

Report to Audit Committee

Agenda
Item:

A.5

Meeting Date: 19 March 2018
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework: Yes
Public

Title: Internal Audit Plan 2018/19
Report of: Chief Finance Officer
Report Number: RD50/17

Purpose / Summary:

Internal Audit is required, under the mandatory Public Sector Internal Audit Standards (PSIAS), to prepare an annual risk based audit plan for approval by the Audit Committee.

Recommendations:

Members are requested to:

- Approve the 2018/19 Audit Plan which is attached at Appendices A - C.
- Approve the Internal Audit Charter for 2018/19 attached at Appendix D

Tracking

Audit Committee	19 March 2018
Scrutiny Panel:	Not applicable
Council:	Not applicable

1.0 BACKGROUND

- 1.1 The Chartered Institute of Internal Audit defines internal auditing as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. Internal audit helps the Council to achieve its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.”*
- 1.2 The Accounts and Audit Regulations 2015 require the Council 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”.
- 1.3 The PSIAS affirm the need for annual risk based audit plans to be developed in order that the ‘Head of Internal Audit’ can form an annual opinion on the Council’s systems of risk management, governance and internal control.
- 1.4 This Internal Audit Plan has been prepared in line with a risk-based planning methodology and consultation with the Council’s Senior Management Team to identify the areas where it is considered that Internal Audit can add the greatest value through provision of independent assurance. The Plan is attached at **Appendices A to C**.

2.0 INTERNAL AUDIT SERVICE DELIVERY

- 2.1 The PSIAS require that the Internal Audit Plan sets out a high level statement of how the Internal Audit Service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.
- 2.2 It is a requirement of the PSIAS that the Council has in place an Audit Charter. The Charter, which is attached as **Appendix D**, sets out the arrangements for the delivery of the Internal Audit service. Changes have been made to the Charter for 2018/19 following initial feedback from CIPFA as part of the January 2018 preliminary readiness review (part of the External Quality Assessment).

3.0 ROLES OF MANAGEMENT AND OF INTERNAL AUDIT

- 3.1 It is the role of management to establish effective systems of governance, risk management and internal controls in order to:
 - safeguard the Council’s resources and prevent fraud;
 - ensure the completeness and reliability of records;
 - monitor adherence to laws, regulations, policies and procedures;
 - promote operational efficiency demonstrate the achievement of value for money; and
 - manage risk.
- 3.2 It is the role of Internal Audit to provide independent assurance to senior management and the Audit Committee that the Council has implemented adequate and effective procedures in relation to these responsibilities.

- 3.3 In order to safeguard its independence, Internal Audit does not have any operational responsibilities and is not responsible for any of the decision making, policy setting or monitoring of compliance within the Council.

4.0 INTERNAL AUDIT RESOURCES

- 4.1 It is proposed that there will be 508 direct days of Internal Audit time in 2018/19. This compares to 464 direct days included in the revised internal audit plan for 2017/18. The increase relates to the team now running at full establishment (in addition, 50 audit days from the previous year were required to complete work carried forward from the former shared service arrangements).
- 4.2 The number of days planned for risk-based reviews is unchanged. However additional time has been allocated to the following areas:
- 10 days advice/consultancy included to provide audit consultation (hot assurance) on the implementation of a new e-purchasing system.
 - 15 days for planned VFM reviews
 - An estimated 15 days on IT Audit (To be procured from a third party IT audit specialist)
 - It should also be noted that from 2018/19 Internal Audit intend to review records management as a standard part of all audit reviews.
- 4.3 This level of coverage is considered sufficient to provide an opinion on the systems of governance, risk and internal control in line with the PSIAS and in order to support the preparation of the Annual Governance Statement. It is therefore crucial that the Council facilitates internal audit to undertake its work effectively and in line with timescales for Audit Committee.
- 4.4 The PSIAS also reflect the requirement for internal audit plans to be flexible in order to respond to new and emerging risks to the organisation. Some capacity is therefore built into the Plan to allow Internal Audit to respond to such issues. However, should this contingency be exhausted during the year, the approved Plan may need to be revised. In this event, revisions would be considered and agreed by the Chief Finance Officer and reported to the Audit Committee, including the need for any additional audit resources if appropriate. Any request for significant consulting activity by Internal Audit would be approved by the Audit Committee in line with the requirements of the Public Sector Internal Audit Standards.

5.0 CATEGORIES OF INTERNAL AUDIT WORK

- 5.1 **Corporate Reviews** – these are reviews which are strategic in nature or which cut across the entire Council. These reviews are designed to provide assurance that the Council has effective governance and risk management arrangements to mitigate strategic risks.
- 5.2 **Directorate Risk-Based Audit Reviews** – these reviews have been identified in consultation with senior management and following reviews of the Annual Governance Statement Action Plan and Corporate Risk Register. These reviews are spread across service areas following a risk assessment to ensure that Internal Audit resources are targeted at the areas where the greatest benefit will be achieved.

