

Partneriaeth Pen-y-Bont a'r Fro  
Bridgend & Vale Partnership  
working together - gweithio ar y cyd



**INTERNAL AUDIT SHARED SERVICE  
STRATEGY AND DRAFT ANNUAL RISK BASED AUDIT PLAN**

**2018 – 2019**

**VALE OF GLAMORGAN COUNCIL**

## 1. Introduction

Internal Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. This opinion forms part of the framework of assurances that the Council receives and should be used to help inform the Annual Governance Statement. The purpose of this document is to provide a detailed Internal Audit Shared Service Risk Based Plan for 2018-2019.

The audit plan is in order to ensure that the risks facing the Council are adequately addressed and internal audit resources are effectively utilised. The standards for “proper practice” in relation to internal audit are laid down in the Public Sector Internal Audit Standards (PSIAS).

Internal Audit has drawn their risk assessment from a wide range of sources including the Council’s Corporate Risk Register, Internal Audit risk assessment models and Directorate’s Business Plans and management meetings. The risk assessment is a key factor in deciding how to allocate internal audit resources available. It ensures that resources are focused on those areas where they can be of most benefit to the Council by providing assurance to the Council’s Audit Committee on controls over key risks. This document sets out the responses as internal auditors to those risks and to other factors that have been considered as part of the assessment of audit need.

The Plan will be subject to ongoing review and adjustments, to ensure it remains aligned with significant delivery objectives and risks and is responsive to the priorities and concerns of the Corporate Management Team (CMT). Any significant changes to the Plan will be reported to the Audit Committee.

## 2. Definition of Internal Audit

The Public Sector Internal Audit Standards (PSIAS) defines Internal Audit as follows: *“Internal audit 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”.*

## 3. Requirement for Internal Audit

The requirement for Internal Audit is set out in the Accounts and Audit (Wales) Regulations 2015:

*“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”*

PSIAS state:

*“The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals. The risk based plan must take into account the requirement to produce an annual internal audit opinion”*

The overall opinion issued each year by Internal Audit on the adequacy and effectiveness of the control environment is used as a key source of assurance to support the Annual Governance Statement.

#### **4. S.151 Officer Responsibility**

Internal Audit also has an important role to support the Council’s Section 151 Officer in discharging their statutory responsibilities, which include:-

- S151 Local Government Act 1972 – to ensure the proper administration of financial affairs.
- S114 Local Government Act 1988 – to ensure the Council’s expenditure is lawful.

#### **5. Development of the Internal Audit Plan**

The plan has been prepared after a reference to the ‘audit universe’ (the comprehensive list of all areas potentially subject to audit across the Council). It has also taken into account an analysis of the risk registers and the views of Corporate Directors and Senior Management as to where audit resource is most needed. In line with the PSIAS, this plan should enable Internal Audit to maximise the value and assurance it provides the Council and Managing Director, while ensuring it fulfils its statutory obligation to review and report on the Council’s internal control environment, governance and risk management arrangements.

**Revision of the Internal Audit Plan:** This plan will be kept under review on an ongoing basis. Any significant changes will be reported to the Audit Committee for consideration and approval.

