

INTERNAL AUDIT CHARTER AND AUDIT PLAN 2019/20

REPORT OF AUDIT MANAGER

AGENDA ITEM: 11.3

Reason

1. The Terms of Reference for the Audit Committee sets out its responsibility:
 - To approve the Internal Audit Charter.
 - To approve the risk-based Internal Audit Plan, containing internal audit's resource requirements, the approach to using other sources of assurances and any work required to place reliance upon those other sources.
2. The Audit Committee has a responsibility to review its Terms of Reference annually, and under the Public Sector Internal Audit Standards (PSIAS Standard 1110 – organisational independence), is required to approve the Internal Audit Charter and the risk based Internal Audit Plan.
3. This report has been prepared to provide Audit Committee Members with the Draft Internal Audit Charter for 2019/20 and appendices, including a draft Audit Committee Terms of Reference. The report also provides the Draft Audit Plan for 2019/20.

Background

4. At its meeting on 22 January 2019, the Draft Internal Audit Charter and Audit Plan 2019/20 were presented for Audit Committee to consider and provide comments.
5. This report has been prepared to provide Audit Committee Members with details of minor additions to the Internal Audit Charter for 2019/20. In particular, these updates reflect a consideration of a refreshed CIPFA Local Government Application Note, which was published in February 2019. Accompanying the Charter is the Audit Committee Terms of Reference.
6. The Audit Plan has also been further developed for approval by Audit Committee at this meeting. Discussions have been held with senior management in directorates to shape the plan, in addition to a risk-based methodology, in order to identify the planned activities of Internal Audit for 2019/20, as outlined to Audit Committee on 22 January 2019.

Issues

Audit Charter

7. The 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. Appendix A to the Charter suggests the terms of reference for Audit Committee.
8. The Audit Committee considered the Draft Audit Charter in its meeting of 22 January 2019, in which the principal proposed changes from the prior year, included:
 - The introduction of ten Core Principles for the professional practice of internal auditing, which taken as a whole, articulate internal audit effectiveness. These Core Principles underpin the Mission of the Internal Audit service 'To enhance and protect organisational value by providing risk based and objective assurance, advice and insight'. These Core Principles are a new addition to the Draft Audit Charter in recognition of best practice from the Institute of Internal Auditors (IIA).
 - The development of the Quality Assurance and Improvement Programme (QAIP - Standard 1300), designed to enable an evaluation of the Internal Audit section's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and is used to identify and deliver opportunities for improvement. The QAIP has been refreshed by the Audit Manager and is built around a performance management approach which involves 'setting expectations', 'reviewing performance', and 'reporting performance' at individual auditor and team levels
9. Following the recent publication of the CIPFA Local Government Application Note (2019 Edition), the Audit Charter has been updated, notably to document the responsibilities in respect of fraud, with reference to associated policies. The Audit Charter is included in **Annex 1**, for consideration and approval by Audit Committee. Additional content which has followed the last Audit Committee meeting is included in Bold text.
10. The relevant section of the Local Government Application Note Checklist for the Audit Charter is in respect of Standard 1000 – Purpose, Authority and Responsibility. The checklist has been used to review and, where appropriate, make minor adjustment to the Audit Charter, and is included in **Annex 2**. The Audit Committee will receive details of an Internal Audit Self-Assessment which will take place against the full checklist for conformance with the PSIAS and Local Government Application Note, as part of the Internal Audit Annual Report on 25 June 2019.

Audit Plan 2019/20

11. The approach to developing the Audit Plan was outlined to the Audit Committee in its report of 22 January 2019, at which time a summary plan and indicative allocation of audit time was provided. The Audit Plan included in **Annex 3**, has taken into account a range of management and independent assurances to develop a plan of audits on a risk-based prioritisation for 2019/20.

