

**AUDIT COMMITTEE: 22 JANUARY 2019**

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**DRAFT INTERNAL AUDIT CHARTER 2019/20 AND DRAFT AUDIT PLAN  
2019/20**

**REPORT OF THE AUDIT MANAGER**

**AGENDA ITEM: 10.3**

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**Reason for the Report**

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.
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 Summary Audit Plan for 2019/20.

**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 which will support the development of final documents to be approved by Committee on 2 April in respect of the new financial year.
5. Under the PSIAS (standard 1110 – organisational independence), the Audit Committee is required to approve the Internal Audit Charter and the risk based Internal Audit Plan. These documents are attached for 2019/20 in draft form, with the audit plan presented at a summary level of detail prior to the detailed review and population of audit engagements in quarter four 2018/19. Accompanying the Charter is a draft version of the proposed Audit Committee Terms of Reference for 2019/20.

**Issues**

**Audit Charter**

6. 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. Audit Committee approved interim changes to the Internal Audit Charter 2018/19 on 13 November 2018 to formalise the responsibilities and reporting requirements of the newly appointed Audit Manager as the Chief Audit Executive.

7. The Draft Audit Charter 2019/20 has been updated to reflect the current best practices as suggested in Audit Committee CIPFA guidance published in 2018, and the updated guidance and principles from the Institute of Internal Auditors (IIA). These proposed changes are shown in bold red text within the Draft Charter and its appendices.
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 Internal Audit and the Audit Committee operate.
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 Competence. This appendix is formally used in the quality assurance process as part of each audit, and as part of ongoing performance reviews.
10. Appendix B sets out the Core Principles. 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 IIA.
11. Appendix C sets out the staffing resources allocated to the 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.
12. Appendix D suggests the terms of reference for Audit Committee in recognition of the best practice CIPFA guidance as published in 2018. In accordance with the CIPFA model template, a statement of purpose has been included in the proposed terms of reference, and all other additions made to account for CIPFA updates are shown in bold red text.
13. Appendix E sets out the Quality Assurance and Improvement Programme (standard 1300), which is 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

### **Audit Plan, 2019/20**

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 2019/20 which will be

developed into further detail over the financial quarter to be submitted for approval by Audit Committee on 2 April 2019.

15. The draft audit plan is based on 10.41 FTE operational auditors, which is the same as in 2018/19. The number of available operational audit days has decreased (from 2,100 to 1,990), which is largely due to the level of training required by one of the members of the team who is a CIPFA trainee, in addition to the training days allocated to the four Auditors studying for an IIA qualification. The investigations audit plan is based on 1.5 FTEs, with the difference compared to the 2018/19 plan, reflecting the deletion of a vacant Investigating Officer post, as advised to Audit Committee in September 2018. Members will also note that the Audit Manager has not been included in the head count of available operational auditors, as this work focusses on quality, delivery and output at a strategic level across both audit and investigations teams.
16. The draft plan has been prepared at a summary-level following consideration of a risk based methodology. The detailed components of the audit planning approach take place throughout quarter four, and will result in the full risk-based audit plan for 2019/20. The approach is designed to be risk based and co-ordinated in application of an assurance mapping exercise based on the “three lines of defence” model. The process will involve 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.
    - Audit category - 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.
    - SMAS submissions - The Directorate self assessments of maturity in a number of core areas of governance, risk management and internal control are considered and used to moderate the inherent prioritisation of audit engagements.
  - (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. The above two stages are in the process of development. 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.

17. 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. This is achieved through the approach as summarised above, with the assurance available from both within and outside the Council assessed to enable informed decisions regarding the audits to be undertaken in 2019/20. Audit Committee will be aware that the Audit Plan is responsive to emerging risks and issues as they arise during the year, and these changes are brought to the Audit Committee as they arise.
18. The "three lines of defence" model is an important part of the Council's internal control environment. 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 use their SMAS as a primary disclosure of their delivery of the management controls and report and disclose on the management of their risks and performance. The second line of defence consists of the arrangements in place to monitor and support internal governance through functions which develop, embed and monitor policies and strategies, such as Risk Management, ICT, Information Governance and Health and Safety functions.
19. As the third line of defence, Internal Audit accounts for the assurance of the first two lines of defence together with external audit and regulatory sources of assurance and indicators of risk (e.g. Wales Audit Office and Estyn work), in developing a risk-based audit plan. The summary plan, as set out in Annex 2, will be fully developed during quarter 4 and supported by an assurance map to recognise and account for the respective internal and external sources of assurance and allocate audit resources to enable the Audit Manager to provide a comprehensive opinion on the overall Council control environment.
20. At this incremental stage of audit plan development, the proposed areas for thematic review in 2019/20 are:
  - (a) Income and debtors;
  - (b) Commissioning and procurement; and
  - (c) Health and Safety
21. Following on from a decision taken in 2018/19, Members will note that it is proposed to undertake fundamental audits in 2019/20 in NDR, Treasury Management, Main Accounting and Asset Management, as well as continuing the reviews in creditor payments and payroll. However, if there are any major system or operational changes during the year in systems that are not included in the plan, an audit of that system will be added to the audit plan for 2019/20 (and this change reported to a meeting of this Committee).

### **Legal Implications**

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

### **Financial Implications**

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

### **Recommendations**

24. To consider and provide comments on the Draft Internal Audit Charter and the accompanying appendices including the draft terms of reference for Audit Committee.
25. To consider and provide comments on the direction of the draft 2019/20 Internal Audit Plan.

**CHRIS PYKE**  
**AUDIT MANAGER**

**Annex 1:** Draft Internal Audit Charter 2019/20

**Annex 2:** Draft Summary Audit Plan 2019/20