#### **6. Risk Based Approach**

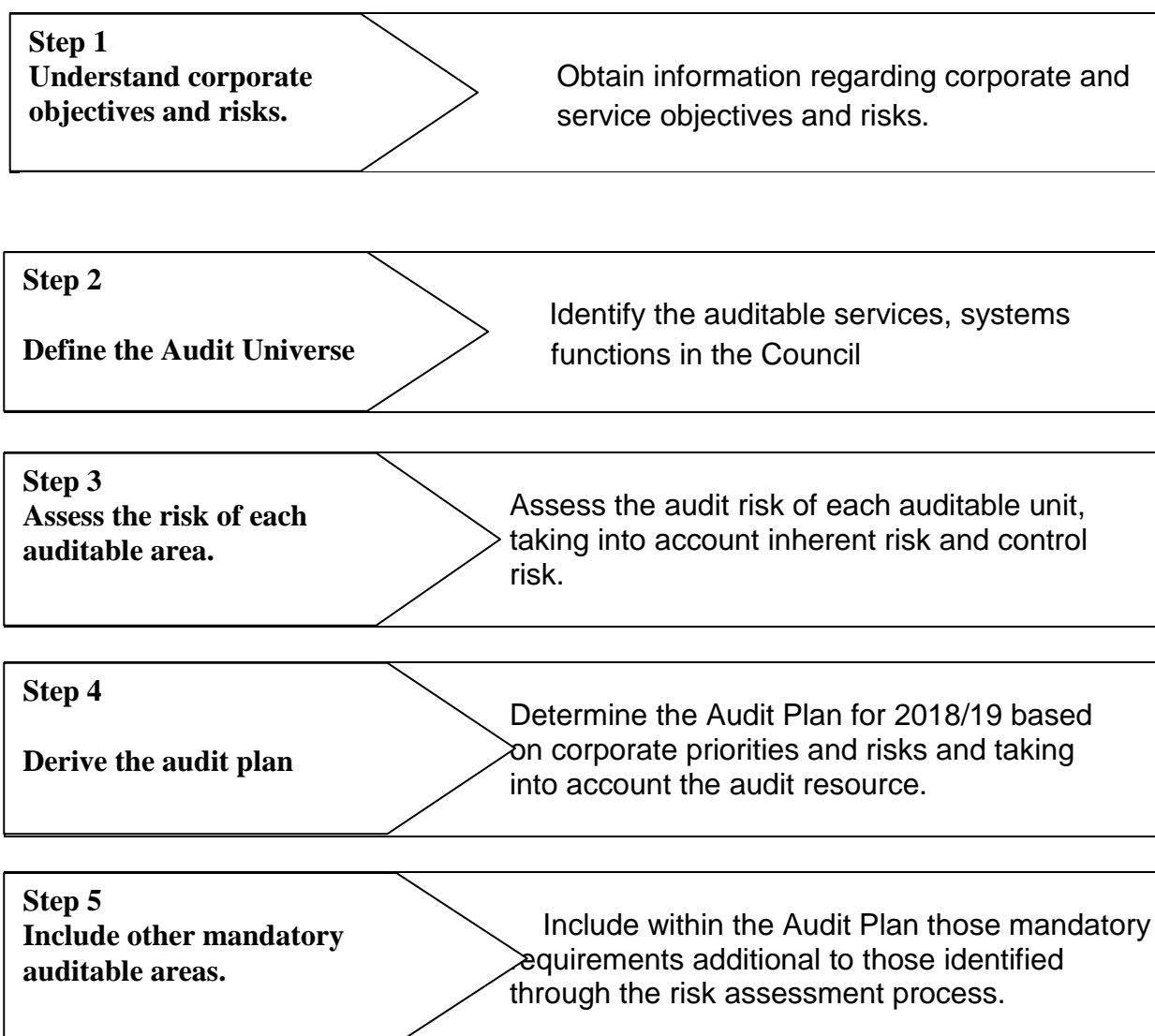
The internal audit function will be delivered in accordance with the Internal Audit Shared Service Charter, as presented to the Audit Committee in February 2018. The Charter defines the role, scope, independence, authority and responsibility of the internal audit shared service. Audits will be delivered in accordance with the Charter. The team will be developed during the year in accordance with the Charter and Service Plan. Development will be predominantly focused on recruitment and the exploration of further opportunities to expand the shared service to increase the efficiency of the service.

Risk based work is critical to the Council, as it seeks to improve the risk awareness of staff, and improve overall control. The internal audit work programme is designed to provide assurance that the significant risks identified within the Council’s Corporate Risk Register are being managed effectively. As part of this process Internal Audit will also examine the risk management and governance arrangements.

By adopting a risk based audit approach there is a clear linkage between the significant risks identified in the Council’s Corporate Risk Register and the work undertaken by Internal Audit in providing assurance against these. As a result, the starting point for the audit plan approach is an understanding of the Council’s objectives and risks.

