Report of the Chief Auditor

Audit Committee – 10 April 2018

Internal Audit Annual Plan 2018/19

Purpose:	This report presents the Internal Audit Annual Plan and Internal Audit Strategy for 2018/19 to the Audit Committee for approval.
Policy Framework:	None
Reason for Decision:	To allow the Audit Committee to discuss and approve the Internal Audit Annual Plan and Strategy for 2018/19.
Consultation:	Corporate Management Team, Legal, Finance, Access to Services.
Recommendation(s):	It is recommended that the Audit Committee approves the Internal Audit Plan and Strategy for 2018/19.
Report Author:	Simon Cockings
Finance Officer:	Simon Cockings
Legal Officer:	Sandie Richards
Access to Services Officer:	Sherill Hopkins

1.   Introduction

1.1   The Public Sector Internal Audit Standards (PSIAS) require a risk-based Internal Audit Plan is prepared each year to determine the priorities of Internal Audit and ensure they are consistent with the Council's goals and objectives

1.2   The Audit Plan must provide sufficient coverage across the whole of the Council's activities to allow the Chief Auditor to be able to give an

opinion on the control environment including governance, risk management and internal control. The annual Internal Audit opinion which is delivered to the Section 151 Officer and the Audit Committee is a key input into the Council's Annual Governance Statement.

1.3   The PSIAS also require the Audit Plan to be linked to a high-level Audit Strategy which shows how the internal audit service will be delivered, how it will be developed in accordance with the Internal Audit Charter and how it links to the Council's objectives and priorities

1.4   The methodology used to prepare the Audit Plan was reported to the Committee at the meeting on 8th March 2018.

1.5   This report presents the Internal Audit Annual Plan and Strategy 2018/19 to Committee for approval.

2.   Internal Audit Annual Plan 2018/19

2.1   A risk-based Internal Audit Annual Plan is produced each year which is used to guide the work of the Internal Audit Section and ensure sufficient coverage of the Council to allow the Chief Auditor to deliver the annual opinion on the internal control environment as well as providing assurance to management, the Section 151 Officer and the Audit Committee.

2.2   The Internal Audit Annual Plan must incorporate or be linked to a strategic or high-level statement of how the work of Internal Audit will be delivered and developed in accordance with the Internal Audit Charter and how it links to the Council's goals and objectives. The Internal Audit Strategy 2018/19 is attached in Appendix 1.

2.3   For 2018/19, the Internal Audit Section is made up of 9.1 full time equivalents plus the Chief Auditor which is a reduction of 0.4 of a post compared to 2017/18. This gives a total number of available days of 2,366 i.e. a reduction of 104 days.

2.4   The reduction of 0.4 of a post has arisen as a result of one of the Auditors being granted flexible retirement in early 2017/18 by the then Section 151 Officer (Director). It should also be noted that the Internal Audit Section was subject to a restructure in 2016/17 as a result of the previous Chief Auditor being granted early retirement. This resulted in the Group Auditor being appointed as the Chief Auditor, with the Group Auditor post being deleted to create a saving of 1 post, resulting in the loss of 260 days in 2016/17. To allow for the day to day management of the Section, a Principal Auditor post was created, with one of the Senior Auditors being appointed in late 2016/17.

2.5   A summary of the Internal Audit Plan 2018/19 is shown in Appendix 2 and a list of audits planned for the year is shown in Appendix 3 along

with the number of days planned for each audit as well as the perceived risk of each audit arising from the risk assessment process.

2.6 The reduction in the total number of days available due to the reduction of 0.4 of a post can be seen in Appendix 2.

2.7 The Internal Audit Plan 2018/19 accommodates any audits which were deferred from the 2017/18 Plan where the risk justifies their inclusion.

2.8 The Plan includes time for all fundamental audits due in the year i.e. those systems that are so significant to the achievement of the Council's objectives that they are audited annually or every 2 years e.g. Payroll, Accounts Receivable, Pensions.

2.9 The Audit Plan has been reconciled to the available resources of 2,366 days by deferring around 600 days of audits due in 2018/19. The basis for deciding which audits to defer has been risk based with audits being classed as low risk and audits which received a high level of assurance at the last audit being deferred.

