

Report to	<b>Audit Committee</b>
Date	<b>28/01/19</b>
Lead Officer	<b>Mike Halstead, Head of Audit and Procurement Services</b>
Contact Officer	<b>Keith V Williams, Audit, Conwy CBC</b>
Subject	<b>Internal Audit Strategy and Annual Plan 2019/20</b>



## PURPOSE OF REPORT

- 1 The Internal Audit Strategy & Annual Plan 2019/20 is submitted to the Audit Committee for consideration and approval, in compliance with the Public Sector Internal Audit Standards.

## EXECUTIVE SUMMARY

- 2 The overall strategy of Internal Audit is to deliver a risk based audit plan in a professional, independent manner, in compliance with the Public Sector Internal Audit Standards 2013. The Strategy identifies how the Internal Audit Service will assist the Authority to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The Strategy & Annual Plan is submitted for approval on an annual basis.

## RECOMMENDATIONS

- 3 The Audit Committee to consider and approve the Internal Audit Strategy & Annual Plan 2019/20.

## BACKGROUND

- 4 The requirement for an Internal Audit function for local authorities is implied by section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs". The Accounts and Audit Regulations (Wales) 2014 places a statutory obligation on the Authority to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control".
- 5 The Internal Audit Service's terms of reference are documented in the Service Level Agreement for the provision of financial services with Conwy County Borough Council for the period 1st April 2015 to 31st March 2020.

## **INFORMATION**

### **STRATEGY STATEMENT**

- 6 The overall strategy of Internal Audit is to deliver a risk based audit plan in a professional, independent manner, in compliance with the Public Sector Internal Audit Standards 2013; Internal Audit provides the organisation with objective assurance and undertakes consulting activities designed to add value and improve the Authority's operations. The Internal Audit Service will assist the Authority to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### **DEFINITION AND OBJECTIVE**

- 7 In compliance with the Public Sector Internal Audit Standards, the Head of Internal Audit is required to develop and maintain a strategy for delivering the Internal Audit service. Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It 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. The control environment includes all authority operations, resources, services, and its responsibilities to other bodies.
- 8 The Accounts and Audit Regulations require the NWFRA to produce an Annual Governance Statement each year. The Head of Audit provides an annual report to those charged with governance to support the production of the Annual Governance Statement. This formal report includes an opinion on the overall adequacy and effectiveness of the risk management systems and the internal control environment; disclosure of any qualifications to that opinion together with reasons; a summary of the of the audit work upon which the opinion is based; the extent to which reliance upon the work of other assurance bodies has been placed; and any issues considered relevant to the preparation of the Annual Governance Statement.
- 9 Internal Audit operates in a consultancy role in advising managers in relation to issues within its remit, such as the implementation of appropriate controls in terms of new projects, developments and systems. The exact allocation of resources in respect of consultancy work is determined in the audit plan. Separate time allocations are allowed for consultancy activities, fraud related work and follow up audits.

## **STATUS**

- 10 Internal Audit is responsible to the Treasurer for line management purposes, and helps to discharge the statutory functions of the Chief Finance Officer as defined in Section 151 of the Local Government Act 1972. However Internal Audit is independent in its planning and operation.
- 11 The Head of Audit Services has direct access to the Chief Fire Officer, all levels of management and elected members. Internal Auditors have the authority to:
- Enter at all reasonable times any authority establishment.
  - Have access to all records, documents, information and correspondence relating to any financial and other transaction as considered necessary, for the purposes of audit review and/or investigations.
  - Evaluate the adequacy and effectiveness of internal controls designed to secure assets and data to assist management in preventing and deterring fraud.
  - Request explanations as considered necessary to satisfy themselves as to the correctness of any matter under examination.
  - Require any employee of the NWFRA to produce cash, materials or any other property belonging to the authority in their possession or under their control.
  - Access records belonging to third parties, such as contractors or partners, when required and appropriate.

## **DELIVERY OF THE AUDIT SERVICE**

- 12 The Head of Audit Services is responsible for delivering the audit service in accordance with the Service Level Agreement. To ensure that this can be achieved, there are appropriate arrangements for:
- Determining and planning the work to be carried out based upon a Needs Assessment and a risk based planning process, an annual operational audit plan and monthly work plans. All plans are based on an assessment of risk.
  - Providing the resources required to deliver the audit plan, the necessary skills (both in general audit and technical areas) and support facilities, such as IT facilities, equipment and management and administration processes.

## INTERNAL AUDIT PLAN 2019/20

- 13 The Draft Annual Plan for 2019/20 is attached at **Appendix A**. The purpose of the annual audit plan is to:-
- Establish audit priorities in conjunction with Fire and Rescue Authority Management based upon a risk based approach of determining the audit needs of the Authority at the start of each year.
  - Determine the resources needed to carry out the required audit duties.
  - Review and follow up the audit work of the previous year.
- 14 The audit plan is designed to act as a guide only. Changes in circumstances or other emerging risks may result in deviations from the plan. The plan for 2019/20 has been prepared following consultation with Fire and Rescue Authority Management. The plan also includes time to follow up recommendations from previous audits.
- 15 The Internal Audit service will be delivered on the basis of a Needs Assessment, a risk based approach to determining the needs of the Authority at the start of each year and detailed operational plans which will be presented to the Audit Committee on an annual basis for approval. The assessment sets out the number of days required for Internal Audit to adequately review the areas involved, and a risk assessment level for each planned audit assignment. The over-riding objective of this approach is to ensure that Internal Audit is able to present an opinion on the control environment by directing adequate resources based on the relative risks of the operations, resources and services involved, using a formal risk assessment process. The risk assessment process takes account of a range of strategic, corporate, service and operational risks, including those identified through the Risk Management process and by the external auditor and the views of senior management on these issues. Where resources available are not considered by the Head of Audit Services to be adequate for such an opinion to be provided, this will be reported to the organisation through the Audit Committee.
- 16 The Plan balances the following requirements:
- the need to ensure the Audit Plan is completed to the target levels established by the section's performance indicators;
  - the need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control on which External Audit will place reliance;
  - the need to appropriately review other strategic and operational arrangements;