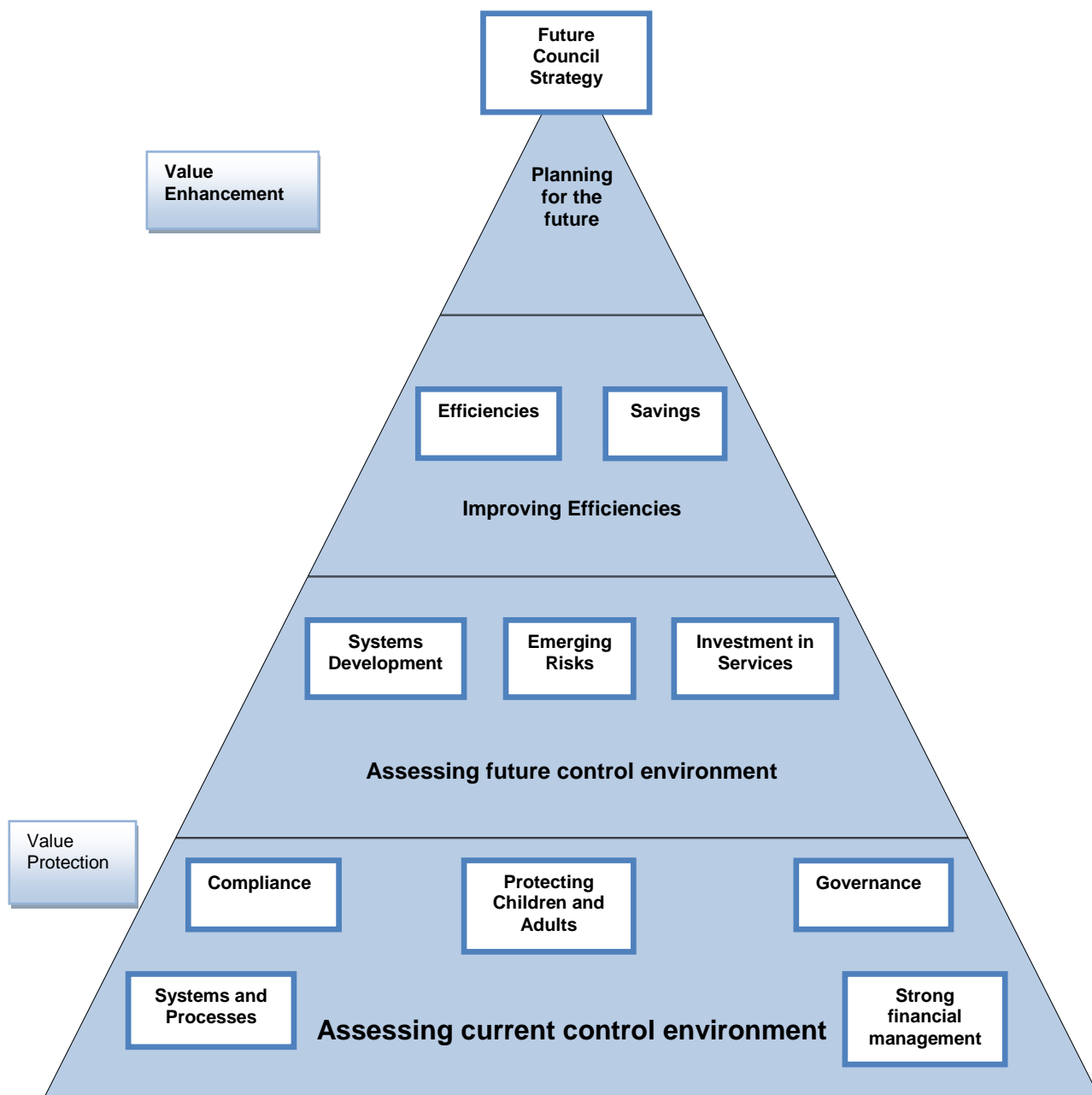
**7. Methodology**

A summary of our approach to the development of the Audit Plan for 2018/19 is set out below. The Plan is driven by the Council’s organisational objectives and priorities as set out in the Corporate Plan and the risks that may prevent the Council from meeting these objectives.



