

# RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

## MUNICIPAL YEAR 2022/23

<b>GOVERNANCE AND AUDIT COMMITTEE</b>  18 <sup>th</sup> July 2022	<b>AGENDA ITEM NO. 10</b>
<b>REPORT OF THE HEAD OF THE REGIONAL INTERNAL AUDIT SERVICE in consultation with THE DIRECTOR OF FINANCE &amp; DIGITAL SERVICES</b>	<b>ANNUAL INTERNAL AUDIT STRATEGY AND RISK BASED INTERNAL AUDIT PLAN 2022/23</b>

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### **1. PURPOSE OF THE REPORT**

- 1.1 To provide members of the Governance and Audit Committee with the Annual Internal Audit Strategy and Risk Based Internal Audit Plan for 2022/23.

### **2. RECOMMENDATIONS**

It is recommended that Members:

- 2.1 Consider and approve the draft Annual Internal Audit Strategy (Appendix A) and Risk Based Internal Audit Plan for 2022/23 (Appendix B).

### **3. REASONS FOR RECOMMENDATIONS**

- 3.1 To keep the Governance and Audit Committee informed and to approve the proposed draft Internal Audit Strategy and Risk Based Internal Audit Plan 2022/23 in compliance with the Public Sector Internal Audit Standards (PSIAS) and the Committee's Terms of Reference.

### **4. BACKGROUND**

- 4.1 The United Kingdom Public Sector Internal Audit Standards (Performance Standard '2010 Planning') provides the framework within which an internal audit plan should be compiled.
- 4.2 In line with the Public Sector Internal Audit Standards (PSIAS) the Head of Internal Audit must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

- 4.3 To develop the risk-based plan, the Head of Internal Audit consults with senior management to obtain an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes. The Head of Internal Audit must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems and controls.
- 4.4 In order to produce the Internal Audit plan the following information is taken into account:
- Corporate Risk Register/Strategic Risk Register;
  - Corporate Plan;
  - Key Financial Systems;
  - Grant Claims that require Internal Audit certification;
  - Follow-up reviews;
  - Audit reviews that are carried forward from the previous audit plan;
  - Feedback from questionnaires issued to Service Directors;
  - Recommendations from External Inspectors / Regulators; and
  - Results of discussions with the Senior Leadership Team, including the Chief Executive, Section 151 officer and other senior officers as necessary.
- 4.5 The Public Sector Internal Audit Standards require a risk-based audit plan to be produced to cover the Council's overall control environment including risk, governance and internal controls as far as practicable.
- 4.6 Considering the sources of information noted above supports Internal Audit to achieve the following:
- Comply with the PSIAS in compiling the draft Annual Internal Audit Plan;
  - Enable the Governance & Audit Committee to monitor the adequacy of the risk management framework and the associated control environment of the Council for 2022/23 based on the audit reviews set out in the draft Annual Risk Based Internal Audit Plan; and
  - Enables the Head of Internal Audit to form an opinion on the risk, governance and internal controls of the organisation.
- 4.7 Changes to the way the Council is operating since Covid-19, including any risks as a result of remote working and other changes have been considered and included within the draft audit plan for 2022/23.

## **Current situation/proposal**

- 4.8 Attached at Appendix A is the draft Internal Audit Strategy document for 2022/23. It demonstrates how the Internal Audit Service will be delivered and developed in accordance with our Terms of Reference. The Strategy will be reviewed and updated annually in consultation with stakeholders namely the Governance and Audit Committee, Senior Leadership Team and External Auditors.
- 4.9 The 2022/23 Risk Based Internal Annual Plan of work has been formulated in compliance with the PSIAS. The draft detailed plan is attached at Appendix B.
- 4.10 The proposed plan continues to recognise particular risks and challenges arising from the remote ways of working. The plan is also flexible to allow for changing circumstances and events that may occur, such as requests to respond to new issues that may arise.
- 4.11 Internal Audit work will generally be undertaken remotely using video conferencing (e.g. Microsoft Teams) and digital solutions as a basis for meetings and sharing documents and data but will also include in person visits and meetings as required for each audit.
- 4.12 The proposed plan at Appendix B will provide sufficient coverage to be able to provide an opinion at the end of 2022/23.
- 4.13 The Governance and Audit Committee will receive updates on how the plan is being delivered and any changes that may be required.

## **5. EQUALITY AND DIVERSITY IMPLICATIONS / SOCIO-ECONOMIC DUTY**

- 5.1 There are no equality and diversity or socio-economic implications as a result of the recommendations set out in the report.

