

# Report to Audit Committee

Meeting Date: 23 March 2022  
Portfolio: Finance, Governance and Resources  
Key Decision: Not applicable  
Within Policy and Budget Framework YES  
Public / Private Public

Title: INTERNAL AUDIT PLAN 2022/23

Report of: CORPORATE DIRECTOR FINANCE & RESOURCES  
Report Number: RD.79/21

## **Purpose / Summary:**

Internal Audit is required, under the mandatory Public Sector Internal Audit Standards (PSIAS), to prepare an annual risk-based audit plan and charter for approval by the Audit Committee. This report provides the proposed audit plan and charter for 2021/22.

## **Recommendations:**

Members are requested to:

Approve the 2022/23 Internal Audit Plan which is attached at Appendices A – C with a minimum deliverable Audit Days of 404 days (Appendix A - option 1).

Approve the Internal Audit Charter for 2022/23 attached at Appendix D

## **Tracking**

Audit Committee:	<b>23 March 2022</b>
Scrutiny Panel:	<b>Not applicable</b>
Council:	<b>Not applicable</b>

## **1. BACKGROUND INFORMATION**

- 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. Preparations were undertaken between January and February 2022 and a draft plan (approved by SMT on 23 February 2022) was prepared.
- 1.5 The Plan is attached at **Appendices A to C**

## **2. 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. No significant changes have been made from the previous year’s Charter.

## **3 ROLES OF MANAGEMENT & 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;
- 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 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 INTERNAL AUDIT RESOURCES**

- 4.1 Due to the imminent vacation of the Audit Services Manager post, there is a degree of uncertainty around available audit resource until the team structure for 2022/23 is agreed. The preferred arrangement being pursued is a proposed shared management arrangement with Allerdale and Copeland. A resource of 404 days has been calculated using this option (**Appendix A** – option 1).
- 4.2 However the Council has an option to increase audit resource up to 505 days through either employing a new Audit Services Manager (**Appendix A**-option 2) or utilising salary savings realised from the shared management arrangement on additional Auditor resource.
- 4.3 The number of days planned for each category is detailed at Appendix B.
- 4.4 The 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. However, the additional resource identified above would widen the scope of the audit opinion. Given the rapidly changing risk environment and additional anticipated pressures due to local government re-organisation and other economic factors it would be prudent to retain the option to utilise additional resource. It should be noted the recruitment market for internal audit resources is limited (even in the temporary resource market) so Members should be aware it may not be possible to recruit additional resource. If this was the case, the minimum number of Audit Days to be delivered would be as Appendix A – Option 1 (404 days).
- 4.5 The PSIAS also reflect the requirement for internal audit plans to be flexible 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. Should contingencies be exhausted during the year, the approved plan may need to be revised.

- 4.5 In this event, revisions would be considered and agreed by the Senior Management Team and reported to the Audit Committee, including the use of 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 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 and Risk Registers. 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 in line with the agreed follow up approach outlined in section 6.
- 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 planned pieces of consultancy work.

- 5.8 **Contingency** – allocation of time to respond to emerging risks and unplanned work, such as requests to audit grant claims, as well as ensuring completion of the previous year's internal audit plan and additional time needed to manage Local Government Re-Organisation.
- 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 at **Appendix B**. The proposed individual reviews, including proposed additional reviews that could be taken with additional resource are shown at **Appendix C**.

## **6. AUDIT FOLLOW-UP ARRANGEMENTS**

- 6.1 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.
- 6.2 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.
- 6.3 Where a follow up is due, but management advise that all actions have not been fully implemented, the follow up will be deferred. Any deferrals will be reported to the Audit Committee for information.
- 6.4 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.
- 6.5 Internal Audit will also maintain a schedule of all outstanding audit recommendations and obtain assurances from responsible officers that agreed actions have been implemented.

## **7.0 PERFORMANCE STANDARDS**

- 7.1 Performance information will continue to be reported to the Audit Committee in 2022/23. Regular liaison meetings with the S151 Officer will also continue to be held to discuss ongoing issues.

## **8. CONSULTATION**

- 8.1 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 23<sup>rd</sup> February 2022.

## **9. CONCLUSION AND REASONS FOR RECOMMENDATIONS**

The Committee is requested to

- i) Approve the 2022/23 Internal Audit Plan which is attached at Appendices A – C with a minimum deliverable Audit Days of 404 days (Appendix A - option 1).
- ii) Approve the Internal Audit Charter for 2022/23 attached at Appendix D.

