



AUDIT COMMITTEE – 10TH APRIL 2018

SUBJECT: INTERNAL AUDIT SERVICES ANNUAL AUDIT PLAN

REPORT BY: INTERNAL AUDIT SERVICES MANAGER

1. PURPOSE OF REPORT

- 1.1 To seek Audit Committee approval of the Internal Audit Services Annual Audit Plan for the 2018/19 financial year.

2. SUMMARY

- 2.1 The report provides details of the planned work programme for Internal Audit Services for 2018/19.

3. LINKS TO STRATEGY

- 3.1 The work of Internal Audit Services provides assurance on the robustness of internal controls and the corporate governance arrangements operating within the Authority and identifies areas for improvement.
- 3.2 Strong corporate governance arrangements are an essential element of ensuring that the Council's key priorities are effectively delivered and this in turn contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -
- A prosperous Wales.
 - A resilient Wales.
 - A healthier Wales.
 - A more equal Wales.
 - A Wales of cohesive communities.
 - A Wales of vibrant culture and thriving Welsh Language.
 - A globally responsible Wales.

4. THE REPORT

- 4.1 The Internal Audit Services Annual Audit Plan for the 2018/19 financial year is attached as Appendix 1. The approach is broadly similar to previous years but reflects the ongoing development of the Plan in terms of coverage and risk identification.
- 4.2 It should be noted that the resources on which the Plan is based have reduced slightly on previous years due to one member of staff working one day less per week from the 1st April 2018 under the Council's flexible working policy.

4.3 Members will note that following a recommendation by the Council's External Auditor, the Plan now shows planned activity on a quarterly basis. This will allow for better control and monitoring of the Plan during the year.

4.4 The Audit Committee will receive a mid-year report highlighting progress against the Plan along with details of any specific issues arising.

5. WELL-BEING OF FUTURE GENERATIONS

5.1 Strong corporate governance arrangements are a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

6. EQUALITIES IMPLICATIONS

6.1 There are no potential equalities implications of this report and its recommendations on groups or individuals who fall under the categories identified in Section 6 of the Council's Strategic Equality Plan, therefore a full Equalities Impact Assessment has not been carried out.

7. FINANCIAL IMPLICATIONS

7.1 There are no direct financial implications arising from this report.

8. PERSONNEL IMPLICATIONS

8.1 There are no personnel implications other than the approved manpower resource.

9. CONSULTATIONS

9.1 Any comments received have been reflected in the report.

10. RECOMMENDATIONS

10.1 The Audit Committee is asked to note and approve the Internal Audit Services Annual Audit Plan for the 2017/18 financial year.

11. REASONS FOR THE RECOMMENDATIONS

11.1 To enable Internal Audit Services to carry out its function.

12. STATUTORY POWER

12.1 Accounts and Audit (Wales) (Amendment) Regulations 2018.

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Appendices:

Appendix 1 Internal Audit Services Annual Audit Plan 2018/19

CAERPHILLY COUNTY BOROUGH COUNCIL

INTERNAL AUDIT SERVICES

ANNUAL AUDIT PLAN 2018/19

1. Purpose of the Report

1.1 The purpose of the report is to outline the intended allocation of audit time for the financial year ending 31st March 2019.

2. Introduction

- 2.1 The Public Sector Internal Audit Standards (PSIAS) and the Council's own Financial Regulations require that an annual Audit Plan should be prepared to ensure that there is an effective and efficient use of audit resources. The 2018/19 Annual Plan is broadly based on an on-going assessment of risk which makes use of data gathered from various sources including senior management, the authority's risk register, Heads of Service and Members. The purpose of an Annual Plan is to outline the resources available and set out the intended allocation of audit time for the forthcoming year. Actual work carried out will be regularly assessed against the Plan and the Audit Committee will receive a mid-year progress report.
- 2.2 Following on from recommendations made by the Authority's External Auditor the Plan has been split on a quarterly basis to show available man days per quarter. This has been based on the full-time equivalent (FTE) head count of staff and current working patterns as some staff have flexible working arrangements.
- 2.3 A larger proportion of annual leave days have been allocated to the traditional summer holiday period (01/07/18 to 30/09/18), but other overheads have been estimated to arise evenly over the period. These include sickness absence which has been estimated at the rate of 1.5% of available days. It also includes other managerial provisions including audit planning, servicing the Audit Committee and corporate governance. Obviously there may be variances in these overheads due to unforeseen events such as long term sickness or other staffing changes which will affect the number of available man days that can be allocated to audit assignments.
- 2.4 A detailed breakdown of planned audit days is provided in Appendix 1 with a summary shown in the table below: -