## **6. CONSULTATION**

- 6.1 There are no consultation implications as a result of the recommendations set out in the report.

## **7. FINANCIAL IMPLICATION(S)**

- 7.1 There are no financial implications as a result of the recommendations set out in the report, but effective audit planning and monitoring are key contributors in ensuring that the Council's assets and interests are properly accounted for and safeguarded.

**8. LEGAL IMPLICATIONS OR LEGISLATION CONSIDERED**

- 8.1 The provision of an adequate and effective Internal Audit function is a legal requirement under the Accounts and Audit (Wales) Regulations 2018 as amended from time to time.
- 8.2 Regulation 7 (Internal Audit) of Part 3 of the 2018 Regulations directs that: “A relevant body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.”

**9. LINKS TO CORPORATE AND NATIONAL PRIORITIES AND THE WELL-BEING OF FUTURE GENERATIONS ACT & FIVE WAYS OF WORKING**

THE COUNCIL’S CORPORATE PLAN PRIORITIES

- 9.1 The work of Internal Audit aims to support the delivery of the priorities contained within the Council’s Corporate Plan 2020-2024 “Making a Difference”, in particular ‘Living Within Our Means’ through ensuring that appropriate internal controls are in place to effectively manage resources.

WELL-BEING OF FUTURE GENERATIONS ACT & FIVE WAYS OF WORKING

- 9.2 The wellbeing goals identified in the Act were considered in the preparation of this report. The Sustainable Development Principles, in particular Prevention, can be applied to the systematic reviews undertaken in order to provide assurance that risks to the achievement of objectives are being managed. It is considered that there will be no significant or unacceptable impacts upon the achievement of wellbeing goals/objectives as a result of this report.

**10. CONCLUSION**

- 10.1 The draft Annual Internal Audit Strategy and Risk Based Internal Audit Plan for 2022/23 has been compiled in accordance with the Public Sector Internal Audit Standards and the Council’s Internal Audit Charter taking into account the risks and challenges arising following the Covid-19 pandemic.
- 10.2 The Council’s Governance and Audit Committee, in line with its Terms of Reference, is requested to consider and approve the Internal Audit Strategy and Risk Based Internal Audit Plan for 2022/23.

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**LOCAL GOVERNMENT ACT 1972**

**AS AMENDED BY**

**THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**GOVERNANCE AND AUDIT COMMITTEE**

**18<sup>th</sup> July 2022**

**DRAFT INTERNAL AUDIT STRATEGY & RISK BASED PLAN 2022/23**

**REPORT OF THE HEAD OF THE REGIONAL INTERNAL AUDIT SERVICE in  
consultation with the DIRECTOR OF FINANCE & DIGITAL SERVICES**

Author: Mark Thomas (Head of Regional Audit Service) & Lisa Cumpston (Audit  
Manager)

**Item 10**

**Background Papers**

None.

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**RHONDDA CYNON TAF**

**DRAFT**

**STRATEGY**

**&**

**ANNUAL RISK BASED**

**INTERNAL AUDIT PLAN**

**2022/2023**

## 1. Introduction

- 1.1 Internal Audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. This opinion forms part of the framework of assurances that the Council receives and should be used to help inform the Annual Governance Statement. The purpose of this document is to provide a detailed Internal Audit Risk Based Plan for 2022/2023.
- 1.2 The audit plan ensures that the risks facing the Council are adequately addressed and internal audit resources are effectively utilised. The standards for “proper practice” in relation to internal audit are laid down in the Public Sector Internal Audit Standards (PSIAS).
- 1.3 The Internal Audit Service is delivered through the expanded shared service that came into existence on 1st April 2019. The service is hosted by the Vale of Glamorgan Council and provides internal audit services to the Vale, Bridgend, Merthyr Tydfil & Rhondda Cynon Taf Councils. The arrangement is underpinned by a detailed legal agreement between the four Councils which sets out a range of obligations (the core service is the same for each Council but there are differences in what is provided outside of the core service). The service reports to the four Governance & Audit Committees and is overseen at a strategic level by the Board which consists of the Chief Finance Officers of the four Councils.

