

INTERNAL AUDIT CHARTER AND AUDIT PLAN 2021/22

REPORT OF AUDIT MANAGER

AGENDA ITEM: 7.1

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 2021/22 and appendices, including a draft Governance and Audit Committee Terms of Reference 2021/22.
4. The report also provides the Draft Audit Plan for 2021/22, and the Audit Strategy which sets out the strategic intentions of the Internal Audit Service for planning and delivery in accordance with PSIAS Standard 2010 (Planning).

Background

5. At its meeting on 26 January 2021, the Draft Internal Audit Charter and Summary Audit Plan 2021/22 were presented for Audit Committee to consider and provide comments. Accompanying the Charter is the Governance and Audit Committee's Terms of Reference 2021/22, which incorporates the new name and responsibilities of the Committee, arising from the Local Government and Elections (Wales) Act for which requirements begin to come into force from April 2021.
6. The Audit Plan has been further developed for approval by Audit Committee at this meeting. Discussions have been held with senior management in directorates to shape the Plan, which has been developed applying a risk-based methodology, to identify the planned activities of Internal Audit for 2021/22.

Issues

Audit Strategy

7. The Internal Audit Strategy is designed to contain the strategic intentions and approach of the audit service (**Annex 1**). It aims to provide a focus for the Audit Management Team in planning and delivering audit engagements, for auditors when performing individual audit engagements, and to communicate the objectives of the Internal Audit service, beyond the definitions of roles, responsibilities and authority within the Audit Charter. The Audit Strategy was last considered by Audit Committee in its meeting of 28 July 2020.
8. The Audit Strategy is appended to this report as a statement of how the Internal Audit Service will be delivered and developed in accordance with the Audit Charter, and how it is linked to organisational objectives and priorities. The Audit Strategy sets out the aims and objectives for the Internal Audit Service as a whole, comprising the Internal Audit and Investigation Teams. This is to provide a co-ordinated delivery of audit and investigative services through the separate disciplines of risk-based and objective assurance, advice and insight and proactive and reactive work to prevent and detect fraud.
9. There are minor proposed changes to the Audit Strategy, which are shown in bold red font for Audit Committee consideration and comment, as follows:
 - All references to 'Audit Committee' have been updated to 'Governance and Audit Committee' to account for the Committee's change of name from 2021/22;
 - The distinct reference to the 'Audit Protocol' in addition to the Charter has been removed, as from 2020/21 the Audit Protocol was incorporated into the Charter as Appendix F, and it is no longer a standalone document;
 - Reference to the receipt of Audit Manager Reports in each Committee meeting (five times a year) has been amended to quarterly, recognising the capacity of the Committee to deliver a wider range of responsibilities from 2021/22.

Audit Charter

10. The Internal Audit Charter set out in **Annex 2** is a formal document which establishes the Internal Audit Service's position within the organisation and the Audit Manager's functional reporting relationship with the Committee. It also authorises audit access to records, personnel and physical properties relevant to the performance of engagements, and defines the scope of internal audit activities. Contained within the Draft Internal Audit Charter are six appendices, which detail the parameters within which Internal Audit and the Audit Committee operate.
11. The Audit Committee considered the Draft Audit Charter 2021/22 in its meeting on 26 January 2021. At this time particular attention was given to Appendix D, which contains the Terms of Reference for the renamed Governance and Audit Committee from 2021/22 and its additional responsibilities.
12. Prior to the Audit Committee Meeting of 23 March 2021, Welsh Government officials have indicated that three commencement orders will have been passed, which will bring into force key provisions of the Local Government and Elections (Wales) Act 2021 from 1 April 2021 until 5 May 2022. This staged approach is intended to be less disruptive to local authorities, as it provides additional time to prepare for all provisions of the Act.

13. To account for the timing upon which the provisions of the Act will come into effect for the Governance and Audit Committee, the draft Terms of Reference 2021/22 has been updated through review and consideration by the Audit Manager and Legal Services.
14. The new responsibilities from the Act are now captured within the draft Terms of Reference as follows, for which the first two bullet points below represent an update to the draft terms of reference considered by Committee in January 2021:
 - To review the Council's draft annual Self-Assessment Report in respect of the financial year 2021/22 and each financial year thereafter, and make any appropriate recommendations for changes.
 - To consider the Panel Performance Assessment Report when received, review the Council's draft response to the Panel Performance Assessment Report, and make any appropriate recommendations for changes.
 - To review the Council's draft response to any Auditor General recommendations arising from a 'special inspection' in respect of the Council's performance requirements, and to make any appropriate recommendations for changes.
 - To review and assess the authority's ability to handle complaints effectively, and make any associated reports and recommendations.
15. The draft Terms of Reference for the Committee will need to inform a comprehensive Work Programme for 2021/22, to be considered under agenda item 13.

