

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	13 February 2018
Subject:	Internal Audit Strategy and Annual Plan 2018/19
Head of Service:	Marc Jones, Head of Function (Resources) / S151 Officer 01248 752601 MarcJones@ynysmon.gov.uk
Report Author:	Marion Pryor, Head of Audit and Risk 01248 752611 MarionPryor@ynysmon.gov.uk
Nature and Reason for Reporting: This report submits the proposed Internal Audit Strategy and Annual Plan for 2018/19 for the Audit and Governance Committee's approval. The Public Sector Internal Audit Standards require the chief audit executive to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals, which the Audit and Governance Committee must approve (Standard 1110).	

1. Introduction

- 1.1. The proposed Internal Audit Strategy and Annual Plan for 2018/19 is attached for review and discussion by the Committee.

2. Background

- 2.1. The Public Sector Internal Audit Standards (PSIAS) require me, as the chief audit executive, to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the Council's goals.
- 2.2. In prioritising our finite resource, we have to undertake sufficient work to enable me to deliver an annual internal audit opinion for the Council to inform its Annual Governance Statement.
- 2.3. Traditionally, Internal Audit would plan its work using a three- or even five-year planning strategy. For the 2017/18 Audit Plan, the former Audit Manager rolled forward the three-year strategy, following consultation with SLT and Heads of Service.
- 2.4. However, the External Quality Assessment undertaken in March 2017 highlighted that although this planning methodology complied with the PSIAS, consideration should be given to whether three-year planning was effective and worthwhile. The assessor questioned whether Internal Audit was able to

focus on what would matter to the Council in three years' time and further stated that the rate of change in local government suggests a maximum of one-year planning and perhaps even less.

- 2.5. Therefore, I have adopted a new approach to developing the Annual Plan for 2018/19. As its basis, I have used the corporate risk register to determine the priorities for internal audit activity, while also being mindful of the Audit Strategy for 2017/18 – 2019/20.
- 2.6. In addition, I have met with Wales Audit Office, the Head of Function (Resources) and Section 151 Officer, the Head of Function (Council Business) and most of the Heads of Service to discuss their views on the proposed areas for review.
- 2.7. This has resulted in a much more focused, relevant and risk-based plan for 2018/19.
- 2.8. It will be a dynamic plan; I will review and adjust the plan, as necessary, in response to changes in the Council's business, risks, operations and programmes to ensure that it remains relevant. I will report changes to the Head of Function (Resources) and Section 151 Officer and the Audit and Governance Committee.

3. Recommendation

- 3.1. That the Audit and Governance Committee approves the Internal Audit Strategy and Annual Internal Audit Plan 2018/19 and notes the new audit approach to audit planning.

Internal Audit Strategy & Annual Plan 2018/19

March 2018

Introduction

1. The Internal Audit Service is an independent and objective internal team that provides assurance and advice to all levels of management and elected members on the quality of operations within the Council. We particularly focus on governance, risk management, performance, improvement, efficiency, and operational and financial control.
2. The service operates to the Public Sector Internal Audit Standards¹ (PSIAS), which defines internal auditing as:

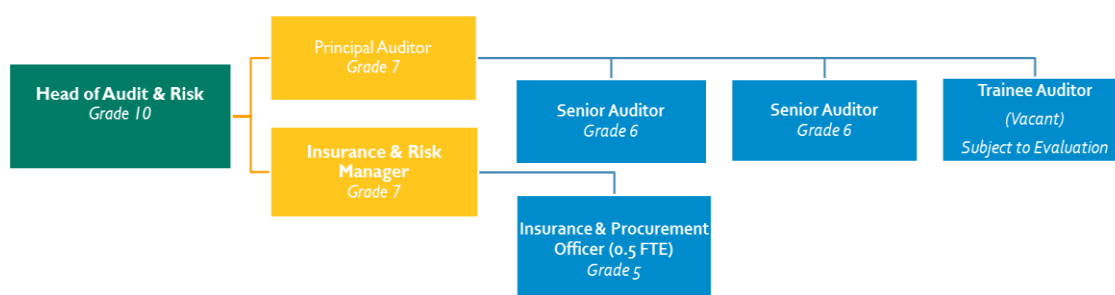
Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management,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

3. An important aspect of internal auditing is the extent to which it helps the organisation to achieve its objectives and improve. This means that the internal audit plan and the work of internal audit must focus on the things that matter to the organisation, and the opinions and improvement suggestions that internal audit provides must help the organisation and be valued by stakeholders.
4. The service's objectives are therefore as follows:
 - To provide independent assurance and advice to management and elected members on risk management, governance and internal control.
 - To develop and promote our role to make a significant contribution to the Council's aim to modernise, deliver efficiencies and improve services for our customers.
 - To add value in all areas of our work, providing excellent service to our customers.