- 5.3 **Financial System Reviews** – a three-year programme is in place which ensures that each main financial system is reviewed in depth at least once every three years. Management also has a responsibility to ensure that all financial systems continue to operate effectively each year and has asked Internal Audit to confirm with relevant managers that basic controls continue to operate. This will involve completing internal control questionnaires with relevant managers and providing these to the S151 officer for information.
- 5.4 **Governance System Reviews** – a provision is included for an annual update and review of the Council's compliance with the local code of corporate governance.
- 5.5 **Follow Up Audits** – a provision for follow up work is included in the Plan to ensure that all audit recommendations are followed up line with the agreed follow up approach outlined at 5.11.
- 5.6 **Counter Fraud** – the Plan includes a provision for counter fraud work, including reactive work should irregularities occur requiring Internal Audit to advise management on their investigations.
- 5.7 **Advice and guidance** – capacity has been built into the plan for advice and guidance to all services across the Council as well as contingency to respond to emerging risks. This includes time specifically allocated for the implementation of a new e-purchasing system.
- 5.8 **Contingency** – small allocation of time to respond to emerging risks and unplanned work. This might include requests to audit grant claims for example.
- 5.9 **VFM & Efficiency Reviews** – additional days will be included in the plan for undertaking Value for Money and Efficiency Reviews.
- 5.10 A summary of the number of days allocated to each category of audit work is shown below.

Category	Days Allocated
Corporate Reviews	40
Directorate Risk Based Audit Reviews	205
Financial System Reviews	67
Governance System Reviews incl. Local Code of Corporate Governance and Good Governance Principles	5
Follow Up Audits	33
Counter Fraud incl. policy review	20
Advice and Guidance	20
Contingency	31
VFM & Efficiency Reviews	15
IT Audit	15
Audit Committees, incl. Effectiveness Reviews	15
Planning/Management	42
TOTAL	508

5.11 Audit Follow Up Arrangements:

- 5.11.1 It is a requirement of the PSIAS that the Head of Internal Audit maintains a system to follow up the implementation of agreed actions from internal audit work. Internal Audit will formally follow up the implementation of agreed actions arising from audits that result in partial or limited assurance.
- 5.11.2 Follow up will be undertaken approximately six months after the issue of the final audit report or in line with the latest agreed timescales for implementation. Where appropriate a revised audit opinion will be issued and reported to the Audit Committee.
- 5.11.3 Where a follow up is due, but management advise that all actions have not been fully implemented, the follow up will be deferred for a maximum of a month to allow actions to be fully implemented. Where the follow up does not allow for a revised audit opinion, the Corporate Director will be informed and requested to continue to monitor the implementation within the directorate. A summary report will be provided to Audit Committee. Internal audit will write to the Corporate Director after a further six months to gain assurance that the remaining actions have been implemented.
- 5.11.4 Where possible, follow ups will be undertaken in the same year as the original audit in order that revised assurance can be incorporated within the annual report and opinion.
- 5.11.5 Internal Audit will also maintain a schedule of all outstanding audit recommendations and obtain assurances from responsible officers that agreed actions have been implemented.

6.0 PERFORMANCE STANDARDS

- 6.1 As the Council will have its own internal audit service, performance information will continue to be reported to the Audit Committee in 2018/19. Regular liaison meetings with the S151 Officer will also continue to be held to discuss ongoing issues.

7.0 CONSULTATION

- 7.1 Members of the Senior Management Team (SMT) have individually considered their respective areas of the Audit Plan and SMT considered the Draft Audit Plan at its meeting on 27th February 2018.

8.0 CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 8.1 The Draft Audit Plan has been prepared in line with expected practice; Internal Audit is required, under the mandatory Public Sector Internal Audit Standards (PSIAS), to prepare an annual risk based audit plan for review and approval by SMT and the Audit Committee.

9.0 CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 9.1 Internal Audit supports the delivery of the Council Priorities as set out in the Council Plan by providing independent assurance over the arrangements in place across the Council to deliver priorities and objectives.

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**Appendices
attached to report: Appendices A – C - 2018/19 Draft Audit Plan
Appendix D – Internal Audit Charter**

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- **None**

CORPORATE IMPLICATIONS/RISKS:

