

GOVERNANCE & AUDIT COMMITTEE: 15 MARCH 2022

INTERNAL AUDIT CHARTER AND AUDIT PLAN 2022/23

REPORT OF AUDIT MANAGER

AGENDA ITEM: 7.2

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 2022/23 and appendices, including a draft Governance and Audit Committee Terms of Reference 2022/23.
4. The report also provides the Draft Audit Plan for 2022/23, 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 25 January 2022, the Draft Internal Audit Charter and Summary Audit Plan 2022/23 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 2022/23.
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 2022/23.

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 Audit Committee (subsequently renamed Governance and Audit Committee) in its meeting of 23 March 2021.
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 2022/23 in its meeting on 25 January 2022. Prior to the meeting, the current Audit Charter was reviewed by the Audit Manager and minor updates were suggested for the year ahead in red font. No further updates are proposed and committee approval is now sought.
11. Contained within Appendix D of the Draft Audit Charter 2022/23 is the Terms of Reference for the Governance and Audit Committee. It 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.

Audit Plan 2022/23

12. The approach to developing the Audit Plan was outlined to the Governance and Audit Committee in its report of 25 January 2022, at which time a summary plan and indicative allocation of audit time was provided.

13. 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 2022/23.
14. Since the Governance and Audit Committee Meeting on 25 January 2022, 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**.
15. 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.
16. 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.
17. 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

18. 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 purchasing payments and processing, payroll and HR, council tax, and housing benefit / local housing allowances / council tax reduction scheme.
19. The section of the Plan related to Corporate Audit includes a range of audit engagements covering areas of governance, risk management and control.
20. A large proportion of days has, as in previous years, been allocated to Service Specific audits. The proposed area for thematic review across directorates 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. Separate audit themes have been developed for Schools this year and details are contained within the Audit Plan in Annex 3.
21. 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 2021/22

22. To further inform the Governance and Audit Committee in considering the Audit Plan 2022/23, **Annex 6** contains the current position in delivering the Audit Plan 2021/22. Against each audit, the position as at 28 February 2022 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 2022/23. A comment is also included, to outline how any audits not delivered in 2021/23 will be treated after the year-end.

Legal Implications

23. 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

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

Recommendations

25. Audit Committee to:

- Note the Audit Strategy
- Approve the Internal Audit Charter 2022/23 (including the Governance and Audit Committee Terms of Reference 2022/23, ahead of a request for approval by Council)
- Approve the Internal Audit Plan, 2022/23

CHRIS PYKE
AUDIT MANAGER

Annex 1: Internal Audit Strategy
Annex 2: Internal Audit Charter 2022/23
Annex 3: Internal Audit Plan 2022/23
Annex 4: Summary Assurance Map
Annex 5: Cyclical Audit Planning
Annex 6: Conclusion of Audit Plan 2021/22