## 2. Definition of Internal Audit

- 2.1 The Public Sector Internal Audit Standards (PSIAS) defines Internal Audit as follows:

*“Internal audit 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. Requirement for Internal Audit

- 3.1 Internal Audit is a mandatory statutory service. Part 3 of The Accounts and Audit (Wales) Regulations 2018 concerns financial management and internal control. Regulation 5 (responsibility for internal control and financial management) of Part 3 directs that:

*‘The relevant body must ensure that there is a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes:*

- (a) Arrangements for the management of risk, and*
- (b) Adequate and effective financial management.’*

3.2 Regulation 7 (Internal Audit) of Part 3 directs that:

*'A relevant body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.'*

3.3 PSIAS state:

*"The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals. The risk based plan must take into account the requirement to produce an annual internal audit opinion"*

3.4 The overall opinion issued each year by the Head of Internal Audit on the adequacy and effectiveness of the control environment is used as a key source of assurance to support the Annual Governance Statement.

#### **4. Section 151 Officer Responsibility**

4.1 Internal Audit also has an important role to support the Council's Section 151 Officer in discharging their statutory responsibilities, which include:-

- S151 Local Government Act 1972 – to ensure the proper administration of financial affairs.
- S114 Local Government Act 1988 – to ensure the Council's expenditure is lawful.

#### **5. Development of the Internal Audit Plan**

5.1 The annual internal audit plan has been prepared after considering the risk registers and the views of Corporate Directors and Senior Management as to where audit resource is most needed. In line with the PSIAS, this plan should enable Internal Audit to maximise the value and assurance it provides to the Council, whilst ensuring it fulfils its statutory obligation to review and report on the Council's internal control environment, governance and risk management arrangements. Changes to the way the Council is operating since Covid-19, including any risks as a result of remote working and other changes have been considered and included within the draft audit plan for 2022-23.

#### **6. Risk Based Approach**

6.1 The internal audit function will be delivered in accordance with the Internal Audit Charter 2022-23, as agreed by the Governance & Audit Committee. The Charter defines the role, scope, independence, authority and responsibility of the internal audit service and audits will be delivered in accordance with the Charter.

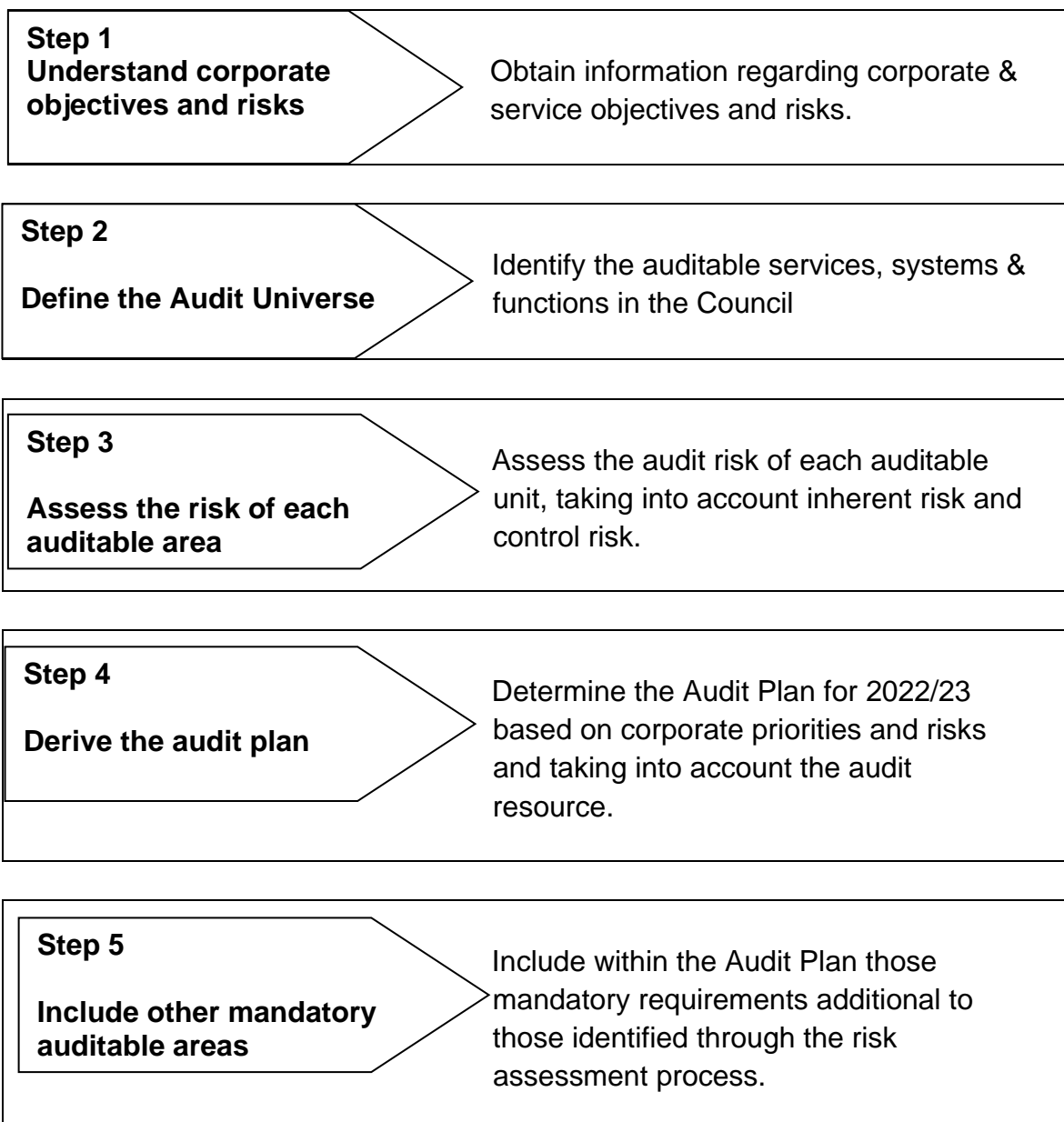
6.2 Risk based work is critical to the Council, as it seeks to improve the risk awareness of staff and improve overall control. The internal audit work programme is designed to provide assurance that identified significant risks are being managed effectively. As part of this process Internal Audit will also examine the risk management and governance arrangements.



