

AUDIT AND ASSURANCE COMMITTEE

Meeting date: 23rd March 2015

From: Group Audit Manager

DRAFT INTERNAL AUDIT PLAN 2015/16

1.0 EXECUTIVE SUMMARY

- 1.1 *The draft audit plan has been prepared in consultation with senior management and in conformance with the Public Sector Internal Audit Standards (PSIAS).*
- 1.2 *The plan is risk-based and is based on currently approved resource levels. Levels of resources are considered to be at the minimum level required to provide an assurance opinion.*
- 1.3 *A proposed approach to follow up audits is attached for approval at Appendix B.*
- 1.4 *The internal audit charter is included as an appendix to the audit plan for re-approval by Audit & Assurance Committee. No changes to the charter are being proposed.*

2.0 STRATEGIC PLANNING AND EQUALITY IMPLICATIONS

- 2.1 *Internal audit provides assurance to Audit & Assurance Committee on the arrangements for governance, risk management and internal controls in support of the delivery of each of the Council's priorities as set out in the Council Plan.*

3.0 RECOMMENDATION

- 3.1 *Audit & Assurance Committee is asked to approve the draft audit plan together with the proposed approach to follow up audits and the audit charter.*

4.0 OPTIONS

- 5.1 Audit & Assurance Committee may approve the plan as it is drafted, or may approve the plan subject to officers' consideration of proposed changes.

5.0 CONCLUSION

- 5.1 The plan is considered to represent the most effective use of limited internal audit resources to provide Audit & Assurance Committee with assurance over the Council's arrangements for governance, risk management and internal control.

Niki Riley
Group Audit Manager
25th February 2015

APPENDICES

Appendix A: Draft Audit Plan

Appendix B: Internal audit approach to Follow up audits

Appendix C: Audit Charter

IMPLICATIONS

Staffing: none
Financial: none
Property: none
Electoral Division(s): none

Executive Decision

	No*
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Key Decision

	No*
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If a Key Decision, is the proposal published in the current Forward Plan?

		N/A*
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Is the decision exempt from call-in on grounds of urgency?

	No*
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If exempt from call-in, has the agreement of the Chair of the relevant Overview and Scrutiny Committee been sought or obtained?

		N/A*
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Has this matter been considered by Overview and Scrutiny?
If so, give details below.

	No*
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PREVIOUS RELEVANT COUNCIL OR EXECUTIVE DECISIONS
[including Local Committees]

No previous relevant decisions

CONSIDERATION BY OVERVIEW AND SCRUTINY

Not considered by Overview and Scrutiny

BACKGROUND PAPERS

No background papers

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1. Introduction

- 1.1 Internal auditing is “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.” (Chartered Institute of Internal Auditors).
- 1.2 The Accounts and Audit Regulations require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control. Proper Practices are now defined within the Public Sector Internal Audit Standards (PSIAS) which became mandatory for all UK public sector internal auditors from 1st April 2013.
- 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 The approach to preparing the audit plan has been based around:
- Consultation with the chief executive, corporate directors including two who left the council during January / February 2015 and assistant directors
 - Review of corporate risk register
 - Review of annual governance statement action plan
 - Review of service plans and related risk registers
 - Consideration of emerging issues and risks nationally, regionally and locally
 - Issues arising from previous audit reports and other assurance providers

