

ISLE OF ANGLESEY COUNTY COUNCIL	
<b>Report to:</b>	Audit and Governance Committee
<b>Date:</b>	11 February 2020
<b>Subject:</b>	Draft Internal Audit Strategy 2020-21
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<b>Nature and Reason for Reporting:</b> This report submits the draft Internal Audit Strategy for 2020-21 for the Audit and Governance Committee's consideration to determine if it meets the Council's assurance requirements. 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 2020-21 is attached for review and consideration 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 Council Leader, the Senior Leadership Team and all heads of service to discuss their views on the proposed areas for review and their areas of concern.
- 2.3. Due to the uncertainty around recruitment, I have not yet developed an operational plan. Once recruitment is complete, I will develop a plan and keep it under review, as necessary, adjusting it 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 Director of Function

(Resources) and Section 151 Officer and the Audit and Governance Committee.

- 2.4. Following the incorporation of any feedback, I will submit a final Internal Audit Strategy, including an operational plan, to the Audit and Governance Committee on 21 April 2020 for approval.

### **3. Recommendation**

- 3.1. That the Audit and Governance Committee considers the Internal Audit Strategy for 2020-21 and considers whether the approach and priorities outlined fulfil the Council's assurance needs.



# DRAFT INTERNAL AUDIT STRATEGY 2020-21

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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 Standards<sup>1</sup> (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

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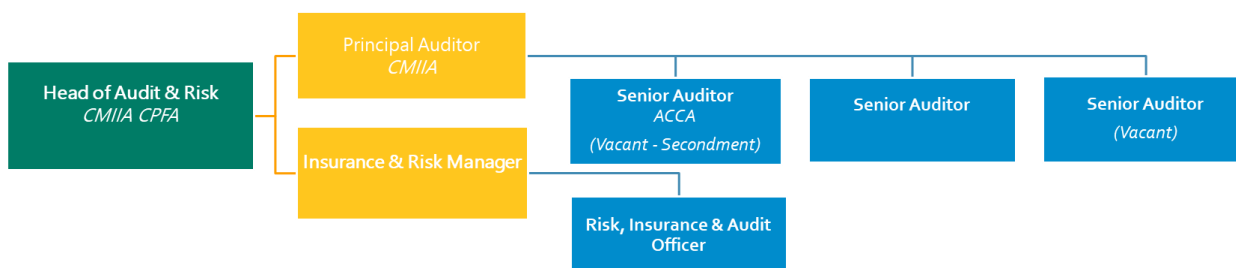
<sup>1</sup> The Relevant Internal Audit Standard Setters (CIPFA, Department of Health, Welsh Government, Department of Finance (NI), HM Treasury and the Scottish Government) issue the Public Sector Internal Audit Standards (2017) and are mandatory for all local and central government bodies.

# SERVICE STRUCTURE, CAPACITY AND TRAINING

The Internal Audit team has undergone significant change in recent years. Adopting a fully risk-based approach, 'lean audit' and integrating Internal Audit and Risk Management, has improved the assurance it provides to the Council.

The team has responded well; staff have changed their skill sets, delivered more complex and strategic audits in less time, and managed higher workloads. Staff turnover has unfortunately been high, due to internal and external promotions and we currently have two vacancies (one temporary and one permanent), which we are recruiting.

However, the team continues to include a wealth of internal and external audit experience, along with an excellent mix of professional qualifications, including CIPFA<sup>2</sup>, CIIA<sup>3</sup>, and ACCA<sup>4</sup> and academic qualifications in Change Management, Business and Accountancy.



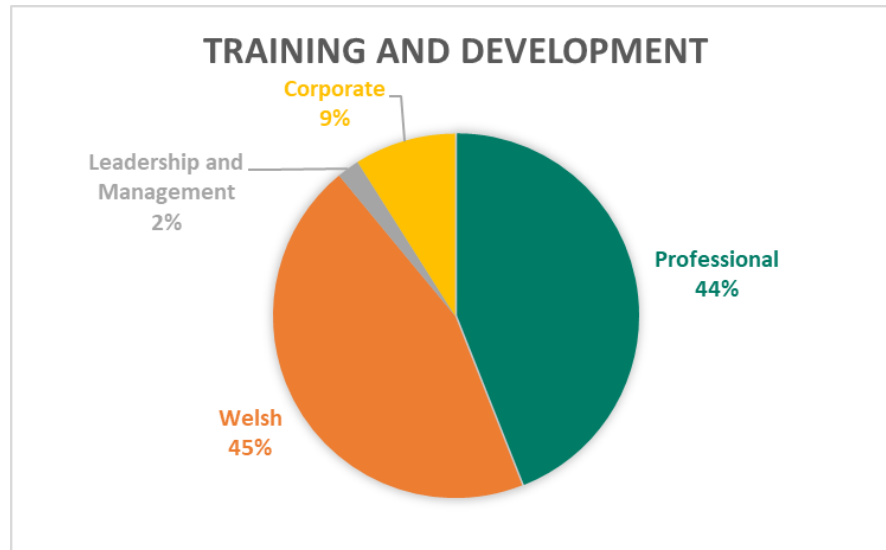
<sup>2</sup> Chartered Institute of Public Finance and Accountancy