6.3 By adopting a risk based audit approach there is a clear linkage between the significant risks identified in the Council's Corporate Risk Register and the work undertaken by Internal Audit in providing assurance against these. As a result, the starting point for the audit plan approach is an understanding of the Council's objectives and risks.

## 7. Methodology

7.1 A summary of our approach to the development of the Audit Plan for 2022/23 is set out below. The Plan is driven by the Council's organisational objectives and priorities as set out in the Corporate Plan and the risks that may prevent the Council from meeting these objectives.



## **The Risk Assessment Process**

- 8.1 The information which has been used to prepare the risk assessment and proposed internal audit plan has been collected and collated from several different sources. The starting point for a risk-based audit approach is an understanding of the Council's priorities and risks. This has been achieved by reviewing the Corporate Plan, the Directorate's Service Plans, the Corporate Risk Register and meeting with Corporate Directors asking where they perceive to be the main risks within their individual areas and where they would require internal audit to provide assurance that such risks are being effectively mitigated and managed. This information is used to inform and design the audit plan.
- 8.2 The plan is based on an underlying risk assessment. The inherent risks existing within each area are then identified for audit as part of the audit planning process. The audits which make up the plan have been assessed on priority. Internal Audit will ensure that all reviews classified as "high" risk, will be completed by the end of the year, "medium risk reviews are the next level down, but still require a scheduled review. Although "low" risk reviews still carry a degree of risk, these have not been included on the plan but continue to be risk assessed annually to take account of any changes in their status.

## **8. The Annual Internal Audit Plan**

- 9.1 In accordance with the PSIAS, the Head of Audit is responsible for developing a risk-based annual audit plan which considers the Council's risk management framework. Within the Standards there is also a requirement for the Head of Audit to review and adjust the plan, as necessary, in response to changes in the Council's business, risks, operations, programs, systems, controls and resources. The Head of Audit must also ensure that Internal Audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
- 9.2 An annual plan is derived following the audit risk assessment, whereby audits will be selected based on the greatest perceived risk. The Internal Audit Service will ensure that most effort is focused on high risk areas while, at the same time, not ignoring the potential for problems that may materialise in other areas.
- 9.3 Whilst the Internal Audit Service will adopt a risk based approach to determine relative risk, there will remain areas where a purely cyclical approach may still be required e.g. programme of school audits, financial systems and grant verifications.
- 9.4 Consideration is also given to planned external audit work to minimise duplication and to maximise audit coverage.
- 9.5 Attached at Appendix B is the detailed schedule of audits planned to be completed during 2022-2023 for each of the Council's Directorates including Cross Cutting.
- 9.6 The Head of Internal Audit will monitor progress against the audit plan. Where there is a need for material changes to the plan; a revised plan will be re-submitted to the Governance & Audit Committee for endorsement. The Governance & Audit Committee will also be advised of performance against the audit plan and be kept informed of the results undertaken.

