

ISLE OF ANGLESEY COUNTY COUNCIL	
<b>Report to:</b>	Governance and Audit Committee
<b>Date:</b>	20 April 2021
<b>Subject:</b>	Draft Internal Audit Strategy 2021-22
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<b>Nature and Reason for Reporting:</b> This report submits the draft Internal Audit Strategy for 2021-22 for the Governance and Audit 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 Governance and Audit Committee must approve (Standard 1110).	

## 1. Introduction

- 1.1. The proposed Internal Audit Strategy for 2021-22 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 Senior Leadership Team and 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 the current situation, I will keep the priorities under review, as necessary, adjusting them in response to changes in the Council's business, risks, operations and programmes to ensure that they remain relevant. I will report changes to the Director of Function (Resources) and Section 151 Officer and the Governance and Audit Committee.

## 3. Recommendation

- 3.1. That the Governance and Audit Committee considers the Internal Audit Strategy for 2021-22 and considers whether the approach and priorities outlined fulfil the Council's assurance needs.



# DRAFT INTERNAL AUDIT STRATEGY 2021-22 APRIL 2021

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# TABLE OF CONTENTS

FOREWORD - CURRENT CONTEXT	3
INTRODUCTION	4
SERVICE STRUCTURE, CAPACITY AND TRAINING	5
Training	6
AUDIT APPROACH	7
Risk-based Audit Approach	7
Assurance Mapping	7
Agile audit	8
PRIORITIES	9
Corporate risk register	9
Covid-19 risk register	10
Fraud	10
Adult Social Care Finance	11
Grant Funding	11
IT Audit	11
Council Tax and Non-domestic Rates Refunds	11
Gas Safety Inspection	12
Continuous monitoring	12
Outstanding Work from 2020-21	12
FOLLOW UP	13
PERFORMANCE MEASURES	14
Benchmarking	14
CHALLENGES GOING FORWARDS	15

## FOREWORD – CURRENT CONTEXT

The unprecedented circumstances of the global coronavirus pandemic have undoubtedly shaped the outlook for 2021-22. However, coronavirus itself is not a principal risk. Rather than posing new threats, it has exacerbated existing risks, putting them in a new light and forcing the Council to think about them differently or assign to them new levels of priority. For example, cyber and data security is a perennial risk but widespread homeworking has meant that cybersecurity has taken on a new dimension, as the Council's IT infrastructure and perimeter wall were swiftly adapted. Inevitably, phishing attempts and social engineering incidents have soared as 'bad actors' have attempted to exploit security weaknesses following the decampment of staff into their homes.

Well-established risk management and internal control systems have therefore been critical amid the large-scale operational disruption. We rapidly evaluated what we could deliver in 2020-2021; we frequently revisited agreed audit priorities with the Senior Leadership Team to determine new priorities. We worked off-plan, knowing that our initial proposals for 2020-21 had quickly become outdated. By exploiting our already nimble approach, we provided real-time assurance that was targeted at the risks of greatest concern.

We anticipate exploiting this more nimble, agile approach indefinitely by continuing to be forward-looking, proactive and staying as close to the organisation as possible to understand both its risks and its needs. We will use our limited resources wisely to maintain a delicate balance of managing immediate, short and long-term assurance needs. Increasingly, this involves not only operational considerations but also strategic risks and factors in the external environment acting upon the organisation.

The Governance and Audit Committee and the Strategic Leadership Team will depend on this independent, agile and top-down viewpoint for insights into the organisation and its risks during what remains a significantly challenging period.

