

**GOVERNANCE & AUDIT COMMITTEE: 21 MARCH 2023**

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**INTERNAL AUDIT CHARTER AND AUDIT PLAN 2023/24**

**REPORT OF THE AUDIT MANAGER**

**AGENDA ITEM: 8.2**

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**Reason**

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, 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 Governance and Audit Committee Members with the Draft Internal Audit Charter for 2023/24 and appendices, including a draft Governance and Audit Committee Terms of Reference 2023/24.
4. The report also provides the Draft Audit Plan for 2023/24, 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 24 January 2023, the Draft Internal Audit Charter and Summary Audit Plan 2023/24 were presented for Governance and Audit Committee to consider and provide comments. Accompanying the Charter is the Governance and Audit Committee's Terms of Reference 2023/24.
6. The Audit Plan has been further developed for approval by Governance and 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 2023/24.

## 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 the Governance and Audit Committee in its meeting of 15 March 2022.
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. There are no proposed changes to the Audit Strategy for the year ahead.

### Audit Charter

9. 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 Governance and Audit Committee operate.
10. The Governance and Audit Committee considered the Draft Audit Charter 2023/24 in its meeting on 24 January 2023, which is unchanged and appended to this report. Committee will be aware that most of the changes to the Draft Audit Charter considered in January, compared to the 2022/23 document, were in respect of Appendix D, the draft Terms of Reference for the Governance and Audit Committee. These updates were made to incorporate updated CIPFA guidance and Welsh Government statutory guidance, that was published relating to matters including Constitutions, Executives, Scrutiny, Overview and Scrutiny and Governance and Audit Committees.
  - 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.
  - 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.
  - 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.

- Appendix D suggests the Terms of Reference for the Governance and Audit Committee 2023/24.
- 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.
- Appendix F contains the Audit Protocol, which represents an outline of the audit process from planning to reporting.

### **Audit Plan 2023/24**

11. The approach to developing the Audit Plan was outlined to the Governance and Audit Committee in its report of 24 January 2023, at which time a summary plan and indicative allocation of audit time was provided.
12. 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 2023/24.
13. Since the Governance and Audit Committee Meeting on 24 January 2023, 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**.
14. In respect of the dynamic nature of Internal Audit, Members will note that 30 days have been set aside for important service / process consultancy, and 70 days are available for other work and to conclude carry forward audits. The time allocation enables Internal Audit to provide active advice, guidance and assurance work across the Council, as and when required.
15. 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.

16. 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
17. 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 Governance and 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). It is proposed to undertake fundamental audits of creditor payments and processing, payroll and HR, National Non-Domestic Rates (NNDR), Treasury Management, Main Accounting, Income and Debtors, Asset Management and Housing Rents.
18. The section of the Plan related to Corporate Audit includes a range of audit engagements covering areas of governance, risk management and control.
19. A large proportion of days has, as in previous years, been allocated to Service Specific audits. One proposed area for thematic review across directorates in 2023/24 is Directorate Performance Management which is a carry forward thematic audit, and the rest of the time allocated to service specific audits would be preserved for individual directorate systems and establishments. Separate audit themes have been developed for Schools this year and details are contained within the Audit Plan in Annex 3.
20. 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 2022/23**

21. To further inform the Governance and Audit Committee in considering the Audit Plan 2023/24, **Annex 6** contains the current position in delivering the Audit Plan 2022/23. Against each audit, the position as at 28 February 2023 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 2023/24. A comment is also included, to outline how any audits not delivered in 2022/23 will be treated after the year-end.

## **Legal Implications**

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

## **Financial Implications**

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

## **Recommendations**

24. Governance and Audit Committee to:

- Note the Audit Strategy
- Approve the Internal Audit Charter 2023/24 (including the Governance and Audit Committee Terms of Reference 2023/24, ahead of a request for approval by Council)
- Approve the Internal Audit Plan, 2023/24

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

**Annex 1:** Internal Audit Strategy  
**Annex 2:** Internal Audit Charter 2023/24  
**Annex 3:** Internal Audit Plan 2023/24  
**Annex 4:** Summary Assurance Map  
**Annex 5:** Cyclical Audit Planning  
**Annex 6:** Conclusion of Audit Plan 2022/23