

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Governance and Audit Committee
Date:	29 June 2022
Subject:	Internal Audit Strategy 2022-23
Head of Service:	Marc Jones, Director of Function (Resources) / Section 151 Officer MarcJones@anglesey.gov.wales
Report Author:	Marion Pryor, Head of Audit and Risk MarionPryor@anglesey.gov.wales
Nature and Reason for Reporting: This report submits the proposed Internal Audit Strategy for 2022-23 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 strategy 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 2022-23 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 a risk-based strategy 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 strategic 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. 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 2022-23 and considers whether the approach and priorities outlined fulfil the Council's assurance needs.



INTERNAL AUDIT STRATEGY 2022-23

Marion Pryor BA MA CMIIA CPFA

June 2022

Head of Audit & Risk

MarionPryor@anglesey.gov.wales



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FOREWORD – CURRENT CONTEXT

The unprecedented circumstances of the global coronavirus pandemic continue to shape the risk environment for the Council.

Well-established risk management and internal control systems have been critical amid the continued operational disruption. We have rapidly evaluated what we can deliver, and frequently revisited agreed audit priorities with the Senior Leadership Team to determine priorities and provide real-time assurance targeted at the risks of greatest concern.

We continue to exploit a nimble, agile approach by being forward-looking, proactive and staying as close to the organisation as possible to understand both its risks and its needs. We 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 depend on this independent, agile and top-down viewpoint for insights into the organisation and its risks during a continuing 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 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 team's objectives are therefore to:

- provide independent assurance and advice to management and elected and lay members on risk management, governance and internal control
- 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
- add value in all areas of our work, providing excellent service to our customers

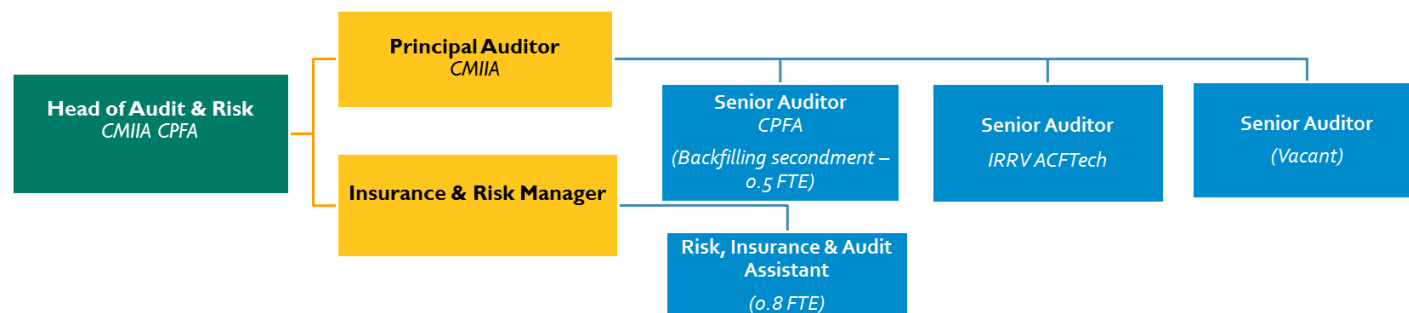
¹ The Relevant Internal Audit Standard Setters (CIPFA, Department of Health, Welsh Government, Department of Finance (NI), HM Treasury and the Scottish Government) issue the Public Sector Internal Audit Standards (2017) and are mandatory for all local and central government bodies.

SERVICE STRUCTURE, CAPACITY AND TRAINING

Structure

The Internal Audit function has undergone significant change in recent years. The integration of the Internal Audit and Risk Management teams and adopting a fully risk-based approach, the ‘three lines model’ and an ‘agile audit’ approach, has improved the assurance it provides to the Council. The team has responded well; staff have adapted their skill sets, delivered more complex and strategic-level audits, and managed higher workloads.