### 8. Value of Internal Audit

Internal audit activity can be broadly split into two categories, namely value protection and value enhancement.



**Value Protection** refers to the assurance we provide on the Council's internal control and governance arrangements. This includes our work on assessing the management of the key risks currently facing the Council. Value Protection also includes mandatory work on fundamental financial systems and helps the s.151 officer to fulfil their statutory responsibilities for proper financial administration and control.

**Value Enhancement** refers to our work on supporting the continuous improvement with regard to its corporate and service performance, delivering savings and more efficient ways of working as part of Council's Medium Term Financial Planning and, providing assurance on new significant change projects and systems developments and helping with providing assurance on future plans and strategies.

## 9. The Risk Assessment Process

The information which has been used to prepare the risk assessment and proposed internal audit plan has been collected and collated from a number of different sources. The starting point for a risk based audit approach is an understanding of the Council's priorities and risks. This has been achieved by reviewing the Corporate Plan, the Directorate's Service Plans, the Corporate Risk Register and meeting / interviewing Corporate Directors and their Senior Management Teams asking where they perceive to be the main risks within their individual areas and where they would require internal audit to provide assurance that such risks are being effectively mitigated and managed. This information is used to inform and design the audit plan.

The plan is based on an underlying risk assessment. The inherent risks existing within each area are then identified for audit as part of the audit planning process. The audits which make up the plan have been assessed on priority. Internal Audit will ensure that all reviews classified as "high" risk, will be completed by the end of the year, "medium risk reviews are the next level down, but still require a scheduled review. Although "low" risk reviews still carry a degree of risk, these have not been included on the plan but continue to be risk assessed annually to take account of any changes in their status.

## 10. The Internal Audit Plan

An annual plan is derived following the audit risk assessment, whereby audits will be selected based on the greatest perceived inherent risk. Internal Audit will ensure that most effort is focused on inherently high risk areas while, at the same time, not totally ignoring the potential for problems that may materialise in other areas.

Whilst Internal Audit will adopt a risk based approach to determine relative risk, there will remain areas where a purely cyclical approach will still be required i.e. programme of School audits.

The Head of Audit will keep progress against the audit plan, and the content of the plan itself, under review. Where there is a need for material changes to the plan; a

revised plan will be re-submitted to the Audit Committee for endorsement. The Audit Committee will also be advised of performance against the audit plan and be kept informed of the results undertaken.

## 11. Resource Requirement

Resource requirements are reviewed each year as part of the audit planning process and are discussed with the Internal Audit Shared Service Board (IASSB). The impacts of the financial pressures with the requirements to generate efficiencies and hard savings have seen internal audit resources reduce year on year. Following a restructure in 2017/18, the current establishment for 2018/19 is based on 14 full time equivalents. It should be noted that at the commencement of 2018/2019, the Section is carrying approximately 50% in vacant posts. Therefore, arrangements are in place to address the shortfall; however, with such a high level of vacancies, it is important to be prudent when determining the number of productive days that can be realistically achieved. The following is the assumptions that have been made for 2018/19.

Quarter 1 and 2. Status remains the same at 50% of the establishment.

Quarter 3 and 4. This will increase to a maximum of 70% of the establishment in post.

In order to address the shortfall in resources it is envisaged that once again the services of the South West Audit Partnership will be commissioned to help bridge the gap. In addition, during 2018/19 work will be underway to further explore the proposal to extend the Shared Internal Audit Service and as a consequence, should this proceed, some latitude will be needed during this transitional year.