2. Internal Audit Service delivery

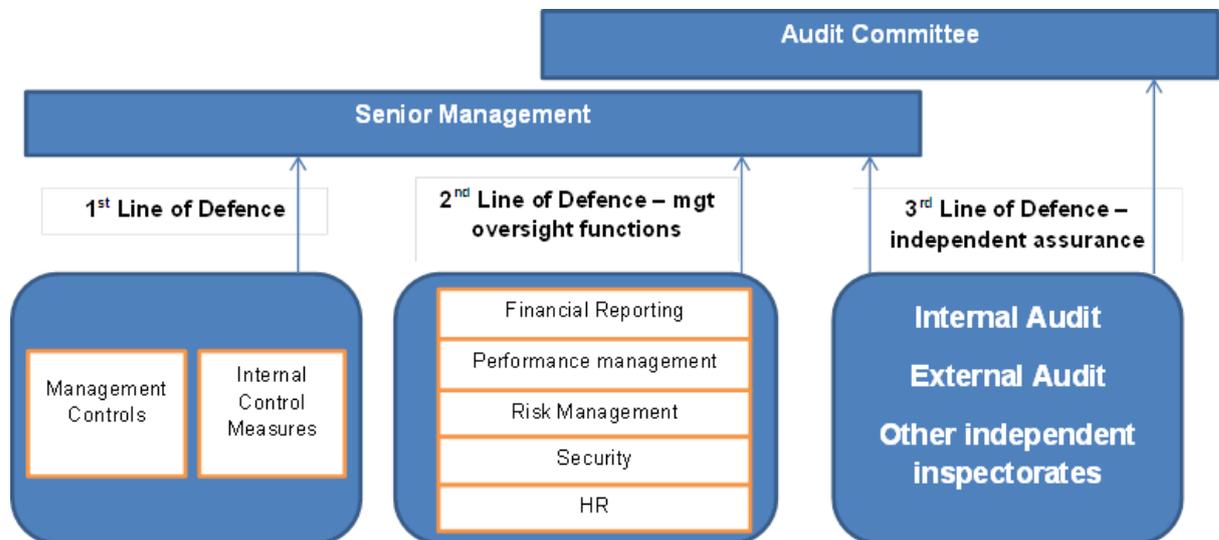
- 2.1 Internal Audit at Cumbria County Council is delivered through a Shared Internal Audit Service. The County Council is the host authority for the Shared Service with other participants being; Carlisle City Council, Copeland Borough Council, the Office of the Police and Crime Commissioner and Cumbria Constabulary. The Shared Internal Audit Service is governed by a Shared Services Operations Board comprising the Section 151 Officers of each participating authority. A Shared

Services Agreement is in place which has been signed up to by each organisation.

- 2.2 Internal audit supports the delivery of the Council Priorities as set out in the Council Plan 2014 – 2017 by providing independent assurance over the arrangements in place across the Council to deliver priorities and objectives. As part of the Finance service area, Internal Audit also directly supports the delivery of the priority ‘To be a modern and efficient council’.
- 2.3 Internal audit reviews are undertaken using a risk-based approach in line with the PSIAS. This ensures that the audit focuses on the areas of risk and that assurance covers the wider framework of governance, risk management and internal controls.

3. Roles of Management and of Internal Audit

- 3.1 This is summarised in the three lines of defence model shown below which sets out the position of internal audit in providing assurance that the management arrangements over governance, risk management and internal control are adequate and effective.



- 3.2 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
- 3.3 It is the responsibility of management to establish the checks and balances needed to confirm that their systems are working effectively, that all information within them is accurate, that they are free from fraud or error.
- 3.4 Internal audit's role is to provide assurance that management are undertaking the appropriate checks over their systems to confirm that they are working effectively. It is not the role of internal audit to re-perform management's checks or to undertake such checking on management's behalf.
- 3.5 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. Internal Audit Resources

- 4.1 The structure of the Shared Internal Audit Service was reviewed during 2014/15 as part of a wider review of the Finance structure. During 2014/15 four posts became vacant. Two of these vacancies have now been filled (one on a temporary basis for 12 months and one permanently) with colleagues due to move across from other teams within Finance from 1st May. Of the two remaining vacancies, it has been agreed with the chief executive following discussion at CMT where the draft audit plan was discussed in some detail, that one will be filled.
- 4.2 This will take the level of internal audit resource for County Council internal audit work to 5.4FTE audit staff.
- 4.3 The internal audit structure is now considered to represent the minimum resource level required to allow the head of internal audit to provide the mandatory annual opinion to the Audit & Assurance Committee. Arrangements will need to be made if significant staff absence arises in the year, for cover to be provided.
- 4.4 Internal Audit work is planned between 'core compliance' work and risk based audit reviews. Core compliance work relates to work undertaken

on a regular basis such as school audit reviews or the audit of grant funded expenditure where this is required by grant funding bodies.

- 4.5 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. A small contingency has been 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 Corporate Management Team and reported to the Audit & Assurance 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 & Assurance Committee in line with the requirements of the Public Sector Internal Audit Standards and additional resourcing would need to be approved for this.
- 4.6 The plan is based on the level of available resources within the approved structure for the shared audit service.

5. Categories of Internal Audit Work

- 5.1 **Corporate Reviews** – Reviews which are strategic in nature or which cut across two or more Council directorates. 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 the directorates 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** – following the 2013 Grant Thornton review of Internal Audit, a revised approach has now been taken to the reviews of the Council's main financial systems. A three-year programme has been devised which will ensure that each main financial system is reviewed in depth at least once every three years. The programme is attached at Appendix B.
- 5.4 **School audits** – the programme of school audit reviews is based on the ongoing requirement for internal audit to provide assurance over the

governance and financial management arrangements within schools to support Governing Bodies and allow the County Council's Section 151 Officer to fulfil her statutory obligations with regard to the probity of public funds. The programme has been further reduced from 2014/15 levels as part of the move towards a risk based audit plan focusing on the council's highest risk areas.

