
DRAFT INTERNAL AUDIT CHARTER AND DRAFT AUDIT PLAN 2021/22

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 10.2

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 2021/22 and appendices, including a draft Committee Terms of Reference. The report also provides the Draft Summary Audit Plan for 2021/22.

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 on 23 March 2021 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 2021/22 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 2020/21. Accompanying the Charter is a draft version of the proposed Committee Terms of Reference for 2021/22 for consideration at this early stage in development.
6. Members of the Audit Committee will be aware that from 1 April 2021, the Audit Committee will be renamed a Governance and Audit Committee, and its role will be expanded in accordance with the Local Government and Elections (Wales) Bill, scheduled for Royal Assent in January 2021. At this stage, as the Committee considers it's future remit, its existing terms of reference has been updated from a technical perspective by officers in Audit and Democratic Services to incorporate these additional requirements, for Member consideration and comment.

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 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 formally approved the Internal Audit Charter 2020/21 on 28 July 2020, following a process of consultation and agreement between 23 March and 3 April 2020.
8. The Draft Audit Charter 2020/21 has been reviewed by the Audit Manager and has been subject to minor update. Contained within the Draft Internal Audit Charter are six appendices, which detail 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 the Governance and Audit Committee 2021/22, which has been prepared in recognition of the best practice CIPFA guidance as published in 2018 and incorporating the provisions of the Local Government and Elections (Wales) Bill. The following responsibilities have been added in red in view of new responsibilities from the Bill, for the Committee to consider.
 - To review the Council's draft annual Self-Assessment Report, and make any appropriate recommendations for changes.
 - To 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's 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.
13. In addition to the above, a further proposed sentence has been added (in red) to recognise the role of the Committee to seek assurances on the arrangements for the management of the authority's financial affairs. This is an ongoing area of responsibility,

and whilst it is not explicitly stated in the model CIPFA terms of reference, it reflects a responsibility included in the Local Government (Wales) Measure 2011, upon which guidance was provided by the CIPFA Lead Governance Advisor in the All Wales Audit Committee Chair's Network on 30 November 2020.

14. The Terms of Reference will require further consideration and consultation to ensure there is an effective coordination of roles and responsibilities with wider Committees of Council, with Monitoring Officer review. Agreement of the draft revised Terms of Reference by Committee will be requested on 23 March 2021, for the forthcoming municipal year, ahead of seeking approval from Council in the Annual meeting, scheduled for May 2021.
15. 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.
16. Appendix F contains the Audit Protocol, which represents an outline of the audit process from planning to reporting. The Audit Protocol was incorporated into the Charter for the first time in the 2020/21 financial year.

Audit Plan, 2021/22

17. 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 2021/22, which will be developed into further detail over the financial quarter to be submitted for approval by Audit Committee on 23 March 2021.
18. The draft Audit Plan for 2021/22 is based on a team of 9.53 FTE officers overseen by the Audit Manager. This represents the same substantive post resources as in 2020/21, but allows for the resources of a CIPFA trainee for the first financial quarter only, at which time the current cohort of trainees who work in Council finance teams on a rotational basis are due to sit their final exams. There is a possibility of further CIPFA trainee support during 2021/22, but for prudence in planning no expectation has been built into the Plan. A Senior Auditor has requested to continue to work reduced hours from 37 to 32 hours per week for a third year, which has been agreed by the Audit Manager to support their work life balance.
19. The number of available operational audit days has decreased (from 1,912 to 1649) firstly due to a lower level of anticipated CIPFA trainee resource, as referred to above. In addition, a more prudent provision has been allocated for general sickness, and a provision has been made for COVID related absences, regarding use of the special leave scheme for caring responsibilities and for other absences relating to the pandemic. 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.

20. The Investigation Team Plan is based on 2.5 FTEs, with a continuation of staff resource from 2020/21. Planning adjustments have been made in respect of sickness and Covid related absences on a consistent basis with those applied for the Audit Team.
21. 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.
22. 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 2021/22. Audit planning to date has accounted for the audits which were formally deferred from the Audit Plan 2020/2021 in November 2020, 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”.
23. 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.
24. 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 2021/22. 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.

25. 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.
26. 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.
27. At this incremental stage of audit plan development, the proposed areas for thematic review in 2021/22 are:
 - (a) Performance Management
 - (b) Pre-contract Assurance
28. Members will note that these thematic audit areas were included in the Audit Plan 2020/21, but were deferred due to the capacity and resource difficulties associated with the pandemic. For the current year, assurances in these areas have been sought from a corporate performance management audit undertaken in the prior year, and from other contract audit work. It is intended for these audits to be undertaken as thematic reviews across all directorates during 2021/22.
29. The other thematic audit which was deferred in 2020/21 was information management. It is not intended at this stage to deliver that audit via a thematic approach during 2021/22, but instead, time has been allocated for a corporate audit of information governance, in which there will be corporate and directorate level testing.
30. It is proposed to undertake fundamental audits in 2021/22 in relation to creditor payments, payroll and HR, NNDR, treasury management, main accounting, income and debtors, asset management and housing rents. 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 2021/22 (and this change reported to a meeting of this Committee).

Legal Implications

31. The Local Government and Elections (Wales) Bill, Part 6, introduces new performance and governance requirements for local authorities and gives additional responsibilities to audit committees in these matters. These new statutory provisions are not yet in force, but are expected to come into effect in April 2021.
32. The revised draft terms of reference for the Audit Committee (retitled as the 'Governance and Audit committee' under the new legislation), Appendix D of the draft Audit Charter, incorporate the committee's additional performance and governance responsibilities, and subject to any agreed changes, will be submitted to Council for approval at the Annual meeting of Council in May 2021.

Financial Implications

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

Recommendations

34. 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 2021/22, at the current stage of development.
35. To consider and provide comments on the direction of the draft 2021/22 Internal Audit Plan.

CHRIS PYKE
AUDIT MANAGER

Annex 1: Draft Internal Audit Charter 2021/22

Annex 2: Draft Summary Audit Plan 2021/22