The team includes a wealth of internal and external audit experience, along with an excellent mix of professional qualifications, including CIPFA², CIIA³, IRRV⁴ and ACFTech⁵, along with academic qualifications in Change Management, Business and Accountancy.



Internal Audit & Risk Management, May 2022

² The Chartered Institute of Public Finance and Accountancy (CIPFA) is the professional body for people working in public services.

³ The Chartered Institute of Internal Auditors (CIIA) is a professional association for internal auditors.

⁴ The Institute of Revenues Rating and Valuation (IRRV) is the professional body for local taxation, benefits and valuation.

⁵ The ACFTech is counter fraud qualification provided by CIPFA and accredited by the Counter Fraud Professional Accreditation Board.

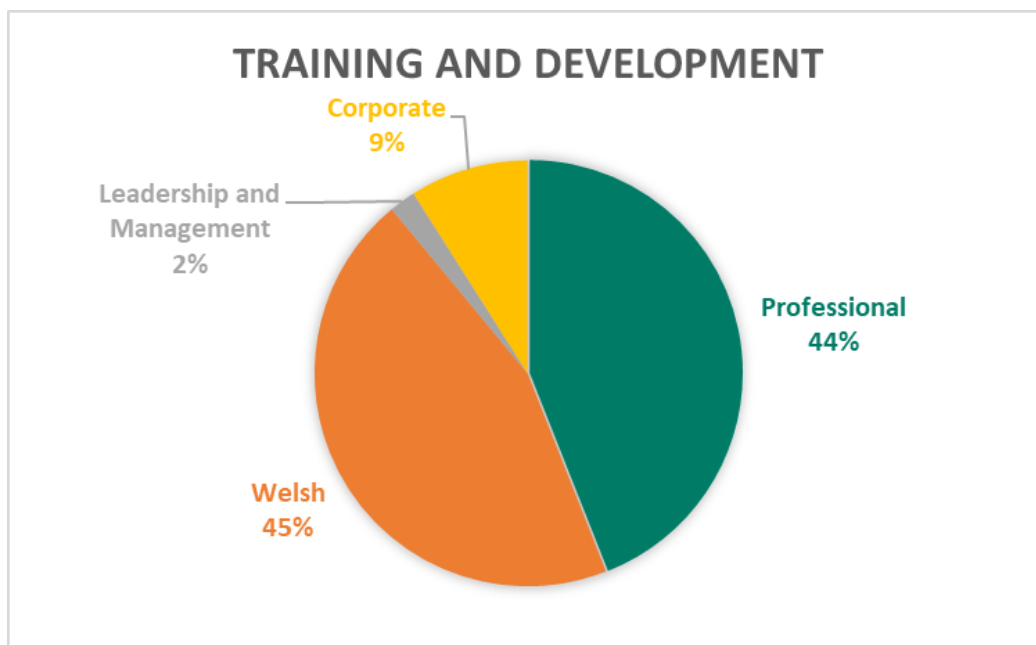
However, staff turnover remains an issue, despite a recent successful recruitment exercise. We are currently carrying 1.5 FTE vacancies at Senior Auditor level due to a secondment and a resignation.

CIPFA⁶ and the CIIA have identified recruitment and retention of staff as a particular challenge for internal audit teams and are planning to undertake some research on options for career paths and routes into internal audit to encourage long-term, sustainable recruitment into the role.

Training

The service will continue to invest significantly in training and development to ensure the team continue their professional development, stay abreast of emerging risks and developments in the sector, and are retained. We will also participate in the mandatory corporate training, where required.

We will invest around 100 days (11%) in training and development during 2022-23, consisting of:



⁶ 'Internal audit: untapped potential', Chartered Institute of Public Finance and Accountancy, May 2022

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 more flexibly.

Unlike traditional internal auditing, where audit plans are carried out within a strict time-frame and may not necessarily cover the most important risks, risk-based internal auditing is driven by the most recent risk assessments, with the top threats being covered first and far more frequently.

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 strategic risk register.