# INTRODUCTION

Internal Audit is an independent and objective internal team that provides assurance and advice to all levels of management and elected and lay 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 and lay 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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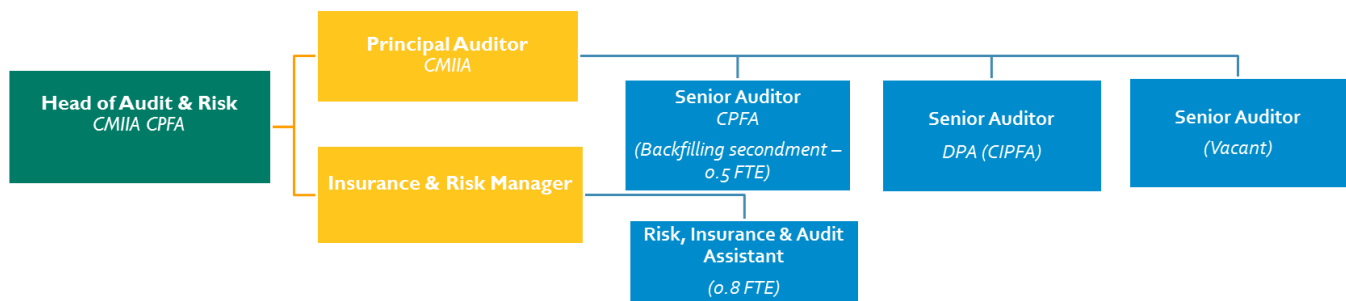
<sup>1</sup> The Relevant Internal Audit Standard Setters (CIPFA, Department of Health, Welsh Government, Department of Finance (NI), HM Treasury and the Scottish Government) issue the Public Sector Internal Audit Standards (2017) and are mandatory for all local and central government bodies.

# SERVICE STRUCTURE, CAPACITY AND TRAINING

The Internal Audit function has undergone significant change in recent years; with the integration of the Internal Audit and Risk Management teams, adopting a fully risk-based approach, the ‘three lines model’ and more recently adopting an ‘agile audit’ approach, 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-level audits in less time, and managed higher workloads. Staff turnover is still an issue, despite a recent recruitment exercise. We are currently carrying 1.5 FTE vacancies at Senior Auditor level due to a secondment and an internal transfer, and 0.2 FTE at Audit Assistant level due to flexible working.

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> and CIIA<sup>3</sup>, and academic qualifications in Change Management, Business and Accountancy.



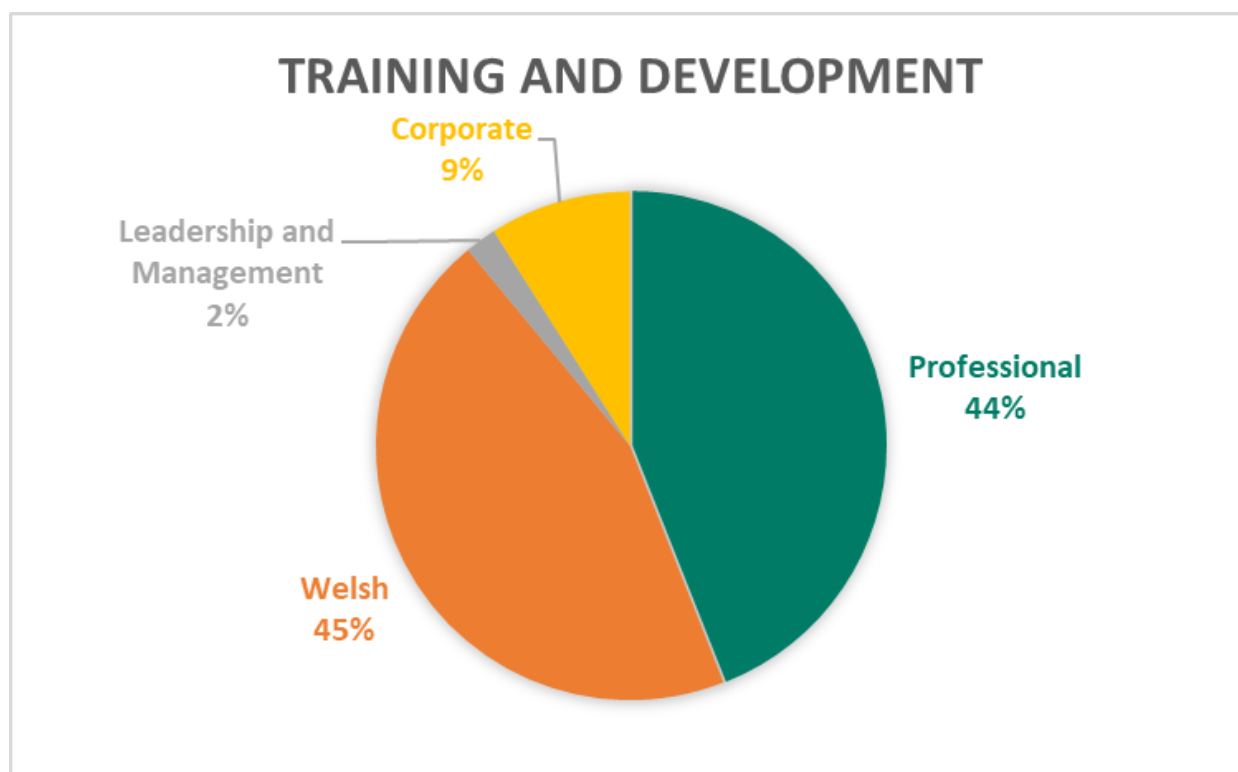
Internal Audit & Risk Management, April 2021

