

| ISLE OF ANGLESEY COUNTY COUNCIL | |
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| Report to: | Audit and Governance Committee |
| Date: | 12 February 2019 |
| Subject: | Internal Audit Strategy 2019/20 |
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| Nature and Reason for Reporting: This report submits the proposed Internal Audit Strategy for 2019/20 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 for 2019/20 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. 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.
- 2.2. As its basis, I have used the corporate risk register to determine the priorities for internal audit activity. In addition, I have met with the Head of Function (Resources) and Section 151 Officer and the Heads of Service to discuss their views on the proposed areas for review.
- 2.3. 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 for 2019/20.



INTERNAL AUDIT STRATEGY 2019-20

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INTRODUCTION

Internal Audit 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 operate to the Public Sector Internal Audit Standards¹ (PSIAS), which define 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.

An important aspect of internal auditing is the extent to which it helps the organisation to achieve its objectives and improve. This means that our work must focus on the things that matter to the organisation, and the opinions and improvement suggestions that we provide must help the organisation and be valued by stakeholders. 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 Relevant Internal Audit Standard Setters (CIPFA, Department of Health, Welsh Government, Department of Finance (NI), HM Treasury and the Scottish Government) issue the Public Sector Internal Audit Standards (2017) and are mandatory for all local and central government bodies.

SERVICE STRUCTURE AND CAPACITY

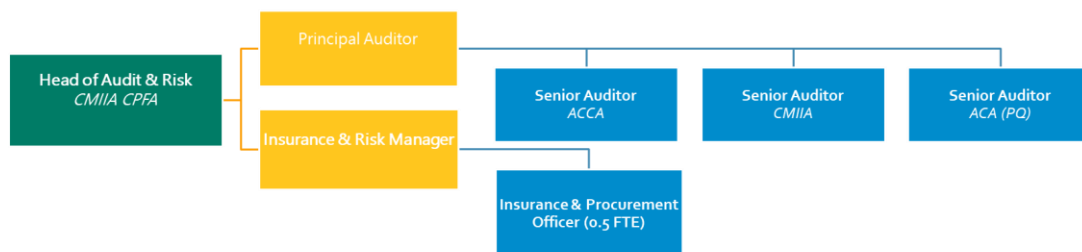
The Internal Audit team has undergone significant change in recent years. The Council outsourced the chief audit executive's post for 10 years, until April 2017, when it appointed its own Head of Audit and Risk.

Since then, we have adopted a **fully risk-based approach** to our work and further efficiencies have been achieved by adopting 'lean audit' - a methodology based on *'Systems Thinking'*.

Risk Management and Insurance also now forms part of the service. Close working between the two teams - Internal Audit and Risk Management, has brought added benefits when adopting the risk-based approach to internal auditing.

Two new Senior Auditors joined the team during 2018 and the team now includes a wealth of internal and external audit experience, along with an excellent mix of professional qualifications, including CIPFA², CIIA³, ACCA⁴ and ACA⁵ and academic qualifications in Change Management, Business and Accountancy.

The organisation chart below shows the structure for 2019-20:



² Chartered Institute of Public Finance and Accountancy

³ Chartered Institute of Internal Auditors

⁴ Association of Chartered Certified Accountants

⁵ Chartered Accountants Ireland

INTERNAL AUDIT ACTIVITY

There are various requirements of the Public Sector Internal Audit Standards to be satisfied when carrying out the planning of internal audit's work.

Risk-based Audit Planning

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. Similarly, Standard 2120 states that the internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Over the last few years, the need to manage risks has been 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. 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.

While the responsibility for identifying and managing risks belongs to management, one of the key roles of internal audit is to provide assurance that those risks have been properly managed. 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.

Consequently, 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. Therefore, **we have aligned our internal audit activity with the corporate risk register**.

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 a plan that is constantly changing is a challenge. However, the rewards outweigh these difficulties and we have reviewed our performance measures to ensure the difficulties in measuring internal audit's effectiveness have been taken into account ([discussed later](#)).