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, and will support the Council's Annual Governance Statement.

We will work with the first and second line to secure these assurances and support the Corporate Business and Performance Team to use our risk management software (4risk) to record the 'three lines':

- First Line - Management: Operational functions
- Second Line - Support functions such as HR, Finance, IT, Legal, Information Security, Health & Safety, Risk Management
- Third Line - overall assurance provided by internal, external or other regulatory bodies and Governing Body (Accountability)

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.

There is also a core focus on collaboration and communication between the audit team and stakeholders throughout the entire experience. Audit quality is always a key consideration, 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

Strategic risk register

To ensure we are concentrating on what matters most to the Council, the majority of our work focuses on reviewing the red and amber residual risks on the strategic risk register (where the inherent risk is red), i.e. red/red and red/amber risks, over a two-year cycle. Consequently, the risks last reviewed during 2020-21 will be prioritised for review (see [Appendix A](#)).

Red/Red Risks

Currently, the strategic risk register includes five (seven in 2020-21) risks where the Council has assessed both the inherent and residual risk as red:

- Risk that the Council is unable to recruit, retain and develop suitable staff, or that the staffing structure is not suitable, to deliver efficient and effective services (YM2)
- The risk of IT failure significantly disrupting service delivery (YM3)
- Risk that the schools modernisation project is not fully implemented and that this affects standards and the ability to deliver education where there is demand and respond to the educational challenges of the future (YM5)
- The risk that the physical assets of the Island (eg buildings, roads, IT network) are not fit for purpose, or meet the needs of residents, businesses and visitors (YM14)
- The risk of a cyber attack having a significant impact on the Council's ability to provide frontline and support services and resulting in a significant fine from the Information Commissioner (YM4)

Red/Amber Risks

The remaining seven (10 in 2020-21) red inherent risks which have an amber-rated residual risk include the Covid-19 pandemic disrupting the Council's ability to deliver its services, the provision of suitable housing in the community, rising poverty increasing demand on Council services, reduction in the Council's funding, business continuity, the carbon neutral target and safeguarding.

IT Audit

The UK Government has rated IT as one of the top four risks to UK national security. Cyber-security and data security are among the top five risks according to chief audit executives in Europe⁷, with 34% saying this is their single biggest risk. This coincides with a material increase in cybercrime over the past 18 months, as criminals have sought to exploit the security weaknesses exposed by operational disruptions.

With an IT-related risk being the top-rated risk in the Council's strategic risk register, along with two other IT-related risks, IT is undoubtedly the most significant risk (and opportunity) for the Council. Advances in technology present new opportunities for service redesign, but they also provide challenges around complexity and security. There are substantial risks of being hacked, staff being unable to use key systems or access key data, all potentially leading to reputational loss, fines in relation to GDPR breaches and critically, a loss of service to vulnerable clients.

Having exhausted our technical capabilities in this area, we have commissioned the IT Auditors 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.

We have sought assurance that the Council has properly risk assessed and put in place hard and soft defensive controls. Hard controls include regularly updating software patches, properly configuring firewalls and threat detection systems, and using least privilege access and two-factor authentication (2FA) to contain attacks from spreading through the entire network from an initially compromised computer.

Soft controls centre on the risk awareness throughout the organisation, sound cybersecurity culture being a key risk mitigation. Once we are confident that these foundations have been laid, we will turn to the Council's ability to respond and recover. If staff do not understand IT continuity plans or worse there are no plans, the Council will expose itself to unnecessary risk. We will therefore seek evidence that these scenarios are being planned for, including dry run

⁷ 'Risk in Focus 2022: Hot topics for internal auditors', European Confederation of Institutes of Internal Auditing (2022)

exercises, and that there are dedicated cyber crisis management and recovery resources with clear lines of accountability and timely incident reporting.

Fraud

During 2021-22, apart from supporting the Welsh Government with its National Fraud Initiative, undertaking reactive investigations and conducting a review of fraud and corruption in procurement, the counter fraud programme was reduced due to capacity issues.