Community Services – not applicable

Economic Development – not applicable

Governance & Regulatory Services – not applicable

Corporate Support and Resources – not applicable

Appendix A - AUDIT PLAN 2018/19 - CATEGORIES OF WORK

Category	Category	Description	Days Allocated	Days Allocated 17/18 (For Info)
A	Corporate Reviews	Reviews that are strategic in nature or which cut across the entire Council. These reviews are designed to provide assurance that the Council has effective governance and risk management arrangements to mitigate strategic risks	40	40
B / C / D / E	Directorate Risk Based Audit Reviews (Corp Supp / Economic Development / Community / Governance)	Reviews that have been identified in consultation with senior management and following reviews of the Annual Governance Statement Action Plan and Corporate Risk Register. These reviews are spread across service areas following a risk assessment to ensure that Internal Audit resources are targeted at the areas where the greatest benefit will be achieved.	205	207
F	Financial System Reviews	A three-year programme is in place which ensures that each main financial system is reviewed in depth at least once every three years. Management also has a responsibility to ensure that all financial systems continue to operate effectively each year and has asked Internal Audit to confirm with relevant managers that basic controls continue to operate. This will involve completing internal control questionnaires with relevant managers and providing these to the S 151 officer for information.	67	80
G	Governance System Reviews incl. Local Code of Corporate Governance and Good Governance Principles	Provision is included for annual review of compliance with CIPFA's Good Governance Principles (which feeds into the Annual Governance Statement). Audit work includes ensuring principles and policy is up to date and requesting updates from responsible managers.	5	0
H	Follow Up Audits	Provision for follow up work is included in the Plan to ensure that any audits with less than reasonable assurance are formally followed up and that all outstanding audit recommendations have been implemented.	33	55
J	Counter Fraud incl. policy review	Plan includes provision for counter fraud work. Capacity is also built into the Plan for reactive work should irregularities occur requiring Internal Audit to advise management on their investigations	20	30
K	Advice and Guidance	Capacity is built into the plan for advice and guidance to all services across the Council as well as contingency to respond to emerging risks. This includes planned advice work for the implementation of new systems.	20	12
L	Contingency	Allocation of time to respond to emerging risks and unplanned work (including 2017/18 carry forward, or additional time required on individual assignments). This might include requests to audit grant claims for example.	31	0
M	VFM & Efficiency Reviews	Planned reviews that focus on use of resources to ensure value for money is achieved.	15	0
N	IT Audit	Specialist IT Audit work to be sourced from third party	15	0
X	Audit Committees, incl. Effectiveness Reviews	Allocation of time for preparing reports for Audit Committee and attending briefings and meetings	15	20
Y	Planning/Management	Allocation of time for audit planning, reviewing and preparing audit manual, departmental development and Principal Auditor attendance at Operational Risk Management	42	20
TOTAL			508	464