	01/04/18 to 30/06/18	01/07/18 to 30/09/18	01/10/18 to 31/12/18	01/01/19 to 31/03/19	Totals
Overheads	140	189	143	124	596
Available man days	382	333	379	398	1492
Total	522	522	522	522	2088

- 2.5 It is also inevitable that there will be some audit assignments that will remain unfinished as at 31/03/18 so an estimated allowance of 40 days has been allocated to the completion of these prior to the commencement of new assignments. It is anticipated that these will be prioritised before commencing new projects so all this time is allocated into quarter 1.
- 2.6 The cycle of activities within the Council naturally influences the timing of audit assignments. For example school summer holidays preclude any school audits from taking place during this period, also the year-end processes and subsequent preparation of the financial accounts and external audit means that finance staff and systems are prioritised towards these activities. As a result audit assignments undertaken take account of these together with other work load pressures within Directorates and Service areas.

- 2.7 The plan may also be flexed and audits reprioritised as Directors, Heads of Service and Service Managers become aware of new operational risks or other issues which may arise during the year. Timing of audits tends to be negotiated with the Service area or establishment management to bring forward any new or increased risk areas or to take account of workloads or other priorities within service areas.
- 2.8 Priority will always be given to high risk areas whether known or emerging, as in prior years.
- 2.9 There are also a number of time limited assignments that are required to be undertaken such as grants which have deadlines set by the funding bodies. There is no flexibility over the timing of these audits and this work takes place between the financial year-end and the certification deadline which is September in most cases.
- 2.10 The Plan has also taken account of the transfer of certain service areas within Directorates so that time planned can be accurately aligned to Directorates and their operational activities.
- 2.11 Taking into account those factors noted above the remainder of the Audit Plan can be estimated over the year and the individual Directorates. Audit activity can also be allocated against the types of audit assignments such as establishment audits, systems, IT, contracts and corporate work.
- 2.12 In addition to changes within the Authority, Internal Audit Services continues re-aligning its approach in response to the requirements of the new Public Sector Internal Auditing Standards (PSIAS) and the developing risk management and governance agendas. Additional audit time has been allocated to these areas.

3. Staffing

- 3.1 The establishment level of the Internal Audit Section for 2018/19 is 8 FTE's which a reduction from 2017/18 as a result of an approved flexible working request effective from 01/04/18. However this is a minor change and it is considered that staffing continues to be in line with the Welsh average.

4. The Plan

- 4.1 In preparing the detailed Plan, due consideration has been given to previous years' coverage, the Authority's risk register, input from Service Areas and Directorates, any emerging issues and any "local factors" as well as acknowledging themed areas that are linked to priorities highlighted in the Auditing Standards.

- 4.2 It can be seen that Audit assignments broadly fall into a number of categories as follows: -

4.3 Systems

- 4.3.1 System audits continue to receive a high level of resource allocation with certain high risk corporate systems being reviewed on an annual basis, either by undertaking a full audit or carrying out an "overview" of system controls. This allocation also allows the expansion of the service into cross cutting reviews and specific risk or business related projects as identified on an ongoing basis.
- 4.3.2 As the service continues to align its coverage to areas identified within the risk registers as part of the corporate risk management process, audit value can be increased by the promotion of the skills and knowledge gained during the undertaking of individual systems reviews. The accumulated knowledge of the organisation, its systems and procedures goes a long way to informing the year-end process to arrive at an overall assurance opinion. Likewise the numerous grants that now require internal audit review are also seen as an information source to further audit knowledge and understanding which are then used to feed the assurance process.

