

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Governance and Audit Committee
Date:	18 April 2024
Subject:	Internal Audit Strategy 2024-25
Head of Service:	Marc Jones Director of Function (Resources) and Section 151 Officer MarcJones@anglesey.gov.wales
Report Author:	Marion Pryor Head of Audit and Risk MarionPryor@anglesey.gov.wales
<p>Nature and Reason for Reporting:</p> <p>The Governance and Audit Committee's Terms of Reference has an explicit requirement for the Committee to oversee the Council's internal audit arrangements as part of its legislative duties under the Local Government (Wales) Measure 2011. (3.4.8.10.1)</p> <p>Specifically, the Committee is required to approve (but not direct) the risk-based internal audit strategy, including internal audit's resource requirements and the use of other sources of assurance. (3.4.8.10.5) As part of its consideration of the proposed strategy, the Committee is required to make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations. (3.4.8.10.6)</p> <p>In addition, this report fulfils the requirements of CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022, specifically, in relation to the authority's internal audit function and the Public Sector Internal Audit Standards, which require the chief audit executive to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals. (Standard 2010)</p>	

1. Introduction

- 1.1 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.
- 1.2 In prioritising our finite resource, we have to undertake sufficient work to enable me to deliver an annual internal audit opinion for the Council to inform its Annual Governance Statement.
- 1.3 The Internal Audit Strategy 2024-25 is therefore submitted to the Committee for review and consideration to determine if it meets the Council's assurance requirements.

2. Risk-Based

- 2.1 As its basis, I have used the strategic risk register to determine the priorities for internal audit activity. The Committee's Terms of Reference require the Committee to have a good understanding of the level of assurance risk management provides when it reviews the risk-based internal audit strategy. (3.4.8.10.5)
- 2.2 Consequently, the Committee's attention is drawn to the recent Health Check of the Council's Risk Management arrangements, which commissioned Zurich Resilience Solutions to undertake a review the risk management arrangements across the Council.
- 2.3 Zurich reported the outcome of its work to the Committee at its meeting in [February 2024](#). It assessed the Council to sit in a transitional phase between levels two (In Development) and three (Managed) with some areas of the organisation showing well developed maturity particularly in relation to culture and governance.
- 2.4 The assessment provided the Committee with assurance that risk management is being effectively developed and operated within the Council.

3. Consultation

- 3.1 I have met with the Director of Function (Resources) and Section 151 Officer (the chief financial officer with accountability to ensure an effective internal audit function is resourced and maintained) and heads of service to discuss their views on the proposed areas for review and their areas of concern.

4. Changes

- 4.1 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.
- 4.2 I will report changes to the Director of Function (Resources) and Section 151 Officer and the Governance and Audit Committee.

5. Recommendation

- 5.1 That the Governance and Audit Committee:
- approves (but does not direct) the risk-based Internal Audit Strategy and is content that it provides the Council with the assurance it needs.
 - is content with internal audit's resource requirements and the use of other sources of assurance.
 - is content that there are no inappropriate scope or resource limitations.

Internal Audit Strategy 2024-25

April 2024



Marion Pryor BA MA CMIIA CPFA ACFS

Head of Audit and Risk



Contents

Current context _____	1
Introduction _____	2
Mission and objectives _____	2
Internal audit structure, capacity, training and development _____	3
Audit approach _____	4
Priorities _____	6
Follow up _____	8
Performance measures _____	9
Appendix A – Assurance Map (Third Line) _____	10

¹ [The Global Risks Report 2024, World Economic Forum](#)

² [Risk in Focus 2024 – Hot Topics for Internal Auditors, ECIIA](#)

Current context

1. The 2024-25 Internal Audit Strategy is set against the same themes identified in the 2023-24 Strategy; rapidly accelerating technological change and economic uncertainty, as the world is plagued by a duo of dangerous crises: climate and conflict^{1 2}.
2. Many risks are becoming more prevalent, such as shortages in people skills and experience, targeted cyber-attacks and the impacts of artificial intelligence (AI)³.
3. Navigating these uncertainties requires internal audit to be agile and resilient. We need to proactively integrate our understanding of risk into audits to better anticipate and address potential risks.
4. Critical to helping the Council thrive in this ever-changing landscape, in developing this Strategy, we have considered:
 - shorter timescales for assurance to be impactful
 - process change by services to respond to evolving needs
 - reliance on high-quality, accurate data for decision-making
 - staff turnover and dissatisfaction
 - higher fraud risk