Appendix B - AUDIT PLAN 2018/19 - AUDIT ASSIGNMENTS

Category	Audit Area	Proposed Scope	Risk Score						Code	Days
			Financial Risks	Political and Reputational Risks	Other Risks (risk register, previous audit work etc.)	Years since last audit review	Last Audit Assurance Level	Total	Code	Days
Corporate Reviews	Information Governance	Assurance statement of proposed actions to be provided at start of financial year. Progress against this statement to be carried out later in the year and include general governance arrangements in place (records management to be included as standard item in all audit reviews where relevant)	5	5	5	2	4	21	A1801	20
	Smarter Service Delivery	Implementation of smarter service delivery arrangements including ensuring changes to systems are properly embedded throughout the Council and suitable ongoing risk management arrangements are in place.	5	3	5	5	3	21	A1802	20
Corporate Support & Resources	Allowances, Travel and Subsistence - Employees	Review of process for submission and approval of travel and subsistence claims including assurances to prevent fraudulent claims (2 investigations performed 2017/18)	2	3	4	5	3	17	B1801	20
	Safeguarding including DBS	Carry forward from 2017/18. Review safeguarding arrangements in place involving working with vulnerable adults, including ensuring relevant staff have regular DBS checks.	1	4	2	1	3	11	B1803	15
	Use of Casuals / Interim / Agency Workers	Review use of agency staff to ensure appropriate financial management and controls in place. Ensure arrangements for casual staff are in line with employment legislation	4	4	4	4	3	19	B1804	20
	Mobile Devices	Requested by Audit Committee. Review of security measures in place for mobile devices (i.e. any hardware used outside of Carlisle City Council premises)	3	3	2	2	4	14	B1805	15
Economic Development	Project Management within Economic Development	Review governance arrangements in place within the Directorate to ensure appropriate monitoring of projects.	2	3	5	5	3	18	C1801	10
	Heritage Cities Initiative	Review of the governance and monitoring of specific project.	4	3	3	5	3	18	C1802	10
Community Services	Leisure Management Contract Management	Contract management arrangements in place.	5	5	3	5	3	21	D1801	20
	Sands Centre Redevelopment	Brief overview of governance arrangements in place to ensure authority has right checks and controls prior to full implementation of project.	5	5	4	5	3	22	D1802	5
	Garage incl. Driver checks	Carry forward from 2017/18. Review of controls in place within Garage, including adherence to Health and Safety, as well as reviewing monitoring of driver checks for all CCC staff.	3	3	3	1	3	13	D1803	20
	Refuse Collection	Combined review of processes in place to ensure suitable risk management and monitoring in place.	4	5	3	4	2	18	D1804	20
Governance & Regulatory Services	Recycling		4	5	4	5	3	21		
	Strategic asset management	Review of contract management arrangements.	5	4	5	4	2	20	E1801	10
	Homelessness Services	General review of governance, risk management and processes in place for department.	5	4	4	5	3	21	E1802	20
	Noise, Air, Water Pollution & Contaminated Land	General review of governance, risk management and processes in place for department.	3	4	3	5	3	18	E1803	20
Main Financial Systems	Internal Control Questionnaires - Non Audited Systems	Annual questionnaires issued to ensure adequate controls in place for all main financial systems not subject to audit in the previous year.							F1801	2
	Creditors (including cheque control)	Review of controls in place for payment of creditor invoices (part of triennial programme of main financial systems)							F1802	20
	Main Accounting System & Budget Monitoring	Review of controls in place for financial monitoring (part of triennial programme of main financial systems). Include review of budget setting process to ensure sustainable and realistic budget setting in							F1803	25
	MTFP / Budget Setting	Review of controls in place for processing collection of Council Tax (part of triennial programme of main financial systems)	5	4	5	5	3	22		
Governance	Council Tax								F1804	20
	Good Governance Principles	Annual update CIPFA's good governance principles, including co-ordinating update of governance processes from responsible managers.							G1801	5
Follow Ups	Contingency / Routine Follow Up of Audit Recommendations	Follow up review of implementation of all audit recommendations (including 10 day contingency for additional partial audits that could be issued in first 2 quarters of 2018/19)							H1800	18
	Records Management	Follow up of implementation of recommendations from 2017/18 audit report.							H1801	5
	Corporate Charge Card	Follow up of implementation of recommendations from 2017/18 audit report.							H1802	3
	Old Fire Station	Follow up of implementation of recommendations from 2017/18 audit report.							H1803	7
Counter Fraud	Contingency	Contingency for performing fraud investigations. If not required in the year time will be spent on implementing counter-fraud measures and performing data analysis to identify suspected fraud.							J1800	20
Advice & Guidance	Contingency	Contingency for audit advice requested throughout the year.							K1800	10
	E Purchasing - New System Implementation (Consultancy)	Audit advice and guidance on internal controls required for implementation of new system (ongoing through 2018/19)	5	4	4	5	3	21	K1801	10
Contingency	Contingency	General contingency for additional audit work identified within the financial year (e.g. grant claims)							L1800	32
	Revenues and Benefits Shared Service	A review of the VFM arrangements of the revenues and benefits shared service arrangements for IT provision.							M1801	10
VFM & Efficiency Reviews	Mobile Phone Contracts	A review of the VFM arrangements for the provision of mobile phone contracts (to include as part of the review of mobile devices).							M1802	5
IT Audit	Contingency	Audit areas to cover to be agreed with ICT once preferred provider identified.							N1800	15
Audit Committee	Audit Committees - Preparing reports, briefings, attending committee etc.	Contingency for time spent preparing reports for and attending Audit Committee.							X1800	10
	Effectiveness Review	Time spent on External Quality Assessment (scheduled for April 2018)							X1801	5
Planning and Management	General Team Management	Principal Auditor time managing and administrating team performance (including team meetings, one to ones, appraisals). 2 hours per week.							Y1801	12
	Team Admin	Auditor time performing administrative tasks (team meetings, timesheets, appraisals). 1 hour per week.							Y1802	10
	Annual review and set up of new documentation and monitoring	Updating audit manual, including template documents and monitoring systems.							Y1803	5
	Department Improvement (TBD)	Time spent reviewing the way Internal Audit deliver work (exact approach to be determined post EQA)							Y1804	5
	Planning (2019/20)	Time spent preparing plan for 2019/20							Y1805	5
	Risk Management Sub Group	Principal Auditor attendance at Risk Management sub-group.							Y1806	5
TOTAL PRODUCTIVE DAYS										509
Admin Codes		Annual Leave							Z1801	70
		Bank Holidays							Z1802	19
		Sickness							Z1803	28
		Training							Z1804	15
TOTAL DAYS										641

Appendix C - AUDIT RESOURCES 2018/19 - AVAILABLE AUDIT DAYS

	Gross Days	Gross Holidays	Gross Bank Holidays	Gross Sickness	Gross Training	Total Net Productive Days
Principal Auditor (1 FTE)	260	25	8	5	5	217
Auditor (0.81 FTE)	210	27	6	20	5	152
Auditor (0.6 FTE)	156	19	5	3	5	125
Total (In-house)	626	70	19	28	15	494
IT Audit Days (Bought In)	15					15
Total	641					509

INTERNAL AUDIT CHARTER

1. Introduction

- 1.1 This Charter describes the purpose, authority, responsibilities and objectives of internal audit at Carlisle City Council. It establishes Internal Audit's position within Carlisle City Council and the nature of the Deputy Chief Finance Officer's (Designated Head of Internal Audit) functional reporting relationships with the Audit Committee.
- 1.2 The Charter also provides for Internal Audit's rights of access to records, personnel and physical properties relevant to audit engagements.
- 1.3 The Council's Internal Audit Service is required to conform to the mandatory Public Sector Internal Audit Standards (PSIAS). These standards comprise a Definition of Internal Auditing, a Code of Ethics, the Seven Principles of Public Life, and the Standards by which internal audit work must be conducted. Any instances of non-conformance with the PSIAS must be reported to the Audit Committee and significant deviations must be considered for inclusion within Annual Governance Statement and may impact on the external auditor's value for money conclusion.
- 1.4 An Audit Charter is one of the key requirements of the PSIAS. As such, failure to approve an Audit Charter may be considered to be a significant deviation from the requirements of the Standards.
- 1.5 The Charter must be presented to the Council's senior management and final approval of the Audit Charter rests with the Audit Committee. This will be done alongside the approval of the annual audit plan.
- 1.6 The PSIAS uses the terms 'board' and 'senior management' and require that the Audit Charter defines these terms for the purpose of the internal audit activity. For the Council, senior management refers to the Senior Management Team and the 'board' is the Audit Committee, which is charged with responsibility for governance.

