



REPORT TO THE JOINT COMMITTEE

13 July 2022

Report by: Internal Audit Manager & GwE Managing Director

Subject: Internal Audit Charter and Internal Audit Plan 2022-23

1.0 Purpose of the Report

1.1 To present the Internal Audit Charter and Internal Audit Plan for the 2022/23 financial year.

2.0 Background – Internal Audit Charter

2.1 The Public Sector Internal Audit Standards define Internal Audit as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”*.

2.2 The Public Sector Internal Audit Standards (“PSIAS”) came into force on 1 April 2013 and were amended in April 2017. One of the requirements of the Standards is the need to set out an Internal Audit Charter. The Standards, and a supporting Local Government Application Note (2019) published by CIFPA, detail the necessary contents of an Internal Audit Charter for a Local Government Body. The Internal Audit Charter can be seen in Appendix 1.

3.0 Internal Audit Plan 2022/23

3.1 The Public Sector Internal Audit Standards (PSIAS) require the Chief Audit Executive (Audit Manager) to develop a risk-based plan to determine the priorities of Internal Audit activity.

3.2 On the basis of an analysis of the risks and discussions with key officers, the following is proposed as the internal audit plan for 2022/23:

Audit	Plan (Days)	Reason
Training	7	The audit will focus on mandatory training modules such as Domestic Abuse, Safeguarding Children and Adults, Prevention, Equality etc. The audit will encompass reviewing reports from the MoDS (Staff Development Module) system and any further records held by GwE.
Staff Recruitment and Retention Arrangements	8	The increasing mobility of employees and the ability to work from home, or on a hybrid basis, has expanded employment opportunities, and so staff retention is now a pressing issue and it is vital that the risk of staff leaving is acknowledged. The audit will encompass reviewing the staff retention strategy, succession planning along with factors that may affect recruitment and retention such as remuneration, staff empowerment arrangements and well-being (mental and physical).
Absence Management	8	In a survey conducted by the "Chartered Institute of Personnel and Development" (CIPD), 26% of employers now include long covid as the main reason for long-term sickness absence. The pandemic has raised serious concerns about the mental well-being of individuals. The purpose of the audit is to review GwE staff absenteeism levels and to ensure that there is an effective framework to support officers' mental health, offering sources of support such as counselling, referral to the Occupational Health Service as well as ensuring that line managers have support to support their teams.
<i>Other:</i>		
Management and Committees	2	Time allocated for Internal Audit officers to attend Authority committees and manage work.
Total	25	

3.3 The 2022-23 Audit Plan is a flexible plan to enable the Audit Service to support GwE with any emerging issues and to act promptly on any risks posed by those issues.

4.0 Recommendations

4.1 The Joint Committee is asked to:

4.1.1 Consider the contents of the Audit Charter (Appendix A) and the 2022/23 Internal Audit Plan, and either provide specific relevant recommendations and/or accept the plan and support Internal Audit to achieve its role.

5.0 Financial Implications

5.1 There are no additional financial implications in implementing the recommendations of this report.

6.0 Equalities Impact

6.1 There are no additional equality implications in implementing the recommendations of this report.

7.0 Personnel Implications

7.1 There are no additional resource implications in implementing the recommendations of this report.

8.0 Consultation Undertaken

8.1 Consultation with GwE's Managing Director.

9.0 Appendices

9.1 Appendix 1 – Internal Audit Charter

OPINION OF THE STATUTORY OFFICERS

Monitoring Officer:

No observations to add in relation to propriety.

Statutory Finance Officer:

Internal Audit has a key role in providing independent assurance to the Joint Committee and to the Statutory Finance Officer. I have worked with the author of the report on the development of the Internal Audit Charter, and I am happy with its content.

I believe that the plan that has been presented for 2022/23 is appropriate to give GwE assurance on the arrangements in place to mitigate significant risks.



INTERNAL AUDIT CHARTER



INTERNAL AUDIT CHARTER

1. PURPOSE

1.1 The purpose of the Internal Audit Service is:

To give confidence to the citizen and the Joint Committee on the GwE's control environment and governance arrangements through independent and objective reporting to the Managing Director, the Head of Finance and the Joint Committee

2. THE ROLE OF INTERNAL AUDIT IN LOCAL GOVERNMENT

2.1 There is a statutory requirement for an Internal Audit service in Local Authorities. This is implied in Section 151 of the Local Government Act 1972, which requires that authorities *"make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs"*.

