

CAERPHILLY COUNTY BOROUGH COUNCIL**INTERNAL AUDIT SERVICES****ANNUAL AUDIT PLAN 2019/20****1. Purpose of the Report**

The purpose of the report is to outline the intended allocation of audit time for the financial year ending 31st March 2020.

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 2019/20 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 Auditors the plan has been split on a quarterly basis to show available man days per quarter. This has been based on the FTE head count of staff and current working patterns as a number of staff have flexible working arrangements. Paragraph 3.1 below covers staffing resources available in more detail.
- 2.3 An Audit Management, Planning and Reporting system has been procured and will be implemented and staff trained during the early part of 2019/20 and this system has the ability to evaluate staff resources by holding data on working patterns and other commitments that affect availability. It is anticipated that the quality of information reported going forward will be more accurate as this information is built up.
- 2.4 In order to evaluate the available man days per quarter the overheads have been apportioned taking account of the patterns of bank holidays, the Christmas shut down, the dates of the Easter bank holidays, etc. so minor variances will occur year by year.
- 2.5 A larger proportion of annual leave days have been allocated to the traditional summer holiday period 1.7.19 to 31.8.19, 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 not directly allocated to audit assignments. 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.

- 2.6 Additional overheads have been generated by the granting of a programme of professional study to one of the substantive staff and the recruitment of a trainee auditor which also has been allocated a programme of professional study. This has been done with a view to strengthen the capacity and resilience within the section.
- 2.7 On the basis of the comments above the overheads and available working days per quarter have been estimated as follows:-

	1.4.19- 30.6.19	1.7.19- 30.9.19	1.10.19- 31.12.19	1.1.20- 31.3.20	Total for year
Overheads	332	233	210	164	939
Available man days	271	369	393	438	1471
Total	603	602	603	602	2410

- 2.8 It is also inevitable that there will be some audit assignments that will remain unfinished at the 31.3.19, and an estimated allowance of 145 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 most this time is allocated into quarter 1. Again once the management system is fully embedded more accurate evaluation of this information will be possible in future years with improved accuracy of reporting.
- 2.9 The cycle of activities within the Council naturally influences the timing of audit assignments. For example schools 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 workload pressures within Directorates and Service areas.
- 2.10 The plan may also be flexed and audits reprioritised as Service managers / Directors 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.
- 2.11 Priority will always be given to high risk areas whether known or emerging, as in prior years.
- 2.12 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.

- 2.13 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, grants and corporate work. The audit plan time can also be allocated by these activities over the year. Both analyses are shown below:-

2.14

Directorate	Days	QTR 1	QTR 2	QTR 3	QTR 4
Education	366	86	45	115	120
Social Services & Housing	455	129	158	88	81
Corporate Services	475	31	120	134	189
Communities	85	2	24	33	26
Corporate & management related	90	23	22	23	22
Total	1471	271	369	393	438

Audit type	Days	QTR 1	QTR 2	QTR 3	QTR 4
Establishment	461	86	111	125	139
System	660	111	150	175	224
Grant certification	50	0	30	20	0
Contract	20	5	5	5	5
IT	5	0	5	0	0
Corporate & management related	90	23	22	22	23
WHQS Secondment	185	46	46	46	47
Total	1471	271	369	393	438

- 2.15 It is considered that changes or adjustments to either service delivery or coverage will have to be introduced on a rolling basis with a view to maintaining the level of service and keeping operational disruption to a minimum. The effect of this being that the 2019/20 plan will continue to evolve over time as the effect of increased engagement and profile filters through.

3. **Staffing**

- 3.1 The establishment level of the Internal Audit Section for is 9.2 FTE's which is an increase from 2018/19 as a result of the increase in the hours of the Group Auditor (Deputy Manager) to full-time and the recruitment of a trainee post although this is a fixed-term contract and is linked to successful completion of a programme of study. However, it is considered that staffing continues to be in line with the Welsh averages.

4. **Plan**

- 4.1.1 An outline of the 2019/20 Annual Audit Plan showing the audit days allocated to the main service areas is shown above. A summary of key audit areas that have been identified is shown in Annex A.

