



## Report of the Chief Auditor

Special Audit Committee – 26 May 2020

### Internal Audit Strategy and Annual Plan 2020/21

<b>Purpose:</b>	This report presents the Internal Audit Strategy and Annual Plan for 2020/21 to the Audit Committee for approval.
<b>Policy Framework:</b>	None
<b>Consultation:</b>	Corporate Management Team, Legal, Finance, Access to Services.
<b>Report Author:</b>	Simon Cockings
<b>Finance Officer:</b>	Simon Cockings
<b>Legal Officer:</b>	Debbie Smith
<b>Access to Services Officer:</b>	Rhian Millar

#### 1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) requires a risk-based Internal Audit Plan to be 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 11<sup>th</sup> February 2020.
- 1.5 The Internal Audit Strategy and Annual Plan was approved by the Corporate Management Team on the 11th March 2020 and is now reported to the Audit Committee for final approval.

## **2. Internal Audit Strategy and Annual Plan 2020/21**

- 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 2020/21 is attached in Appendix 1.
- 2.3 For 2020/21, the Internal Audit Section is made up of 9.1 full time equivalents plus the Chief Auditor which is the same level of resources available in 2019/20. This gives a total number of available days of 2,366.
- 2.4 A summary of the Internal Audit Plan 2020/21 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.
- 2.5 The Internal Audit Plan 2020/21 accommodates any audits which were deferred from the 2019/20 Plan where the risk justifies their inclusion.
- 2.6 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. Employee Services, Accounts Receivable, Pensions Administration.
- 2.7 The Audit Plan has been reconciled to the available resources of 2,366 days by deferring 115 days of audits due in 2020/21. The basis for deciding which audits to defer has been discussed with the Principal Auditor and Senior Auditors. In the majority of cases, those audits that have been deferred are those that were ordinarily due in

the year (not deferred from 2019/20), and had received a high level of assurance when last reviewed and/or were classed as being low or medium risk.

- 2.8 Some low risk areas have been included to ensure adequate audit coverage across the organisation. The detailed discussions between the senior members of Audit Team have dictated which audits are included in the 2020/21 plan based on experience, knowledge of the areas concerned and consideration of any ad hoc issues or concerns that have arisen in the current year.
- 2.9 As detailed in the Audit Plan Methodology report presented to committee previously, an Assurance Mapping Exercise has also been undertaken to inform the Internal Audit Plan. An updated version of the Assurance Map can be found in Appendix 4.
- 2.10 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.
- 2.11 It is the view of the Chief Auditor that the proposed Internal Audit Plan 2020/21 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 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
  - Advance equality of opportunity between people who share a protected characteristic and those who do not.
  - Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above.

- 3.2 There are no equality implications in relation to 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:** None

**Appendices:** Appendix 1-Internal Audit Strategy 2020/21  
Appendix 2-Internal Audit Annual Plan 2020/21(Summary)  
Appendix 3-Internal Audit Annual Plan 2020/21  
Appendix 4-City and County of Swansea Assurance Map



## Internal Audit Strategy 2020/21

### 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 2020/21**

3.1 The Internal Audit Section is made up of 9.1 full time equivalents in 2020/21 plus the Chief Auditor. The resources and staff structure remain unchanged from 2019/20.

3.2 The total number of days available is 2,366 and after allowing for non-productive days such as holidays and bank holidays, administration, sickness provision, training provision, amendments to audit programmes, clerical support, appraisals and a number of days contingency for unexpected pieces of work that may arise in year gives 1,520 productive days available.

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 2020/21. In addition, it is envisaged that some staff will attend specific training courses throughout the year to further develop the skills within the team.

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 is subject to consultation with the Corporate Management Team prior to being approved by the Audit Committee. Any significant changes to the annual plan identified during the year will be reported to the Audit Committee.
- 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 to assist in developing the scope of the audit and ensure there is appropriate focus on the key perceived risks, providing assurance and maximising any potential 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 address any weaknesses identified 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. The relevant Cabinet Member is also included in the distribution list when the final report is issued.
- 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 appraisal process and on an ongoing basis throughout the year. Staff are encouraged to undertake appropriate training including in-house 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 in 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 been 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 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 2020/21 – Summary

Categories of Audit Work	Plan 2019/20	Plan 2020/21	
	Days	Days	%
People	322	419	18
Place	371	400	17
Corporate Services	250	215	9
Fundamental Audits	214	188	8
Contract Audit Systems	30	55	2
Computer Audits	75	35	1
Contract Audits	8	0	0
Cross Cutting Audits	110	100	4
Miscellaneous Audits	25	40	2
Projects & Special Investigations	91	68	3
<b>Productive Days</b>	<b>1496</b>	<b>1520</b>	<b>64</b>
Staff Training	76	76	3
Holidays, Sick & Special Leave	495	499	21
Admin, Planning, Control, Clerical Support etc.	219	219	9
Contingencies	64	36	2
Vacancies	0	0	0
Performance Management - Appraisals	16	16	1
<b>Non Productive Days</b>	<b>870</b>	<b>846</b>	<b>36</b>
<b>Total Days</b>	<b>2366</b>	<b>2366</b>	<b>100</b>

Days Covering Corporate Priorities	
Cross Cutting Audits	100
Section 151 & Monitoring Officer Assurance	451
Education	246
Safeguarding	411
Poverty	254
Economy & Infrastructure	282
Resources & Biodiversity	90
Transformation & Council Development	160

(Note: the table records the number of days in the plan covering the areas above. Some audits cover multiple priorities as reflected in appendix 3 hence the number of days has been counted in each area)