



## Report of the Chief Auditor

Governance and Audit Committee – 12 April 2022

### Internal Audit Strategy and Annual Plan 2022/23

<b>Purpose:</b>	This report presents the Internal Audit Strategy and Annual Plan for 2022/23 to the Governance and Audit Committee for approval.
<b>Policy Framework:</b>	None.
<b>Consultation:</b>	Corporate Management Team, Legal, Finance, Access to Services.
<b>Recommendation:</b>	That the Governance & Audit Committee review the Internal Audit Strategy and approve the Annual Plan 2022/23.
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#### 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 to 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 Governance and

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 and a draft version of the 2022/23 Audit Plan were reported to the Committee at the meeting on 8<sup>th</sup> March 2022.
- 1.5 The Internal Audit Strategy and Draft Annual Plan 2022/23 were approved by the Corporate Management Team on the 23<sup>rd</sup> February 2022 and these are now reported to the Governance and Audit Committee for final approval.

## **2. Internal Audit Strategy and Annual Plan 2022/23**

- 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 Governance and 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 2022/23 is attached in Appendix 1.
- 2.3 For 2022/23, 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 2020/21. This gives a total number of available days of 2,366.
- 2.4 A summary of the Internal Audit Plan 2022/23 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 2022/23 accommodates any audits which were deferred from the 2021/22 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 130 days of audits due in 2022/23. The basis for deciding which audits to defer has been discussed with the Principal Auditor, Senior Auditors and the Director of Finance & Section 151 Officer. In the majority of cases, those audits that have been deferred are those that were ordinarily due in the year (not deferred from 2021/22), 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 audit are included in the 2022/23 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, an assurance mapping exercise is undertaken to inform the internal audit plan. The corporate risk register is also reviewed as part of the planning process, with the control measures noted against each of the risks informing the assurance map. During the planning process last year, following a detailed review of corporate risks on the risk register it was noted that in a number of cases the control measures recorded against the risks couldn't be considered to be meaningful controls measures. This was raised with the Strategic Delivery & Performance Manager and the Director of Finance and Section 151 Officer in the first instance, and later with the Corporate Management Team. As a result, a significant amount of work has taken place over the past year in order to improve the control measures across all corporate risks as reflected in the updates to the risk register and the assurance map. However, at the time of compiling this report further advice had been provided to risk owners in an attempt to further strengthen and standardise the recording of control measures across the risk register. This work is ongoing. However, it is pleasing to note that significant improvements have been made in this area.
- 2.10 The assurance map is also distributed to corporate risk owners in advance of the planning process to give them the opportunity to review the entries in the three tiers of the map to ensure they are up to date and that all sources of assurance have been captured.
- 2.11 As a result of the points above the updated control measures and assurance map have been considered as part of this year's planning process and internal audit has been able to place increased reliance on some of the documented controls when compared to last year. However, as in previous years, internal audit's knowledge and experience has continued to be relied upon, in consultation with the

Director of Finance and Section 151 Officer and senior staff within the Internal Audit Team, to ensure a suitably balanced and risk targeted audit plan is produced.

- 2.12 As in previous years, progress made by the Internal Audit Section in achieving the Audit Plan will be reported to the Governance and Audit Committee on a quarterly basis.
- 2.13 It is the view of the Chief Auditor that the proposed Internal Audit Plan 2022/23 will provide sufficient audit coverage for the annual opinion on the control environment to be delivered to Council via the Section 151 Officer and Governance and Audit Committee, subject to the extent of any ongoing disruption caused by the Covid-19 pandemic in 2022/23.

### **3 Integrated Assessment Implications**

- 3.1 The Council is subject to the Equality Act (Public Sector Equality Duty and the socio-economic duty), the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language (Wales) Measure, 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 Acts.
  - 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.
  - Deliver better outcomes for those people who experience socio-economic disadvantage
  - Consider opportunities for people to use the Welsh language
  - Treat the Welsh language no less favourably than English.
  - Ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs.
- 3.2 The Well-being of Future Generations (Wales) Act 2015 mandates that public bodies in Wales must carry out sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in accordance with the sustainable development principle, aimed at achieving the 'well-being goals'.
- 3.3 Our Integrated Impact Assessment (IIA) process ensures we have paid due regard to the above. It also takes into account other key issues and priorities, such as poverty and social exclusion, community cohesion, carers, the United Nations Convention on the Rights of the Child (UNCRC) and Welsh language.
- 3.4 The completion of the Integrated Impact Assessment Screening revealed that:

- The Audit Strategy and Plan has a low positive impact across all groups.
- It has been subject to consultation with the Chief Finance & S151 Officer, Legal, Access to Services and the Corporate Management Team.
- All Well-being of Future Generations Act considerations are positive and any risks identified are low.
- The overall impact of the Audit Strategy and Plan is positive as it will support the Authority in its requirement to protect public funds.

#### **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 2022/23  
 Appendix 2-Internal Audit Annual Plan 2022/23(Summary)  
 Appendix 3-Internal Audit Annual Plan 2023/23  
 Appendix 4-Internal Audit Annual Plan 2022/23 inc Scope  
 Appendix 5-City and County of Swansea Assurance Map  
 Appendix 6-Corporate Priorities and Audit Area Map  
 Appendix 7-Integrated Impact Assessment



## Internal Audit Strategy 2022/23

### 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 Director of Finance & 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 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 2022/23**

3.1 The Internal Audit Section is made up of 9.1 full time equivalents in 2022/23 plus the Chief Auditor. The resources and staff structure remain unchanged from 2021/22.

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 1,504 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 2022/23. 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 Governance and Audit Committee. Any significant changes to the annual plan identified during the year will be reported to the Governance and 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 audit 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 Governance and 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 Governance and 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 Director of Finance & Section 151 Officer and the Governance 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 assurance 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 policies, 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 Governance and 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 Governance and 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 Director of Finance & Section 151 Officer and the Governance and 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 Governance and 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.

## Appendix 2

### Draft Internal Audit Annual Plan 2022/23 – Summary

Categories of Audit Work	Plan 2021/22	Plan 2022/23
	Days	Days
People	335	333
Place	322	435
Corporate Services	305	270
Fundamental Audits	247	218
Contract Audit Systems	30	10
Computer Audits	52	60
Cross Cutting Audits	135	105
Miscellaneous Audits	15	10
Projects & Special Investigations	63	65
<b>Productive Days</b>	<b>1504</b>	<b>1506</b>
Staff Training	48	48
Holidays, Sick & Special Leave	543	543
Admin, Planning, Control, Clerical Support etc.	219	219
Contingencies	36	34
Vacancies	0	0
Performance Management - Appraisals	16	16
<b>Non Productive Days</b>	<b>862</b>	<b>860</b>
<b>Total Days</b>	<b>2366</b>	<b>2366</b>

Days Covering Corporate Priorities	
Cross Cutting Audits	105
Section 151 Officer Assurance	426
Education	168
Safeguarding	412
Poverty	170
Economy & Infrastructure	303
Resources & Biodiversity	90
Transformation & Council Development	165

(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 have been counted in each area)