2. The Mission of Internal Audit

- 2.1 To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

3. Purpose

- 3.1. Carlisle City Council's Internal Audit Service has adopted the Definition of Internal Auditing from the PSIAS. The definition explains the purpose of the internal audit activity:

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.

- 3.2. The CIPFA Local Government Advisory Note (LGAN) further explains that the Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements (collectively known as the control environment). Internal audit plays a vital part in advising the Council that these arrangements are in place, effective, and operating properly. The mandatory annual internal audit report and opinion informs the Council's annual governance statement (AGS), both emphasises and reflects the importance of this aspect of internal audit's work, and provides assurance to the Audit Committee that an effective internal control framework is in place. Senior Management's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Council's objectives.
- 3.3 Internal audit is described by the PSIAS as a key component of good governance within the public sector. When properly resourced, positioned and targeted, internal auditors act as invaluable eyes and ears for Senior Management and the Audit Committee inside the Council, giving an unbiased and objective view on what's happening in the organisation.
- 3.4 Internal Audit's core purpose is to provide Senior Management and Elected Members with independent, objective assurance that the Council has adequate and effective systems of risk management, internal control and governance.
- 3.5 By undertaking an annual risk assessment for each department or business area within the Council, and using this to prepare an annual risk-based audit plan, Internal Audit is able to target resources at the areas identified as highest risk to the Council. This then allows Internal Audit to give an annual overall opinion on the Council's systems of risk management, internal control and governance.
- 3.6 Internal Audit supports the Chief Finance Officer (Section 151 Officer) to discharge their responsibilities under section 151 of the Local Government Act 1972, the Accounts and Audit Regulations 2015, and the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. This Statement places on the Chief Financial Officer, the responsibility for ensuring that the authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.
- 3.7 Internal Audit supports the Head of Paid Service (Chief Executive) in providing high level assurances relating to the Council's Governance arrangements. Internal Audit also supports the Monitoring Officer (Corporate Director of Governance & Regulatory Services) in discharging his / her responsibilities for maintaining high standards of governance, conduct, and ethical behaviour.

4 Core Principles for the Professional Practice of Internal Auditing

- 4.1 The Core Principles, taken as whole, articulate internal audit's effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. The designated Head of Internal Audit Service is responsible for ensuring that internal auditors, as well as the internal audit activity, demonstrate achievement of the Core Principles.

4.2 The Core Principles are: -

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

5 The Role of Internal Audit

- 5.1 Internal Audit is an independent, objective assurance and consulting service designed to add value and improve the Council's operations. Internal Audit helps the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The 'three lines of defence' diagram attached illustrates how Internal Audit supports the governance framework and provides a line of defence in ensuring the Council is adequately managing their risks.
- 5.2 The PSIAS defines consulting services as follows: "Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training."
- 5.3 Internal Audit operates as an 'independent' in-house team at the Council, though the team will be seeking to buy-in additional specialist IT audit services from a third-party supplier.
- 5.4 The services provided by Internal Audit are designed to assist each of the Council's departments to continually improve the effectiveness of their respective risk management, control and governance frameworks, and processes and to allow an independent, annual opinion to be provided on the adequacy and effectiveness of these arrangements.
- 5.5 Internal Audit activities in support of this include:
 - Planning and undertaking an annual programme of risk-based internal audit reviews focusing on risk management, internal control and governance;
 - Review of arrangements for preventing, detecting and dealing with fraud and corruption;
 - Review of overall arrangements for risk management and corporate governance;
 - Review of grant funded expenditure where assurance is required by funding bodies or where risks are considered to be high;
 - Provision of advice on risk and control related matters;
 - Consultancy services which may include hot assurance on projects or service and system development;

- Investigation of suspected fraud or irregularity or provision of advice and support to management in undertaking an investigation; and
- Advice on strengthening controls following such an incident.

6 Authority, Responsibility and Objectives

Authority

- 6.1 This charter provides the authority for Internal Audit's right of access to all activities, premises, records, personnel, cash and stores as deemed necessary to undertake agreed internal audit assignments. In approving this charter, Senior Management and Members of the Audit Committee have approved this right of access and therefore the responsibility of all officers to comply with any reasonable request from members of the Internal Audit Service.
- 6.2 This charter delegates to the designated Head of Internal Audit, the responsibility to undertake an annual risk assessment for each department in consultation with the Council's management, and from this, prepare a risk-based plan of audit work for approval by the Audit Committee.
- 6.3 Internal audit shall have the authority to undertake audit work as necessary within agreed resources so as to achieve audit objectives. This will include determining the scope of individual assignments, selecting areas, and transactions for testing and determining appropriate key contacts for interview during audit assignments.
- 6.4 The charter establishes that the designated Head of Internal Audit or nominated deputy has free and unfettered access to the Audit Committee and has the right to request a meeting in private with the Chair of the Audit Committee should it become necessary.

