



## Report of the Chief Auditor

Audit Committee – 9 March 2021

### Internal Audit Annual Plan Methodology

<b>Purpose:</b>	This report provides a briefing to the Audit Committee on the methodology used to prepare the Internal Audit Annual Plan in advance of the Annual Plan 2021/22 being reported to the Committee for approval on 20th April 2021.
<b>Policy Framework:</b>	None.
<b>Consultation:</b>	Legal, Finance, Access to Services
<b>Recommendation(s):</b>	It is recommended that: the Committee note the methodology for preparing the Internal Audit Annual Plan 2021/22.
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#### 1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) provide a framework for the delivery of a professional, independent and objective internal audit service and are mandatory for all internal audit providers in the public sector in the UK.
- 1.2 One of the requirements of the PSIAS is that an annual risk-based Internal Audit Plan must be prepared to determine the priorities of Internal Audit and to ensure they are consistent with the Council's goals. The Plan must allow sufficient audit coverage across the whole Council for the Chief Auditor to be able to provide an annual opinion to Council

via the Section 151 Officer and Audit Committee on the control environment covering corporate governance, risk management and internal control.

- 1.3 The Audit Plan should ensure that resources are targeted at the areas of the Council's work where it can provide most benefit by providing assurance over key risks and controls.
- 1.4 The Standards state that the Internal Audit Annual Plan must be discussed with senior management which in the Internal Audit Charter is defined as the Corporate Management Team before being reported to the Audit Committee for approval.
- 1.5 The draft version of the annual plan for 2021/22 was reported to the Corporate Management Team on the 5<sup>th</sup> March.
- 1.6 This report provides a briefing on the methodology used to prepare the Annual Plan in advance of the Plan for 2021/22 being reported to the Committee for final approval at the April meeting.
- 1.7 As reported in the Internal Audit Quarterly Monitoring reports that have been presented to the Audit Committee throughout 2020/21, the Covid-19 pandemic has had a significant impact on the Audit Team's ability to deliver the full audit plan for 2020/21. As a result, a number of audits that were originally planned to be completed in 2020/21 have been carried forward to the 2021/22 plan.
- 1.8 There continues to be a significant level of uncertainty over the easing of lockdown and the subsequent reopening of the economy and work sites across Swansea. A number of thematic audits have been included in the audit plan to safeguard against continued access restrictions. However, it is hoped that sites will begin to reopen in the coming months and the pressures currently being felt by the Council as a whole will begin to ease which should allow audits to be successfully completed.

## **2. Internal Audit Plan Methodology**

- 2.1 The requirement to produce an Internal Audit Annual Plan is included in the PSIAS which are mandatory for all internal audit providers in the UK public sector.
- 2.2 An extract of the PSIAS requirements regarding internal audit planning is attached in Appendix 1.
- 2.3 The starting point for a risk-based audit approach is gaining an understanding of the Council's objectives and goals as well as the current key risks faced by the Council as recorded in the Risk Registers.
- 2.4 Information is gathered from a number of sources prior to the preparation of the detailed Audit Plan including:

- The Corporate Plan, One Swansea Plan and the Well-Being Statement.
- Risk Registers.
- Areas of concern or request for audit coverage from management or the Audit Committee.
- The Assurance Map which details other sources of assurance available both from internal and external sources.
- Any recent or proposed significant changes to the Council's systems or operations.
- Previous audit results and Internal Audit's cumulative knowledge of systems and procedures across the Council.

2.5 A diagram that illustrates the internal audit annual planning process can be found in Appendix 2.

2.6 A risk assessment is undertaken for each audit which is used to determine the expected frequency of the review as part of the standard audit rolling programme. The risk assessment takes account of a wide range of factors which are grouped into the following categories:

- Materiality e.g. income, expenditure.
- Control Environment/Vulnerability e.g. previous frauds, staff turnover.
- Management Concerns e.g. direct request for help, potential for embarrassment.
- Sensitivity e.g. impact on service, effect on Council's welfare.

2.7 The outcome of the risk assessment is a risk index which is then used to determine the frequency of audit visits as shown in the following table..

<b>Risk Index</b>	<b>Risk Factor</b>	<b>Frequency of Visit</b>
0 – 19	Low	5 years
20 – 25	Medium/Low	4/5 years
26 – 40	Medium	3 years
41 – 49	Medium/High	2/3 years
50 +	High	1/2 years

2.8 In addition to the risk assessment process, a number of systems have traditionally been identified as fundamental e.g. Employee Services, Accounts Receivable, Main Accounting, Council Tax. All fundamental systems are audited either annually or every two years which recognises the significance of the system to the achievement of the Council's objectives.