2.10 There are no low risk audits in the Audit Plan for 2018/19, as was the case in 2017/18, and going forward it is felt that one of the ways of balancing reducing resources with ever increasing demand is not to audit any services where the risk assessment has scored them as low risk. However, there would need to be an annual review of the low risk audits to ensure that nothing had happened to change the risk assessment outcome and increase the low risk status.

2.11 Continued use of self-assessment questionnaires is proposed in 2018/19. A self-assessment questionnaire was successfully implemented for the audit of primary schools in 2016/17 which has led to a reduction in the time required for each audit. This approach was also extended to the audit of branch libraries and school kitchens in 2017/18.

2.12 As in previous years, progress made by the Internal Audit Section in achieving the Audit Plan will be reported to the Audit Committee on a quarterly basis.

2.13 It is the view of the Chief Auditor that the proposed Internal Audit Plan 2018/19 will provide sufficient audit coverage for the annual opinion on the control environment to be delivered to Council via the Section 151 Officer and Audit Committee.

3. Equality and Engagement Implications

3.1 There are no equality and engagement implications associated with this report.

4.   Financial Implications

4.1   There are no financial implications associated with this report.

5.   Legal Implications

5.1   Provision of an adequate and effective internal audit function is a legal requirement under the Accounts and Audit (Wales) Regulations 2005 as amended. For local government in Wales, the PSIAS is mandatory for all principal local authorities. An effective internal audit service also ensures that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are being met.

Background Papers: Internal Audit Plan 2018/19

Appendices: Appendix 1 Internal Audit Strategy 2018/19
                       Appendix 2 Internal Audit Annual Plan 2018/19 – Summary
                       Appendix 3 Internal Audit Annual Plan 2018/19

City and County of Swansea

Internal Audit Strategy 2018/19

1. Introduction

1.1 The Public Sector Internal Audit Standards (PSIAS) set out the requirements for the Chief Auditor to prepare a risk-based Audit Plan to determine the priorities of Internal Audit, consistent with the Council's goals and objectives.

1.2 The Chief Auditor must review and adjust the Plan, as necessary, in response to changes in the Council's business, risks, operations and priorities.

1.3 The Audit Plan must incorporate or be linked to a strategic or high-level statement of how Internal Audit will be delivered and developed in accordance with the Internal Audit Charter and how it links to the Council's objectives and priorities. This Internal Audit Strategy provides the strategic, high-level statement.

1.4 The Internal Audit Strategy must be reviewed and updated on an annual basis as part of the audit planning process. The purpose of the Internal Audit Strategy and Plan is to:

- Provide independent and objective overall assurance to the Council and senior management on the adequacy and effectiveness of the control environment including internal control, risk management and governance and to make appropriate recommendations for improvement.
- Identify the key risks facing the Council to achieving its objectives and determine the corresponding level of audit resources.
- Add value and support senior management in providing effective control and identifying opportunities for improving value for money.
- Support the Section 151 Officer in fulfilling the statutory financial responsibilities.
- Deliver an Internal Audit service that meets the requirements of the Accounts and Audit Regulations and complies with the PSIAS.
- Optimise the use of audit resources available and provide an effective service.

2. Internal Audit Objectives

2.1 The PSIAS provides the following definition of internal audit

'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'

2.2 The primary purpose of the Internal Audit Section is to provide assurance services which requires the Chief Auditor to provide an annual internal audit opinion based on an objective assessment of the control environment comprising governance, risk management and internal control.

2.3 Internal Audit also provides advisory or consulting services which are generally performed at the specific request of management with the aim of improving the control environment and providing advice on proposed changes and improvements.

2.4 Collectively the assurance and consultancy work undertaken by the Internal Audit Section must provide added value and improve the operations of the Council to comply with the definition of internal audit.

3. Internal Audit Resources 2018/19

3.1 The Internal Audit Section will contain 9.1 full time equivalents in 2018/19 plus the Chief Auditor which is a reduction of 0.4 FTE compared to 2017/18 as a contribution to the overall savings requirement of the Corporate Services Directorate.

3.2 The total number of days available is 2,366 and after allowing for non-productive days such as holidays, management and sickness gives 1,516 productive days available which includes contingency of 64 days.