The resource availability summarised in Table 1 sets out the proposal to deliver a maximum of 1,350 productive days. It is envisaged that a proportion of these days will be bought in in order to meet the commitment and this will be particularly relevant should there be any delays in filling the vacant posts and the impact of working towards a Regional Shared Service.

## 12. Contingencies

The internal audit plan needs to be fluid and flexible enough to enable the internal audit service to be reactive, as required to situations arising during the course of the period covered by the plan. A contingency reserve element has been built in, to assist in dealing with any such matters arising, to hopefully at least minimise any major impact on the work plan itself.

Time allocated for fraud and irregularity investigations can only be based on previous experience and so actual time expended can and will vary, and would depend very much on the number and types of such work arising during any particular year. It is for this rationale that a reasonable level of contingency reserve has been set aside to assist in the elimination or at least the minimisation of possible disruption to the basic plan. If the reserve is not required, then this will be re-allocated to any other specific audit tasks.

### 13. Delivering the Audit

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement. Any key (serious) issues arising during the course of the audit review will be promptly reported to the Head of Audit to determine the impact on the scope of the review. Key issues will also be promptly brought to management’s attention during the course of the review to enable appropriate remedial action to be taken prior to being formally published in the audit report.

Action plans will form an integral part of the report and will be used to record:

- Those risks considered to be inadequately controlled;
- A prioritisation of audit recommendations and the actions management propose to bring the risks within acceptable parameters, the officer(s) responsible for those actions and the dates for completion.

Audit recommendations will be prioritised as follows;

<b>Priority Rating</b>	<b>Current risk</b>	<b>Action Required</b>
High	Issues that are fundamental and material to your system of internal control. Internal Audit believes that these issues might mean that you do not meet an objective or reduce (mitigate) a risk.	Immediate Action required
Medium	Issues that have an important / significant effect on internal controls but do not need immediate action. You may still meet an objective in full or in part to reduce (mitigate) a risk adequately, but the weakness remains.	Appropriately timed action required.
Low	Issues arising that merit attention and that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.	Action recommended to enhance standards of control.

The auditor will draft a report and arrange to meet with management, to ensure factual accuracy of the audit observations and findings and to ensure a proper understanding of the risks to which any action plan relates. These meetings should take place in accordance with dates agreed in the Audit Brief or within two weeks of completion of the audit fieldwork, whichever is the sooner.

Management will be required to provide a response to the action plans. Any areas of disagreement between the auditor and management, regarding audit’s observations and/or the auditor’s assessment of current risk exposure, which cannot be resolved by discussion, will be recorded in the action plans.

A clear, concise and constructive final report will be issued to the relevant manager / chief officer which will follow a standard format, outlining:



- The overall level of assurance opinion, based on the auditor's professional judgement of the effectiveness of the framework of internal control, risk management and governance;
- Audit recommendations, along with management response and implementation date;
- Details of findings, to include an explanation of the risk and the identified control weakness;
- The final report will be issued in the name of the Head of Audit. All final reports will be issued as PDF documents only and be sent by the Audit Client Manager (s).

#### **14. Follow Up Reviews**

Whether or not an audit review is scheduled for a follow up is reliant on the assurance opinion given at the time of the audit. Where significant gaps in the control environment have been identified and where either limited or no assurance has been given; then these audits will be subject to a follow up. The timing of the follow up is very much dependent on available resources, but Internal Audit's aim will always be to complete the follow up within three to six months of completion of the audit (depending on the assurance level).

#### **15. Reports to the Audit Committee and Corporate Management Team (CMT)**

A status report on internal audit work will be present to the Audit Committee on a quarterly basis (approximately). The purpose of these reports is to provide an update on the progress made against the delivery of the Internal Audit Plan. The report will provide details of audits completed to date, the assurance opinions given and the number and type of recommendations made. The report will also provide a summary of internal audit performance, planning and resourcing issues. Regular update reports will be presented to CMT in accordance with their Forward Work Programme.