³ [Emerging Risk Radar, RSM, January 2024](#)

Introduction

5. The [Public Sector Internal Audit Standards](#) (PSIAS) 2017 define the nature and set out basic principles for internal auditing in the UK public sector. The PSIAS provide a definition, mission and core principles for internal audit and the activity and standards that must be met.
6. To supplement the PSIAS and provide specific guidance surrounding its application within a local government setting, the Chartered Institute of Public Finance and Accountancy (CIPFA) compiled a [Local Government Application Note](#) which was last updated in 2019 and sets out requirements for local government internal audit to support application of the PSIAS.
7. The Standards require the chief audit executive to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals. Specific to the public sector, the risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework.
8. The new [Global Internal Audit Standards](#) (effective from January 2025), introduce a new requirement for the chief audit executive to develop and implement a strategy for the internal audit function that supports the strategic objectives of the organisation and aligns with the expectations of the board, senior management, and other key stakeholders. It is expected that this requirement will be incorporated within the revision of the PSIAS, and accompanying LGAN, which will likely be effective from April 2025.

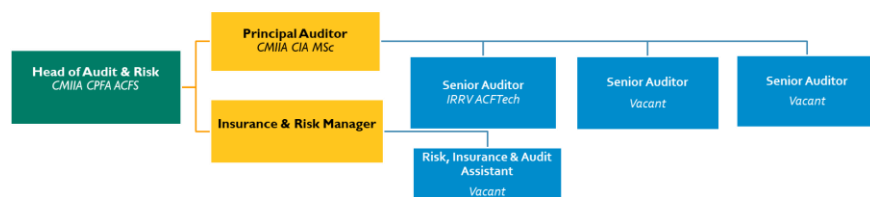
Mission and objectives

9. Our mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
10. Our mandate, purpose, authority and responsibilities are defined in the Internal Audit Charter, which is annually approved by the Governance and Audit Committee.
11. We are an independent and objective internal team that provide assurance and advice to all levels of management and elected and lay members on the quality of operations within the Council. We are one of the key elements of the Council's governance framework, as recognised throughout the UK public sector.
12. Our role is unique and is particularly important when the Council is facing uncertain and challenging times.
13. Our objectives are to:
 - provide independent assurance and advice to management and elected and lay members on risk management, governance and internal control.
 - provide effective challenge and act as a catalyst for positive change and continual improvement.
 - work collaboratively with management to assist the Council in achieving its strategic objectives.
 - work in partnership with external regulators to coordinate assurance activities.

Internal audit structure, capacity, training and development

Structure

14. 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 and an 'agile audit' approach, has improved the assurance it provides to the Council.
15. A new team has responded well; staff continue to develop their skill sets, deliver complex and strategic-level audits, and manage higher workloads.



⁴ The Chartered Institute of Public Finance and Accountancy (CIPFA) is the professional body for people working in public services,

⁵ The Chartered Institute of Internal Auditors (CIIA) is a professional association for internal auditors.

Capacity

16. We have two vacancies at senior auditor level. We are utilising the funding that this releases to commission subject matter experts to provide the technical and complex assurance needs of some of the strategic risks.
17. In addition to this, with a productivity level of 75%, we have around 542 days of audit resource available to undertake the remaining internal audit activity, including investigations, to provide the annual assurance opinion.

Training and development

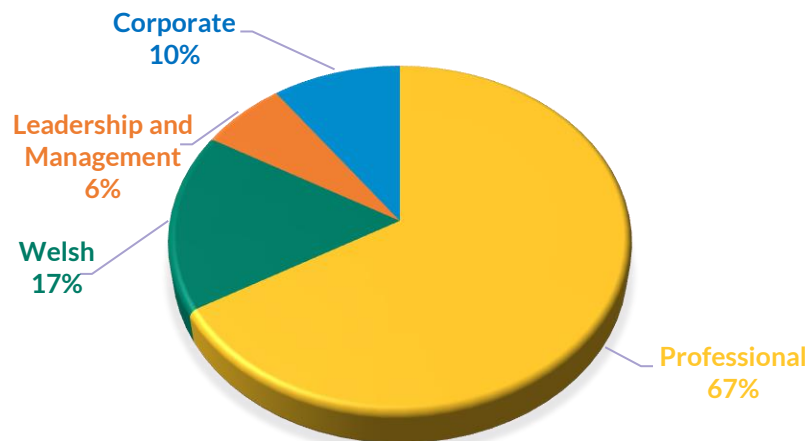
18. Internal audit's ability to support the organisation in achieving its strategic objectives and priorities is dependent on the quality of the internal audit team.
19. The team includes a wealth of internal and external audit experience, along with an excellent mix of professional qualifications, including CIPFA⁴, CIIA⁵, IRRV⁶, ACFS and ACFTech⁷, along with academic qualifications in Change Management, Business and Accountancy.
20. Therefore, continuing to increase the capacity and capability of internal audit is a priority for improving its impact and effectiveness and to build a highly competent and relevant