¹ The Public Sector Internal Audit Standards (2017) are issued by the Relevant Internal Audit Standard Setters (CIPFA, Department of Health, Welsh Government, Department of Finance (NI), HM Treasury and the Scottish Government) and apply the Institute of Internal Audit International Standards to the UK Public Sector

Service structure and capacity

5. The Internal Audit service has undergone significant change in recent years and this will continue during 2018/19. For the past 10 years, the chief audit executive's post has been outsourced. From 1 April 2017, the service has appointed its own Head of Audit and Risk, who has introduced a new streamlined and modern audit approach, using '*Systems Thinking*', sometimes referred to as '*Lean Audit*'.
6. Risk Management and Insurance now forms part of the service. Close working between the two teams – Internal Audit and Risk Management will bring added benefits when adopting a risk-based approach to internal auditing, which is an integral part of the new audit approach and this Strategy.
7. The Corporate Counter Fraud Officer retired in August 2017 and the post was deleted from the structure. Although the team will continue to investigate fraud where appropriate, the National Fraud Initiative matches will be distributed to the relevant services to review their own matches. Internal Audit will maintain a coordinating and monitoring role.
8. A further change during the year was the resignation in December 2017 of one of the Senior Auditors after a long-term absence. We will take the opportunity to appoint a trainee to 'grow our own' in accordance with the Council's recruitment and retention aims.
9. The service includes an excellent mix of professional qualifications, including CIPFA², CIIA³ and ACCA⁴, along with academic qualifications in Change Management, Business and Accountancy.
10. The organisation chart below shows the planned structure for 2018/19:



² Chartered Institute of Public Finance and Accountancy

³ Chartered Institute of Internal Auditors

⁴ Association of Chartered Certified Accountants

Risk-based audit planning

11. There are various requirements of the Public Sector Internal Audit Standards to be satisfied when carrying out the planning of internal audit's work. Standard 2010 states that the chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals and Standard 2120 states that the internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.
12. Over the last few years, the need to manage risks has become recognised as an essential part of good corporate governance practice. This has put organisations under increasing pressure to identify all the business risks they face and to explain how they manage them.
13. In addition, the activities involved in managing risks have been recognised as playing a central and essential role in maintaining a sound system of internal control.
14. While the responsibility for identifying and managing risks belongs to management, one of the key roles of internal audit is to provide assurance that management those risks have been properly managed.
15. A professional internal audit activity can best achieve its mission as a cornerstone of governance by positioning its work in the context of the organisation's own risk management framework.
16. Risk-based internal auditing allows internal audit to provide assurance to 'those charged with governance' that risk management processes are managing risks effectively, in relation to the risk appetite. It also seeks at every stage to reinforce the responsibilities of management and the elected members for managing risk.
17. Risk-based internal audit is at the cutting edge of internal audit practice. It is a dynamic process and therefore more difficult to manage than traditional methodologies. Monitoring progress against an annual plan that is constantly changing is a challenge. However, the rewards outweigh these difficulties and will provide assurance that:
 - management has identified, assessed and responded to risks above and below the risk appetite
 - responses to risks are effective but not excessive in managing inherent risks within the risk appetite
 - risk management processes, including the effectiveness of responses and the completion of actions, are being monitored by management to ensure they continue to operate effectively

- risks, responses and actions are being properly classified and reported.
18. Performance measures have been reviewed to ensure the difficulties in measuring internal audit's effectiveness have been taken into account ([discussed later](#)).

Fraud

19. The Public Sector Internal Audit Standards include a requirement for the internal audit activity to evaluate the potential for the occurrence of fraud, and how the organisation manages fraud risk (Standard 2120).

Improvement

20. Standard 2130 requires the internal audit activity to assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.
21. One of the aims of Internal Audit is to help services to improve, so it is possible that some of these reviews will not be traditional audits and may take the form of consultancy projects. If that is the case, the resulting report will make it clear that this is not an audit and will not contain an audit opinion in the usual way.

Internal Audit Priorities

22. Historically, the audit planning process in Anglesey used a three-year rolling plan. By its nature, this involved predicting the audit reviews that needed to be undertaken three years in advance, which in an ever-changing environment is no longer appropriate.
23. The External Quality Assessment carried out in March 2017 concluded that:

“Although complying with PSIAS, consideration should be given to whether three-year planning is effective and worthwhile. Is IA really able to focus on what will matter to the organisation in three years’ time? The rate of change in local government suggests a maximum of one-year planning and perhaps even less.”