3.3 It is the Chief Auditor's view that there are sufficient skills, expertise and experience within the Section to provide the full range of audit reviews included in the Internal Audit Annual Plan 2018/19.

3.4 The Corporate Fraud Function is also managed by the Chief Auditor and includes two members of staff who are subject to a separate Corporate Fraud Plan. Inevitably there are many links and cross overs between the work of Internal Audit and Corporate Fraud.

4. Assurance Services

4.1 A risk-based Internal Audit Plan is prepared annually and is subject to continual review throughout the year. The Plan will be adjusted as necessary in response to changes in the Council's business, risks, operations, programmes, systems and controls.

4.2 The Internal Audit Plan will be discussed with the Corporate Management Team and approved by the Audit Committee. Any significant changes to the annual plan identified during the year will be reported to the Audit Committee for approval.

4.3   The Audit Plan details the specific services, systems or establishments to be reviewed in the year. All audits will be performed with the aim of reviewing and evaluating the risk management, internal control and governance arrangements in place, in particular how those elements help achieve the Council's objectives.

4.4   A lead auditor is appointed for each audit review in the Plan to assist in developing the scope of the audit and ensure there is appropriate focus on the key perceived risks, providing assurance and maximising added value. An Audit Brief is prepared for each audit and agreed with management to ensure that the scope, objectives and approach are understood and agreed.

4.5   A draft report in a standard format is issued to the appropriate level of management to give them the opportunity to confirm the factual accuracy of the audit findings. The primary purpose of the audit report is to provide an independent and objective opinion on the framework of internal control, risk management and governance in operation and to stimulate improvement.

4.6   Each audit will be given a Level of Assurance based on the findings of the audit. The Level of Assurance will be High, Substantial, Moderate or Limited.

4.7   The draft report will also include Management Action Plan containing recommendations to overcome any control weaknesses or areas of concern. Each recommendation will be classified according to risk and will be High, Medium, Low or Good Practice.

4.8   Service management will complete the Action Plan showing their response to each recommendation including the officer responsible for implementing the recommendation and the agreed implementation date.

4.9   Following the agreement of the draft report, a final report is issued to the service management and copied to the Head of Service. In the case of schools, the final report is issued to the Chief Education Officer, Headteacher and Chair of the Governing Body with a request that the full report is presented to the next meeting of the full Governing Body.

4.10 Where there has been a disagreement over the audits findings or the perceived risk of the recommendation, this will be recorded in the Action Plan to bring it to the attention of the Head of Service. If the Chief Auditor feels that the risk arising from not implementing the recommendation is significant then this will be brought to the attention of the Section 151 Officer and the Audit Committee.

4.11 Any audit that receives a Moderate or Limited Level of Assurance is reported to the appropriate Directorate Performance and Financial Monitoring (PFM) meeting to ensure that the Corporate Director and

Head of Service can monitor progress in implementing the agreed recommendations. A summary of the issues which led to the Moderate or Limited Level of Assurance is also reported to the Audit Committee in the quarterly Monitoring Reports.

4.12 The outcome of each audit, in particular the Level of Assurance is used by the Chief Auditor in preparing the annual opinion on the control environment which is reported to the Section 151 Officer and Audit Committee in the Internal Audit Annual Report. The annual opinion provides significant input into the Council's Annual Governance Statement.

5. Consultancy Services

5.1 In addition to assurances services, the Internal Audit Section also provides a range of consultancy services including:

- Advice and guidance to management in respect of a range of issues including system implementation, compliance with polices, regulations and procedures and internal control requirements.
- Training.
- Special investigations including fraud work undertaken by the Corporate Fraud Function.

5.2 Internal Audit operates in a consultancy role in advising management in relation to issues within its remit such as the implementation of appropriate controls for new projects, developments and systems.

5.3 As the level of consultancy work is unknown at the start of the year, a contingency item is included in the Annual Audit Plan to cover this work.

5.4 Any advice or recommendations made in the consultancy role is always made on the basis that they may be reviewed and amended in future as result of an assurance assignment.

6. Internal Audit Service Delivery

6.1 The provision of the Internal Audit service is through a directly employed in-house Internal Audit Team.

6.2 Given the range and complexity of areas to be reviewed, it is important that the Internal Audit Section includes suitably qualified, experienced and trained staff. To comply with the PSIAS, the Chief Auditor must be a CCAB qualified accountant and be suitably experienced.