4.3.3 Throughout the year Internal Audit staff will continue to have a role to play in both advising on the introduction of new systems and in undertaking regularity checks to ensure that the risks inherent in systems are minimised. In 2018/19 audit time has been allocated to the new Income Management and General Ledger systems that are due to be introduced.

4.3.4 Internal Audit will liaise with the Council's External Auditor in order to ensure that fundamental systems receive adequate coverage and to prevent duplication of effort.

4.4 Establishments

4.4.1 The majority of council establishments continue to receive a visit over a three to five year period and a more structured approach to establishment audits has been established to ensure that audit resources are deployed where most benefit can be achieved. The focus of these audits is under ongoing review with alternative approaches being considered that incorporate a greater link with the governance and risk agendas. A rolling visiting schedule covering all establishments has been set up and a schedule of visits relating to 2018/19 is shown in Appendix 2.

4.4.2 In addition to ensuring that the link between the establishments and the "corporate centre" are strengthened, it is hoped that the more structured approach to establishment audits will continue to: -

- highlight the need for probity in financial administration;
- deal with problems where advice and assistance are required;
- identify any significant areas where procedures are weak; and
- promote best practice across a wide range of establishments.

4.5 Action plan reviews and follow-up audits

4.5.1 An action plan review and establishment audit follow-up process is in place to monitor the implementation of agreed actions as the final part of the audit cycle. This work is regarded as additional to the actual audit as it provides assurance on a corporate basis that agreed recommendations are being implemented by managers.

4.6 Contract Audit

4.6.1 The move to a more pro-active system-based approach to contract auditing will continue and will be further developed by moving the focus to auditing schemes as they progress. The more traditional approach of auditing contractors' final accounts will also continue and information obtained via the final account audits will be used to complement the systems work.

4.6.2 Internal Audit staff will continue to work closely with staff from Procurement Services to promote a high level of contract compliance throughout the Council. There will also be ongoing coverage and support of the arrangements in respect of the WHQS works due to the ongoing recognition of the inherent risks to a satisfactory conclusion of the scheme.

4.7 Computer Audit

4.7.1 Reliance on IT systems continues to be a critical factor to the ongoing success of the Authority. During the year further consideration will be given to the risks and assurances currently in place with a view to formalising an approach to addressing any areas of concern identified. As most systems and processes are IT based the ongoing systems reviews are being updated to include an element of what was previously considered to be IT Audit. The less technical IT systems reviews have been merged into the systems work stream and existing work programmes will be adjusted to cover the new approach.

- 4.7.2 During the year as specific issues arise or additional risks are identified consideration will be given to how best to build these into the ongoing Plan as would be the case for all emerging issues.
- 4.7.3 Audit work will still be undertaken to review and report on the central controls for those areas that are within scope of the BSI accreditation.
- 4.8 Corporate/Other
- 4.8.1 Internal Audit Services co-ordinates and contributes to work in respect of the National Fraud Initiative (NFI) with the next cycle being due in October 2018. As this has developed over the years additional data streams have been included requiring greater input together with the additional requirements of Data Protection regulations. The majority of this work will fall due in the run up to the data uploads in October and then when data matches are released in January 2019.
- 4.8.2 A member of staff from Internal Audit Services is the Information Steward for Corporate Finance and as Members will be aware the General Data Protection Regulation (GDPR) will be in place in May 2018 so an increased allocation of time has been made to allow for this. Work being undertaken includes information sharing audits and input into the Privacy Notices that will be required for the various operational areas within Corporate Finance.
- 4.8.3 Other time allocations include the co-ordination and production of the Annual Governance Statement (AGS) and further work on the PSIAS self-evaluation as the Authority now enters the next 5 year cycle of this process.
- 4.8.4 In anticipation of “unplanned” issues arising during the year, such as special investigatory work, and work brought forward from the previous year, days have been allocated as a general contingency. This approach should reduce problems with audits having to be postponed or cancelled and make the Audit Plan more aligned to actual eventualities. A total of 80 days has been allowed for this.
- 4.9 Non-Audit Days
- 4.9.1 Certain tasks are carried out by Internal Audit Services that provide a valuable insight into emerging issues but do not fall within the precise definition of internal auditing. Such tasks include the following: -
- Co-ordination / monitoring of anonymous letters received.
 - Returned cheques - control and administration.
- 4.9.2 A total of 105 days have been allocated to these tasks.
5. Summary
- 5.1 The report has dealt with the allocation of audit resources and highlighted the main areas of coverage.
- 5.2 The Plan continues to reflect a proactive and constructive approach to audit matters.
- 5.3 The desire to “continually improve” will have an impact on the way Internal Audit Services functions in that there is a continuous need to ensure that we provide a service of the highest quality at the most competitive cost.
- 5.4 In the coming months efforts will continue to build on existing practices and procedures in order to meet the requirements of the new Auditing Standards and the service will be working with the Audit Committee to reset the focus of the audit coverage and realign the direction of travel to improve the service to meet the constantly changes demands placed upon it.