## **9. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

- 9.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources.

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**Appendices attached to report:**

- Appendix A – Internal Audit Resources 2022/23**
- Appendix B – Internal Audit Plan 2022/23 Categories of Work**
- Appendix C – Internal Audit Plan 2022/23 Audit Assignments**
- Appendix D – Internal Audit Charter 2022/23**

**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:**

**Legal** – In accordance with the terms of reference of the Audit Committee, Members must consider a summary of internal audit activity and summaries of specific internal audit reports. This report fulfils that requirement.

**Finance** – Contained within the report

**Equality** – **None**

**Information Governance** – **None**

## Appendix A - Internal Audit Resource 2022/23

### Option 1 - Shared Audit Manager (No other Change)

	FTE	Productive Days	Annual Leave	Bank Holidays	Sickness Absence (est)	Training	Net Productive Days
Audit Manager	0.33	85.8	9.24	3	2	2	70
Auditor	1.00	260	28	8	5	5	214
Auditor	0.60	156	23	5	3	5	120
Total (In-house)							<b>404</b>

### Option 2 - Existing Structure (Recruit Manager/ obtain additional resource)

	FTE	Productive Days	Annual Leave	Bank Holidays	Sickness Absence (est)	Training	Net Productive Days
Audit Manager (or additional auditor resource)	1.00	217	28.00	8	5	5	171
Auditor	1.00	260	28	8	5	5	214
Auditor	0.60	156	23	5	3	5	120
Total (In-house)							<b>505</b>

## APPENDIX B - INTERNAL AUDIT PLAN 2022/23 - CATEGORIES OF WORK

Category	Category	Description	Days Allocated	Days Allocated 21/22 (For Info)
A	<b>Corporate Reviews</b>	Reviews that have been identified in consultation with senior management 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	20	30
B-F	<b>Directorate Risk Based Audit Reviews (Corp Supp / Economic Development / Community / Governance / Finance)</b>	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.	110	125
G	<b>Financial System Reviews</b>	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.	62	57
H	<b>VFM &amp; Efficiency Reviews</b>	Reviews that focus on use of resources to ensure value for money is achieved	0	10
I	<b>Follow Up Audits</b>	Provision for follow up work is included in the Plan to ensure that any audits with less than reasonable assurance are followed up in line with agreed approach	40	35
J	<b>Counter Fraud incl. policy review</b>	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.	25	55
K	<b>Advice and Consultancy</b>	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 allocation also includes agreed consultancy assignments, with Internal Audit offering advice on projects or new ways of working as they are being implemented.	10	20
L	<b>Contingency</b>	An allocation of time to respond to emerging risks and unplanned work, including completion of the previous year's annual plan. This might include requests to audit grant claims for example. A contingency is also included to respond to demands on Internal Audit Resource in relation to Local Government Re-Organisation.	64	86
M	<b>Governance System Reviews incl. Local Code of Corporate Governance and Good Governance Principles</b>	Provision is included for annual review of compliance with local code of corporate governance and contribution towards AGS.	5	5
N	<b>IT Audit</b>	Specialist review of controls and processes in place relating to IT systems and processes. This is specialist work bought-on from external sources.	0	0
X	<b>Audit Committees, incl. Effectiveness Reviews</b>	Allocation of time for preparing reports for Audit Committee and attending briefings and meetings	20	16
Y	<b>Planning/Management</b>	Allocation of time for audit planning, reviewing and preparing audit manual, departmental development and Principal Auditor attendance at Operational Risk Management	48	55
<b>TOTAL</b>			<b>404</b>	<b>494</b>