6.3 The training needs of Internal Audit staff are identified as part of the annual appraisal and on an ongoing basis throughout the year. Staff are encouraged to undertake appropriate training including in-house courses and external courses, in particular those provided by the South Wales

Chief Auditors Group, to ensure that their audit skills are enhanced and developed.

6.4 All Internal Audit staff are required to conform to the Code of Ethics included in the PSIAS and also any other codes published by any professional bodies of which they are members. An annual declaration of compliance with the PSIAS Code of Ethics is signed by all staff.

6.5 Internal Auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life i.e. the Nolan Principles.

6.6 The Internal Audit Section is independent and has no other management responsibilities which may impact on its independence. All Internal Audit staff are required to complete an annual Declaration of Interests which identifies any conflicts of interest which may impair their impartiality. Any declarations made are used when preparing the quarterly operational plans to prevent any impairment to independence arising.

7. Follow Up Audits

7.1 It is important that action is taken to ensure that agreed recommendations have been implemented within the agreed timescale. The Internal Audit Section has a risk-based follow up policy which dictates the type of follow up audit undertaken.

7.2 For all fundamental audits, a check is made during the year to ensure that all recommendations have been implemented within the agreed timescale. The results of this check are reported to the Audit Committee in the annual Recommendations Tracker Report.

7.3 Any audits that received a Moderate or Limited Level of Assurance are subject to a formal follow up visit within 6 months of the issue of the final report. Testing will take place to confirm that any High or Medium Risk recommendations have been implemented and confirmation will be sought from management that any Low Risk or Good Practice recommendations have bene implemented.

7.4 The results of the follow up visit will be reported to the service management, Head of Service (or Chair of the Governing Body) and the Audit Committee.

7.5 Where an audit has received a High or Substantial Level of Assurance, no follow up audit is arranged but management are asked to confirm in writing that the recommendations have been implemented.

8. Reporting of Internal Audit Activity

8.1 An Internal Audit Monitoring Report is prepared on a quarterly basis and presented to the Section 151 Officer and the Audit Committee. The report

shows the audits finalised in the quarter and the level of assurance given as well as the number of recommendations made and agreed.

8.2 The report will also include brief details of the audit findings for any audits which received a Moderate or Limited Level of Assurance. Any other work completed in the quarter and details of any follow up audits completed are also included in the report.

8.3 The Chief Auditor also produces an Annual Internal Audit Report which will include the annual opinion on the control environment. The Annual Report is presented to the Section 151 Officer and the Audit Committee.

8.4 The Annual Report will follow the requirements of the PSIAS and will include:

- An opinion of the overall adequacy and effectiveness of the framework of governance, risk management and internal control.
- Disclosure of any qualifications to the opinion together with the reasons for the qualification.
- A summary of the Internal Audit work completed from which the opinion is derived including any reliance placed on the work of other assurance providers.
- Any issues considered by the Chief Auditor to be particularly relevant to the Annual Governance Statement.
- A comparison of the work undertaken with the planned work, a summary of audit performance for the year including any performance indicators maintained and comments on compliance with the PSIAS and the Quality Assurance and Improvement Programme.

Internal Audit Annual Plan 2018/19 – Summary

Categories of Audit Work	Plan 2017/18	Plan 2018/19	
	Days	Days	%
People	441	298	12.6
Place	294	357	15.1
Corporate Services	180	315	13.3
Fundamental Audits	224	218	9.2
Contract Audit Systems	70	30	1.4
Computer Audits	89	117	4.9
Contract Audits	8	8	0.3
Cross Cutting Audits	155	50	2.1
Miscellaneous Audits	10	0	0
Projects & Special Investigations	138	123	5.2
Productive Days	**1609**	**1516**	**64.1**
Staff Training	76	76	3.2
Holidays, Sick & Special Leave	490	475	20.0
Admin, Planning, Control, Clerical Support etc.	188	219	9.3
Contingencies	91	64	2.7
Vacancies	0	0	0
Performance Management - Appraisals	16	16	0.7
Non Productive Days	**861**	**850**	**35.9**
Total Days	**2470**	**2366**	**100.0**