⁶ The Institute of Revenues Rating and Valuation (IRRV) is the professional body for local taxation, benefits and valuation.

⁷ The ACFS (Accredited Counter Fraud Specialist) and ACFTech (Accredited Counter Fraud Technician) are professional counter fraud qualifications accredited by the Counter Fraud Professional Awards Board.

team that can tackle shifting assurance needs with confidence.

21. There are challenges in ensuring there are sufficiently experienced auditors to complete more complex work as well as providing coaching and support to inexperienced staff.
22. The service will therefore 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.
23. The Council is currently supporting our Senior Auditor in their Institute of Internal Auditors professional qualification. In total, we will invest 60 days (8%) in training and development during 2024-25, consisting of:



Audit approach

24. The internal audit profession has undergone radical change since its days as compliance checkers when auditing was 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.
25. Unlike traditional internal auditing, where audit plans are carried out within a strict timeframe 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.

Risk-based audit approach

26. Standard 2010 of the PSIAS 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.
27. 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.
28. 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

29. 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.
30. The [‘three lines model’](#) is a framework that is used to bring these sources of assurance together, and gives 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.
31. We are working 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 and governing bodies.

Agile audit

32. 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.
33. 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.
34. 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.
35. 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

36. To ensure we are concentrating on what matters most to the Council, most of our work focuses on reviewing the strategic risk register over a two-year cycle.
37. We focus on the inherent risks rated as 'red', and where the residual risk is rated as 'red' or 'amber'.
38. Currently, the Council has rated 13 (12 in 2023-24) of its strategic risks as inherently 'red', seven (eight in 2023-24) risks where the Council has assessed both the inherent and residual risk as 'red' and four (three in 2023-24) 'red' inherent risks which have an amber-rated residual risk.
39. Consequently, the risks last reviewed during 2022-23 and any new risks will be prioritised for review (see [Appendix A](#) for details of the proposed audits).

IT audit

40. Cyber security is without a doubt the perennial risk of the 21st century. Along with data security, it continues to be perceived to be the top threat in a [survey](#)⁸ of European chief audit executives – with 84% saying it was a top five risk (82% in 2023 and 2022).
41. Hackers have also moved into the more ominous area of so-called 'killware' to put pressure on organisations to pay up - those attacks target critical infrastructure. Ransomware risk

continues to be difficult to mitigate and poses a potential existential threat to organisations.

42. A major breach can impact on the quality of the Council's services, trust and reputation, fines in relation to GDPR breaches and its financial situation, but more critically on the Council's ability to continue delivering its services to its vulnerable clients.
43. Having exhausted our technical capabilities in this area, we continue to commission 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.
44. During 2024-25, we propose to seek assurance that the Council has properly risk assessed and put in effective mitigation in the areas of:
 - Cyber Security - Gap Analysis – Readiness for the Cyber Assessment Framework (CAF)
 - Service Desk Management (including change management processes)
 - Payment Card Industry Data Security Standard (PCIDSS) – the Council must demonstrate compliance with the standard (an information security standard used to handle credit cards from major card brands)
 - Cyber Security in Schools

⁸ Risk in Focus 2024, Chartered Institute of Internal Auditors,

Countering fraud, bribery and corruption

45. When people commit fraud against the public sector and public services, they take money away from the services on which the public depend, and damage citizens trust in the government. Fraud and corruption are evolving issues and, as such, the Council's response needs to be agile and adapt to its changing nature.
46. We will therefore continue to keep under review the Council's approach to counter fraud, anti-bribery and corruption, anti-money laundering and terrorism financing through the Counter Fraud, Bribery and Corruption Strategy.
47. The Strategy for 2024-26 is currently being reviewed and will be submitted to the June 2024 meeting of the Governance and Audit Committee for consideration.