9.7 The COVID 19 pandemic has meant that many Council staff have worked remotely since March 2020 and this is likely to continue to a large extent with hybrid working increasing in frequency during 2022/23. Systems & processes have been adjusted to cater for the new ways of working. Similarly, the Internal Audit team will continue to work remotely to a large extent, conducting audits and obtaining evidence digitally but will also include in person visits and meetings as required for each audit. Each audit will continue to consider the potential impact of remote working to ensure adequate controls and governance arrangements remained in place.

## **9. Resource Requirement**

10.1 Resource requirements are reviewed each year as part of the audit planning process and are discussed and agreed with the Regional Internal Audit Service (RIAS) Board.

## **10. Contingencies**

10.1 The internal audit plan needs to be flexible enough to enable the internal audit service to be able respond, as required, to situations arising during the period covered by the plan. A contingency reserve element has been built in to assist in dealing with any such matters arising.

## **11. Audit Approach**

12.1 The primary purpose of an audit review is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.

12.2 The approach will be :

- Fieldwork will take place following agreement of the audit objectives.
- A draft report will be prepared and provided to Management for review and comment with an opportunity given for discussion or clarification.
- The final report will incorporate Management comments together with a Management Action Plan for the implementation of recommendations.
- The Governance and Audit Committee will be advised of the outcome of the audit and may receive a copy of the Final Report.
- Any serious issues arising during the course of the audit review will be promptly reported to the Head of Internal Audit to determine the impact on the scope of the review. Serious issues will also be promptly brought to management's attention to enable appropriate remedial action to be taken prior to being formally published in the audit report.
- The audit report will provide an overall assurance opinion, based on the auditor's professional judgement of the effectiveness of the framework of internal control, risk management and governance.

12.3 The audit assurance categories are :

AUDIT ASSURANCE CATEGORY CODE	
<b>Substantial</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No Assurance</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

12.4 A Management Action Plan will form an integral part of the report and will be used to record:

- Those risks considered to be inadequately controlled;
- A prioritisation of audit recommendations and the actions management propose to bring the risks within acceptable parameters, the officer(s) responsible for those actions and the dates for completion.

12.5 Audit recommendations will be prioritised as follows :

RECOMMENDATION CATEGORISATION	
Risk may be viewed as the chance, or probability, of one or more of the organisation's objectives not being met. It refers both to unwanted outcomes which might arise, and to the potential failure to realise desired results. The criticality of each recommendation is as follows:	
<b>High Priority</b>	Action that is considered imperative to ensure that the organisation is not exposed to high risks.
<b>Medium Priority</b>	Action that is considered necessary to avoid exposure to significant risks.
<b>Low Priority</b>	Action that is considered desirable and should result in enhanced control.

12.6 The implementation of the agreed recommendations will be monitored. Management will be contacted and asked to provide feedback on the status of each agreed recommendation once the target date for implementation has been reached.

12.7 Any audits concluded with a no assurance or limited assurance opinion will be subject to a follow up audit.

### **13. Follow Up Reviews**

- 13.1 Where significant gaps in the control environment have been identified and where either limited or no assurance has been given, then these audits will be subject to a follow up. The timing of the follow up is very much dependent on available resources, but Internal Audit's aim will always be to complete the follow up within three to six months of completion of the audit (depending on the assurance level).

### **14. Reports to the Governance & Audit Committee**

- 14.1 A status report on internal audit work will be presented to the Governance & Audit Committee on a quarterly basis (approximately). The purpose of these reports is to provide an update on the progress made against the delivery of the Internal Audit Plan. The report will provide details of audits completed to date, the assurance opinions given and the number and type of recommendations made.

### **15. Reports to the Governance & Audit Committee**

- 15.1 A formal annual report to the Governance & Audit Committee presenting the Head of Internal Audit's opinion on the overall adequacy and effectiveness of the framework of governance, risk management and internal control, will be published to enable it to be taken into account when preparing the Council's Annual Governance Statement. The format of the Head of Internal Audit's report will follow that set out in the Public Sector Internal Audit Standards (PSIAS) and will include:

- An opinion on the overall adequacy and effectiveness of the Council's framework of internal control, risk management and governance,
- Disclose any qualifications to that opinion, together with the reasons for qualification;
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- Any issues considered by the Head of Audit to be particularly relevant to the Annual Governance Statement;
- A comparison of work undertaken with that planned, with a summary of internal audit performance for the year; and comment on compliance with the Public Sector Internal Audit Standards and Internal Audit's Quality Assurance and Improvement Programme.