Internal Audit Annual Plan 2018/19

Head of Service	Risk Rating	Days 2018/19	Type of Work
Education Planning & Resources			
Primary Schools	Medium	72	Assurance
Secondary Schools	Medium	40	Assurance
Arts in Education	Medium	5	Assurance
Total		**117**	
Achievement & Partnership Service			
Welsh Service	New	10	Assurance
Total		**10**	
Vulnerable Learner Service			
Education Welfare Service	Medium	10	Assurance
Catering Service – Civic Centre	Medium	10	Assurance
Cleaning Service	Medium	15	Assurance
Total		**35**	
Education – Other			
School Uniform Grant	N/A	3	Grant Certification
Education Improvement Grant	N/A	15	Grant Certification
Pupil Deprivation Grant	N/A	10	Grant Certification
Schools Annual Report	N/A	3	Assurance
Total		**31**	
Child & Family Services			
Grants & Contracts	Medium	10	Assurance
Total		**10**	
Adult Services			
Community Alarm Service	High	10	Assurance
Integrated Community Equipment & Suresprung	Medium/High	10	Assurance
Service Users Assessment of Care	Medium	20	Assurance
Supporting People Grant	N/A	10	Grant Certification
Suresprung – Supported Employees Claims	N/A	5	Grant Certification
Self Assessment Checklists	Medium/High	25	Assurance
Total		**80**	
Social Services – Directorate Services			
No audits planned		0	
Total		**0**	
Poverty & Prevention			
Swansea Children's Centre & Mayhill Centre	Medium	10	Assurance
Early Intervention Services	New	5	Assurance
Total		**15**	
Corporate Building Services			
Admin & Finance	Medium	15	Assurance
Total		**15**	
Corporate Property Services			

Head of Service	Risk Rating	Days 2018/19	Type of Work
No audits planned		0	
Total		**0**	
Waste Management & Parks			
Domestic Refuse Collection	Medium	10	Assurance
Grounds Maintenance	Medium	15	Assurance
Total		**25**	
Highways & Transportation			
Concessionary Bus Fares	N/A	5	Assurance
Car Parks	Medium/High	20	Assurance
Clydach Depot – Fuel & Plant	Medium	10	Assurance
Streetworks	Medium	10	Assurance
CTU Fleet Hire / Spot Hire	Medium	10	Assurance
Traffic Orders	New	10	Assurance
Taxi Framework Contract – Adult Services	Medium/High	10	Assurance
Live Kilometre Support Grant	N/A	5	Grant Certification
Total		**80**	
Housing & Public Protection			
Housing Options	Medium	20	Assurance
Eastside District Housing Office	Medium	10	Assurance
Morriston & Clase District Housing Offices	Medium	15	Assurance
Neighbourhood Support Unit	Medium	7	Assurance
Housing Loans and Grants	Medium	25	Assurance
Affordable Housing	New	10	Assurance
Building Regulations	Medium	15	Assurance
Trading Standards Division	Medium	10	Assurance
Rechargeable Works	Medium	15	Assurance
Total		**127**	
Cultural Services			
Outdoor Leisure	Medium	15	Assurance
St Helens Ground	Medium	5	Assurance
Plantasia	Medium	10	Assurance
Grand Theatre	Medium/High	25	Assurance
Central Library	Medium	15	Assurance
Record Management	New	10	Assurance
Total		**80**	
Planning & City Regeneration			
Section 106 Agreements	High	10	Assurance
Landscape	New	10	Assurance
Nature Conservation	New	10	Assurance
Total		**30**	
Communications & Marketing			
Civic Admin,Mayoral Services & Mansion House	Medium	10	Assurance
Total		**10**	
Financial Services & Service Centre			
Cashiers Office	Medium/High	10	Assurance
Write Off Requests by Departments	N/A	15	Assurance
Cashiers Write Offs	N/A	5	Assurance
Bank Reconciliations	Medium	10	Assurance
School Bank Reconciliations	Medium	15	Assurance