Other audit work

Identifying the Council Tax Base

48. Council tax is a significant revenue source for the Council. Identifying the council tax base accurately ensures that the financial burden is distributed fairly among residents according to their property's value and helps minimise opportunities for tax evasion and avoidance.
49. By maintaining up-to-date records of properties and their valuation bands, councils can detect discrepancies or attempts to evade tax obligations more effectively. This helps protect the integrity of the tax system and ensures that all residents contribute their fair share towards local services.

Performance management

50. A recent report by Audit Wales (November 2023) concluded that limited performance information is provided to senior leaders to enable them to understand the service user perspective, and the outcomes of the Council's activities and made three recommendations for improvement.
51. We will undertake a review of the Council's performance management arrangements, including the arrangements to ensure the accuracy of the data that the Council collects.

'Unofficial' school funds

52. We 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, through assessing the quality of school fund audit certificates. This work also involves the provision of training to head teachers.

Continuous monitoring

53. We are able to analyse large volumes of data quickly and easily with data analytics software. 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.
54. 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 2023-24

55. This lower priority work was set aside to focus on higher-risk audits. This flexibility is key to our agile approach, where we prioritise audits based on risk and the organisation's needs. The audits will commence if resources allow.

Contract management

56. An investigation into a duplicate payment highlighted vulnerabilities within contract management processes within the Council. This audit will provide assurance that management has addressed these vulnerabilities and that they do not exist within other parts of the Council.

Adult social care finance

57. There is a widening social care funding gap, which puts critical pressure on the Council to manage its income and expenditure in this area.

58. 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.

59. We will therefore review the charging framework for adult social care services.

Financial management in schools

60. 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 may benefit from closer review.

Follow up

61. 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.

62. 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.

63. 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.

64. 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.

65. 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.

66. 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

67. Risk-based internal audit 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 and we have reviewed our performance measures to ensure they reflect the service we strive to provide.
68. We have in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit service. We have also adopted a reduced and streamlined suite of performance measures to determine the effectiveness of our work, which can be seen in the table to the right.
69. Two areas failed to fully achieve their target performance level; audits completed within six months and number of staff. Two audits took longer than the six-month deadline due to the protracted absence of key staff in the audited service (6.3 and 6.8 months respectively). The completion of one audit was delayed due to a delay in the service providing the information required for the audit (8.0 months).
70. Shorter timescales for audits are critical for assurance to be impactful, so we will continue to strive for audits to be completed quickly.
71. Along with the continuing secondment to Accountancy, a Senior Auditor resigned during the year and a decision was made not to fill the vacancies and instead continue to use the budget to commission external expertise. Accordingly, the new target for 2024-25 reflects the current staff in post.

72. Two new measures, relating to counter fraud and the outcome of the quality assurance and improvement programme, were added during 2023-24.

Performance Indicator	Target 2022-23	Actual 2022-23	Target 2023-24	Actual 2023-24	Target 2024-25
Red / Amber Residual Risks in the Strategic Risk Register audited (over a rolling 24-month period)	80%	82%	80%	82%	80%
Audits completed within six months	85%	89%	85%	84%	85%
Clients' responses at least 'satisfied'	100%	100%	100%	100%	100%
Number of staff (Full Time Equivalent)	5.0 FTE	3.0 FTE	4.0 FTE	3.3 FTE	2.8 FTE
All fraud alerts received, considered, distributed.	n/a	n/a	100%	100%	100%
Outcome of the internal (annually) and external (five-yearly) assessments of the quality assurance and improvement programme.	n/a	n/a	Generally Conforms	Generally Conforms	Generally Conforms

Appendix A – Assurance Map (Third Line)