Appendix C - AUDIT PLAN 2022/23 - AUDIT ASSIGNMENTS

Assignments									
Category	Audit Area	Proposed Scope	Risk Score						Days
			Financial	Political & Reputation	Other (complaints etc.)	Years since last audit review	Last Assurance Level	Total	
Corporate Reviews	Risk Management	Corporate review of risk management framework and strategic operational risk registers against best practice, with a focus on determining progress against improvement actions identified by external review delivered by Zurich Municipal.	5	4	3	5	2	19	15
	Corporate Governance Controls	Annual review of centrally managed internal governance controls (appraisals, e-learning, intranet), including reviewing progress from previous review.	N/A						5
Community Services	Bereavement Services	Risk-based review of Governance, Risk Management and Internal Controls in place for delivery of service following appointment of new Head of Service and re-structure.	5	4	5	3	3	20	20
	Fleet Management (inc Strategy)	Risk based review of implementation and achievement of strategy.	5	3	3	5	3	19	20
Corporate Support	ICT Service Provision	Risk-based review of Governance, Risk Management and Internal Controls in place for delivery of service provision, focusing on ensuring service provision aligns with Council objectives.	5	3	5	5	3	21	20
Economic Development	Town Deal - Business Assurance Framework	Review of recently approved assurance framework, to ensure suitability and ensure processes are in place to achieve intended	5	5	4	2	3	19	20
Governance & Regulatory Services	Sustainable Warmth Grant	Review of accountable body arrangements in place to ensure delivery of grant terms and conditions.	5	4	3	5	3	20	10
	Management Agencies (Contract Management)	Risk-based review of Governance, Risk Management and Internal Controls in place for delivery of service.	3	5	3	5	3	19	20
Main Financial Systems	Internal Control Questionnaires - Non Audited Systems	Annual questionnaires issued to ensure adequate controls in place for all significant systems and process not subject to audit in the previous year.	N/A						2
	Financial Services Governance Arrangements	Overall review of Financial Services Governance arrangements to feed into individual MFS reviews	N/A						5
	Car Parking Income	Cyclical main financial system review to ensure suitable internal controls are in place to secure income and ensure accurate accounting records (merge with Directorate Review)	N/A						20
	National Non Domestic Rates	Cyclical review of controls in place for processing collection of Business Rates.	N/A						20
	Treasury Management	Cyclical main financial system review to ensure suitable internal controls are in place to manage cash flow, maximise returns and ensure accurate accounting records.	N/A						15
	Contingency / Routine Follow Up of Audit Recommendations	Follow up review of implementation of all audit recommendations including provision for additional formal follow-ups of any further partial reviews.	N/A						30
Follow Ups	Neighbourhood Services (Culture)	Follow up of implementation of recommendations from previous review.	N/A						5
	Absence Management	Follow up of implementation of recommendations from previous review.	N/A						5
Counter Fraud	Contingency	Contingency for performing fraud investigations, delivering fraud training and progressing annual counter-fraud improvements action plan.	N/A						20
	Annual fraud review	Annual assessment of authority's counter-fraud arrangements.	N/A						5
Advice & Consultancy	Contingency	Contingency for audit advice requested throughout the year.	N/A						10
Contingency	Contingency	General contingency for additional audit work identified within the financial year (e.g. grant claims) including completion of 2021/22 internal audit plan.	N/A						39
	Local Government Re-Organisation	Contingency for additional audit work required to progress delivery of Internal Audit services as part of new authority from 2023/24.	N/A						25
Governance	Good Governance Principles / Local Code of Conduct	Annual update of local code of conduct, including co-ordinating update of governance processes from responsible managers	N/A						5
Audit Committee	Audit Committees - Preparing reports, briefings, attending committee etc.	Time spent preparing reports and attending Audit Committee.	N/A						20
	General Team Management	Audit Services Manager time managing and administering team performance (including team meetings, one to ones, appraisals). 2 hours per week.	N/A						20

## Appendix C - AUDIT PLAN 2022/23 - AUDIT ASSIGNMENTS

Assignments									
Category	Audit Area	Proposed Scope	Risk Score						Days
			Financial	Political & Reputation	Other (complaints etc.)	Years since last audit review	Last Assurance Level	Total	
Planning and Management	Team Admin	Auditor time performing administrative tasks (team meetings, timesheets, appraisals). 1 hour per week.	N/A						10
	Annual review and set up of new documentation	Updating audit manual, including template documents and monitoring systems.	N/A						5
	Continuous Improvement	Time spent reviewing the way Internal Audit deliver work and enhancing audit processes.	N/A						10
	Risk Management Sub Group	Principal Auditor attendance at Risk Management sub-group.	N/A						3
<b>TOTAL PRODUCTIVE</b>									<b>404</b>
Admin Codes	Annual Leave		N/A						79
	Bank Holidays		N/A						21
	Sickness		N/A						13
	Training		N/A						15
<b>TOTAL DAYS</b>									<b>532</b>