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

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

## 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 2021-22, consisting of:



# AUDIT APPROACH

The Internal Audit profession has undergone radical change since its days as compliance checkers when auditing was mostly focused on evaluating the past and ensuring compliance. Compliance is management's responsibility. Auditing has evolved, moving through 'systems-based' to 'risk-based' audit, and more recently adopting an 'agile-audit' approach to help organisations look forward and address issues that could affect performance.

## Risk-based Audit Approach

Standard 2010 of the Public Sector Internal Audit Standards states that the chief audit executive must establish a risk-based approach to determine the priorities of the internal audit activity, consistent with the organisation's goals.

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 registers.

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

## Assurance Mapping

Internal audit is uniquely positioned within the organisation to provide holistic assurance to the Governance and Audit Committee and senior management on the effectiveness of internal controls, governance and risk management.

The 'three lines 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’:

- First Line - Management: Operational functions and support functions such as HR and Finance
- Second Line - Management, e.g. Legal, Information Security, Quality Assurance, Health & Safety, Enterprise Risk Management / Risk
- Third Line - overall assurance provided by internal, external or other regulatory bodies and Governing Body (Accountability)

We will work with the first and second line to secure these assurances, and the Council’s Corporate Business and Performance Team, to support the Council’s Annual Governance Statement.

## **Agile audit**

The main difference between agile auditing and traditional auditing is flexibility. Instead of rigid, single-phase planning, agile auditing centres around fluid, iterative planning on an ongoing basis. In traditional audit, planning happens months if not years in advance, which can render the ‘plan’ out of date before it is even approved.

The elastic planning cycle of agile audit allows teams to prioritise tasks based on risks and the organisation’s needs. Instead of following a rigid internal audit plan, there is a continually updated backlog of audits and projects.

In agile auditing, there is a core focus on collaboration and communication between the audit team and stakeholders throughout the entire experience. While audit quality is always a key consideration, the priority is on speed and efficiency over delivering a perfectly polished project at the end. Communication is more frequent and informal and there are no surprises.

The more we know, and the sooner we know it, the better we can help the organisation address potential control and risk issues. This helps to limit the negative impact on customers, staff and members.

# PRIORITIES

## 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 seven risks where the Council has assessed both the inherent and residual risk as red. These are:

- The risk that key services cannot be provided following a **major event** (e.g. civil emergency, major flooding, pandemic, foot and mouth, major contractor ceasing to trade etc.) (new)
- The risk of a **cyber-attack** having a significant impact on the Council's ability to deliver front line and support services
- The risk that **IT failure** significantly impacts service delivery
- The risk that the UK's **withdrawal from the EU (Brexit)** will negatively impact the Isle of Anglesey
- 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
- The risk that Anglesey will not fully **recover from the Covid-19 crisis** (new)
- The risk that the Council's physical assets (e.g. buildings, roads, IT network) will not be **fit for purpose** if the Council cannot invest sufficiently to sustain and develop them (new)

The remaining 10 red inherent risks which have an amber-rated residual risk include health and safety, recruitment and retention, safeguarding, demographic change, schools modernisation, infrastructure, Gypsies and Traveller sites, poverty, Ash die-back and climate change.