- the need to have uncommitted time available to deal with unplanned issues which may need to be reviewed or investigated;
  - the relative allocation of resources between assurance, fraud related and consultancy services provided by internal audit.
- 17 Progress against the operational plan and the content of the plan, will be kept under review by the Head of Audit Services in liaison with the Treasurer and through monitoring corporate and service developments. The Audit Committee will be advised of performance against the operational plan.
- 18 Internal Audit will comply with the Public Sector Internal Audit Standards (PSIAS). The Head of Audit Services will ensure that there is an up to date Audit Manual in place setting out expected standards for the service and will monitor compliance with these standards, including in relation to the planning, conduct and reporting of audit assignments.
- 19 An external assessment of Internal Audit's conformance against the PSIAS was undertaken on 31st October and 1st November 2016 by Wrexham County Borough Council. The external assessors' overall opinion was that the Internal Audit Service generally conforms with the PSIAS and Code of Ethics in all significant areas and that it operates independently and objectively.
- 20 Conwy County Borough Council has established a Performance and Development Review Policy, which identifies the training, and development needs of its employees. The Internal Audit Section relies heavily upon the effectiveness of its staff to deliver high quality services. The aim of the PDR process is to reinforce and strengthen the relationship between individual performances, expectations of management, and organisational goals. In addition, the PSIAS (1230) requires the Head of Audit and Procurement Services to ensure that the Internal Audit Section has access to the full range of knowledge, skills, qualifications and experience to meet the Section's objectives and standards.
- 21 Internal Audit will aim to co-operate effectively with the external auditor and ensure that appropriate reliance can be placed on Internal Audit's activities.
- 22 The reporting approach for Internal Audit is set out in the approved Service Level Agreement and Internal Audit will comply with this approach as the most efficient method of delivering the outcomes of its work.

- 23 In the delivery of each assignment Internal Audit will look to make practical recommendations based on the findings of the work and discuss these with management, such that management commit to an appropriate action plan for implementing any necessary improvements to the control environment.

## IMPLICATIONS

Wellbeing Objectives	Taken into consideration and incorporated within the Strategy.
Budget	No additional cost pressures; budget set for 2019/20 incorporates the SLA with CCBC for the provision of financial services.
Legal	Compliance with Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2015.
Staffing	No implications; Internal Audit Strategy implemented by Conwy Internal Audit staff.
Equalities/Human Rights/ Welsh Language	Conwy Internal Audit Services operates in accordance with legislation.
Risks	Failure to produce a strategy and appropriately plan the work of the Internal Audit Service would result in an undisciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes and negatively impact on improvement of the Authority's operations. This would weaken the governance framework and could lead to the Authority receiving an adverse opinion on its arrangements for an effective Internal Audit Service, as required under relevant legislation.

**North Wales Fire and Rescue Authority  
Draft Internal Audit Annual Plan 2019/20**

**APPENDIX A**

<b>Ref</b>	<b>Audit Review</b>	<b>Comments</b>	<b>Days</b>	<b>Planned Timing</b>
<b>Risk Area – Financial &amp; Fraud Risks</b>				
<b>17</b>	Payroll & HR System	To provide advice & guidance upon the implementation of a new Payroll / HR System to ensure that appropriate systems of internal control are in place.	<b>8</b>	<b>Ongoing</b>
<b>22</b>	Fleet Management	A review of fleet management procedures in respect of insurance, licensing, inventories, stock of spares, purchases, security, maintenance, MOT, disposals, job sheets & technicians.	<b>12</b>	<b>January 20</b>
<b>23</b>	Grant Income 2018/19	To undertake a review of grant income received in 2018/19 to ensure that appropriate records are retained of payments made, income is used in accordance with the terms & conditions of the grant and an appropriate separation of duties is in evidence in respect of all transactions.	<b>12</b>	<b>August 19</b>
<b>27</b>	National Fraud Initiative	NFI is a comprehensive & thorough 'data matching' exercise organized by the Cabinet Office in partnership with the Wales Audit Office (WAO).	<b>6</b>	<b>August 19</b>
<b>Other Audit Work</b>				
-	Audit Planning, Annual Report and Management	Provision for time required for management element of contract.	<b>5</b>	<b>Ongoing</b>
-	Follow up of Previous Recommendations	Following up recommendations made in 2018/19 – <ul style="list-style-type: none"> <li>• Creditors P2P</li> <li>• Income &amp; Debtors</li> <li>• Procurement Cards</li> </ul>	<b>5</b>	<b>Ongoing</b>
-	Contingency Reserve	For unplanned work identified during the year and liaison/advice as required.	<b>2</b>	
<b>Total Days Required for Audit Work</b>			<b>50</b>	
<b>Total Days Allocated 2019/20</b>			<b>50</b>	
<b>Totals Days b/f from 2018/19</b>			<b>-</b>	
<b>Total Days Available 2019/20</b>			<b>50</b>	