2.9 A number of audits are undertaken on an annual basis rather than by the determination of risk e.g. grant certification audits where the work is required under the terms and conditions of the grant, the review of debts written off prior to authorisation, services where significant amounts of cash are handled, etc.

- 2.10 The use of the risk assessment process provides every audit in the Council's audit universe with a year when the next audit is due which is also considered when developing the Audit Plan.
- 2.11 Each year, a Consultation Exercise is held with all Heads of Service and the Corporate Management Team, giving them the opportunity to comment on the audit coverage in their areas and to ensure that all risks within their services have been identified. Heads of Service may also request specific reviews or pieces of work by the Internal Audit Section which will add value to their service. All requests are considered in light of the total Internal Audit resources available.
- 2.12 The Consultation Exercise for the 2021/22 Audit Plan commenced in October 2020 and has seen a number of new audits being added to the audit plan.
- 2.13 In order to demonstrate the linkage between the annual plan for 2021/22 and the Council's Corporate Priorities, the Consultation Exercise also included discussions with Heads of Service to determine which of the Corporate Priorities they felt the services in their areas most closely mapped to. Whilst it is acknowledged that some service areas could map to a number of different Corporate Priorities, for simplicity, we have attempted to map each Service Area to the most relevant Corporate Priority.
- 2.14 As requested by Committee, the 2021/22 Audit Plan will reflect this mapping so that Members are able to recognise the clear link between the Plan and the Objectives of the Council. The links between the Corporate Priorities, Service Areas, the Audit Plan, the Governance Framework and the Annual Governance Statement are demonstrated in the illustration in Appendix 3.
- 2.15 Whilst the 2021/22 audit plan is currently being considered, it is envisaged that as in previous years the planned audits will be grouped in the following broad categories:
- **Council Governance & Control Audits** – cross-cutting reviews.
  - **Fundamental Audits** – aimed at providing Section 151 Officer and Monitoring Officer Assurance.
  - **Service Specific Audits** – aimed at providing other assurance, linked to the Corporate Priorities and as a result of the audit planning and consultation process and in line with the usual audit rolling programme.
- 2.16 Historically, a review of the Corporate and Directorate Risk Registers has also taken place as part of the audit planning process to ensure that where necessary, Internal Audit resources are targeted at the areas considered to be the highest risk. This has also been the case for the 2021/22 Audit Plan.

- 2.17 In addition to this, it was recommended as part of the PSIAS Peer Review that an Assurance Mapping Exercise should be carried out to inform the audit planning process and identify other sources of assurance. This exercise has been completed, with the Assurance Map being updated in consultation with the Corporate Management Team as the Risk Owners.
- 2.18 The updated Assurance Mapping can be found in Appendix 4, together with a brief narrative explaining the process. The results of this exercise will also be taken into consideration when compiling the 2021/22 Audit Plan.
- 2.19 The ongoing review of the current year's audit plan also informs the planning process e.g. by identifying any emerging risks, new systems, developments or special investigations which may have a wider impact.
- 2.20 The risk assessment process and rolling programme, consultation exercise and review of the risk registers will provide the total number of audit days required in the Audit Plan for 2021/22 which then has to be matched against the audit resources available.
- 2.21 The audit resources available in 2021/22 is 9.1 full time equivalents excluding the Chief Auditor, unchanged from 2020/21
- 2.22 The audit resources available have to allow for things such as annual leave, public holidays, training, administration, planning, sickness and a contingency to allow for unplanned work. This provides the productive audit days available to deliver the required audit coverage.
- 2.23 Inevitably, the required audit coverage will exceed the available audit resources leading to a further review of the required audit coverage. This review will again be risk based to ensure that the areas of greatest perceived risk are prioritised.
- 2.24 The Internal Audit Annual Plan is reported to the Corporate Management Team and Audit Committee at the start of each year for approval. However, the Annual Plan must remain a flexible document that reacts to changing risks and priorities over the course of the year. Updates are provided to the Audit Committee throughout the year via the Chief Auditors Monitoring Reports.

### **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 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 There are no legal implications associated with this report

**Background Papers:** None

**Appendices:** Appendix 1 – Extract from Public Sector Internal Audit Standards  
Appendix 2 – Internal Audit Annual Planning Process  
Appendix 3 – Audit Plan Mapped Against Corporate Priorities  
Appendix 4 – City & County of Swansea Assurance Map

### Extract from Public Sector Internal Audit Standards

#### 2010 Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

*Interpretation:*

To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.

#### Public sector requirement

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

#### 2010.A1

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

#### 2010.A2

The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.

#### 2010.C1

The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan.

#### 2020 Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

## **2030 Resource Management**

The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

### *Interpretation:*

Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

### **Public sector requirement**

The risk-based plan must explain how internal audit's resource requirements have been assessed.

Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.