Compliance versus Assurance

Traditionally, auditing was mostly focused on evaluating the past and ensuring compliance. **Compliance is management's responsibility** and auditing has evolved to help organisations look forward and address issues that could affect business performance.

Internal audit is uniquely positioned within the organisation to provide global assurance to the Audit and Governance Committee and senior management on the effectiveness of internal governance and risk processes and to provide assurance in support of the Annual Governance Statement.

There are also other sources of assurance that can be used to provide assurance that risks are being effectively managed. The 'three lines of defence'⁶ model is a framework that can be used to bring these sources of assurance together, and will give assurance to members, sector regulators and external auditors that appropriate controls and processes are in place and are operating effectively.

Our new risk management software (4risk) provides a facility to record the various 'three lines' of assurance in one place, which will be rolled out during 2019-20.

⁶ First Line of Assurance - front line action by the control owner; performance reports to committees/boards etc

Second Line of Assurance - overall management control, financial control (e.g. monitoring reports by other central functions)

Third Line of Assurance - overall assurance provided by internal, external or other regulatory bodies

Fraud

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

During 2019-20, we will review the Council's **approach to counter fraud, anti-bribery and corruption, anti-money laundering and terrorism financing**. We will update the Fraud Response Plan accordingly.

Improvement

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**.

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.

PRIORITIES

Historically, the audit planning process in the Council used a three-year rolling plan. This involved predicting audit reviews that needed to be undertaken three years in advance, which in an ever-changing environment was difficult. In addition, the External Quality Assessment carried out in March 2017 concluded that **this approach was no longer appropriate**.

To provide a more flexible approach and to take account of changes in the organisation and the risk environment, we have aligned our work with the corporate risk register and will meet with senior management to discuss their latest risks, concerns and requirements. In this way, we will be fully up to date with, and aware of, emerging issues and will be able to **focus our resources in areas of greatest priority and risk**.

The Senior Leadership Team and the Audit and Governance Committee support this new approach.

Therefore, rather than have a traditional 'fixed' annual audit plan, the plan will change during the year following changes to the corporate risk register. As a result, this Strategy does not provide a definitive list of the projects that we will carry out during 2019-20 but provides the audits that the Council has identified as its main priorities now. [Appendix A](#) lists these current priorities. A contingency will also account for any *ad-hoc* work requested by management during the year.

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 we know exactly what the audit will entail.

FOLLOW UP

Standard 2500 states that the chief audit executive must establish a follow-up process to monitor and ensure that management has effectively addressed the risks raised or that senior management has accepted the risk of not taking action.

Competing priorities, budget limitations and other factors may prevent managers from addressing Risks/Issues in the agreed timeline or as previously designed to mitigate the risk.

Managers who do not address Risks/Issues arising from internal audit work expose the organisation to risk. By following up, this helps to prevent it becoming an issue.

In accordance with our agreed Internal Audit Charter, we will follow up all Risks/Issues included within audit reports with a 'Limited' or 'No' Assurance rating (definitions of assurance ratings are at [Appendix B](#)). Where reports continue to attract a 'Limited' or 'No' Assurance rating, the Audit and Governance Committee may invite the Head of Service to attend a meeting to discuss the report.

We will help the organisation to track the implementation of all actions and will log all agreed actions on an internal tracking system (4action).

REPORTING

A new, shorter one-page report will aid a **new bilingual reporting protocol**, which will also for the first time enable us to provide final agreed internal audit reports to the Executive Portfolio Holders and members of the Audit and Governance Committee, increasing transparency and accountability and improving the quality of assurance we provide.

We will record agreed action plans in a separate operational document, shared only between the service and us.

We will report progress with delivering the Strategy and will be held to account for our performance in delivering the Strategy by the Audit and Governance Committee and the Head of Function (Resources) and Section 151 Officer.

PERFORMANCE MEASURES

We have in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit service. We will adopt a reduced and streamlined suite of performance measures to determine the effectiveness of our work, which can be seen at [Appendix C](#).

