

AUDIT COMMITTEE: 21 JANUARY 2020

**DRAFT INTERNAL AUDIT CHARTER 2020/21 AND DRAFT AUDIT PLAN
2020/21**

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 10.3

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 2020/21 and appendices, including a draft Audit Committee Terms of Reference. The report also provides the Draft Summary Audit Plan for 2020/21.

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 24 March 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 2020/21 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 2019/20. Accompanying the Charter is a draft version of the proposed Audit Committee Terms of Reference for 2020/21.

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 the Internal Audit Charter 2019/20 on 2 April 2019.

7. The Draft Audit Charter 2020/21 has been reviewed by the Audit Manager and subject to minor update. The proposed changes are shown in bold text for consideration 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'* 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 a suggestion received from Audit Committee Members in a meeting which followed the approval of its terms of reference 2019/20, the draft statement of purpose has been expanded on page 10, to reference the independent assurance provided by the Committee to Cardiff citizens and stakeholders, in addition to the members of Cardiff Council.
13. Audit Committee will be aware that the Local Government and Elections (Wales) Bill includes reforms to Audit Committees, including changes to their name, composition and an introduction of further responsibilities. Following Royal Assent of the Bill later this year, and in consideration of anticipated guidance information from the Welsh Government, the Audit Committee's terms of reference will be reviewed, and adjusted where necessary, in accordance with the timetable for implementation.
14. 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 is built around a performance management approach which involves 'setting expectations', 'reviewing performance', and 'reporting performance' at individual auditor and team levels

Audit Plan, 2020/21

15. 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 2020/21, which will be developed into further detail over the financial quarter to be submitted for approval by Audit Committee on 24 March 2020.
16. The draft audit plan is based on 10.28 FTE operational auditors, which is the same as in 2019/20. Whilst the Audit Charter 2019/20 was approved with 10.41 operational auditors, a request was subsequently agreed to reduce the working hours of a Senior Auditor from 37 to 32 hours per week for the year, as reported to Committee on 25 June 2019. The Senior Auditor has requested a continuation of the same reduced hours for 2020/21, which has been agreed by the Audit Manager to support their balance between work, life and IIA study.
17. The number of available operational audit days has decreased (from 1,990 to 1912). This lower number of operational days is largely represented by a combination of the formalised reduction in a Senior Auditor's hours, as referenced above, a provision for non-audit duties (such as trade union duties) and a greater provision for unpaid annual leave (additional and parental leave). In respect of the unpaid leave, an exercise was completed to ask the team to provide their expected unpaid leave requests for the next financial year. Whilst each leave request will need to be submitted for approval, it was a useful exercise for forecasting requests and the impact on operational audit days.
18. The investigations audit plan is based on 2.5 FTEs, with the difference compared to the 2019/20 plan reflecting the appointment of an additional Investigator on 30 September 2019, as advised to Audit Committee. 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 strategy, and overseeing the quality, delivery and output across both audit and investigations teams.
19. 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 2020/21. 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 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. 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 through relationship management and audit link officer mechanisms in directorates.

20. Section 2010 of the PSIAS specifies that the risk-based plan takes into account the organisation's assurance framework and that the work of 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 2020/21. 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.
21. 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.
22. 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.
23. At this incremental stage of audit plan development, the proposed areas for thematic review in 2020/21 are:
- (a) Performance Management
 - (b) Information Management
 - (c) Pre-contract Assurance
24. It is proposed to undertake fundamental audits in 2020/21 in council tax, housing benefits, 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 2020/21 (and this change reported to a meeting of this Committee).

Legal Implications

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

Financial Implications

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

Recommendations

27. To consider and provide comments on the Draft Internal Audit Charter and the accompanying appendices including the draft terms of reference for Audit Committee.
28. To consider and provide comments on the direction of the draft 2020/21 Internal Audit Plan.

CHRIS PYKE
AUDIT MANAGER

Annex 1: Draft Internal Audit Charter 2020/21

Annex 2: Draft Summary Audit Plan 2020/21