

# Approach to Internal Audit

## Planning for 2019/2020

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## Introduction

The role of Internal Audit is to provide independent, objective assurance on the Council's governance, risk management and control. Assurance provided to the Council includes to the Audit Committee and to the Director of Finance & Procurement as Section 151 Officer on the robustness of financial frameworks and control environment. It further adds value through helping management to manage risks, improvement to services and make sure that 'business as usual' continues to operate effectively.

Prior to the start of each financial year, SWAP in conjunction with senior management, compile a proposed plan of audit work to provide assurance over a range of areas encompassing risk management, governance and control.

The Assistant Director of SWAP, acting as the Council's Head of Internal Audit is required to provide an annual opinion on the Council's governance, risk management and control environment that including supporting the Annual Governance Statement. A key objective therefore of our planning process and subsequent programme of work is to be in a position to be able to provide a well-informed and comprehensive annual audit opinion, based on the sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

The outcomes of each risk-based audit in our planned programme of work, will provide Directors and Members with assurance that the current risks faced by the Authority in these areas are adequately controlled and managed.

The Audit Committee is recommended by the Director of Finance & Procurement to note the contents of this report.

## Approach

SWAP uses a comprehensive audit management software application, MK Insight. This includes audit planning and 360 audit entities to arrive at a risk-based coverage of audit reviews for the year.

For 2019/20 we are updating the risk assessment for each individual audit entity that will produce the first cut of the Internal Audit Plan for 2019/20. We are assessing the vulnerability by scoring each audit entity in terms of impact and likelihood against the following risk factors:

- Complexity of operations (including fraud risks);
- Health & Safety;
- Strategic Priorities;
- Financial;
- Reputational (including service delivery/criticality);
- Change Factor; and
- Extent of ICT.

The higher the risk score, the more critical the risk identified and commensurate to the level of audit planned coverage and assurance achieved.

MK Insight also includes scoring from previous historic audits carried out on the control environment to produce an overall indication of the residual risk as Very High, High, Medium or Low and suggested audit intervals to ensure timely audits are carried out.

In scoring we will use our cumulative knowledge and experience of the Council's:

- The key objectives, corporate and service plans;
- The fundamental business processes and key services;
- Previous and planned other assurance and audit work;
- The Council's Healthy Organisation Model;
- Identified key risks including from risk registers, both current and future; and
- Changes to both the Council and its services either driven by for example legislation, transformation or structural.

Externally we consider the implications of national issues, pressures and change including:

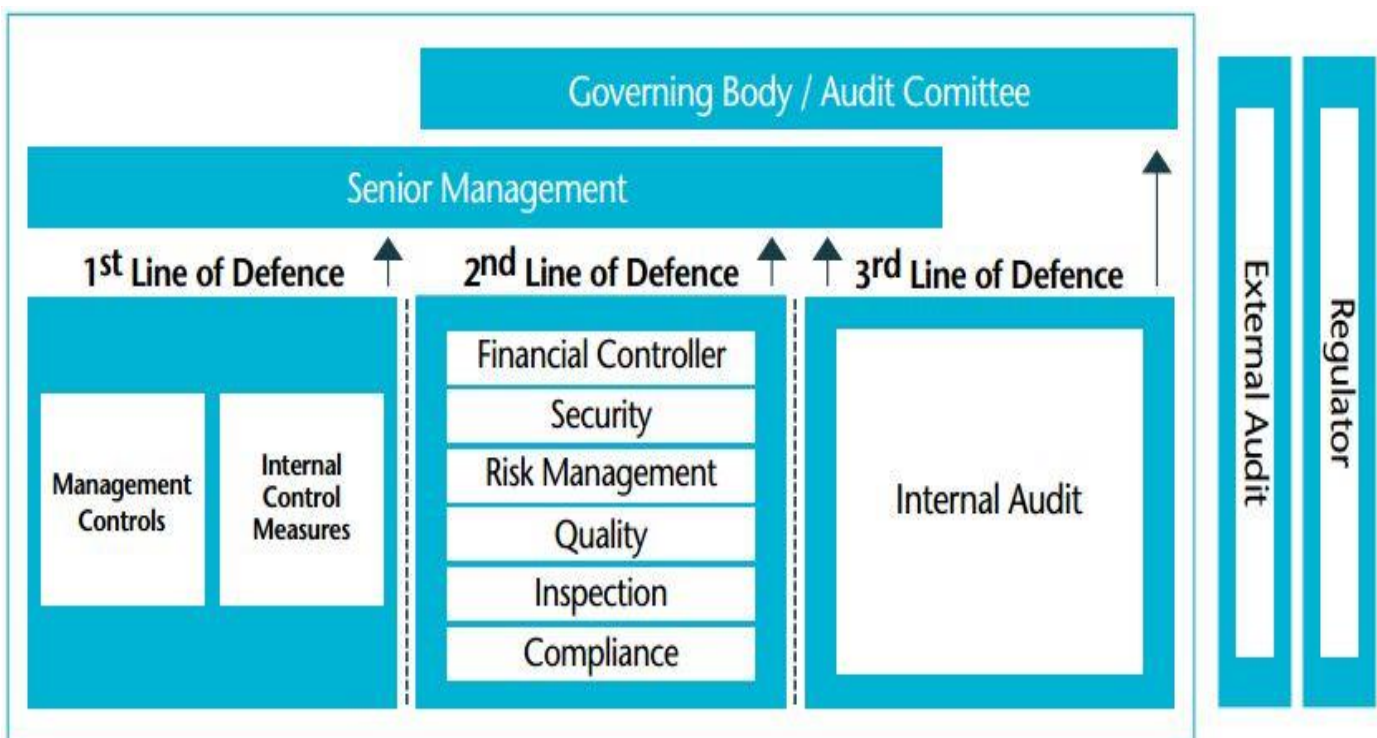
- Financial resilience;
- Demand pressures/funding gaps (e.g. social care);
- Alternative delivery models (e.g. arm's length operations, partnership);
- Procurement and supplier resilience;
- Anti-Fraud & Corruption including fraud risks and trends from fraud activity;
- Technological change/cyber security;
- Information governance;
- Workforce; and
- Brexit.