24. To allow Internal Audit to provide a more flexible approach to internal auditing to take account of changes in the organisation and the risk environment, the Head of Audit and Risk will regularly meet with Heads of Service to discuss their latest risks, concerns and requirements. In this way, Internal Audit will be fully up to date with, and aware of, emerging issues and will be able to focus its resources in areas of greatest priority and risk at that time.
25. The Head of Audit and Risk has discussed this approach with Heads of Service during recent visits and all welcomed the new approach and the

improved customer service and focus that this will provide. The Senior Leadership Team also supports this new approach.

26. Rather than have a traditional 'fixed' annual audit plan, it may change during the year following the Head of Audit and Risk's visits to services and changes to the corporate risk register. Therefore, this Strategy does not provide a definitive list of the projects that will be carried out during 2018/19 but provides the audits that have been identified as the main priorities now. These current priorities are listed in [Appendix I](#).
27. In addition, once the results of the latest round of Service Challenges have been reported (expected in mid-February 2018), these may provide other priorities.
28. The traditional planning approach included an estimate of the number of days that would be spent on each audit but this would often change during the year once work started, so had no real benefit at the initial planning stage. The new approach means that only indicative days are shown at present, but will be agreed with services once the first audit-scoping meeting takes place and Internal Audit knows exactly what the project will entail.
29. Currently, the Plan is under resourced by 50 days, but changes to the risk environment during the year, and the use of a contingency, will enable us to deliver the plan and allow enough work to enable the Head of Audit and Risk to fulfil the requirement to produce an annual internal audit opinion, to support the Annual Governance Statement.

Follow Up

30. Standard 2500 states that the chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.
31. Competing priorities, budget limitations and other factors may prevent managers from implementing agreed actions in the agreed timeline or as previously designed to mitigate the risk. The purpose of follow up is to ensure that management has implemented the action, and that it has addressed the Issue/Risk.
32. Managers who do not implement agreed actions arising from internal audit findings expose the organisation to risk. By following up on the actions, this helps to prevent it becoming an issue.
33. In accordance with our agreed Internal Audit Charter, we will follow up all Issues/Risks included within audit reports with a 'Limited' or 'Minimal' Assurance rating.
34. We will help the organisation to track the implementation of all actions and will log all agreed actions on an internal tracking system.

Consultation

35. The Head of Audit and Risk has met with the Senior Leadership Team, Heads of Service and the Wales Audit Office to discuss the Strategy and the proposed Annual Internal Audit Plan.

Reporting

36. The Head of Audit and Risk will report all changes to the Audit and Governance Committee and the Head of Function (Resources) and Section 151 Officer.

Performance Measures

37. Externally, where relevant, we will continue to benchmark our performance with the rest of Wales using the Welsh Chief Auditors Group performance measures. These are currently under review for their appropriateness.
38. Internally, we will adopt the following performance measures as an indicator of our efficiency, effectiveness and added value:

Performance Measure	WCAG Average 2015/16	Target 2017/18	Q3 2017/18 Actual	Target 2018/19
Percentage of internal audit Issues / Risks implemented within the agreed timescale (Catastrophic, Major and Moderate priority)	n/a	90%	92%	90%
Percentage of audits completed within the planned time	68%	80%	90%	90%
Percentage of clients' responses expressing at least 'satisfaction' with the conduct of audit assignments	99%	100%	100%	100%
Percentage of directly chargeable time against total available (productivity indicator)	67%	65%	57%	65%
Average actual number of days between the closing meeting and the issue of the draft report	7.2 days	6.5 days	8.8 days	6.5 days
Average actual number of days between receipt of the response to the draft report and issue of final report	3.4 days	2 days	2.3 days	2 days
The percentage of corporate risks (red and amber inherent risks) reviewed by Internal Audit	n/a	New	New	80%

