

Report to:	Audit and Governance Committee	Date of Meeting:	Wednesday 16 March 2022
Subject:	Internal Audit Charter and Annual Audit Plan		
Report of:	Executive Director of Corporate Resources and Customer Services	Wards Affected:	(All Wards);
Portfolio:	Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	No	Included in Forward Plan:	No
Exempt / Confidential Report:	No		

Summary:

This report presents the revised Internal Audit Charter and the proposed Internal Audit Plan 2022/23 for approval by Members.

The Internal Audit Charter has been amended to reflect the proposed changes in the way that areas of responsibility that the Chief Internal Auditor are audited where this is identified as required.

Recommendation(s):

(1) Members are requested to:

- (i) Approve the Internal Audit Charter
- (ii) Approve the Internal Audit Plan 2022/23

Reasons for the Recommendation(s):

Approval of the recommendations will facilitate the continued provision of a comprehensive, efficient and effective Internal Audit Service which meets professional Standards.

Alternative Options Considered and Rejected: (including any Risk Implications)

None.

What will it cost and how will it be financed?

(A) Revenue Costs - There are no direct financial implications arising from this report. However, the Council benefits from the work of the section in reducing the impact and likelihood (and so the cost) of risk.

(B) Capital Costs - There are no capital costs arising from this report.

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets):	
There are no specific resource implications arising from this report other than the report stating how many days will be spent on internal audit during 2022/23 and the rotation of CIPFA trainees within their Finance placement for six months and the secondment of CIPFA qualified staff contained within the Finance staffing budget.	
Legal Implications: There are no legal implications.	
Equality Implications: There are no equality implications.	
Climate Emergency Implications:	
The recommendations within this report will	
Have a positive impact	Y
Have a neutral impact	N
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	Y
The Annual Audit Plan is risk based and designed to provide assurance on the Council's key risks. One of the key risks is Climate Change and the plan includes work to be conducted on Climate Change.	

Contribution to the Council's Core Purpose:

The Council's Risk and Audit Service is a key enabler to the delivery of the Council's Core Purpose as set out below

Protect the most vulnerable: Positive
Facilitate confident and resilient communities: Positive
Commission, broker and provide core services: Positive
Place – leadership and influencer: Positive

Drivers of change and reform: Positive
Facilitate sustainable economic prosperity: Positive
Greater income for social investment: Positive
Cleaner Greener; Positive

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD.6742/22) and the Chief Legal and Democratic Officer (LD.4942/22) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

None

Implementation Date for the Decision

Immediately following the Committee / Council meeting.

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Appendices:

The following appendices are attached to this report:

- Internal Audit Charter and Internal Audit Plan 2022/23

Background Papers:

The following background papers, which are not available elsewhere on the Internet can be accessed on the Council website:

Public Sector Internal Audit Standards

1. Introduction/Background

- 1.1 From 1 April 2013, new Public Sector Internal Audit Standards (hereafter referred to as “the Standards”) came into effect. These were jointly developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA).

- 1.2 The Standards replaced the CIPFA Code of Practice for Internal Audit in Local Government (2006) as the mandatory guidance and provide a coherent and consistent internal audit standards framework for the whole of the public sector.
- 1.3 Two of the key requirements of the Standards are:
- “The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.” (Standard 1000)
 - “The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation ‘s goals”. (Standard 2010)
- 1.4 In line with the above standards the Audit and Governance Committee’s Terms of Reference includes the following responsibilities on internal audit:
- “To approve the internal audit charter.
 - To approve the risk-based internal audit plan, including internal audit’s resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources”
- 1.5 This report sets out the Internal Audit Charter and Internal Audit Plan for 2022/23, in order to comply with these Standards and demonstrate the role, purpose and focus of Internal Audit during the forthcoming year.

2. Key changes

- 2.1 Within the Audit Charter there is a proposed change on auditing areas where the Chief Internal Auditor manages the area.
- 2.1.1 The interpretation for Standard 1112 from the Institute of Internal Auditors states
- The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organisational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.*
- 2.1.2 This is the case at Sefton where the Chief Internal Auditor has responsibility for a number of areas outside of Internal Audit including:
- Risk Management
 - Health and Safety
 - Insurance
 - Business Continuity
 - Emergency Planning

- Counter Fraud

2.1.3 As in any Service area at some point due to the nature of the risks that the activity presents assurance may be required to demonstrate that there are effective controls in place to mitigate the risks presented by the activity. The obvious first challenge is where the Chief Internal Auditor manages the area is maintaining independence and objectivity of the review, a key standard, and there are a number of ways this can be achieved.