- 5.5 Additionally consultation will take place with audit “clients” and our External Auditor throughout the year and their views and future requirements will be taken on board in the ongoing development of audit service provision.
- 5.6 Audits which due to unforeseen reasons were not carried out in the current year will be re-assessed and prioritised and if considered appropriate will be included in the new Plan. Similarly, areas for audit included in the 2018/19 Annual Plan which, due to unforeseen circumstances, are not audited within the forthcoming year will be assessed for inclusion in future year Plans. The Plan must therefore be viewed as a fluid document which not only addresses traditional or historic areas but is also flexible enough to respond to new or emerging issues.

Planned Audit Days by Quarter

	Total number of days	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Education					
Establishment audits	236	67	34	67	67
Grant reviews	46	0	23	23	0
Systems audits and other work	13	0	0	3	10
Total	295	67	57	93	78
Social Services and housing inc WHQS					
Establishment audits	65	10	35	10	10
Grant reviews	10	0	5	5	0
Systems audits and other work	137	34	34	34	34
Contract audit and final accounts	50	13	13	13	13
Total	262	57	86	62	57
Corporate Services					
Systems audits and other work	268	77	22	65	104
Information Technology	5	0	5	0	0
Contract audit and final accounts	20	5	5	5	5
Total	293	82	32	70	110
Communities					
Establishment audits	34	7	15	6	6
Systems audits and other work	115	29	29	29	29
Contract audit and final accounts	40	10	10	10	10
Total	189	46	54	46	45
Corporate / other and non-audit					
Returned cheques	90	23	22	23	22
Anonymous letters	15	3	4	4	4
Servicing Audit Committee	30	8	7	8	7
Governance/ Information Governance	68	17	17	17	17
Other (inc NFI, fraud etc)	93	10	25	28	30
Contingency	80	20	20	20	20
Total	376	81	95	100	100
Action plan reviews and follow ups	37	9	9	9	9
Work in progress	40	40	0	0	0
Overheads	596	140	189	143	124
Total	2088	522	522	522	522

2018/19 Planned Establishment Audits

Primary Schools	150 days			
Hendre Junior School	Risca Primary	Ysgol y Lawnt	Cwmfelinfach Primary	White Rose Primary
Llancaeach Junior	Hendre infants	Coed y Brain	YG Gilfach Fargoed	YG Bro Allta
Rhydri Primary	Libanus Primary	Cwrt Rawlin Primary	Bedwas Infants	Gilfach Fargoed Primary
Greenhill Primary	Phillipstown Primary	YGG Cwm Derwen	Park Primary	Aberbargoed Primary
St James Primary	Trinant Primary	Llanfabon infants	Ystrad Mynach Primary	Plas y Felin Primary
Trinity fields school	8 days			
Comprehensive schools	60 Days			
Lewis Girls	Idris Davies	Bedwas	Newbridge	Islwyn High
Leisure Centres	18 days			
Pontllanfraith	Cefn Fforest	Sue Noake	New Tredegar	
Social Services	59 days			
Beatrice Webb HFE	Ty Iscoed HFE	Rhymney DC	Spring filed DC	Brooklands
Ystrad Mynach / woodcraft				
Tourism	16 days			
Visit Caerphilly	Llancaiach fawr			
Other establishments	24 days			
Bargoed Library	Youth Centres	Community Education	Sheltered Housing	