



AUDIT COMMITTEE

Date Written	23rd April 2019
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Exempt/Non Exempt	Non Exempt
Committee Date	29 th April 2019

To: Chair, Ladies and Gentlemen

Internal Audit Strategy and Plan 2019/2020

1.0 SUMMARY OF THE REPORT

- 1.1 An Annual Internal Audit Plan is required by the Public Sector Internal Audit Standards. The Plan establishes the work that is planned to be undertaken by the Internal Audit Service for the financial year. The Plan must be reported to the Council's Audit Committee for approval.
- 1.2 The impact on Councils to generate efficiencies and savings as a result of the financial pressures have seen internal audit resources reduce year on year. As a consequence, and at the commencement of 2019/20 the Regional Internal Audit Service which previously covered Bridgend & Vale of Glamorgan Councils has been expanded and will provide the Internal Audit function to two additional Councils; these being Merthyr Tydfil CBC and Rhondda Cynon Taf CBC. As this is a newly expanded Regional Service, the overarching structure of the service is yet to be finalised. With this in mind, this plan has been based on the maximum number of productive days available to be delivered to Merthyr Tydfil County Borough Council for the whole year based on a full complement of staff.
- 1.3 Whilst it is recognised that 2019/20 will be a transitional year for the service and as such some degree of latitude will be required in respect of service delivery, arrangements will be put in place to closely monitor performance, keep the Audit Committee fully informed and should the need arise, revise the plan and/or assistance will be sought to bridge any gaps in staffing.

2.0 RECOMMENDATIONS that

- 2.1 The Internal Audit Strategy and Plan be approved by Councillors.

3.0 INTRODUCTION AND BACKGROUND

- 3.1 The Public Sector Internal Audit Standards (PSIAS) state *“The chief audit executive (Head of Regional Audit Service) must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals.”* An annual risk-based plan must be developed taking into account the organisation’s risk management framework and the requirement to produce an annual internal audit opinion on the organisation’s internal controls, governance arrangements and risk management framework. The PSIAS also require that the chief audit executive communicates the internal audit activity’s plan and resource requirements to audit committee for review and approval.
- 3.2 The impact on Councils to generate efficiencies and savings as a result of the financial pressures have seen internal audit resources reduce year on year. As a consequence, and at the commencement of 2019/20 the Regional Internal Audit Service which previously covered Bridgend & Vale of Glamorgan Councils has been expanded and will provide the Internal Audit function to two additional Councils; these being Merthyr Tydfil CBC and Rhondda Cynon Taf CBC. As this is a newly expanded Regional Service, the overarching structure of the service is yet to be finalised. With this in mind, this plan has been based on the maximum number of productive days available to be delivered to Merthyr Tydfil County Borough Council for the whole year based on a full complement of staff
- 3.3 Whilst it is recognised that 2019/20 will be a transitional year for the service and as such some degree of latitude will be required in respect of service delivery, arrangements will be put in place to closely monitor performance, keep the Audit Committee fully informed and should the need arise, revise the plan and/or assistance will be sought to bridge any gaps in staffing.
- 3.4 The strategy is communicated below and includes the factors that may impact on it for the future. I also go on to explain how the Internal Audit Plan has been developed and the likely impact on the Internal Audit Service.

4.0 AUDIT STRATEGY

4.1 Outcomes and Tasks

4.1.1 In line with the Authority's performance management framework the Internal Audit Service has produced the following Outcome and Tasks that aims to encapsulate the role of the service.

Outcome	<p>The provision of a professional, cost effective, independent and objective internal audit of the Authority's control environment including risk management processes, control systems and governance arrangements to ensure efficient and effective services are provided to the community and citizens of Merthyr Tydfil.</p> <p>The work undertaken by Internal Audit aims to provide councillors, directors, all levels of management and other key stakeholders with assurance that service performance, governance arrangements, processes and internal controls are operating efficiently and effectively and that actions, tasks and outcomes are being met and realised.</p>
Task	To prepare and deliver an Internal Audit Plan based upon a prioritised assessment of risk that identifies the audits to be undertaken.
Task	Completion of the core 'Major Financial Systems' audits.
Task	To provide good quality professional support to the Audit Committee in discharging its responsibilities.
Task	To play a key role in the production of the Annual Governance Statement.
Task	To ensure that the Internal Audit Service complies with the Public Sector Internal Audit Standards (PSIAS) and other professional and statutory requirements.
Task	To respond to requests to undertake appropriate additional work as required.
Task	To give an objective and evidence based opinion on all aspects of governance, risk management and internal control.