- A review conducted on a paid for basis by an external internal audit provider. The costs of the review can be extremely expensive, relies on a budget being available for the review and the quality of the internal audit team is not clear until after the review.
- A review carried out by another Local Authority with work being essentially “swapped” in each others audit plan. Historically although there has been some interest in agreeing to this in principle unfortunately when it comes to the point of seeking the review to be completed there is usually an issue of resources and timing that prevents the review taking place. We are also reliant on the quality and competence of the other Local Authority internal audit for which we have no visibility on until the work is completed.
- The review being carried out by the Sefton Internal Audit Team with a change of the reporting line of the audit. In these small number of reviews the audit is managed by the Audit Manager rather than the Chief Internal Auditor. The Chief Internal Auditor would be the auditee and the scope of the review would be agreed by the line manager of the Chief Internal Auditor, currently the Executive Director of Corporate Resources and Customer Services. Equally the Chief Internal Auditor would not be involved in the oversight of the report in the traditional way before it is issued, by the Audit Manager. The Audit Manager is solely responsible for the Internal Audit Team and not the operational line manager for any of the responsibilities of the Chief Internal Auditor. Whilst the approach has its weaknesses, relies in part on the integrity of the individuals involved, there are sufficient safeguards in place for the pragmatic solution instead of relying on an external review.

2.1.4 The Audit Charter prior to 2019/20, agreed by Members, stated that reviews would be undertaken by the Sefton Internal Audit using the different reporting line. In the Audit Charter 2019/20 presented to Members in March 2019, detailed the change of approach to using other Local Authorities or other providers of internal audit to provide the audits where there was necessary.

2.1.5 Discussions with CIPFA and the Institute of Internal Auditors have outlined that it would be acceptable to resume the practice of the Sefton Internal Audit Team carrying these reviews subject to:

- Declaration and agreement of Members, through the proposed Audit Charter.
- Declaring the conflict of interest in the Annual Audit Plan and then again when the report is presented to the key stakeholders, for example to Members, and is referenced in the report.
- Approve and periodically review any safeguards put in place to limit impairments to independence and objectivity, where the “Head of Internal

Audit” has been asked to undertake any additional roles/responsibilities outside of internal auditing

- 2.1.6 The proposed wording change is detailed at 7.3 of the Audit Charter.
- 2.1.7 The resources position for the Internal Audit Team has been raised in previous quarterly performance reports to Members. Proposed changes in the resourcing of the team are detailed in the Audit and Risk Performance Report, 16 March 2022, and are detailed below:
- 2.1.8 A recruitment exercise to permanently fill the one vacant Principal Auditor post and the soon to be vacant Principal Auditor Post from May 2022 is currently ongoing at the time of writing. It is hoped that candidates can be recruited to start during the first quarter of 2022/23 financial year. In addition, a temporary member of staff has been agreed to provide support during the recruitment process. We are seeking to fill this with one of the existing temporary Principal Auditors who are due to both leave at the end of March 2022.
- 2.1.9 Currently there are a number of CIPFA finance graduate trainees that the Finance have in place to provide capacity for succession planning across Finance. Each of the staff members has to cover an Internal Audit module as part of the qualification process and we have agreed with Finance that we will on a rolling six-month rotation have one of the CIPFA trainees to enable them to experience internal audit starting from July 2022. This rolling rotation will enable the staff member to fully experience the role of internal audit and build a greater understanding of the issues providing the service, provide additional skills around, risk, control and governance that will complement their existing financial skills as well as provide additional capacity for the internal audit plan. In addition, we have agreed with Finance that we will take for two years a CIPFA Qualified staff member from October 2022 to provide additional in- depth internal audit experience with the potential to take on some limited line management role.
- 2.1.10 The two roles will provide greater co-operation across Finance, help to cement greater awareness of risk, control and governance issues across functions, help with succession/ diversity issues as well as providing greater capacity for the Internal Audit function. There are of course personal development opportunities for the staff involved. We welcome the opportunity this presents in training staff, building competence on key skills which will eventually return to the wider Council whilst dealing with the capacity issues we have experienced in delivering the audit plan this year. The proposed Internal Audit plans reflects the work we can expect the two new team members to undertake.
- 2.1.11 The proposed Internal Audit Plan is aligned to the Council Corporate Risk Register and is completed in line with a risk-based assessment.

2. Recommendation

- 2.1 Members are requested to approve the Internal Audit Charter and Internal Audit Plan 2022/23.