Additional Assignments									
Category	Audit Area	Proposed Scope	Risk Score						
Corporate Reviews	Records Management	Review of Records Management to ensure retention and security policies are in place for all records, with a focus on ensuring processes are in place for the destruction of documentation no Risk-based review of Governance, Risk Management and Internal Controls in place for delivery of service focusing on utilisation of \$106 funding.	5	5	4	4	3	21	15
Community Services	Playgrounds / Recreation Grounds	Risk-based review of Governance, Risk Management and Internal Controls in place for delivery of service.	3	4	3	5	3	18	10
	Garages.	Risk-based review of Governance, Risk Management and Internal Controls in place for delivery of service.	4	3	4	4	3	18	20
Governance & Regulatory Services	Licensing	Risk-based review of Governance, Risk Management and Internal Controls in place for delivery of service.	4	4	3	5	2	18	20
	Domestic Abuse Victim Support	Risk-based review of Governance, Risk Management and Internal Controls in place for delivery of service.	4	4	2	5	3	18	10
VFM & Efficiency Reviews	Leisure Management Contract Management	Review of value-for-money arrangements in place in relation to contracted service provision.	5	5	4	4	3	21	10
	Tullie House	Review of value-for-money arrangements in place in relation to externalised service provision.	5	4	4	3	3	19	10
Audit Advice	Business Continuity Plans	Provision of ongoing advice in relation to development and update of Business Continuity Plans.	N/A						5
<b>TOTAL ADDITIONAL</b>									<b>100</b>
<b>TOTAL PRODUCTIVE</b>									<b>504</b>

## **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 Head of Financial Services (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 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. In order to recognise changing risk priorities the plan will be flexible and subject to amendment when deemed necessary by the Designated Head of Internal Audit / Audit Services Manager / Corporate Director of Finance & Resources. 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 Corporate Director of Finance & Resources (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 Corporate Director of Finance & Resources (Section 151 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 their 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 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 model' diagram attached illustrates how Internal Audit supports the governance framework and provides assurances that 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 consider buying-in additional specialist or additional audit services from a third-party supplier as and when required.
- 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;
- Undertaking internal audit reviews focusing on reviewing value for money
- Review arrangements for preventing, detecting and dealing with fraud and corruption;
- Review of overall arrangements for risk management and 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 assurance on projects or service and system development during implementation;
- Investigation of suspected fraud or irregularity or provision of advice and support to management in undertaking an investigation; and advising 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 Internal Audit.
- 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 (following consultation with the Corporate Director of Finance & Resources).

***Implementation***

- Deliver the approved annual programme of internal audit work and report the outcomes to senior management (as agreed at the scoping stage of each engagement) and Audit Committee. Internal audit reports are 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 (though may offer further consultancy advice where necessary) 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 All Internal Audit Officers will complete an annual declaration of business interests, which will include mitigating controls to prevent any potential conflicts of interest.
- 6.9 The Designated Head of Internal Audit is also the Council's Head of Financial Services, with management responsibility for the Accountancy team. Several controls have been implemented to prevent any impairment to Internal Audit's independence or objectivity:
- The Audit plan will be agreed by the Senior Management Team collectively.
  - Audit reviews are presented to the Audit Committee by the Audit Services Manager.
  - The scope of all audits are agreed in advance with Chief Officers.
  - The Head of Financial Services will not review any work that they have direct operational responsibility.
  - Any non-cosmetic amendments requested for reports in this area will be reported to the Audit Committee.
  - Satisfaction surveys will not be issued for audits that the Head of Financial Services has operational responsibility.
  - The Audit Services Manager has a direct reporting access to the Chair of the Audit Committee and Chief Executive.
- 6.10 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.
- 6.11 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.
- 6.12 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.
- 6.13 The role of Internal Audit and the Council's managers is summarised in the Three Lines model attached.



## **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 (Corporate Director of Finance & Resources) 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 Corporate Director of Finance and Resources and / or Chief Executive and reported to the Audit Committee.