- 4.1.2 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.
- 4.1.3 The Audit Section maintains a "list" of all auditable areas called the Audit Universe and this is used as a source upon which the plan is built. This is a dynamic document and is updated to reflect new service areas/ establishments or changes in existing service areas or establishments.
- 4.1.4 This audit universe was risk assessed in 2017 as part of the PSIAS self-evaluation process. The risk assessment of auditable areas is based on the evaluation of the inherent risk of the service or operation including materiality, prior audit intelligence, stability of the service or system etc., the impact of something going wrong, which may be financial or non-financial and the likelihood or probability of something going wrong. Systems of effective internal controls mitigate such risks. The new audit management system has a risk assessment facility so again this system once embedded will support this process in a transparent reportable fashion.
- 4.1.5 The audit plan is based around the audit universe with high risk areas receiving priority or more regular audits; however the aim is to cover all areas within a 3 to 5 year cycle, although when staffing resources are affected or where new risk areas are identified changes will be made to the plan.
- 4.2 Systems
- 4.2.1 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. For example it may be possible to cover these high risk areas by internal control reviews, or specific testing of component processes. In some cases other audit tools such as data matching or analytical reviews may also be performed in these areas.
- 4.2.2 The aim being to cover the high risk areas such as HR, revenues and exchequer and benefits in some way each year by breaking down the services into more manageable component parts e.g. HR by covering new starters, Council tax by covering discounts and exemption processes and supporting documents.
- 4.2.3 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 system 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.

4.2.4 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.

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

4.3 Action plan reviews and follow up audits

4.3.1 The ISA 260 report by the external auditors in July 2018 recommended improvements to the processes of following up recommendations arising from audits. The audit management system has the facility to allow named officers identified in any audit report produced by the system to be targeted and upcoming implementation dates for agreed recommendations to be identified. The system also has a reporting portal so that auditees become responsible for updating progress on achieved recommendations. The system will also identify overdue actions. It is intended that once this reporting function is operational it will prove valuable in achieving this and will also allow reports to be provided to Audit Committee and will support and inform the AGS process and provide assurance on an ongoing basis that agreed recommendations are being implemented by managers.

4.3.2 This will be linked to the additional reporting of audit assignments to Committee of audits falling into the reportable categories reported in October 2018 and will identify audits where follow-up reviews may be necessary or where managers are not making adequate improvements in control processes. Also the new format of reports will identify a direction of travel so that any areas where there is adequate improvement on re-audit will be identified and reported.

4.3.3 This is an evolving process and at this stage and it is envisaged that enabling managers to access the portal facility will make the accountability for achieving recommendations clear. It is considered that this will make the review and follow-up process more seamlessly integrated with the audit plan, so at this stage no additional time has been allocated to this process. However, this may need to be reviewed to ensure it is appropriate as additional time spent on following-up recommendations that have failed to be implemented will eventually impact on the plan.

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. Most establishments are schools with a much

smaller number of leisure, tourism and social services establishments in existence.

- 4.4.2 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 number of audits undertaken in 2018/19 raised recurring themes so some time is also being spent on thematic reviews which will be intended to cover a larger number of establishments but focussing on one key area. Key areas for review will be aspects of operational processes or controls with evidence of poor compliance or high risk areas.
- 4.4.3 A rolling visiting schedule covering all establishments has been set up and a schedule of visits relating to 2019/20 is shown within Annex A. However, audits may be re-prioritised particularly where the departmental staff become aware of concerns at a particular establishment.
- 4.4.4 The new reporting formats and greater transparency in reporting to Audit Committee is hoped to improve the links between the establishments and the “corporate centre” and strengthen accountability. It is hoped that the more structured approach to establishment audits reporting will continue to: -
- highlight the need for probity in financial administration;
 - deal with problems where advice and assistance is required;
 - identify any significant areas where procedures are weak;
 - improve accountability;
 - promote best practice across a wide range of establishments.

4.5 Contract Audit

- 4.5.1 The move to a more proactive system based approach to contract auditing will continue and will be further developed by moving the focus to auditing schemes as they progress.
- 4.5.2 Information suggests that the need for traditional final accounts and contract audits is reducing. This is not unexpected given the reduction in capital budgets also linked with the fact that the WHQS scheme is due to end in 2020. As a result a reduced allocation of time has been given to contract audits.
- 4.5.3 As a result of a WAO review and work undertaken by Internal Audit in 2018 a resource has been seconded to the WHQS service area to strengthen and support the data validation process and performing reviews of the related supporting documentation. 185 days have been allocated to this process which is currently forecast to conclude in line with the WHQS programme at which time the resource will return to Internal Audit.
- 4.5.4 Internal Audit staff will continue to work closely with staff from Procurement Services to promote a high level of contract compliance throughout the Council.

4.6 Computer Audit

- 4.6.1 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.
- 4.6.2 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.
- 4.6.3 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.