Appendix I – Audit Priorities 2018/19

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Proposed Days 2018/19
CORPORATE RISK REGISTER – HIGH & MEDIUM RESIDUAL RISKS				
Corporate	Business Continuity	Corporate Risk Register	C2 YM10	10
Corporate	Welfare Reform	Corporate Risk Register	C2 YM11	10
Corporate	Corporate Safeguarding	Corporate Risk Register	C1 YM12	10
Corporate	Energy Island Programme (including major schemes such as Wylfa Newydd)	Corporate Risk Register	C2/D2 YM15 YM19/20	10
Corporate	Sickness Management	Corporate Risk Register	C2 YM29	15
Corporate	CONTEST (Countering Terrorism and Preventing Radicalisation)	Corporate Risk Register	E1 YM34	10
Corporate	Payment Card Industry Data Security Standards (PCIDSS)	Corporate Risk Register	D1 YM41	10
Corporate	Risk Management	Limited assurance (August 2015). New process implemented October 2017.	n/a	10
Corporate	Well-being of Future Generations Act	High-profile legislation that has a significant impact on the way the Council works. It is subject to specific review by WAO.	n/a	10
Corporate	Social Services and Well-being Act - Part 9 requirements	High-profile legislation that has a significant impact on the way the Council works. Extension from WG to implement pooled budgets.	n/a	10
Corporate	Managing the Risk of Fraud	PSIAS requirement	n/a	20
HEAD OF FUNCTION – RESOURCES & SECTION 151 OFFICER				
Resources	Recovery and Write-offs	Key Financial System - S151 concerns	n/a	15
Resources	Income	Key Financial System - external audit assurance	n/a	20
Resources	Payroll	Key Financial System - external audit assurance	n/a	20
HEAD OF FUNCTION - COUNCIL BUSINESS & MONITORING OFFICER				
Legal Services	Land Registration	Corporate Risk Register	D1 YM33	10

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Proposed Days 2018/19
HEAD OF FUNCTION - TRANSFORMATION				
ICT	IT Audit - Cyber Security	Corporate Risk Register	C1 YM35	15
ICT	IT Audit - IT Infrastructure	Service Risk Register	D2 T2	10
Corporate	Customer Care (including Cyswllt Môn)	Corporate Risk Register	B3 YM40	15
HR	Recruitment & Retention	Corporate Risk Register	C2/D2 YM5	15
HEAD OF REGULATION & ECONOMIC DEVELOPMENT				
Regulation & Economic Development	Leisure Services	Corporate Risk Register	B3 YM39	20
HEAD OF HIGHWAYS, WASTE & PROPERTY SERVICES				
Highways	Car Park Services – Enforcement	New pilot in place from 2017/18 with external organisation for car parking enforcement.	n/a	20
HEAD OF HOUSING				
Housing / Regulation & Economic Development	Council House Development	Corporate Risk Register	C1 YM42	15
Housing	Gypsies and Travellers (Requirements of the Housing Act 2014)	Corporate Risk Register	C2/A4 YM36/37	10
HEAD OF ADULT SERVICES				
Adults	Deprivation of Liberty Safeguards	Corporate Risk Register	C2 YM32	15
HEAD OF CHILDREN'S SERVICES				
Children's Services	Looked After Children	Corporate Risk Register	C2 YM43	20
HEAD OF LEARNING				
Learning	General Data Protection Regulations (GDPR) - Implementation within Schools	Corporate Risk Register	C2 YM38	10
Learning	Repairs and Maintenance of Schools	Head of Service Request; Learning Services Risk Register		20

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Proposed Days 2018/19
CHARGEABLE NON PROGRAMMED DAYS (PRODUCTIVE)				
	Follow Up Work	Several limited assurance reports requiring follow up		90
	General Counter Fraud Work, National Fraud Initiative, enquiries and referrals	Days reduced due to transfer of NFI work to Insurance & Procurement and matches issued to services for review following the deletion of the Corporate Counter Fraud Officer post		110
	Closure of Previous Year's Work			20
	Grant Certification: School Uniform Grant Rent Smart Wales Grant Education Improvement Grant Pupil Development Grant Sixth Form & Adult Continuing Learning	Grant Requirement		25
	Corporate consultancy			40
	Audit & Governance Committee, including training for members			40
	Management Review			50
	Contingency			100
	TOTAL			850
NON CHARGEABLE DAYS (NON-PRODUCTIVE)				
	Risk & Insurance			30
	General Administration			60
	Personal Development & Review, 121 & Team Meetings			35
	Management, including liaison with External Audit and audit plan preparation			50
	Annual Leave (160), including statutory leave (40) and special leave (15)			215
	Sick Leave			35
	Training and Development for staff, including induction and Welsh lessons			75

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Proposed Days 2018/19
	TOTAL			500
	TOTAL RESOURCE REQUIREMENT			1350
	RESOURCE AVAILABLE			1300
	RESOURCE SHORTFALL			-50
	PRODUCTIVITY			67%