## Covid-19 risk register

We will also review the management of the Covid-19 risk register to ensure that the Senior Leadership Team continues to effectively manage the risks associated with the pandemic.

## Fraud

The current pandemic creates an environment ripe for fraud. The CIPFA 'Fraud and Corruption tracker' 2019-20 highlights the highest areas of fraud (by value) as:

- Housing fraud (51%)
- Council Tax fraud (15%)
- Business Rate fraud (3%)
- Disabled Parking Concession (3%)
- Other fraud risks include adult social care, procurement, payroll, expenses and mandate fraud, which the Council experienced in early 2020.

A recent report from the Association of Certified Fraud Examiners provides insights on how fraud reporting hotlines and employee training can improve detection. It shows that employees are the best source of fraud reporting and that most reports come through online reporting mechanisms. Fraud awareness training has a considerable impact on reporting.

During 2021-22, we will therefore deliver training and an eLearning package to raise awareness and proactively identify fraud in the organisation and explore the development of an online reporting mechanism.

We will undertake targeted counter fraud activities, including a review of procurement fraud, and continue to support the Welsh Government with its National Fraud Initiative.

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.

## **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 former Director of Social Services, we will review the charging framework for adult social care services.

## **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 three 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 three significant pieces of work in this area, we have exhausted our technical capabilities. We have therefore commissioned the IT Department of Salford City Council to undertake a programme of work to provide the Council with the assurance that its IT vulnerabilities are being effectively managed.

## **Council Tax and Non-domestic Rates Refunds**

An audit of duplicate payments conducted during 2020-21 highlighted potential duplicate payments and control weaknesses in the system for refunding council tax and non-domestic rates. We will review the system to ensure only legitimate refunds are paid.

## Gas Safety Inspection

At the request of the Head of Housing, we will review the gas safety inspection and administration process to provide assurance that the Council is meeting its statutory obligations.

## Continuous monitoring

In early 2021, we purchased software to enable us to analyse large volumes of data quickly and easily. We used the software when conducting the audit of duplicate payments in the Payments function, which helped us to identify over £178k of duplicate payments.

As well as analysing data during other audits, we will continue to work with colleagues in the Payments function to identify duplicate payments and other failures in the purchasing and payment processes.

Through this continuous monitoring, we will identify potential control failures, and the financial ramifications, sooner. Whether it saves the Council money, or it is not a significant loss, discovering control failures early allows for timely remediation and action.

## Outstanding Work from 2020-21

Due to the pandemic, half of the internal audit team were seconded to supporting the front-line response to the emergency. This significantly affected our ability to undertake the work that we had identified before the pandemic took hold and some work was set aside. We will therefore restart this work:

- Housing allocations
- Homelessness (scope extended to include the impact of Covid-19)
- Recovering Council Debts (scope extended to include the impact of Covid-19)
- Purchasing Cards in Schools

## 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 formally 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 Governance and Audit Committee may invite the risk owner or 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 are 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 2021/22	Performance 2020/21	Performance 2019/20	Performance 2018/19
Red and Amber Residual Risks in the Corporate Risk Register audited <sup>4</sup>	80%	28%	50%	29%
Audits completed within six months	100%	85%	93%	Not measured
Clients responses at least 'satisfied'	100%	100%	100%	100%
Number of staff	5.0 FTE	2.6 FTE <sup>5</sup>	4.0 FTE	4.0 FTE

## Benchmarking

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

<sup>4</sup> Due to the fairly stable nature of these risks, this will be measured over a rolling 24-month period from 2021-22

<sup>5</sup> 0.7 FTE supporting Covid-19; 0.4 FTE lost to long-term sickness; 1.7 FTE lost to vacancies and flexible working

## CHALLENGES GOING FORWARDS

In a small team, staff absence can have a significant impact. Ongoing long-term absence, vacancies due to secondment and internal promotion, and redeployment to the Covid-19 emergency response functions continue to reduce significantly 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 action tracking 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.**