Responsibilities and Objectives

- 6.5 Internal audit's primary objective is to undertake an annual programme of internal audit work that allows an annual opinion to be provided on the overall systems of risk management, internal control, and governance for the Council.
- 6.6 The designated Head of Internal Audit and their staff have responsibility for the following areas:

Planning

- Develop an annual internal audit plan using a risk based methodology, based on at least an annual assessment of risk and incorporating risks and concerns identified by senior management;
- Submit the annual audit plan to senior management (SMT) and to Audit Committee for approval; and
- Review agreed audit plans in light of new and emerging risks and report any necessary amendments to agreed plans to Audit Committee.

Implementation

- Deliver the approved annual programme of internal audit work and report the outcomes in full to senior management (as agreed at the scoping stage of each engagement) and in summary to the Audit Committee. Where locally agreed, internal audit reports may also be reported in full to the Audit Committee;

- Assist, as required, in the investigation of significant suspected fraudulent activities within the Council and report the outcomes to senior management (S151 Officer, Monitoring Officer and other relevant Corporate Directors); and
- Monitor implementation of agreed audit recommendations through follow up process and report the outcomes to Senior Management and the Audit Committee.

Reporting

- Any significant issues arising during audit fieldwork will be discussed with management as they are identified;
- Draft audit reports will be produced on a timely basis following all audit reviews and these will be discussed with management prior to finalising, to ensure the factual accuracy of the report and incorporate management responses;
- Quarterly progress reports will be prepared and discussed with management before being reported formally to the Audit Committee;
- Internal audit has a responsibility to report to the Audit Committee any areas where it is considered that management have accepted a level of risk that may be unacceptable to the Council; and
- Internal audit has a duty to bring to the attention of the Audit Committee where the designated Head of Internal Audit, or his/her nominated deputy, believes that the level of agreed resources will impact adversely on the provision of the annual audit opinion.

Relationships with other Inspectorates

- Internal Audit will maintain effective relationships with other providers of assurance and external inspectorates in order to avoid duplication of effort and enable Internal Audit, where appropriate, to place reliance on the work of other providers.

Non-Audit / management responsibilities

- 6.7 In order for Internal Audit to maintain its independence and thereby provide an independent and objective opinion, there are a number of areas that internal audit is not responsible for:
- Internal Audit does not have any operational responsibilities;
 - Internal Audit does not have any part in decision making within the Council or for authorising transactions; and
 - Internal Audit is not responsible for implementing its recommendations or for ensuring that these are implemented (though implementation of audit recommendations will be monitored and reported to the Audit Committee on a regular basis).
- 6.8 The presence of internal audit does not in any way detract from management's responsibilities for maintaining effective systems of governance, risk management and internal control.
- 6.9 Internal audit's role is to provide senior management and the Audit Committee with assurance that the management have established procedures that allow them to prevent or detect fraud or error, and to respond appropriately should this occur. Internal audit does not have any responsibilities for preventing or detecting fraud or error, this is the responsibility of the Council's managers.

- 6.10 It is the responsibility of the Council's managers to maintain adequate systems of internal control and to review their systems to ensure that controls continue to operate effectively.
- 6.11 The role of Internal Audit and the Council's managers is summarised in the diagram attached (Third Line of Defence).

7 Scope of Internal Audit Work

- 7.1 The scope of Internal Audit work covers the entire systems of risk management, internal control, and governance across the Council. This allows Internal Audit to provide assurance that appropriate arrangements are in place to ensure that:
- the Council's risks are being appropriately identified, assessed and managed;
 - information is accurate, reliable and timely;
 - employees' actions are in compliance with expected codes of conduct, policies, laws and procedures;
 - resources are utilised efficiently and assets are secure;
 - the Council's plans, priorities and objectives are being achieved, and
 - Legal and regulatory requirements are being met.