Audit Plan 2021/22

16. The approach to developing the Audit Plan was outlined to the Audit Committee in its report of 26 January 2021, at which time a summary plan and indicative allocation of audit time was provided. A recent recruitment exercise has concluded successfully for a Principal Auditor, to fill a vacant post. The summary plan reported to Committee in January was predicated on the post being filled from April, but due to notice period requirements, the start date for the new appointment is anticipated to be early May 2021. The later commencement of the new postholder reduces the allotable audit days for the year overall from 1649, as reported to Committee in January, to 1635 in the attached draft Audit Plan. 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 2021/22.
17. Since the Audit Committee Meeting on 26 January 2021, work has been undertaken to further develop the Plan and identify the audits that will be undertaken, with the engagement of senior management. 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**.
18. In respect of the dynamic nature of Internal Audit, Members will note that 40 days have been set aside for important service / process consultancy. It is anticipated that there will be a need to use some of this provision to provide advice and guidance on the design of controls and systems relating to the pandemic, such as the ongoing administration of Welsh Government funding and service changes / adjustments. The time allocation

enables Internal Audit to provide active advice and guidance across the Council, as and when required.

19. The overall approach to developing the Audit Plan is designed to be risk-based and co-ordinated in application of the “three lines 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 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.

20. Members will be aware that the Internal Audit resources are allocated over a number of broad categories of work:

- (a) Fundamental audits
- (b) Corporate Audit
- (c) Service specific

21. 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 for that year (and the change reported to a meeting of this Committee). Accordingly, it is proposed that central audits of Council Tax and Housing Benefits / Local Housing Allowance / Council Tax Reduction Scheme are not undertaken in 2021/22.

22. The section of the Plan related to Corporate Audit includes a range of audit engagements covering areas of governance, risk management and control.

23. A large proportion of days has, as in previous years, been allocated to Service Specific audits. As in previous years, the Plan proposes to allocate a number of days within directorates to the audit of key themes. The key themes for 2021/22 are:

- (a) Performance Management
- (b) Pre-contract Assurance

24. Separate audit themes have been developed for Schools this year. The school audit themes for 2021/22 are:

- (a) School Health and Safety
- (b) School Asset Management
- (c) Schools with Surplus Balances

25. The Plan allows a small amount of flexibility to undertake unplanned work. Any such assignments will be reported to Committee as part of the regular progress updates.

Conclusion of Audit Plan 2020/21

26. To further inform the Audit Committee in considering the Audit Plan 2021/22, **Annex 6** contains the current position in delivering the Audit Plan 2020/21. Against each audit, the position as at 28 February 2021 is recorded with an outline of those audits targeted for delivery by the financial year-end. Any targeted audit engagements not delivered by the year-end will conclude in 2021/22. A comment is also included, to outline how any audits not delivered in 2020/21 will be treated after the year-end.

Legal Implications

27. The approval of the Internal Audit Charter and the Internal Audit Plan are matters delegated to the Audit Committee within its approved terms of reference.

28. Members will note that the Audit Charter incorporates the Committee's terms of reference, which have been updated to reflect the performance and governance regime which is being introduced by Part 6 of the Local Government and Elections (Wales) Act 2021. The new legislative provisions are not yet in force, but are planned to be brought into effect by a Commencement Order, as follows:

- (i) Audit committee's new name and functions, including responsibility for reviewing complaints procedures – intended to take effect from April 2021;
- (ii) Council's self-assessment report – intended to commence with assessment of the 2021/22 financial year;
- (ii) Panel assessment report – requirements for a panel assessment (at least once during each administrative term) are intended to take effect from May 2022; and
- (iii) All other relevant provisions, including Auditor General special inspections – intended to take effect from 1st April 2021.

29. The revised draft terms of reference for the renamed 'Governance and Audit Committee' require the approval of full Council. The revised draft terms of reference are to be submitted to the Annual Council meeting in May 2021 for approval.

Financial Implications

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

Recommendations

31. Audit Committee to:

- Note the Audit Strategy
- Approve the Internal Audit Charter 2021/22 (including the Governance and Audit Committee Terms of Reference 2021/22, ahead of a request for approval by Council)
- Approve the Internal Audit Plan, 2021/22

CHRIS PYKE
AUDIT MANAGER

Annex 1: Internal Audit Strategy

Annex 2: Internal Audit Charter 2021/22

Annex 3: Internal Audit Plan 2021/22

Annex 4: Summary Assurance Map

Annex 5: Cyclical Audit Planning

Annex 6: Conclusion of Audit Plan 2020/21