2.2 The Account and Audit Regulations (Wales) 2014 state:

- (1) A relevant body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.
- (2) Any officer or member of that body must, if the body requires—
 - (a) make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and
 - (b) supply the body with such information and explanation as that body considers necessary for that purpose.
- (3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.
- (4) The finding of the review referred to in paragraph (3) must be considered as part of the consideration of the system of internal control referred to in regulation 5(3), by the committee or body referred to in that paragraph.

3. THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

3.1 The Public Sector Internal Audit Standards (PSIAS) are relevant to every internal audit service provider for the public sector, whether internal, shared service or external. These are defined as *"proper internal audit practices"*.

3.2 The Standards define Internal Audit as follows:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

3.3 Whilst Internal Audit is primarily concerned with financial propriety, the remit of Internal Audit’s work extends to the entire control environment of GwE, and is not confined to purely financial risk.

4. RESPONSIBILITIES AND OBJECTIVES

4.1 In accordance with section 151 of the Local Government Act 1972, the host authority’s Section 151 officer has the responsibility for the proper administration of GwE’s financial affairs.

4.2 The Standards contain terminology that need to be defined clearly within the local Charter, namely the “Board”, the “Audit Committee”, the “Chief Audit Executive” and “Senior Management”.

“Board” and “Audit Committee”

The Standards define the Board as **“the highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. ‘Board’ may refer to an audit committee to which the governing body has delegated certain functions”**. They define “Audit Committee” as **“The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting”**. For the purpose of this Internal Audit Charter, therefore, the GwE Joint Committee undertakes the role of both the “Board” and “Audit Committee” in order to fulfil the requirements of the Standards.

“Chief Audit Executive”

The Audit Manager is the **“Chief Audit Executive”** in accordance with the terminology in the Standards.

“Senior Management”

Where the Standards refer to **“Senior Management”**, in the context of communicating the results of internal audit work and discussing the work plan, the Audit Manager is accountable to the Section 151 Officer in the host Authority, but has the freedom to report directly to GwE’s Managing Director, the Monitoring Officer, or members of the Joint Committee if he/she is of the opinion that this is necessary.

- 4.3 In order to ensure the provision of the highest possible quality of service within the resources available, the appropriate use of the available resources is essential in order to ensure that the quality of service is of a high standard. The aims of Internal Audit is to provide assurance to the Managing Director, Head of Finance and the Joint Committee, that those resources which are available are managed and used appropriately, with transparency.
- 4.4 It shall do this by providing an independent and objective opinion to the Joint Committee on the control environment by auditing all financial systems and internal control procedures within GwE, performing a combination of risk-based, system-based, regularity, computer and contract audits, in accordance with the audit strategy and plan based on an assessment of GwE's audit needs.
- 4.5 The Audit Manager shall ensure that internal audit is provided in accordance with the Public Sector Internal Audit Standards as far as practicable. To this end, the Audit Manager prepares an annual audit plan derived from an objective review of the risks that may affect the provision of GwE's services, in consultation with GwE's Managing Director.

5.0 INDEPENDENCE AND RIGHTS OF ACCESS

- 5.1 The Public Sector Internal Audit Standards emphasise the independence of Internal Audit in terms of reporting processes and freedom.
- 5.2 Every internal auditor shall be required to sign a Declaration of Auditor Independence on an annual basis, which encompasses the duty to comply with the four main principles enshrined in the Standards Code of Ethics:
- Integrity
 - Objectivity
 - Confidentiality
 - Competence.
- 5.3 GwE has a process to identify the need for internal audit and to act on the recommendations:
1. Identify the need for audit in specific areas. This work plan will be developed where possible through consideration of risk registers, performance reports, business plans etc.
 2. Meeting between the host authority's Audit Manager and GwE's Managing Director.
 3. To agree the audit plan for the year with the Management Board.
 4. Content of the plan to be shared with the Joint Committee.
 5. The Audit Service of the host authority to conduct the audits.