8 Position and Reporting Lines for Internal Audit

- 8.1 Internal Audit reports operationally to the Section 151 Officer / Chief Finance Officer within the Council. Functional reporting is to the Audit Committee.
- 8.2 On a day to day, basis Internal Audit will report the outcomes of its work to the senior officer responsible for the area under review. Progress and performance of Internal Audit will be monitored by the Section 151 Officer, who is charged with ensuring the Council has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.
- 8.3 Internal Audit reports the outcomes of its work to the Audit Committee on a quarterly basis. This includes as a minimum, a progress report summarising the outcomes of Internal Audit engagements as well as the performance of Internal Audit against the approved plan of work.
- 8.4 On an annual basis, Internal Audit will prepare and present to the Audit Committee, an annual report containing:
- the overall opinion of the designated Head of Internal Audit;
 - a summary of the work undertaken to support the opinion, and
 - a statement of conformance with the Public Sector Internal Audit Standards.
- 8.5 Should significant matters arise in relation to the work of Internal Audit, these will be escalated through the management hierarchy and to the Chair of the Audit Committee as appropriate.
- 8.6 Where major changes are required to agreed audit plans or Internal Audit is required to divert resource to urgent non-planned work, this will be agreed with the Chief Finance Officer and / or Chief Executive and reported to the Audit Committee. Where changes are less urgent, these will be discussed with senior management and the Chair of Audit Committee before being implemented. All changes to approved audit plans will be reported to the next meeting of the Audit Committee.

9 Ethics, Independence and Objectivity

Ethics

- 9.1 Internal Audit works to the highest standards of ethics and has a responsibility to both uphold and promote high standards of behaviour and conduct.
- 9.2 All internal auditors working within the UK public sector are now required to comply with the mandatory Code of Ethics contained within the new PSIAS, and the Seven Principles of Public Life. Internal Auditors will also be expected to adhere to the Officer's Code of Conduct in place for Carlisle City Council. As such this Code has been adopted by the Internal Audit Service and all staff will be requested to sign up to the Code on an annual basis. Auditors within the service are also required to comply with the codes of ethics of their professional bodies.

Independence

- 9.3 Internal Audit is independent of all of the activities it is required to audit which ensures that Audit Committees can be assured that the annual opinion they are given is independent and objective. While the designated Head of Internal Audit reports operationally to the Section 151 Officer (Chief Finance Officer) there is also a functional reporting line to the Audit Committee and the designated Head of Internal Audit (or Principal Auditor) has direct access to the Chair of Audit Committee.
- 9.4 Internal auditors will not undertake assurance work in areas for which they had operational responsibility during the previous 12 months.
- 9.5 Internal Audit will report annually to the Audit Committee to confirm that the independence of Internal Audit is being maintained.

Resourcing, Proficiency and Due Professional Care

- 9.6 For internal audit to provide an opinion to the Council within the Internal Audit Service there must be a sufficiently resourced team of staff with the appropriate mix of skills and qualifications. Resources must be effectively deployed to deliver the approved programmes of work. This may include bought-in specialist audit services, such as IT from third parties.
- 9.7 It is the responsibility of the Senior Management Team to ensure that they approve a programme of audit work sufficient to provide an adequate level of assurance over their systems of risk management, internal control and governance.
- 9.8 Internal Auditors, by the nature of their work, will receive and review significant volumes of information from the various clients of the Internal Audit Service. Confidentiality is therefore paramount and all internal audit staff are bound by the mandatory Code of Ethics within the PSIAS. The Code requires that auditors do not disclose information without the appropriate authority unless there is a legal or professional obligation to do so.
- 9.9 In line with the requirements of the Standards, in the event that the designated Head of Internal Audit considers that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences will be brought to the attention of the Audit Committee.

- 9.10 In line with the requirements of the PSIAS and the CIPFA Statement on the Role of the Head of Internal Audit (2010), the designated Head of Internal Audit, is professionally qualified and appropriately experienced.

The Role of Internal Audit in Fraud-related work

- 9.11 The PSIAS require that the role of internal audit in any fraud-related work is defined within the audit charter.
- 9.12 Internal audit may also undertake planned reviews of areas considered to be at particular risk of fraud. Such reviews will be included within audit plans following discussion with management for approval by the Audit Committee. In addition, where relevant, the risk of fraud is considered when undertaking risk based audit reviews.
- 9.13 It is recommended that the Council reviews its counter-fraud and confidential reporting (whistle blowing) arrangements and ensures appropriate arrangements are in place for reporting and investigating suspected frauds or other irregularities, including the reporting of frauds to Internal Audit. The Council's Counter Fraud Policy states that senior management are responsible for following up any allegation of fraud or corruption that is received and are required to report all suspected irregularities to the Chief Finance Officer. The Chief Finance Officer will liaise with the designated Head of Internal Audit (or Principal Auditor) to determine the appropriate way to proceed, including ensuring that any investigation is undertaken by suitably qualified and experienced staff.

Advice / Consultancy work

- 9.14 Where Internal Audit is requested to provide advice, consultancy, or investigatory work, the request will be assessed by the designated Head of Internal Audit. Such assignments will be accepted where it is considered the following criteria are met:
- The work request aligns with the available skills and resources within Internal Audit at the time;
 - The assignment will contribute to strengthening the control framework;
 - No conflict of interest could be perceived from Internal Audit's acceptance of the assignment; and
 - The request relates to functions that are the responsibility of the Council's management and are thereby not appropriate internal audit tasks.
- 9.15 In line with the PSIAS, approval will be sought from the Audit Committee for any significant additional consulting services not already included in the audit plan prior to accepting the engagement.

