

Title of Report: Internal Audit Charter, Strategy Statement and Annual Plan
2021/22

Report of: Darren Collins, Strategic Director, Resources and Digital

Purpose of the Report

1. The report sets out the proposed Internal Audit Charter, Strategy Statement and Annual Plan of work to be undertaken by the Internal Audit & Risk Service in 2021/22.

Background

2. The terms of reference for Internal Audit are outlined in the Financial Regulations, which form part of the Council's Constitution and the Internal Audit Charter.
3. The Internal Audit & Risk Service is required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the Council's resources.
4. The Strategic Director, Resources and Digital has delegated responsibility to maintain an adequate internal audit of the Council's financial affairs as required by Section 151 of the Local Government Act 1972. The Accounts and Audit Regulations 2015 also require Councils to "*undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*".
5. The Chief Internal Auditor manages the Internal Audit & Risk Service and is responsible for ensuring resources are sufficient to meet the Audit Plan, which is developed based on a systematic review and evaluation of all aspects of the internal control environment.
6. The principal objective of the Internal Audit & Risk Service is to assist service managers in delivering the priorities of the Council and its partners, through the assessment of exposure to risk and the continuous improvement of the control environment.

Internal Audit Charter

7. The purpose, authority and responsibility of Internal Audit must be formally defined in an Internal Audit Charter, consistent with the definition of Internal Auditing outlined in Public Sector Internal Audit Standards (PSIAS).

- 8 The Public Sector Internal Audit Standards (PSIAS) 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.'
- 9 These standards are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) and are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
- 10 A key element of compliance with PSIAS is the periodic review and approval by the Audit and Standards Committee of an Internal Audit Charter. The Charter is a formal document that defines Internal Audit's purpose, authority and responsibility setting out the Chief Internal Auditor's functional reporting relationships, authorising rights of access for internal audit staff and defining the scope of internal audit activity. Final approval of the Internal Audit Charter resides with the Audit and Standards Committee.
- 11 The Internal Audit Charter is attached at Appendix A. It was last circulated to Committee in April 2020.
- 12 The Chief Internal Auditor has carried out an annual review of the Internal Audit Charter and confirmed that it continues to reflect best practice and no amendments are required.

Basis for the Audit Plan

- 13 Standards for Internal Audit in local government are set out in the Public Sector Internal Audit Standards (PSIAS). PSIAS state that the Chief Internal Auditor "*must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals*".
- 14 In accordance with the PSIAS, the input of senior management must be considered in this process. All Service Directors were given the opportunity to contribute towards the plan.
- 15 The Chief Internal Auditor forms an annual assurance opinion based on the programme of audit work as well as assurance obtained from other means. Combined assurance aims to optimise the assurance coverage obtained from management, and both internal and external assurance providers.
- 16 In addition to audit, the Chief Internal Auditor considers any issues identified through counter fraud and irregularities or developing systems and processes insofar as they impact on the effective operation of governance, risk management or internal controls.
- 17 The plan for 2021/22 also includes three dedicated Corporate Fraud posts. These officers will continue to develop and embed the Council's Counter Fraud

& Corruption Strategy as well as conducting any fraud and irregularity investigations. Updates in relation to Counter Fraud activity will be presented biannually to the Committee.

- 18 The plan includes an allocation for advice and consultancy to all services and partnerships where appropriate. This is an increasing area of focus given the amount of change ongoing across the Council and its partners. Time is allocated to support developing systems, ensuring early engagement and audit support across the Council. Consideration will also be given to assessing risks and gaining assurance in relation to the transition of The Gateshead Housing Company into the Council.
- 19 Rather than a traditional cyclical-based approach, the plan focuses on the main risks to the Council. It provides a balanced approach to traditional compliance work with advisory work as a catalyst for service improvement and to sharpen focus on emerging risks. The plan is flexible and is reviewed and adjusted throughout the year as necessary in response to changes in policies, systems, processes, risks and controls across the Council.
- 20 To take account of the ongoing response to COVID, the plan includes specific coverage of all high risk, key financial, IT and governance functions. An allowance has also been included for the ongoing work required in relation to audit of COVID grant funding from central government.
- 21 The Audit Strategy Statement is attached at Appendix B and the Annual Plan for 2021/22 is attached at Appendix C. The approach to the plan is that it is flexible, supportive, challenging, prioritised and timely, all characteristics endorsed by PSIAS which ensures the plan maintains focus on emerging risks and that assurance is continually focused on the most important risks to the Council, retaining flexibility to reprioritise assurance activities as required.

Recommendations

- 22 The Committee is asked to:
 - Note the report and the opinion that the Internal Audit Charter continues to comply with Public Sector Internal Audit Standards;
 - Agree the Audit Strategy Statement and the Annual Plan of work to be provided by the Internal Audit & Risk Service for 2021/22; and
 - Agree to receive quarterly monitoring reports showing progress made against the plan.

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