4.2 How will this be achieved?

4.2.1 A detailed risk assessment is undertaken to determine the extent of audit coverage required. Audits of major financial systems will be undertaken on a cyclical basis as agreed with our external auditors. This will assist them in placing reliance on the work of Internal Audit and also provides assurance that the systems that control the vast majority of the Authority's finances are regularly audited.

4.2.2 The Internal Audit Plan is prepared following consultation/discussions with senior managers of the Authority, external audit, all staff in Internal Audit and the preparation of a risk assessment to ensure that areas of significant risk and materiality are covered. A plan is then presented to the Audit Committee for consideration and approval.

- 4.2.3 There is also need to take into account the timing of reviews/inspections e.g. Authority wide risk assessments; Wales Audit Office reviews; External Audit plans to review particular areas as well as planned Scrutiny Committee examination of areas. This must be done in order to minimise duplication and to ensure services are not over inspected/audited.

5.0 FACTORS THAT WILL IMPACT ON THE AUDIT STRATEGY

- 5.1 Adequate staffing levels will be required with the appropriate skills and experience to undertake the identified audits. There are a number of vacancies in the Regional Audit Team and the staffing structure of the service is currently being looked at to ensure it will meet current and future requirements. All posts within the Merthyr Tydfil based Team are filled but there is one member of staff who will be on maternity leave for nearly the entire year. Arrangements for covering that post are currently being considered.
- 5.2 The challenge faced by all Councils in the UK and the whole of the public sector with regard to delivering sustainable efficiencies is greater than any have faced in decades. The approach of Internal Audit as a whole will need to focus to a greater extent on identifying potential efficiencies and inefficiencies as part of the audits undertaken. It will also require identification of unaffordable processes and activities (even though they may be desirable) as a consequence of the state of the UK's public finances and the knock on effect on the settlement to Councils. This thinking has informed the Internal Audit Plan. It will also involve identifying risks or issues that may arise as a result of changes to staffing and management arrangements already made.
- 5.3 The approach employed to produce the Internal Audit Plan uses Internal Audit's own risk assessment model for financial systems, budget cost centres, establishments, corporate issues, capital projects and IT/computer related audits; and also takes into consideration the risks as identified by councillors, corporate management team, directors, heads of service and other senior staff as part of the Authority's risk and performance management framework.
- 5.4 Just like all other Council's in Wales Merthyr Tydfil County Borough Council has faced annual cuts in funding year on year. To achieve a balanced budget throughout this period the Council has had to adopt a number of strategies one of which was to investigate more innovative ways of providing existing services.
- 5.5 The introduction of the Regional Internal Audit Shared Service and this being its transitional year will have an effect upon the Plan and Strategy as existing processes and approaches across the Audit Teams will need to be reviewed and standard uniform approaches adopted. The time impact of this is not clear at this stage, but in order to mitigate any impact arrangements will be put in place to closely monitor performance, keep the Audit Committee fully informed and should the need arise, revise the plan and/or assistance will be sought to bridge any gaps in delivery.

6.0 AUDIT PLANNING PROCESS FOLLOWED FOR 2019-2020

- 6.1 The Internal Audit Plan has been prepared for the year using the process described in the previous sections. More detail is provided in Appendix A with regard to the formulas used and the weightings given etc.
- 6.2 The process followed has produced a risk based plan that outlines the individual audit assignments to be carried out along with an estimate of time required to complete each one. The staffing mix required to undertake each audit assignment in the Plan is assessed in more detail during the allocation of the individual work assignment and completion of the engagement planning process.
- 6.3 The detail of the proposed Plan is attached as Appendix B and is based on the staffing resource available.
- 6.4 As stated in Section 5 of this report an assessment of the factors impacting on the audit strategy will be needed over a period of time. I am satisfied that the Internal Audit Plan as presented in Appendix B will ensure that Internal Audit will be able to give reasonable coverage to enable an opinion on the Authority's internal controls, governance arrangements and risk management framework to be given for 2019-20.
- 6.5 It should also be recognised that the Plan will need to be flexible to allow us to be able to deal with new or emerging risks as they arise.

