

18 April 2023

INTERNAL AUDIT PROPOSAL

Purpose

1. The purpose of this report is to present members with a proposal for an internal audit function for consideration.

Background

2. Under Financial Regulation 9 the Association is required to have an internal audit function:

“Internal Audit will support the Audit Committee, the Chief Executive and Director of Resources in the use of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. Internal Audit is required to provide an objective audit service in line with the Public Sector Internal Audit Standard (PSIAS). As a result, Internal Audit does not have any executive functions that might compromise its objectivity.”

Proposal

3. The proposal comes from a regional internal audit service partnership between the Vale of Glamorgan, Bridgend, RCT and Merthyr councils. Following a discussion with the Head of the Service a proposal is attached as annex I. The arrangement will commence and cover the current financial year, 2024-25, with a review of service provision to be held following the completion of the audit plan in 2026-27 and cover the following:
 - Year 1: Key financial systems
 - Year 2: Key controls within a range of other systems / operations which could include Governance, Risk Management, Grants, Projects, IT
 - Year 3: Review of key systems on a cyclical basis.
4. The cost of the service will be £12k per annum (for 40 days work) based on a daily rate to be reviewed annually in line with Local Government annual pay awards.
5. At the conclusion of each audit review an audit report will be produced for management. Each audit report will include an opinion and this will be issued on the level of assurance that can be gained from the controls in place to cover governance, internal controls and risk management of the area under review. The opinion issued will either be Substantial, Reasonable, Limited or No Assurance in line with CIPFA good practice; definitions of which are shown at Annex 1.

Recommendations

6. Members are invited to:

6.1 Discuss and agree the proposal.

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Professional, Approachable, Independent

Internal Audit



WLGA

INTERNAL AUDIT PROPOSAL

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1. INTRODUCTION & BACKGROUND

Following discussions with the Director of Resources and the Finance Manager at WLGA, the Head of the Regional Internal Audit Service, RIAS, was asked to put a proposal together to provide an internal audit service to the WLGA for a 3 year period.

2. OBJECTIVES & SCOPE OF THE AUDIT

To provide an Internal Audit Service to the Welsh Local Government Association (WLGA) through an agreed annual audit plan for three years, based on the financial year April to March.

1st year being 2024/25, with a review of service provision to be held following the completion of the audit plan in 2026/27.

Proposed Internal Audit coverage:

Year 1: Key financial systems

Year 2: Key controls within a range of other systems / operations which could include Governance, Risk Management, Grants, Projects, IT

Year 3: Review of key systems on a cyclical basis.

[This is set out as a guide and can be flexible dependent on the needs of the organisation and further discussions with senior management]

Audits undertaken will be done so in an independent and objective manner identifying strengths and weaknesses, supported by evidence, of the control environment in place of each area under review.

At the conclusion of each audit review an audit report will be produced for management. Each audit report will include an opinion and this will be issued on the level of assurance that can be gained from the controls in place to cover governance, internal controls and risk management of the area under review. The opinion issued will either be Substantial, Reasonable, Limited or No Assurance in line with CIPFA good practice; definitions of which are shown at Appendix A.

3. COST

Daily rate = £300 + VAT

No' of days in annual audit plan = 40

Total cost in year 1 = £12,000

Daily rate to be reviewed annually in line with Local Government annual pay awards. The rate will be a flat rate for each auditor involved with the audit; it will not be dependent on the grade of the auditor involved.

4. INSURANCE

Hosted by the Vale of Glamorgan Council, RIAS has appropriate insurance cover in place for employer's liability.

5. QUALITY

RIAS works in line with its Internal Audit Charter which has been endorsed by the Governance and Audit Committees of each of its partners.

RIAS has received external accreditation that it complies with the Public Sector Internal Audit Standards (PSIAS); January 2023.

Experienced audit staff will be undertaking the audit work supported by a very experienced Audit Manager who will quality control all work operationally and will be available to respond to any queries.

The objective and scope for each audit will be stated in a terms of reference which will be issued and agreed prior to each audit commencing.

A summary report will be presented to WLGA's SLT and Audit Committee.

For each audit review, a draft report will be prepared by RIAS and shared with WLGA management for comment and to check accuracy before being finalised.

Where weaknesses in systems are identified a management action plan will be formulated which will include audit recommendations; management will need to agree to action these in order to make the necessary improvements in the expected levels of control. The recommendations will be shown as a High, Medium or Low priority as detailed at Appendix A.

DEFINITIONS

AUDIT ASSURANCE CATEGORY CODE	
Substantial Assurance	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.
Reasonable Assurance	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.
Limited Assurance	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.
No Assurance	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.

RECOMMENDATION CATEGORISATION	
Risk may be viewed as the chance, or probability, one or more of the systems of governance, risk management or internal control being ineffective. 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:	
High Priority	Action that is considered imperative to ensure that the organisation is not exposed to high risks.
Medium Priority	Action that is considered necessary to avoid exposure to significant risks.
Low Priority	Action that is considered desirable and should result in enhanced control.