<sup>3</sup> Chartered Institute of Internal Auditors

<sup>4</sup> Association of Chartered Certified Accountants

## Training

The **service will continue to invest** to ensure the team continues their professional development and stays abreast of emerging risks and developments. We will also participate in the mandatory corporate training, where required. The team will invest around 100 days in training and development during 2020-21, consisting of:



# AUDIT PLANNING

There are various requirements to be satisfied when carrying out the planning of internal audit's work.

## Risk-based Audit Planning

Standard 2010 of the Public Sector Internal Audit Standards 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**.



To provide a more flexible approach and to take account of changes in the organisation and the risk environment, we will also 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.**

## 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.

## Assurance Mapping

There are also other sources of assurance that can be used to provide assurance that risks are being effectively managed. Internal audit is uniquely positioned within the organisation to provide holistic assurance to the Audit and Governance Committee and senior management on the effectiveness of internal controls, governance and risk management. It is also well placed to fulfil an advisory role on the coordination of assurance.

The 'three lines of defence (or assurance)' 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.

We use our risk management software (4risk) to record the 'three lines of defence/assurance':

- 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

## PRIORITIES

This has been a year of uncertainty for local government, both financially and politically. Most of the key challenges relate to budgets being squeezed and an increased demand for services, along with some new emerging challenges.

Local government continues to face a relentless perfect storm:

- Budget cuts, diminishing reserves and financial uncertainty
- Changing and increasing demand pressures
- Demographic and technological challenges
- Other cost pressures such as increased employer national insurance contributions, and the national living wage

Internal Audit's priorities will need to take account of these as well as:

- Austerity is a driver for change - where there is change, there is a risk
- With workforce cuts and re-organisations, there is the risk of dissatisfied staff and a loss of experience
- Cutting costs can also lead to cutting of controls
- The organisation needs to be more inventive (and sometimes takes greater risks), which needs to be taken into account when conducting audits.

Consequently, deciding Internal Audit's priorities will be more important and also more difficult.

## Corporate Risk Register

To ensure we are concentrating on what matters most to the Council, the majority of the internal audit activity will be a review of the red and amber residual risks on the corporate risk register. These will be the priority areas for Internal Audit review. Currently, the corporate risk register includes 12 areas where the residual risk has been assessed as red or amber. The top five of which are:

- The risk of a **cyber-attack** having a significant impact on the Council's ability to deliver front line and support services (red inherent/red residual)

- The risk that the Council cannot agree on a suitable, cost effective site that meets the needs of those identified in the **Gypsies and Traveller Accommodation Needs Assessment** (red inherent/red residual)
- Risk that the UK's **withdrawal from the EU (Brexit)** will negatively impact the Isle of Anglesey (red inherent/red residual)
- The risk that the real term **reduction in the Council's funding** continues and leads to statutory services being curtailed, priorities not being achieved, investments not being made, and increased staffing pressures (red inherent/red residual)
- Risk that the Council is unable to **recruit, retain and develop suitable staff** to deliver efficient and effective services (red inherent/amber residual)

The remaining seven include welfare reform, safeguarding, schools modernisation, infrastructure, contracts, investment in leisure facilities and IT failure.

## Fraud

The 'perfect storm' creates an environment ripe for fraud. The CIPFA 'Fraud and Corruption tracker' 2019 highlights the highest areas of fraud (by value) as:

- Housing fraud (53.6%)
- Council Tax fraud (12.1%)
- Business Rate fraud (5.1%)
- Disabled Parking Concession (1.8%)

Other fraud risks include adult social care, procurement, payroll, expenses and mandate fraud. During 2020-21, we will therefore undertake targeted counter fraud activities, to raise awareness and proactively identify fraud in the organisation.

We will also continue with the review of the Council's approach to counter fraud, anti-bribery and corruption, anti-money laundering and terrorism financing and will update the Fraud Response Plan accordingly.

## Climate Change

Climate change and its downstream impacts, such as extreme weather events, is an increasingly significant risk. While governments have begun to take tentative steps to tackle climate change, the public are demanding more urgent action. Climate change may not feature on the Council's risk register, but the increasing frequency of extreme weather events may affect business continuity. Extreme weather events can also have a devastating impact on communities, and can cause serious damage to properties; the Council also needs to protect its housing stock for future generations.

We will consider whether any risk assessment has been carried out to determine the potential impacts, whether the monitoring systems to identify these impacts are working, and if the Council's insurance policies and operational contingency plans are fit for purpose.