7 FINANCIAL IMPLICATION(S)

- 7.1 All posts are core financed and have been budgeted for the year.

MARK THOMAS
HEAD OF REGIONAL AUDIT SERVICE

COUNCILLOR ANDREW BARRY
CABINET MEMBER FOR GOVERNANCE
AND CORPORATE SERVICES

BACKGROUND PAPERS		
Title of Document(s)	Document(s) Date	Document Location
Audit Universe	2019/2020	Internal Audit Office
Audit Planning Files	2019/2020	Internal Audit Office
Does the report contain any issue that may impact the Council's Constitution?		No

**Merthyr Tydfil County Borough Council Internal Audit Service
Risk Assessment and Planning Process**

General Principles

- (a) Audit plans require assessment of risk to ensure resources are focused where they are most needed.
- (b) Risk Assessment must be carried out annually to assess risk within systems, departments and establishments.
- (c) Risk is assessed according to the following areas:
 - Level of financial transactions
 - Internal Audit assessments of internal control (resulting from previous audits)
 - Known changes e.g. personnel, systems etc.
 - Request for audit review (by Management, Members)
 - Date since last audit.
- (d) A weighted formula is used to arrive at a Risk Score.
- (e) Certain audit areas are identified that have to be done regardless of the risk score e.g. routine administration tasks of the Service, major financial systems etc.
- (f) A review of the remaining risk scores will identify the audits that can be done based on the resources available.
- (g) The number of days applied to each audit area is based on past experience of resources required to complete the audit.
- (h) If the Audit Needs Assessment identifies that the Department does not have adequate resources, the amount of work required to be done is reduced until the Audit Plan can be covered utilising the current staffing resources available.

Process:

- (1) Review Revenue Estimates and Capital Programme to identify:
 - New areas or changes not notified to Internal Audit;
 - Areas previously included in the Audit Universe that are no longer valid e.g. closed establishments, programmes funded for set period etc.;
 - All areas entered into Audit Universe; and
 - Value of financial transactions to include in the Risk Assessment. The level of financial transactions is based on the total expenditure plus total income to identify the total value of transactions, account is taken of large sums e.g. grants where they make up the majority of the transaction value.
- (2) Consultation/discussions with Senior Managers of the Council, External Audit, all staff in Internal Audit.

- (3) Review previous audit reports to establish the level of internal control and note the date of the last audit visit.
- (4) Enter scores into Risk Assessment as follows:

Financial Transactions:

Transaction Value	Risk Score
£50k or less	1
£50k - £100k	2
£100k - £250k	3
£250k - £500k	4
£500k - £1m	5
£1m - £2m	6
£2m - £5m	7
£5m - £7.5m	8
£7.5m - £10m	9
>£10m	10

Internal Control:

Internal Control	Risk Score
Good Control	1
No Audit Concern	3
Some Audit Concern	5
Poor Controls	8
Serious System Weakness	10

Changes:

Known Changes	Risk Score
No Changes	0
Minor Changes	2
Medium Changes	5
Major Changes	10

Request For Audit:

Request For Audit	Risk Score
No Request	0
Known Management/Audit Concern	5
Management Request For Audit or More Serious Audit Concern	10

Date of Last Audit Visit:

Time Since Last Audit	Risk Score
< 3 Years	0
3 – 4 Years	5
4 – 5 Years	7
> 5 Years/Not Audited	10

- (5) The Audit Planning Database includes a formula including weighting of risk areas:

Risk Area	Weighting
Financial Transaction	10
Internal Control	10
Changes	5
Request For Audit	15
Date Since Last Audit	10

An impact score is then applied. This refers to the impact of a risk being realised in line with the risk management strategy.