#### **16. Annual Assurance Report.**

A formal annual report to the Audit Committee presenting the Head of Audit's opinion on the overall adequacy and effectiveness of the framework of governance, risk management and internal control, will be published to enable it to be taken into account when preparing the Council's Annual Corporate Governance Statement. The format of the Head of Audit's report will follow that set out in the Public Sector Internal Audit Standards (PSIAS) and will include:

- An opinion on the overall adequacy and effectiveness of the Council's framework of internal control, risk management and governance,
- Disclose any qualifications to that opinion, together with the reasons for qualification;
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- Any issues considered by the Head of Audit to be particularly relevant to the Corporate Governance Statement;
- A comparison of work undertaken with that planned, with a summary of internal audit performance for the year; and comment on compliance with the

Public Sector Internal Audit Standards and Internal Audit's Quality Assurance and Improvement Programme.

## 17. Council Wellbeing Outcomes

The Council has agreed an ambitious programme for the next four years to achieve the well-being outcomes and meet the objectives.

Well-Being Outcome	Well-Being Objective	Well-Being Objective
<b>An Inclusive and Safe Vale</b>	Reducing Poverty and Social exclusion	Providing decent homes and safe communities.
<b>An Environmentally Responsible and Prosperous Vale</b>	Promoting regeneration, economic growth and employment.	Promoting sustainable development and protecting our environment
<b>An Aspirational and Culturally Vibrant Vale.</b>	Raising overall standards of achievement	Valuing culture and diversity
<b>An Active and Healthy Vale.</b>	Encouraging and promoting active and healthy lifestyles.	Safeguarding those who are vulnerable and promoting independent living.

## 18. Corporate Risk

Good governance requires the Council to develop effective risk management processes, including an assessment of corporate risk. The corporate risk assessment is considered and reviewed by Cabinet, Audit Committee, as part of the Council's quarterly Corporate Performance Assessment Framework and is used to inform Scrutiny forward work programmes and budget processes.

The Council assesses on an annual basis the major risks that will affect the ability to achieve the Corporate Wellbeing Outcomes, provide services as planned and fulfil its statutory duties.

Corporate Risks
CR1. Reshaping Services
CR2. Response to legislative change and local government reform.
CR3. School Reorganisation and Investment
CR4. Housing Improvement Programme
CR5. Waste
CR6. Workforce needs
CR7. Information security
CR8. Environmental Sustainability
CR9. Welfare reform
CR10. Local Development Plan
CR11. Safeguarding
CR12. Integrated Health and Social Care
CR13. Deprivation of Liberty
CR14. Contract Management

The above Corporate Risk Register is used by Internal Audit to inform its planning process. By adopting a risk based audit approach there is a clear linkage between

the significant risks identified in the register and the work undertaken by Internal Audit in providing assurance against these risks.

**19. INTERNAL AUDIT SHARED SERVICE DRAFT ANNUAL RISK BASED PLAN 2018 -2019**

Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment which encompasses the systems of governance, risk management and internal control, by evaluating its effectiveness in achieving the organisation’s objectives. It examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. The Annual Plan has been formulated to ensure compliance with the Public Sector Internal Audit Standards (PSIAS) which have been effective since 1<sup>st</sup> April 2013.

Attached at **Appendix B** is the detailed schedule of audits planned for each of the Council’s Directorates including Cross Cutting. Table 1 below provides an overall summary of the number of productive days allocated.

**Table 1–Productive Resource Availability & Utilisation April 2018 to March 2019 – Draft Proposals.**

<b>Resources Available</b>	<b>Total Days</b>
Productive days	<b>1,350</b>
Priority One – Those areas that must be covered during the year.	<b>815</b>
Priority Two – Those areas that should be covered during the year based on Risk.	<b>535</b>
<b>Days split by Directorate.</b>	
Cross Cutting (including Contingency – Fraud & Error)	<b>635</b>
Environment & Housing	<b>140</b>
Learning & Skills	<b>145</b>
Managing Director - Resources	<b>210</b>
Social Services	<b>210</b>
<b>OVERALL TOTAL</b>	<b>1,350</b>