Risk Ref	Risk	Inherent Risk Priority	Residual Risk Priority	Created Date	Audit Year 2018/19	Audit Year 2019/20	Audit Year 2020/21	Audit Year 2021/22	Audit Year 2022/23	Audit Year 2023/24	Proposed for Audit Year 2024/25
YM1	The risk that a real term reduction in Council funding will lead to a reduction in statutory services	5:5 25	4:5 20	14/05/19 12/01/22		Financial Resilience (April 2020)			Financial Resilience (November 2022)		Robustness of estimates and adequacy of reserves assessment (Section 25 of the Local Government Act 2003) (Q1)
YM2	The risk that the Council is unable to recruit, retain and develop suitable staff, or that the staffing structure is not suitable	4:5 20	4:4 16	20/06/18 12/01/22	Recruitment & Retention (March 2019)				Recruitment & Retention (June 2022)		Recruitment & Retention (Q2)
YM3	The risk that IT failure significantly disrupts service delivery	5:5 25	4:4 16	21/06/18 10/09/18 12/01/22	IT Audit - Cyber Security (February 2019)	IT Audit - IT Resilience (April 2020)	IT Audit - IT Resilience (Follow Up) (May 2021)	IT Audit - Software Licence Management (January 2022)	IT Audit - Cloud Computing (March 2023)	Supplier Management (March 2024) Draft Report	Cyber Security - Gap Analysis - Readiness for the Cyber Assessment Framework (CAF) (Q2)

Risk Ref	Risk	Inherent Risk Priority	Residual Risk Priority	Created Date	Audit Year 2018/19	Audit Year 2019/20	Audit Year 2020/21	Audit Year 2021/22	Audit Year 2022/23	Audit Year 2023/24	Proposed for Audit Year 2024/25
							IT Audit - IT Service Continuity (Phishing) (April 2021)		IT Audit - IT Service Continuity (Phishing) (Follow Up) (September 2022)	Corporate Access Management (Key Risks) (March 2024)	Service Desk Management (including change management processes) (Q4)
								IT Vulnerability Management (September 2022)			
								IT Vulnerability Management (January 2023)			
YM5	The risk of failing to implement national changes to the education system and meet the educational challenges of the future	4:5 20	4:4 16	20/06/18 12/01/22						Modernising Learning Communities Programme (August 2023)	
YM7	The risk that the Council is not resilient enough to be able to provide services in light of external changes	4:4 16	3:4 12	20/06/18 12/01/22		Managing the Risks of Brexit (January 2020)	Review of COVID-19 Emergency Response (April 2020)	COVID-19 Emergency Management Assurance (May 2021)		Organisational Resilience (November 2023)	
						Business Continuity (February 2020)					

Risk Ref	Risk	Inherent Risk Priority	Residual Risk Priority	Created Date	Audit Year 2018/19	Audit Year 2019/20	Audit Year 2020/21	Audit Year 2021/22	Audit Year 2022/23	Audit Year 2023/24	Proposed for Audit Year 2024/25
YM9	The risk of a lack of suitable housing that local residents can afford in their communities	4:5 20	4:5 20	12/01/22					The Council's arrangements for the provision of suitable housing (June 2022)		The Council's House Building Strategy (Q1)
YM10	The risk that a serious safeguarding error leads or contributes to serious harm to the vulnerable individuals the Council is responsible for	5:4 20	4:2 8	20/06/18 12/01/22	Deprivation of Liberty Safeguards (June 2018)		Corporate Parenting Panel (January 2021)		Audit commenced March 2023 and rolled forward to 2023-24	Managing Strategic Risk - Safeguarding (YM10) (January 2024)	
YM11	The risk that an increase in poverty increases demand on Council services	4:5 20	4:5 20	18/08/20 12/01/22	Welfare Reform (April 2019)				Poverty (March 2023)		The Council's Response to Increasing Poverty (Q4)
YM13	The risk that climate change affects the Island and that the Council is not a net zero organisation by 2030	4:4 16	4:3 12	12/01/22					Climate Change Health Check (ZM) (September 2022)		The Council's Response to the Climate Change Emergency (Q3)
YM14	The risk that the Council's physical assets will not be suitable or meet the future needs of	5:5 25	4:4 16	12/01/22				Investment In Assets (November 2021)		Asset Management (WIP)	

Risk Ref	Risk	Inherent Risk Priority	Residual Risk Priority	Created Date	Audit Year 2018/19	Audit Year 2019/20	Audit Year 2020/21	Audit Year 2021/22	Audit Year 2022/23	Audit Year 2023/24	Proposed for Audit Year 2024/25
	residents, businesses and visitors										
YM16	The risk that the Council is unable to manage change effectively which limits its ability to modernise and deliver sustainable, effective and efficient services	4:5 20	3:4 12	11/07/23 02/01/24							The Council's Arrangement for Managing Change (Q3) IT Audit - Service Desk Management (including change management processes) (Q4)