Head of Service	Risk Rating	Days 2018/19	Type of Work
Petty Cash Accounts	Medium	5	Assurance
Grants Receivable	Medium/High	15	Assurance
Leasing	Medium	10	Assurance
Income Tax – Self Employed	Medium	5	Assurance
Construction Industry Tax Scheme	Medium	10	Assurance
Risk Management	High	10	Assurance
Blue Badges	Medium	5	Assurance
Budget Strategy & Management	New	10	Assurance
Performance Indicators	New	10	Assurance
Residential Contributions – Assessments	Medium	10	Assurance
Debt Recovery	High	20	Assurance
Fairer Charging	Medium	25	Assurance
Adult Family Placements	New	10	Assurance
Flexicard Machines and Security	Medium/High	20	Assurance
Total		**220**	
Legal, Democratic Services & Business Intel			
Land Charges	Medium	10	Assurance
Electoral Services	Medium	10	Assurance
Total		**20**	
Human Resources			
Employment of Agency Staff	Medium/High	10	Assurance
Health & Safety	New	10	Assurance
Business Continuity	New	10	Assurance
Total		**30**	
Digital & Transformation			
ICT Administration	Medium/High	15	Assurance
Oracle Authorisation Limits	Medium/High	10	Assurance
IT Assets	Medium	10	Assurance
Network Controls – Corporate Network	Medium	10	Assurance
Network Controls – Firewall Controls Corporate	Medium	5	Assurance
Virtual Server Environment	Medium	10	Assurance
Internet Controls – Corporate Network	Medium	10	Assurance
Payment Card Industry – Data Security	Medium	5	Assurance
E-Commerce Controls	Medium	7	Assurance
Business Continuity - IT	New	10	Assurance
Data Protection – Software Licences	Medium	5	Assurance
Application Controls – Flare System	Medium	5	Assurance
Application Controls – Fostercare System	Medium	5	Assurance
Change Control	Medium	5	Assurance
Digital Strategy	High	10	Assurance
Telephones (Civic & Guildhall)	Medium	5	Assurance
IDEA – Extraction of Data	N/A	5	Assurance
IDEA - Data Matching Exercise – NFI	N/A	10	Assurance
Total		**142**	
Commercial Services			
Supplier Contracts Review	New	10	Assurance
Total		**10**	
Fundamental Systems			
Payroll	High	30	Assurance
Pensions Administration	High	20	Assurance
Accounts Receivable	High	35	Assurance

Head of Service	Risk Rating	Days 2018/19	Type of Work
Treasury Management Borrowing & Investments	Medium	18	Assurance
Accounts Payable	Medium	35	Assurance
Cash	Medium/High	30	Assurance
Council Tax	Medium	30	Assurance
Main Accounting System	Medium	20	Assurance
Total		**218**	
Contract Audits Systems			
Corporate Building & Property Services			
Construction Period Control of Contracts	Medium	15	Assurance
Other Departments			
Tendering, Letting and Monitoring	New	15	Assurance
Total		**30**	
Contract Audits			
Final Accounts	N/A	3	Assurance
Financial Appraisals of Contractors	N/A	5	Assurance
Total		**8**	
Cross Cutting Audits			
Gift & Hospitality Registers	Medium	15	Assurance
Workforce Planning	New	10	Assurance
General Data Protection Regulations	New	10	Assurance
Ethics & Values	New	15	Assurance
Total		**50**	
Miscellaneous Audits			
No planned audits		0	
Total		**0**	
Projects & Special Investigations			
Unpresented Cheques >£2,000	N/A	5	Anti-Fraud
Development of Audit Programmes	N/A	20	Assurance
Galileo Audit Management System	N/A	15	Administration
Annual Plan & Annual Report	N/A	15	Administration
Health & Safety Group	N/A	3	Administration
Recommendations Tracker	N/A	5	Follow Ups
Follow Ups	N/A	40	Follow Ups
P Card Review of Purchases	N/A	20	Assurance
Total		**123**	
Total Productive Days		**1516**	
Other Activities			
Staff Training		76	
Administration, Planning & Control		179	
Clerical Support		20	
Time Recording & Outturn		20	
Contingencies		64	
Annual Leave		313	
Sick Leave		66	
Public Holidays		96	
Performance Management – Appraisals		16	
Total Non-Productive Days		**850**	
Total Days		**2366**	