We will liaise with external audit to ensure effective audit planning for the Council as a whole.

Each risk assessment score will be updated following the completion of individual audits to ensure the overall risk profile is dynamically updated.

Our approach includes assurance mapping, taking into consideration the three lines of defence model to determine the extent of audit coverage and work in order to direct resources appropriately, secure greater management buy-in to the control environment and to ensure Internal Audit is recognised as adding value.

### Three Line of Defence Model



Using this model, we intend to identify all streams of assurance whether internal or external that contribute to the Council's overall risk, governance and control framework. Internal Audit resources can then be directed at the areas of highest risk; not only known risks but risks that were previously unknown and subsequently identified.

The model operates in most organisations and shows three lines of defence that should be operating:

- 1<sup>st</sup> Line of Defence – Functions that own and manage risks
- 2<sup>nd</sup> Line of Defence – Functions that oversee risk
- 3<sup>rd</sup> Line of Defence – Functions that provide independent assurance

For 2019/20 we will also continue to align our Internal Audit Plan with the Council's four key priorities (2017-2027):

- Growing the Economy;
- Stronger Communities;
- Protecting those who are most vulnerable; and
- An innovative and effective Council.

The initial audit risk assessment, residual risk scores in particular high will be discussed at consultation meetings with Directors and key Heads of Service in terms of being a reasonable evaluation and to be aware of other measures being taken for example from other providers of assurance (see three lines of defence model) internal reviews etc. This will determine the audits to be included provide maximum added value to the Council and ensure an effective Internal Audit Opinion.

We will look to include and specific requests for review and assurance on particular areas of concern or advisory work from management. This will however be subject to further risk assessment and to ensure of value to the Council as a whole.

The Internal Audit Plan for 2019/20 will be designed to ensure flexible and responsive to change and emerging risks. It will therefore be constantly reviewed and audit risk assessment updated as required. The plan will contain sufficient contingency to ensure the flexibility.

The published Internal Audit Plan will show appropriate cross referencing to the Council's priorities and Strategic Risks including individual audit review level.

## Internal Audit Coverage 2019/20

Our detailed coverage will be provided in the Draft Internal Audit Plan 2019/20, to provide sufficient coverage of key risks facing the Council in order to provide assurance. The Draft Internal Audit Plan 2019/20 will be considered and agreed at by the Audit Committee at its April meeting.

Our coverage is not considered to be absolute and we will be considered areas adequately controlled and those lacking previous internal audit coverage balanced our agreed audit resources.

The planned audit coverage produced for consideration and agreement is only indicative at the time of planning (i.e. February – March) for the year ahead. A key part of work is ensuring effective client engagement.

Planned audits and risks will therefore be subject to continual review including discussion with Directors and service management to ensure planning process is flexible.

From 2017/18, SWAP have taken over responsibility for delivering a counter fraud programme for the Council's which will be included in the plan and underpin the Council's Counter Fraud Strategy in terms of delivery. This is principally a proactive and preventative approach to counter fraud, whilst undertaking any reactive fraud work as required. For example:

- Ensuring the Council has an effective counter fraud framework (e.g. Counter Fraud Strategy, Response Plan);
- Embedding counter fraud processes and activity across the Council;
- Proactive exercises using for example data analytics; and
- Investigations using our accredited investigators.

In addition to specific audit reviews, the Internal Audit Plan provides sufficient contingency for ongoing advice and support to management, follow-up to previous agreed actions, client engagement and supporting the Audit Committee, Corporate/Extended Leadership Team and service level Management Teams.

## Conclusion

Developing an effective Internal Audit Plan we aim to continue to provide a high profile risk and business focussed Internal Audit service to the Council. Providing effective assurance on governance, risk management and control, adding value in our work to improving operations/services or maintain business as usual across the Council/