

GOVERNANCE & AUDIT COMMITTEE: 25 JANUARY 2022

DRAFT INTERNAL AUDIT CHARTER AND DRAFT AUDIT PLAN 2022/23

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 7.2

Reason for the Report

1. The Terms of Reference for the Governance and 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 Governance and Audit Committee has a responsibility to review its Terms of Reference annually.
3. This report has been prepared to provide Governance and Audit Committee Members with the Draft Internal Audit Charter for 2022/23 and appendices, including a draft Committee Terms of Reference. The report also provides the Draft Summary Audit Plan for 2022/23.

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 Governance and 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 on 15 March 2022 in respect of the new financial year.
5. Under the PSIAS (standard 1110 – organisational independence), the Governance and Audit Committee is required to approve the Internal Audit Charter and the risk based Internal Audit Plan. These documents are attached for 2022/23 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 2021/22. Accompanying the Charter is a draft version of the proposed Committee Terms of Reference for 2022/23.

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 Governance and Audit Committee, authorises access to records, personnel, physical properties relevant to the performance of engagements, and defines the scope of internal audit activities. Governance and Audit Committee formally approved the Internal Audit Charter 2021/22 on 23 March 2021.
7. The Draft Audit Charter 2022/23 has been reviewed by the Audit Manager and has been subject to minor update. The areas in the Draft Audit Charter that have been adjusted are shown in red font. Contained within the Draft Internal Audit Charter are six appendices, which detail the parameters within which Internal Audit and the Governance and Audit Committee operate.
8. 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.
9. 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.
10. 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 Governance and 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 D suggests the Terms of Reference for the Governance and Audit Committee 2022/23, which continues to reflect the current best practice CIPFA guidance as published in 2018 and the provisions of the Local Government and Elections (Wales) Act 2021. CIPFA is intending to publish updated Committee guidance in April 2022 which will incorporate the requirements of the Act, as already reflected in the Governance and Audit Committee's Terms of Reference in Cardiff. The author of the guidance has advised that the substantive updates to the guidance will relate to the Act. Accordingly, as such updates have already been reflected in the Committee's existing Terms of Reference, there are no proposed changes for the year ahead.
12. 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.

13. Appendix F contains the Audit Protocol, which represents an outline of the audit process from planning to reporting.

Audit Plan, 2022/23

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 Committee. **Annex 2** contains the preliminary draft plan for 2022/23, which will be developed into further detail over the financial quarter to be submitted for approval by Governance and Audit Committee on 15 March 2022.
15. The draft Audit Plan for 2022/23 is based on a team of 9.28 officers overseen by the Audit Manager. The available time is 0.25 FTE less than in the previous financial year, during which time the team benefitted from a CIPFA trainee at the final stages of their study. There is a possibility of further CIPFA trainee support during 2022/23, but for prudence in planning no expectation has been built into the Plan. Available time also accounts for a Senior Auditor request to continue to work reduced hours from 37 to 32 hours per week for a fourth year, to support their work life balance.
16. The number of available operational audit days has decreased (from 1635 to 1555) since last year, largely due to the headcount in the team being slightly lower, as referred to above. In addition, a more prudent provision has been allocated for sickness, and there is an increase in the anticipated use of carried forward leave and purchased additional leave. The Governance and Audit Committee will be aware of the ongoing impact of the pandemic on the capacity of Auditors, which is expected to continue to affect the operational audit days in the year ahead.
17. The Investigation Team Plan is based on 2.42 FTEs. The available resource reflects the wishes from an investigator to work 34 hours per week (3 hours less than their substantive post), following a trial of this arrangement during the current financial year. Planning adjustments have been made in respect of sickness and Covid related absences on a consistent basis with those applied for the Audit Team.
18. Members will note that the Audit Manager has not been included in the head count of FTE for either team, as this work focusses on strategy, and overseeing the quality, delivery and output across both audit and investigations teams.
19. The draft Audit 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 2022/23. Audit planning to date has accounted for the audits which were formally deferred from the Audit Plan 2021/22 in November 2021, following an in-year assessment of risk and audit coverage. It is not intended to automatically roll forward undelivered audits, as a range of risk-based factors are considered as part of audit planning processes. The approach is designed to be risk based and co-ordinated in application of an assurance mapping exercise based on the IIAs “three lines model”.
20. The audit planning 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.

- 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, further sources of assurance and indicators of risk are accounted for, such as:

- 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.

21. 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 2022/23. The Governance and 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 Governance and Audit Committee as they arise.
22. The "three lines 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.
23. 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. Audit Wales 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.

24. At this incremental stage of audit plan development, the proposed area for thematic review in 2022/23 is Performance Management. This thematic review was originally scheduled for the existing financial year, but with the agreement of the Governance and Audit Committee on 23 November 2021, it was replaced with a single corporate audit of performance management this year, and an intention to defer the thematic review until the year ahead. This decision was made when reflecting on audit coverage and priorities in respect of the Audit Plan 2021/22 at the mid-year stage.
25. It is proposed to undertake fundamental audits in 2022/23 in relation to creditor payments and processing, payroll and HR, council tax, and housing benefit / local housing allowances / council tax reduction scheme. 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 (and this change reported to a meeting of this Committee).

Legal Implications

26. The Local Government and Elections (Wales) Act 2021 introduces new performance and governance requirements for local authorities and gives additional responsibilities to the Committee in these matters. These provisions are reflected in the Committee's updated Terms of Reference at Appendix D.

Financial Implications

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

Recommendations

28. To consider and provide comments on the Draft Internal Audit Charter and the accompanying appendices including the draft terms of reference for the Governance and Audit Committee for 2022/23, at the current stage of development.
29. To consider and provide comments on the direction of the draft 2022/23 Internal Audit Plan.

CHRIS PYKE
AUDIT MANAGER

The following are attached:

Annex 1: Draft Internal Audit Charter 2022/23
Annex 2: Draft Summary Audit Plan 2022/23