Plans had included delivering training and an eLearning package to raise awareness and to proactively identify fraud in the organisation, along with exploring the development of an online reporting mechanism.

A report from the Association of Certified Fraud Examiners provided insights on how fraud reporting hotlines and employee training improve detection. It showed that employees were the best source of fraud reporting and that most reports come through online reporting mechanisms.

Fraud awareness training, therefore, has a considerable impact on reporting and countering fraud, so along with undertaking targeted counter fraud activities, we will prioritise working with colleagues in the HR Training and Development team to raise awareness via an eLearning package, and will explore online reporting mechanisms.

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. The Counter Fraud, Bribery and Corruption Strategy 2022-2025 will detail these plans.

The Administration of Teachers' Pensions

During 2021-22, following complaints of gaps in some teachers' pensionable service records, the Director of Function (Resources) and Section 151 Officer requested Internal Audit review the process of submitting pension contribution and service information to the Teachers' Pensions Scheme (TPS). We identified a number of issues that could lead to teachers' pensionable

service records held by the TPS being inaccurate, and could lead to criticism and/or fines from the Pension Regulator.

The TPS developed a new process for submitting data, which should have gone live in April 2022. However, problems with reports have delayed implementation. We will review the accuracy of the new data file, once the new process is fully implemented.

The Administration of Local Government Pensions

Issues within pension administration more generally were identified during the audit of the administration of teachers' pensions and the follow up review of the Leavers' Process audit. We will therefore undertake an audit of the administration of the Local Government pension.

Unofficial School Funds

We will continue to support the Director of Education, Skills and Young People to provide assurance that income and expenditure within unofficial school funds are properly accounted for and the governance arrangements are appropriate. This will involve further feedback and training to head teachers, and the quality assurance of school fund audit certificates.

Financial management in Schools

The work to quality assure audit certificates of school unofficial funds and during the audits of some funds highlighted that financial management processes within schools would benefit from closer review.

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, and the follow up, which has helped us to identify over £280k of duplicate payments to date.

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 2021-22

Due to the pandemic and ongoing staff vacancies, our ability to undertake some of the lower priority work we had identified was set aside. A successful recruitment exercise will hopefully enable us restart this work:

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.

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. We will therefore 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.

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 continue to help the Council 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	Performance 2019-20	Performance 2020-21	Target 2021-22	Performance 2021-22	Target 2022-23
Red and Amber Residual Risks in the Strategic Risk Register audited (over a rolling 24-month period)	50%	28%	60%	83%	85%
Audits completed within six months	93%	85%	100%	76%	90%
Clients responses at least 'satisfied'	100%	100%	100%	100%	100%
Number of staff	4.0 FTE	2.6 FTE	5.0 FTE	3.1 FTE	5.0 FTE

Benchmarking

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

CHALLENGES AND OPPORTUNITIES GOING FORWARDS

Change and uncertainty has defined the last two years. The European Confederation of Institutes of Internal Auditing argue that ‘In many cases this will require a complete rethink of internal audit’s strategy, planning and where it focuses its efforts’⁸. It continues ‘Internal audit must be bold. If audit committees expect the third line to concentrate on traditional risk areas that are already well controlled, the business is not realising the full potential of internal audit. In such cases, chief audit executives must push back and educate stakeholders, urging them to harness the third line to assess big and rapidly emerging risk themes.’

Fortunately, for internal audit at the Isle of Anglesey County Council, the Governance and Audit Committee and the Senior Leadership Team have already supported internal audit to be bold, by supporting internal audit’s move to risk-based agile audit in 2018.

Internal audit’s ability to support the organisation in achieving its strategic objectives and priorities (which is provided through an appropriate mix of assurance, consulting activity and advice), is dependent on the quality of the internal audit team. However, in a small team, staff absence has had a significant impact. Therefore, increasing the capacity and capability of internal audit is a priority for improving its impact and effectiveness and to build a highly competent and relevant team that can tackle shifting assurance needs with confidence. There are challenges in ensuring there are sufficiently experienced auditors to complete more complex work as well as providing coaching and support to new and inexperienced staff.

