

GOVERNANCE & AUDIT COMMITTEE: 23 JANUARY 2024

DRAFT INTERNAL AUDIT CHARTER AND DRAFT AUDIT PLAN 2024/25

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 6.2

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 2024/25 and appendices, including a draft Committee Terms of Reference. The report also provides the Draft Summary Audit Plan for 2024/25.

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 26 March 2024 in respect of the new financial year.
5. Under the Public Sector Internal Audit Standards (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 2024/25 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 2023/24. Accompanying the Charter is a draft version of the proposed Committee Terms of Reference for 2024/25, as contained within Appendix D of the Audit Charter.
6. There are only minor updates proposed to the Draft Audit Charter 2024/25, although Committee is advised that a more detailed update will be required for 2025/26. As Committee is advised in agenda item 6.1, the Institute of Internal Auditors (IIA) has

published new Global Internal Audit Standards ([GIAS](#)) which will take effect during 2025. The PSIAS will be aligned to the GIAS to apply to internal auditing of public sector bodies in accordance with this timetable, and the Audit Charter will be aligned accordingly.

Issues

Audit Charter

7. 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 2023/24 on 21 March 2023.
8. The Draft Audit Charter 2024/25 has been reviewed and updated. The areas in the Draft Audit Charter that have been adjusted are marked up in bold 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.
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 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.
12. Appendix D suggests the Terms of Reference for the Governance and Audit Committee 2024/25, which is unchanged from last year and reflects both the best practice CIPFA guidance, and Welsh Government statutory guidance.
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 is built around a performance management approach which involves 'setting expectations', 'reviewing performance', and 'reporting performance' at individual auditor and team levels.
14. Appendix F contains the Audit Protocol, which represents an outline of the audit process from planning to reporting.

Audit Plan, 2024/25

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 Committee. **Annex 2** contains the preliminary draft plan for 2024/25, which will be developed into further detail over the financial quarter to be submitted for approval by Governance and Audit Committee on 26 March 2024.
16. The draft Audit Plan for 2024/25 is based on a team of 8.96 operational auditors overseen by the Audit Manager, supported by a CIPFA Trainee placed within the team and an Audit Assistant. There are 1.14 full time equivalent (FTE) more operational auditors available to next year's plan than the current financial year following the filling of vacant posts. For prudence, whilst it is intended to place a CIPFA Trainee in the team throughout the year, their resource is not built into the Plan. Committee will note from audit progress updates that when there have been vacant posts some audit services have been commissioned. If planned resources are available throughout the year, it is intended to deliver all audit work in-house during 2024/25.
17. The number of available operational audit days has increased (from 1495 to 1648) since last year, largely due to the increase in headcount following appointments. The main changes to time allocations at the current time since last year are as follows:
 - A slightly lower proportion of time is being allocated to audits of fundamental systems, this follows a base-line approach to auditing such systems every other year, with the exception of creditor payments and processing, payroll and HR systems which are subject to annual audit.
 - A slightly lower proportion of time is being allocated to corporate audit areas, which has received a good level of good recent coverage, and these areas have been considered to be generally well governed.
 - An increase in the time allocated to service specific audits to enable a greater coverage of directorate-level assurance.
18. The Investigation Team Plan is based on 2.42 FTEs. The available resource continues to reflect the ongoing wishes from an investigator to work 34 hour per week (3 hours less than their substantive post). Planning adjustments have been made in respect of non-chargeable time on a consistent basis to the Audit Team.
19. 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.
20. 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 2024/25. 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".
21. 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.

22. 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 2024/25. 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.
23. 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.
24. 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.
25. It is proposed to undertake fundamental audits in 2024/25 in relation to purchasing payments and processing, payroll and HR, council tax, housing benefits / local housing allowance / council tax reduction scheme, income and debtors and asset management.

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).

26. Thematic audits have been undertaken across all directorates in recent years. At the current stage of audit planning no further thematic audits are proposed for 2024/25, and if this continues to be the position once assurance mapping activities have been completed, most of the proposed time allocated to service specific audits would be preserved for individual directorate systems and establishments.

Legal Implications

27. The work of the Governance and Audit Committee must reflect its statutory functions under Part 6, Chapter 2 of the Local Government (Wales) Measure 2011, as amended by Part 6 of the Local Government and Elections (Wales) Act 2021. In discharging its functions, the Committee must have regard to statutory guidance issued by the Welsh Ministers and other relevant guidance, in particular, that issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
28. The Committee's terms of reference for 2024/25 will be reported for approval at the Annual Council meeting in May 2024.
29. There are no other direct legal implications arising from the recommendations of this report.

Financial Implications

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

Recommendations

1. 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 2024/25, at the current stage of development.
2. To consider and provide comments on the direction of the draft 2024/25 Internal Audit Plan.

CHRIS PYKE
AUDIT MANAGER

The following are attached:

Annex 1: Draft Internal Audit Charter 2024/25

Annex 2: Draft Summary Audit Plan 2024/25