## Ash dieback

Ash dieback, *Hymenoscyphus fraxineus* (formerly known as *Chalara fraxinea*), is the most significant tree disease to affect the UK since Dutch Elm Disease. It will lead to the decline and possible death of the majority of ash trees in Britain and has the potential to infect more than two billion ash trees (over 1.8 billion saplings and seedlings to more than 150 million mature trees) across the country.

Ash dieback will lead to changes to our landscape and tree populations, changes to biodiversity and landscape character and potentially increase effects such as flooding caused by the way water interacts with the environment. With current consensus being that up to 85 - 90% of ash trees will die or be severely affected over the next 5 - 15 years the scale of health and safety risks caused by ash dieback alone will mean that it will not be 'business as usual' for any organisation managing ash trees. Tree failures could translate into an increase in the number of people harmed by trees and a potential increase in property claims.

The Council will need to review, where necessary, make changes to tree safety management regimes and practices. This will have major resource implications to make safe those ash trees

close to roads, public rights of way, public spaces, railways, and telephone and electricity cables.

While there is still a degree of uncertainty on how Ash Dieback will impact our society, it is foreseeable that it will result in a loss of current amenity, while elevating risk and the costs of managing these.

Due to the prevalence of Ash trees in parks and roadside verges, the Head of Highways, Waste and Property has raised this issue with us. We will review the action taken by the Council to understand the scale of the issue, the risks it presents and how effectively the Council is controlling and mitigating these risks.

## **Adult Social Care Finance**

There is a widening social care funding gap, which puts critical pressure on the Council to manage its income and expenditure in this area. There is an increasing demand for services and assistance, but reduced resources and capacity to deliver. There is also a direct financial cost to local authorities and a reputational risk from the failure to meet statutory requirements.

At the request of the Director of Social Services, we will review the charging framework for adult social care services.

## **Looked After Children**

The increase in the number of looked after children and the increased complexity of cases has increased the demands on the Council. Along with the difficulty in placing these children, there is also a growing capacity issue with residential care, which is driving up costs. The lack of choice of residential placement means that the quality of provision cannot always be guaranteed. These and other challenges increases the pressure on the workforce. We will therefore conduct a review into children's social care caseload management.

## Grant Funding

The Council is increasingly funded by one-off grants, often received at short notice. Therefore, we will conduct a review of the Council's preparedness to respond to grant funding opportunities.

## IT Audit

Government has rated IT as one of the top four risks to UK national security. With two IT-related risks in the corporate risk register, IT is clearly a significant risk (and opportunity) for the Council. There are substantial risks of being hacked, being unable to use key systems or access key data, all potentially leading to reputational loss, fines in relation to GDPR breaches and a loss of service to vulnerable clients.

With attacks becoming more sophisticated and being seen as big business for criminals, the Council must take proactive action. Having completed two significant pieces of work in this area, we have exhausted our technical capabilities. We will therefore commission the IT Department of Salford City Council to undertake a high-level IT Health Check to provide the Council with the assurance that its IT vulnerabilities are being effectively managed.

## 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 Issues/Risks in the agreed timeline or as previously designed to mitigate the risk.

Managers who do not address Issues/Risks 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 Issues/Risks included within audit reports with a 'Limited' or 'No' Assurance rating. 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).

## PERFORMANCE MEASURES

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.

We have in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit service. We have adopted a reduced and streamlined suite of performance measures to determine the effectiveness of our work, which can be seen in the table below.

Performance Indicator	Target 2020/21	Performance 2019/20 (to Q3)	Performance 2018/19	Performance 2017/18
Red and Amber Residual Risks in the Corporate Risk Register audited	80%	58%	29%	Not Measured
Audits completed within six months	100%	92%	Not measured	Not measured
Clients responses at least 'satisfied'	100%	100%	100%	100%
Reported to Audit and Governance Committee within target	100%	92%	87%	76%
Audits completed within planned time	100%	92%	100%	86%
Number of staff	5.0 FTE	5.0 FTE (plus 1.0 FTE temporary secondment to 31/03/20)	4.0 FTE	4.3 FTE

### Benchmarking

Externally, where relevant, **we will continue to benchmark our performance against** the other 21 members of the Welsh Chief Auditors Group.



## CHALLENGES GOING FORWARDS

In a small team, staff absence can have a significant impact. In 2018-19, two vacancies and a long-term absence and, similarly in 2019-20, two long-term absences and two vacancies at the end of the financial year significantly reduced the resource available to deliver the internal audit activity.

However, the experience from last year has provided valuable learning. A new, enthusiastic and dedicated team, and new risk management software, has placed the internal audit team in a good position to ensure delivery of its strategy. Consequently, it will continue to support the Council as a key component of its governance structure, **enabling the Head of Audit and Risk to fulfil the requirement to produce an annual internal audit opinion, to support the Annual Governance Statement.**