Benchmarking

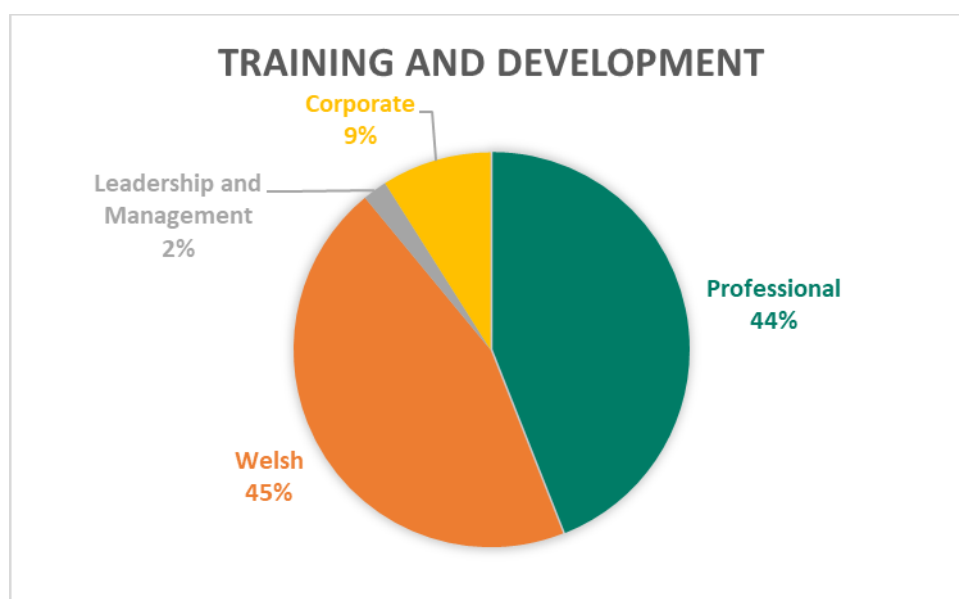
Externally, where relevant, **we will continue to benchmark our performance against our peers**. Benchmarking is a standard against which we are able to measure our quality. It helps the identification of best practice, resulting in changes that bring about improved services. Consequently, we benchmark our performance against the other 21 members of the Welsh Chief Auditors Group.

These performance measures are currently under review for their appropriateness.

TRAINING AND DEVELOPMENT

Most members of the team are professionally qualified, with a good mix of professional qualifications. The **service will continue to invest** to ensure they continue their professional development and stay abreast of emerging risks and developments in the sector.

We will also participate in the mandatory corporate training, where required. In total, the service will invest 100 days (7.7%) in training and development during 2019-20, consisting of the following:



CHALLENGES GOING FORWARDS

In a small team, staff absence can have a significant impact. In 2018-19, two vacancies and a long-term absence significantly reduced the resource available to deliver the internal audit activity. Consequently, we significantly missed our target of achieving 80% coverage of the red and amber residual risks in the corporate risk register.

Maternity leave will affect the first half of 2019-20 and reduce our capacity. However, it will be the third year in post for the Head of Audit and Risk and the second year of operating the new audit methodology. The experience from last year has provided valuable learning; a new, enthusiastic and dedicated team, and new risk management software, will place the internal audit team in **a good position to ensure delivery of its strategy and continue to support the Council as a key component of its governance structure.**

Delivery of this Strategy will enable the Head of Audit and Risk to fulfil the requirement to produce an annual internal audit opinion, **to support the Annual Governance Statement.**