8.7 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 required to comply with the mandatory Code of Ethics contained within the 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 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 (Corporate Director of Finance & Resources) there is also a functional reporting line to the Audit Committee and the designated Head of Internal Audit / Audit Services Manager both have 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 Internal Audit 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 Internal Audit. Confidentiality is therefore paramount and all internal audit staff are bound by the mandatory Code of Ethics within the PSIAS (in addition to compliance with the General Data Protection Regulations). 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 undertake planned reviews of areas considered to be at risk of fraud, including an annual review of counter-fraud arrangements. 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 Corporate Director of Finance & Resources. The Corporate Director of Finance & Resources will liaise with the designated Head of Internal Audit (or Audit Services Manager) 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.
- 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 and Board Responsibilities**

- 10.1 The responsibilities of the Audit Committee are defined within its own Terms of Reference, but in summary the Committee is responsible for considering Internal Audit's annual report and opinion, as well as all internal audit reports throughout the year. The Committee is also responsible for reviewing the effectiveness of the Internal Audit function

- 10.2 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 (Corporate Director of Finance & Resources) 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.
- 10.3 Instances of non-cooperation with reasonable audit requests will be escalated through the Senior Management Team and ultimately to the Audit Committee.
- 10.4 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.

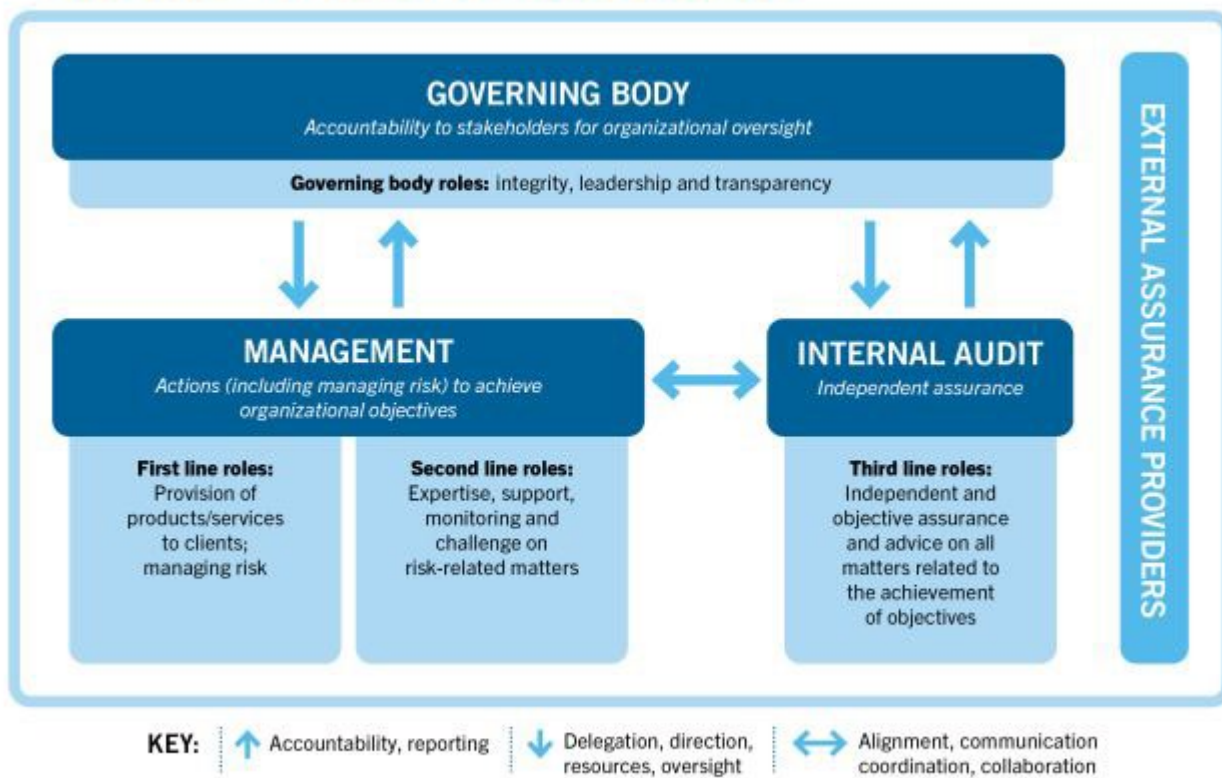
### External assessments

- 11.3 An external assessment must be conducted at least every five years by a qualified, independent assessor from outside the Council. The last review was performed in 2018/19. The Internal Audit team was found to be compliant with the PSIAS.

## **12 Review of the Audit Charter**

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

## The IIA's Three Lines Model (2020)



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The first line 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 refers to the strategic oversight arrangements that are designed to provide management with information to confirm that the controls in the first line 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 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 are adequate and working effectively to manage the risks faced by the organisation.