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**DRAFT INTERNAL AUDIT CHARTER 2018/19 AND DRAFT AUDIT PLAN  
2018/19**

**REPORT OF HEAD OF FINANCE**

**AGENDA ITEM: 6.4**

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**Reason**

1. The Current Terms of Reference for the Audit Committee sets out the responsibility to approve the Internal Audit Strategy on an annual basis.
2. The Audit Committee has a responsibility to review its Terms of Reference on an annual basis.
3. This report has been prepared to provide Audit Committee Members with the draft Internal Audit Charter for 2018/19 and the draft Audit plan for 2018/19.

**Background**

4. At the commencement of each financial year, consideration is given to updating key documents which form part of the Internal Audit function. The draft documents are submitted to Audit Committee at the January meeting to enable members of the Committee to consider and feed in comments in order for a final document to be approved at the March meeting prior to the commencement of the financial year.
5. The key documents have been drafted to clearly set out the Internal Audit function for this Council. Accompanying the Charter is a draft version of the Audit Committee Terms of Reference (see paragraph 11).
6. Under the PSIAS (standard 1110 – organisational independence), the Audit Committee is required to approve the risk based internal audit plan and, therefore, the draft Audit plan for 2018/19 is attached to this report.

**Issues**

**Audit Charter**

7. The Draft Internal Audit Charter set out in **Annex 1** is a formal document which establishes the Internal Audit Service's position within the organisation, the Audit Manager's functional reporting relationship with the Audit Committee, authorises access to records, personnel, physical properties relevant to the performance of engagements, and defines the scope of internal audit activities.

8. Contained within the Draft Internal Audit Charter are five appendices which add a further dimension to the Charter by explaining the parameters within which the internal audit function and audit committee operates.
9. Appendix A sets out the code of ethics for Internal Auditors and is focussed on the four key principles of Integrity, Objectivity, Confidentiality and Competency. This appendix will be formally used in the performance assessment of each internal auditor as part of the annual appraisal process.
10. Appendix B sets out the staffing resources allocated to Internal Audit function as well as outlining the reporting lines between the Audit Manager, the Section 151 Officer and the Audit Committee. This section also outlines the skill base of the team and the commitment to developing staff further through audit or Investigation qualifications.
11. Appendix C suggests the terms of reference for Audit Committee. The terms of reference may need to be revised when the CIPFA guidance on Audit Committees is received; the publication date for this document has been delayed until the end of January 2018 and any changes will be brought to the attention of Audit Committee members as soon as possible.
12. Appendix D reflects sets out the key strategic priorities of the Internal Audit function for 2018/19, thus providing a level of detail which highlights where resources will be focussed.
13. Appendix E sets out the key elements of the Internal Audit approach to the Quality Assurance & Improvement Programme which looks to focus on the internal auditor, customers and partners such as Wales Audit Office.

### **Audit Plan, 2018/19**

14. Contained within both the Draft Internal Audit Charter and the Terms of Reference are sections outlining the submission of a risk based Audit plan to be approved by Audit Committee. **Annex 2** contains the preliminary draft plan for 2018/19 which will be developed into further detail over the next month in order to be submitted for approval by Audit Committee in March 2018.
15. The draft plan has been prepared following consideration of a risk based methodology. Section 2010 of the PSIAS specifies that the risk based plan takes into account the organisation's assurance framework and that the work on internal audit addresses both local and national issues. The assurance available from both within and outside the Council is assessed to enable informed decisions regarding the audits to be undertaken in 2018/19. This "assurance mapping" exercise (using the "three lines of defence" model) also captures emerging risks and issues as they arise during the year to provide informed decisions on any changes that need to be made to the audit plan during the year; these changes are brought to the Audit Committee as they arise.
16. As Members will be aware, all three lines in the "three lines of defence" model have a specific part of play in the Council's internal control environment, and the audit plan is based on this model for the risks within the corporate risk register. Senior managers, as the first line of defence, have a joint and individual responsibility for risk management, governance and the control environment within their directorate; they provide assurance through the internal control processes. The second line of defence is corporate oversight such as reports to scrutiny committees, and regular review is made of the work programmes for each committee.

17. The third line of review is the external or third party review by bodies such as Wales Audit Office or Estyn, and these reports comment on a range of service delivery, performance and service improvement matters.
18. The assurance map is used to ensure that audit resources are used to assess risks and controls in the areas where assurance on the control environment cannot be gained from other sources; this will enable the Audit Manager to provide an opinion on the overall Council control environment. The plan, as set out in **Annex 2**, will be further informed by discussions with senior management during February 2018, which will ensure that the audit plan will set out very clearly the activities of Internal Audit for 2018/19.
19. Members will be aware that the audit plan for 2017/18 contained four themes (five for Education) which were audited across all directorates. Although these are not yet included in the draft plan at **Annex 2**, it is proposed that the areas for thematic review in 2018/19 are:
- (a) Partnerships and collaborative governance;
  - (b) Commissioning and procurement;
  - (c) Value for Money; and
  - (d) Budgeting and forecasting.
20. A fifth theme of ICT governance is being considered for Education only.
21. Alongside the discussions with senior management, consideration has been given to the correspondence and workplan for the Council's Scrutiny Committees in the development of the themes. Up to December 2017, these include areas such as:
- (a) Regional Partnership Board;
  - (b) Review of sickness absence;
  - (c) Lettings policy for high rise accommodation;
  - (d) Independent Living;
  - (e) 21<sup>st</sup> Century schools;
  - (f) Section 106 agreements;
  - (g) Flood risk management in Roath; and
  - (h) Cleaner Grangetown.
22. Members will also note that it is proposed to reduce the number of fundamental audits undertaken in 2018/19, with NNDR, Treasury Management, Main Accounting and Asset Management not being audited. A review of the systems and outcomes from audits over the past two years has shown that the fundamental systems are well controlled and few recommendations (if any) are raised. It was, therefore, considered that Internal Audit adds little value by annually auditing the fundamental systems. In addition, many of these systems are reviewed annually by the Council's external auditors as they underpin the Council's accounts and (although it is appreciated that the audits are carried out for different purposes and every effort is made to do the audits at different times of the year) there is a possibility that officers are being audited by two different audit teams at the same time.
23. Discussions have been held with the Council's external auditor regarding auditing fundamental systems on a biennial basis and it has been agreed that Internal Audit will look to audit fundamental systems on such a basis. However, if there are any major system or operational changes during the year when it is planned not to undertake a full audit, an audit of that system will be added to the audit plan for that year (and this change reported to a meeting of this Committee).

### **Legal Implications**

24. There are no legal implications arising from this proposal.

### **Financial Implications**

25. There are no financial implications arising from this proposal.

### **Recommendations**

26. To consider and provide comments on the Draft Internal Audit Charter and the accompanying appendices including the draft terms of reference for Audit Committee.

27. To consider and provide comments on the direction of the draft 2018/19 internal Audit Plan.

**IAN ALLWOOD  
HEAD OF FINANCE**

**Annex 1:** Draft Internal Audit Charter 2018/19

**Annex 2:** Draft Summary Audit Plan 2018/19