The Audit Planning Database will automatically calculate a risk score for each audit area by multiplying each score by its relevant weighting and the impact score (the maximum score possible is 12,500). The total is then divided by 125 (12,500/100=125) to arrive at a percentage score. For example:

Risk Area	Data Collected	Risk Score	Weighting	Total Score
Financial Transactions	£2,500,000	7	10	70
Internal Control	Serious Weakness	10	10	100
Changes	Minor Changes	2	5	10
Request For Audit	Management Request For Audit	10	15	150
Date Since Last Audit	Not Audited	10	10	100
			Sub Total	430
			Impact	15
			Total	6,450
			Total Score (%)	52

- (6) Determine areas that require audit days regardless of the risk assessment score e.g. administration functions.
- (7) Identify significant systems that require attention on a cyclical basis.
- (8) Sort remaining risk scores and identify a level below which audits will not be carried out.
- (9) A draft plan is then presented to the Audit Committee for consideration and approval.

Internal Audit Plan 2019/2020		
Plan Ref:	Audit Assignment	Plan Days
55	MFS - Budgetary Control	10
56	MFS - Salaries and Wages	5
57	MFS - Creditors	5
58	MFS - NDR	10
59	MFS - Council Tax	10
62	MFS - Cash Income	5
63	MFS - Debtors	5
67	Strategic Procurement Systems and Procedures	5
79	General Ledger - Feeder Systems	5
80	Certification of Grant Claims	10
84	Risk Management Systems and Procedures	15
88	Welsh Language Policy - Systems and Procedures	10
92	Flexi Time Management System	5
131	Fuel Systems and Procedures	20

132	Fleet Management	10
149	Trading Standards - Procedures and Systems	10
157	Food Safety and Prevention of Infectious Diseases	10
216	Engineering - Bridge Maintenance Systems and Procedures	10
236	Energy Efficiency (Incl Water) Systems and Procedures	10
247	European and External Funding	10
410	Direct Payments Systems and Procedures	10
443	Looked After Children Placements - Independent Fostering Services (IFAs)/Fostering and Provision for Foster Parents	15
444	In House Fostering Services	15
450	Looked After Children Respite and Emergency Services	15
453	Fostering and Adoption Team (Family Placement)	15
465	Abercanaid Primary School	3
472	Gellifaelog Primary School	6
473	Goetre Primary School	6
476	Heolgerrig Primary School	6
479	Troedyrhiw Community School	6
482	Ysgol Gynradd Gymraeg Rhyd-Y-Grug	5

485	St Aloysuis R.C. Primary	6
486	St Illtyd's R.C. Primary	6
488	Greenfield Special School	15
491	Cyfarthfa High School	15
519	Other School Expenditure - SLAs with MTCBC	10
559	Schools budget monitoring system	10
607	Corporate: Annual Governance Statement	50
613	Anti-Fraud and Corruption Policy	8
620	Corporate: National Fraud Initiative (NFI)	40
625	E-Procurement	10
626	New AAP system	20
628	Corporate Risks	25
655	Contract Monitoring and Payment of Accounts and Valuations	10
656	Use Of Consultants	9
657	Final Accounts - Contracts	10

776	IT audit: E-Government including transaction based IT services, web based, email authorisation etc.	10
777	Electronic Document Management (EDM)	10
782	IT audit: Physical and Environmental Controls	10

Internal Audit Plan 2019/2020	
Non-Assignment based areas of Plan	Plan Days
Maintenance and archiving of audit records (computer and paper copies)	20
Quality Assurance and Improvement Planning (QAIP) including ensuring adherence to Public Sector Internal Audit Standards and Service development to ensure MTCBC needs met	156
Performance Improvement and indicators including national benchmarking	12
Attendance at meetings and preparation on reports for Corporate Management Team, Service Management Boards, meetings with Wales Audit Office, Welsh Chief Auditors Group etc	31
Audit Committee, Scrutiny Committee, Council attendance and preparation on reports etc	33
Reserves for special investigations, contingency, consultation work etc	130