The experience from the last two years has provided valuable learning. New and enthusiastic staff have 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.**

⁸ ‘Risk in Focus 2022: Hot topics for internal auditors’, European Confederation of Institutes of Internal Auditing (2022)

APPENDIX A: RED AND AMBER RESIDUAL RISKS IN THE STRATEGIC RISK REGISTER

Risk Ref	Risk	Date Created (Reviewed)	2018-19	2019-20	2020-21	2021-22
YM 2	Risk that the Council is unable to recruit, retain and develop suitable staff, or that the staffing structure is not suitable, to deliver efficient and effective services.	20/06/18 (12/01/22)	Recruitment & Retention (March 2019)			Recruitment & Retention (May 2022)
YM 3	The risk of IT failure significantly disrupting service delivery	10/09/18 (12/01/22)		IT Audit - IT Resilience (April 2020)	IT Audit - IT Resilience Follow Up (May 2021)	Vulnerability and patch management (Draft) (June 2022)
YM 5	Risk that the schools modernisation project is not fully implemented and that this affects standards and the ability to deliver education where there is demand and respond to the educational challenges of the future.	20/06/18 (12/01/22)	Director of Education, Skills and Young People requested postponement of audit due to pause in the programme			
YM 14	The risk that the physical assets of the Island (e.g. buildings, roads, IT network) are not fit for purpose, or meet the needs of residents, businesses and visitors	19/02/21 (12/01/22)				Investment in Assets (November 2021)
YM 4	The risk of a cyber attack having a significant impact on the Council's ability to provide frontline and support services and resulting in a significant fine from the Information Commissioner.	21/06/18 (12/01/22)	IT Audit - Cyber Security (February 2019)		IT Audit - Phishing (May 2021)	IT Audit - Phishing (First Follow Up) (Draft) (June 2022)
YM 6	The risk of the Covid-19 pandemic disrupting the Council's ability to continue the business and support the community.	11/05/20 (12/01/22)			Review of COVID-19 Emergency Response (April 2020)	

Risk Ref	Risk	Date Created (Reviewed)	2018-19	2019-20	2020-21	2021-22
YM 9	The risk of a lack of suitable housing that local residents can afford in their communities	12/01/22				The Council's arrangements for the provision of suitable housing (Draft) (May 2022)
YM 11	The risk of an increase in poverty increasing demand on Council services	20/06/18 (12/01/22)		Welfare Reform (April 2019)		Coping with homelessness and the effect of Covid-19 (June 2021)
YM 1	The risk that the real term reduction in the Council's funding continues and leads to statutory services being curtailed, priorities not being achieved and increased staffing pressures.	14/05/19 (25/01/21) (12/01/22)		Financial Resilience (April 2020)		
YM 7	The risk that a change beyond the Council's control (e.g. Brexit, Covid-19 pandemic) affects the Council's ability to provide affordable services.	20/06/18 04/01/19 (12/01/22)		Managing the Risks of Brexit (January 2020)	Review of COVID-19 Emergency Response (April 2020)	
				Business Continuity (February 2020)		
YM 8	The risk that the tendency for younger people to leave while older people move to the island continues or accelerates, affecting the Council's ability to provide suitable services and the bilingualism of communities	12/01/22				
YM 13	The risk that the Council cannot adapt to become a carbon neutral Authority by 2030.	07/12/20 (12/01/22)				Climate Change and Sustainability Health Check (Draft) (June 2022)
YM 10	The risk that a serious safeguarding error leads or contributes to serious harm to the vulnerable individuals the Council is responsible for.	20/06/18 (12/01/22)	Deprivation of Liberty Safeguards (June 2018)		Corporate Parenting Panel (January 2021)	