12. Since the Audit Committee Meeting on 22 January 2019, work has been undertaken to further develop the plan and identify the audits that will be undertaken. This has involved an assurance mapping process in respect of fundamental systems and core areas of governance, for which a summary is included in **Annex 4**. The same process applies for operational audits, but this area needs to be more dynamic and responsive to the ongoing relationship management approach with senior officers of the Council. The dynamic nature of audit planning is summarised in **Annex 5**.
13. The approach to develop the audit plan is designed to be risk based and co-ordinated in application of the “three lines of defence” model. The process involves the application of three basic review principles as follows:
- (a) Informed Inherent Risk** - The starting point is the development of an inherent audit need / risk score as a product of the the nature of the potential audit area, and the results of Senior Management Assurance Statement (SMAS) responses from Directors. There are three broad audit categories which are audited with an inherent frequency in the following priority order from highest to lowest (1) Fundamental systems, (2) Governance functions (e.g Risk Management, Health and Safety, Performance Management etc.) and (3) Operational audits, such as a school or standard system audit.
- (b) Coordination and Reliance** - After considering the inherent need for an audit, the audit plan is refined to account for the level of further sources of assurance and indicators of risk, in considering and accounting for the:
- Information on risk registers
 - Planned and programmed projects, scrutiny and management activities
 - Existing levels of internal audit assurance, and
 - Planned and actual work and findings from wider audit, regulatory and consultancy activities.
- (c) Extensive and Appropriate Audit Coverage** - In consideration of the above two stages, audits will be programmed and typically delivered through a combination of Control Risk Self Assessment (CRSA), thematic and full audit engagements. As the information sources are being developed through relationship management mechanisms in directorates there will be a greater scope to progress the approach to co-ordination and reliance in accordance with PSIAS Standard 2050.
14. Members will be aware that the internal audit resources are allocated over a number of broad categories of work:
- (a) Fundamental audits
 - (b) Corporate governance
 - (c) Other assurance
 - (d) Service specific.
15. Fundamental Audits relate to key financial systems, to provide the Section 151 Officer with assurance that appropriate controls are in place. The Audit Plan has been developed on the continued basis, as communicated with Audit Committee and the Council’s external auditor, that fundamental systems are to be audited generally on a biennial 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 the change reported to a meeting of this Committee). Accordingly, it is proposed that central audits of Council Tax and Income and Debtors are not undertaken in 2019/20, as recent audits considered systems as well controlled.

16. The section of the plan related to Corporate Governance includes a range of audits related to central governance, with Other Assurance covering wider matters of governance and assurance.
17. A large proportion of days has, as in previous years, been allocated to Service Specific audits. As in 2018/19, the plan proposes to allocate a significant number of days within the directorates to the audit of key themes. The key themes for 2019/20 reflect the areas that risk assurance planning has identified as areas for attention due to the level of risk and are:
- (a) Income and Debtors
 - (b) Commissioning and Procurement
 - (c) Health and Safety
 - (d) Asset Management - In-Year Testing.
18. Separate audit themes have been developed for Schools this year. Following on from the use of a CRSA for ICT Governance in Schools, targeted in-year testing is proposed. In addition, a counter-fraud CRSA is to be distributed for all schools to complete, from which targeted testing will be delivered. The school audit themes for 2019/20 are:
- (a) School ICT Governance – in year testing (sample)
 - (b) School Counter-fraud CRSA (all schools)
 - (c) School Counter-fraud - in year testing (sample).
19. The plan allows a small amount of flexibility to undertake unplanned work. Any such assignments will be reported to the Audit Committee as part of the regular progress updates.

Strategic Summary

20. In accordance with PSIAS Performance Standard 2010 (Planning), and as recommended in the recently published CIPFA, Local Government Application Note, the following detail is provided for the information of the Audit Committee:
- The Audit Plan - Will be delivered by the Council's internal Audit Service. The Audit Manager will use the audit resources available to deliver the audit plan and buy-in additional resources as required, as outlined in the draft Audit Charter.
 - The Audit Charter - Includes a Quality Assurance and Improvement Programme (QAIP), as the central mechanism for developing and delivering the Internal Audit service.
 - Council Objectives and Priorities - The Audit Plan is developed in conjunction with senior managers, reinforced through the relationship manager role and an information stream on the planned activities and strategies directorates and the Council.

Legal Implications

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

Financial Implications

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

Recommendations

23. Audit Committee to:

- Approve the Internal Audit Charter and Terms of Reference 2019/20
- Approve the Internal Audit Plan, 2019/20

CHRIS PYKE
AUDIT MANAGER

Annex 1: Internal Audit Charter 2019/20

Annex 2: CIPFA Local Government Application Note Completed Checklist - Standard 1000, 'Purpose, Authority and Responsibility'

Annex 3: Internal Audit Plan 2019/20

Annex 4: Summary Assurance Map

Annex 5: Cyclical Audit Planning