on a cyclical basis to assess the adequacy of controls and procedures at a sub-corporate level.</i></p> <p><i>To conduct probity reviews in a visible manner across a selection of establishments and sites. To work in conjunction with other support functions to ensure resources are maximised and assurance activity is streamlined.</i></p> <p><i>To verify that previous actions are implemented.</i></p> <p><i>To perform any investigations and departmental anti-fraud work as required</i></p>	450 34%	475 33%	475 33%
Risk Management Activities and Audit Planning	<p>Risk management co-ordination and assurance activity (previously off plan except for a notional 25 days).</p> <p>Risk-informed audit planning (previously recorded as 'non-chargeable'/off-plan activity).</p>	150 11%	150 11%	150 11%
Contingency	<p>To enable responsiveness for unplanned activity without impact upon planned workload. This time budget is usually allocated to relevant themes throughout the year.</p>	25 2%	35 2%	35 2%
Total		1325	1425	1425