APPENDIX A: INTERNAL AUDIT PRIORITIES 2019-20

| Service / Section | Title | Reason for Inclusion | Corporate Risk Rating (Residual) | Indicative Days 2019-20 |
|-----------------------|--|---|----------------------------------|-------------------------|
| CORPORATE-WIDE | | | | |
| Corporate | Business Continuity | Corporate Risk Register | C2 YM9 | 10 |
| Corporate | Welfare Reform | Corporate Risk Register | C2 YM10 | 10 |
| Corporate | Corporate Safeguarding | Corporate Risk Register | D2 YM11 | 10 |
| Corporate | Corporate Planning | Corporate Risk Register | C2 YM13 | 15 |
| Corporate | Financial Planning | Corporate Risk Register | C2 YM19 | 15 |
| Corporate | CONTEST (Countering Terrorism and Preventing Radicalisation) | Corporate Risk Register | E1 YM27 | 10 |
| Corporate | General Data Protection Regulations | Corporate Risk Register | C2 YM31 | 10 |
| Corporate | Payment Card Industry Data Security Standards (PCIDSS) | Corporate Risk Register | D1 YM34 | 15 |
| Corporate | Leavers' Process | Concerns raised | n/a | 15 |
| Corporate | Risk Management | PSIAS requirement | n/a | 10 |
| Corporate | Managing the Risk of Fraud | PSIAS requirement | n/a | 20 |
| Corporate | Culture – Protecting Reputation and the Use of Social Media | Horizon Scanning | 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 | 5 |
| 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 | 5 |

| Service / Section | Title | Reason for Inclusion | Corporate Risk Rating (Residual) | Indicative Days 2019-20 |
|--|---|---|----------------------------------|-------------------------|
| RESOURCES | | | | |
| Resources | Recovery and Write-offs | Key Financial System - S151 concerns | n/a | 10 |
| Resources | Corporate Procurement | Corporate Risk Register | D2 / D2 YM20 YM22 | 10 |
| Resources | Corporate Procurement Cards | Concerns raised | n/a | 20 |
| Resources | Payroll | Key Financial System - restructure and new system; external audit assurance | n/a | 20 |
| COUNCIL BUSINESS | | | | |
| Legal Services | Land Registration | Concerns raised | n/a | 15 |
| TRANSFORMATION | | | | |
| ICT | IT Audit - Cyber Security (Cloud Computing) | Corporate Risk Register | C1 YM28 | 15 |
| ICT | IT Audit - IT Security | Corporate Risk Register | C1 YM38 | 15 |
| Human Resources | Recruitment & Retention | Corporate Risk Register | C2 YM5 | 10 |
| Human Resources | Workplace Culture – Discrimination and Staff Inequality | Horizon Scanning | n/a | 10 |
| REGULATION & ECONOMIC DEVELOPMENT | | | | |
| Regulation & Economic Development | Energy Island Programme | Corporate Risk Register | C2/D2 YM16 YM17 | 20 |
| Regulation & Economic Development | Leisure Services - Investment in Facilities | Corporate Risk Register | B3 YM32 | 10 |
| Regulation & Economic Development | Leisure Services - Governance and Control | Head of Service Request - major structural changes (carried forward from 2018/19) | n/a | 15 |
| HIGHWAYS, WASTE & PROPERTY SERVICES | | | | |
| Property | Asset Register | Concerns raised | n/a | 10 |
| Highways | Bridges | Horizon Scanning | n/a | 10 |
| HOUSING | | | | |
| Housing | Gypsies and Travellers (Requirements of the Housing Act 2014) | Corporate Risk Register | C2 YM29 | 10 |

| Service / Section | Title | Reason for Inclusion | Corporate Risk Rating (Residual) | Indicative Days 2019-20 |
|--|--|---|----------------------------------|-------------------------|
| ADULT SERVICES | | | | |
| Adults | Deprivation of Liberty Safeguards | Corporate Risk Register | C2 YM25 | 10 |
| Adults | Continuous Healthcare | Horizon scanning | n/a | 10 |
| CHILDREN'S SERVICES | | | | |
| Children's | Integrated Service Delivery Board | Corporate Risk Register | C2 YM36 | 10 |
| Children's | Social Work Practice | Corporate Risk Register | D2 YM37 | 10 |
| LEARNING | | | | |
| Secondary Schools | Sixth Form Provision | Changes | d/b | 20 |
| | TOTAL AUDIT DAYS | | | 400 |
| CHARGEABLE NON PROGRAMMED DAYS (PRODUCTIVE) | | | | |
| | Follow Up Work | Several limited assurance reports requiring follow up, includes reporting and administering 4Action | | 60 |
| | General Counter Fraud Work, National Fraud Initiative | | | 40 |
| | Referrals | | | 50 |
| | Closure of Previous Year's Work | | | 10 |
| | Grant Certification: | Grant Requirement | | 20 |
| | School Uniform Grant | | | |
| | Rent Smart Wales Grant | | | |
| | Education Improvement Grant | | | |
| | Pupil Development Grant | | | |
| | Sixth Form & Adult Continuing Learning | | | |
| | Corporate consultancy | | | 55 |
| | Audit & Governance Committee, including training for members and self-assessment | | | 40 |
| | Management Review | | | 25 |
| | Contingency | | | 26 |
| | TOTAL | | | 306 |