10 Management Responsibilities

- 10.1 For Internal Audit to be fully effective, it needs the full commitment and cooperation from management in the Council. In approving this Charter, the S151 Officer (Chief Finance Officer) and the Audit Committee are mandating management to cooperate with Internal Audit in the delivery of the service by:
- Attending audit planning and scoping meetings and agreeing the terms of reference for individual audit assignments on a timely basis;
 - Sponsoring each audit assignment at Service Manager level or above;

- Providing Internal Audit with full support and cooperation, including complete access to all records, data, property and personnel relevant to the audit assignment on a timely basis;
- Responding to internal audit reports and making themselves available for audit finding and closeout meetings to agree draft audit reports;
- Implementing audit recommendations within agreed timescales.

10.2 Instances of non-cooperation with reasonable audit requests will be escalated through the Senior Management Team and ultimately to the Audit Committee if necessary.

10.3 While Internal Audit is responsible for providing independent assurance to the Council and the Audit Committee, it is the responsibility of the Council's management to develop and maintain appropriately controlled systems and operations. Internal Audit does not remove the responsibility from management to continually review the systems and processes for which they are responsible and to provide their own assurances to senior management and Elected Members that they are maintaining appropriately controlled systems.

11 Quality Assurance

11.1 The PSIAS require that the Internal Audit function is subject to a quality assurance and improvement programme that must include both internal and external assessments. Internal Audit will report the outcomes of quality assessments to the Audit Committee through its regular and annual reports.

Internal assessments

11.2 All internal audit reviews are subject to management quality review to ensure that the work meets the standards expected for audit staff. Such management review will include:

- Ensure the work complies with the PSIAS;
- Work is planned and undertaken in accordance with the level of assessed risk; and
- Appropriate testing is undertaken to support the conclusions drawn.

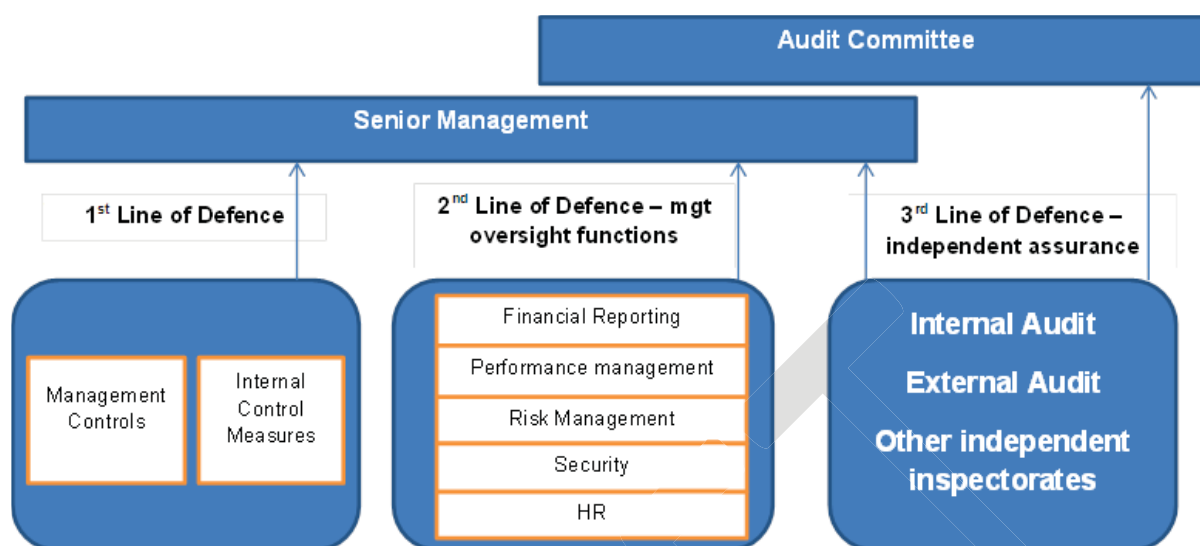
External assessments

11.3 An external assessment must be conducted at least every five years by a qualified, independent assessor from outside the Council. The designated Head of Internal Audit will discuss options for the assessment with the Audit Committee and Senior Management Team.

12 Review of the Audit Charter

12.1. This Charter will be reviewed annually and approved alongside the annual audit plan.

Internal Audit - The Third Line of Defence



The above diagram demonstrates the three lines of defence in ensuring that the Council is adequately managing its risks.

The first line of defence comprises the arrangements that operational management have implemented to ensure risks are identified and managed. These include the controls that are in place within systems and processes together with the management and supervisory oversight designed to identify and correct any issues arising.

The second line of defence refers to the strategic oversight arrangements that are designed to provide management with information to confirm that the controls in the first line of defence are operating effectively. For example, the risk management policies and strategies that determine how risks within the Council will be identified, assessed and managed and the reporting arrangements to confirm that these policies and strategies are being appropriately implemented and complied with.

Internal audit forms the third line of defence alongside other independent providers of assurance. The role of internal audit is to provide the senior management and Elected Members of the organisation with assurance that the arrangements within the first and second lines of defence are adequate and working effectively to manage the risks faced by the organisation.