6. Share draft audit reports with relevant GwE managers in order to agree the contents and actions to address any risks.
7. The host authority's Audit Service to send audit reports to GwE's Managing Director and relevant managers.
8. Relevant GwE officers to act on agreed actions (administrative issues not requiring Joint Committee input).
9. GwE Managing Director to share individual audit reports with the Management Board.
10. The host authority's Audit Manager submits an annual report to the Joint Committee on any audits carried out during the year.
11. Relevant GwE officers to act on Joint Committee decisions.
12. GwE officers to report progress as necessary to the Joint Committee.

6. CORE PRINCIPLES

6.1 The Standards specify that the following core principles underpin an effective Internal Audit service:

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focused
- Promotes organisational improvement.

7. RELATIONSHIP WITH THOSE CHARGED WITH GOVERNANCE

- 7.1 GwE has resolved that the Joint Committee is “those charged with governance”.
- 7.2 The Audit Manager will prepare an annual report for the joint Committee on audit work conducted in the previous year.

8. REPORTING

- 8.1 A formal report will be written for most audit assignments, except for some small audits where significant weaknesses were not discovered and where a full audit report was not deemed necessary. In these cases, memoranda will be sent to the relevant officers.
- 8.2 Where appropriate, each report will be placed in one of four assurance levels based on an evaluation of the internal control environment and the number of risks identified together with their risk score.

The current risk score will be categorised in one of four risk categories:

RISK LEVEL	SCORE
VERY HIGH	20 - 25
HIGH	12 - 16
MODERATE	6 - 10
LOW	1 - 5

- 8.3 The general assurance levels of audits are as shown in the table below:

HIGH	Certainty of propriety can be stated as internal controls can be relied upon to achieve objectives
SATISFACTORY	Controls are in place to achieve their objectives but there are aspects that need tightening to further mitigate the risks
LIMITED	Although controls are in place, compliance with the controls needs to be improved and/or introduce new controls to reduce the risks to which the service is exposed
NO ASSURANCE	Controls in place are considered to be inadequate, with objectives failing to be achieved.

The use of assurance levels is likely to be less appropriate for reports that have been prepared following a special investigation, or for work containing “consultancy” aspects.

8.4 Following completion of audit work, a draft report of the findings as well as any areas of risks identified is prepared for the relevant managers so that they have an opportunity to consider the findings and possible solutions to mitigate risks and correct any factual errors. A period of 2-3 weeks is given to managers to respond to the draft, but a longer period will be considered if a request for an extension is received. If a response is not received by the stipulated date, the report is assumed to be acceptable and a final report will be issued. If comments are received, these will be considered (and the draft report may or may not be modified) before the final report is issued. If there is no agreement to mitigate risk(s), that will be addressed in the final report.

8.5 After an appropriate period, Internal Audit will conduct follow-up testing to ensure that what was agreed is operational.

9. ANNUAL AUDIT OPINION

9.1 The Audit Manager shall prepare an Annual Report to the first meeting of the Joint Committee after the end of the financial year, in accordance with the Standards.

10. TRAINING

10.1 Members of the Internal Audit Service are actively encouraged to attend various seminars and courses to gain specialist knowledge in key areas including fraud, corruption and irregularities, IT, project management based on the PRINCE2 methodology, procurement and contracts. The training will be delivered either in-house or by attending external courses arranged by providers such as CIPFA.

10.2 Gwynedd Council's Internal Audit Service aims to continue to develop and reinforce the mix of skills and experience within the Service. The Internal Audit Service will continue with its objective of ensuring that a minimum of two auditors (not including the Audit Manager) will be qualified with a CCAB body or the IIA, in addition to ensuring that at least one auditor will be receiving training for a Professional qualification at any one time.

10.3 To comply with the CIPFA and ACCA qualification, Internal Auditors holding this qualification are required to undertake a minimum hours of continued professional development each year.

11. QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

11.1 The Public Sector Internal Audit Standards and CIPFA's Local Government Application Note requires the Audit Manager (the "chief audit executive" in the Standards' terminology) to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity

- 11.2 A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity'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 identifies opportunities for improvement.
- 11.3 The quality assurance and improvement programme will include both internal and external assessments
- 11.4 An external assessment must be carried out at least once every five years by an independent, qualified reviewer from outside the organisation, either by conducting a full external assessment or a self-assessment validated by an external assessor.
- 11.5 The quality assurance and improvement programme and the results of both internal and external assessments will be presented to Gwynedd Council's Governance and Audit Committee by the Audit Manager.