| Service / Section | Title | Reason for Inclusion | Corporate Risk Rating (Residual) | Indicative Days 2019-20 |
|---|--|----------------------|----------------------------------|-------------------------|
| NON CHARGEABLE DAYS (NON-PRODUCTIVE) | | | | |
| | Risk & Insurance | | | 24 |
| | General Administration | | | 40 |
| | Personal Development & Review, 121 & Team Meetings | | | 48 |
| | Management, including liaison with External Audit and audit plan preparation | | | 40 |
| | Leave, including annual, statutory, special and sick leave | | | 342 |
| | Training and Development for staff | | | 100 |
| | TOTAL | | | 594 |
| | TOTAL RESOURCE REQUIREMENT | | | 1300 |
| | RESOURCE AVAILABLE | | | 1300 |
| | RESOURCE SHORTFALL | | | 0 |
| | PRODUCTIVITY | | | 55% |

APPENDIX B: DEFINITION OF ASSURANCE RATINGS

| Level of Assurance | Definition | Management Intervention |
|------------------------------|---|---|
| Substantial Assurance | <p>Arrangements for governance, risk management and internal control are good.</p> <p>We found no significant or material Issues/Risks.</p> | <p>No or only low impact management action is required.</p> <p>Issues/Risks, which management can easily address.</p> |
| Reasonable Assurance | <p>Arrangements for governance, risk management and/or internal control are reasonable.</p> <p>Some inconsistency in application and opportunities still exist to mitigate against further risks.</p> | <p>Management action of moderate to low impact is required.</p> <p>Issues/Risks, which management can address at service level.</p> |
| Limited Assurance | <p>Arrangements for governance, risk management and internal control are limited.</p> <p>There are gaps in the process that leave the service exposed to risks. The service is not meeting its objectives or are meeting without achieving value for money.</p> | <p>Management action of high to moderate impact is required.</p> <p>Issues/Risks, which Heads of Service need to resolve and SLT may need to be informed.</p> |
| No Assurance | <p>Arrangements for governance, risk management and internal control are significantly flawed.</p> <p>Key controls are insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls and we have detected errors and omissions.</p> | <p>High impact management action is required in a number of areas.</p> <p>Issues/Risks that require the immediate attention of SLT, with possible Executive intervention.</p> |

APPENDIX C PERFORMANCE MEASURES AND BENCHMARKING WITH WELSH CHIEF AUDITORS GROUP (WCAG)

| Performance Indicator | Target 2019/20 | Actual Performance 2018/19 (to Q3) | Actual Performance 2017/18 | WCAG Average 2017/18 |
|---|----------------|------------------------------------|----------------------------|----------------------|
| Red and Amber Residual Risks in the Corporate Risk Register audited | 80% | 29% | Not Measured | Not Measured |
| Clients responses at least 'satisfied' | 100% | 100% | 100% | 98% |
| Customer Questionnaires Returned | 65% | 63% | 41% | 65% |
| Reported to Audit and Governance Committee within target | 80% | 87% | 76% | Not Measured |
| Audits completed within planned time | 90% | 100% | 86% | 73% |
| Number of staff | 5 | 4.0 FTE | 4.3 FTE | 7 |