- 5.5 **Establishment reviews** – the plan includes a small number of establishment visits designed to provide assurance that the financial and administrative controls are operating effectively.
- 5.6 **Computer Audit** – assurance over technical controls is embedded in the risk based audit approach. This may be supplemented by additional specific work on IT systems and processes.
- 5.7 **Follow Up of previous audit recommendations** – A new follow up process has been established for the start of 2015/16 (see Appendix C). This ensures that all partial or limited assurance reports are revisited and further assurance provided over the implementation of agreed actions.
- 5.8 **2014/15 work brought forward** – the 2015/16 audit plan makes provision for audit reviews that are in progress at the year-end. This has been increased based on experience from 2013/14.
- 5.9 **Advice, Guidance and contingency** – capacity has been built into the plan for formal advice and guidance to all services across the Council as well as contingency to respond to emerging risks. Advice work often involves requests from schools around areas such as governance, procurement or compliance with contract and financial procedure rules.
- 5.10 **Service Development projects** – a small contingency is included to allow for further development of the risk based audit process during the year.
- 5.11 A summary of the number of days allocated to each category of audit work is shown below. Percentage figures from the 2013/14 and 2014/15 audit plans are included for reference.

Category	2015/16		2014/15 (revised plan)		2013/14	
	Days	% of total days	Days	% of total days	Days	% of total days
Corporate Reviews	45	4	100	7	6	
Directorate risk-based audit reviews	415	35	385	28	15	
Financial systems	65	5	60	4	7	
Schools	80	7	120	9	14	
Computer audit	20	1.5	60	4	6	
Establishment visits (non-schools)	30	3	60	4	4	
Follow up of previous audits	70	6	55	4	3	
Grant claim audits	25	2	25	2	2	
Work carried forward from 2013/14	100	8	60	4	10	
Counter fraud work	40	3	110	8	5	
Advice, guidance and contingency	60	5	80	4	16	
Internal Audit Service Development	20	1.5	40	2	0	
Overhead (planning / management time)	220	18	220	16	12	
Total	1190		1375			

5.12 Key points to note:

- There is an overall decrease of 185 audit days due to a reduction in audit resource levels of 1FTE.
- The audit plan days exclude the resource of the head of internal audit. The AD Finance (S151 Officer) has agreed that the head of internal audit will devote a proportion of her time to raising awareness of governance and internal control matters and in particular training and advice to the senior management of the council in this regard.
- The proportion of the plan devoted to risk based internal audit reviews remains broadly in line with the previous year at around one third.

- The level of financial systems audit work remains in line with 2014/15 and follows the three year rolling programme of reviews introduced in 2014/15.
- There is a further reduction in the proportion of the plan to be spent on school audit visits in reflection of the need for audit plans to be risk based and to allow the annual audit opinion to give assurance on the areas of highest risk.
- The proportion of the plan dedicated to computer audit work has reduced from 2014/15. This is a result of the introduction of the risk based approach to auditing which embeds assurance over IT controls within all relevant reviews.

6. Performance Standards

- 6.1 A suite of performance measures was developed and reported to Audit & Assurance Committee during 2014/15. It is proposed that the same measures will be used during 2015/16 and will continue to be reported quarterly to Audit & Assurance Committee.

7. Internal Audit Charter

- 7.1 It is a requirement of the PSIAS that the Audit and Assurance Committee regularly reviews and approves an internal audit charter. The charter sets out the role, purpose and responsibilities of internal audit. The charter provides for annual review and approval alongside the annual draft internal audit plan. The charter is attached at Appendix C; no changes are being proposed.

Draft proposed internal audit work for 2015/16

Directorate	Audit	Type of audit	Rationale / scope	Days
Corporate Review	Ethical policies and counter-fraud framework	Risk based audit	<p>Identified through management consultation as a priority for internal audit assurance. Links to workforce development theme in the AGS action plan for 2014/15, which identified scope for improved levels awareness of ethical policies.</p> <p>Internal audit review to provide assurance over the adequacy and effectiveness of the policies, procedures, training, responsibilities and reporting in relation to the council's suite of ethical policies (counter-fraud, whistleblowing, codes of conduct, gifts and hospitality etc)</p>	25
Corporate Review	Review of IT Strategy	Computer audit	<p>Identified through management consultation as a priority for internal audit assurance. A significant proportion of the planned changes in systems and service delivery required to deliver savings relies on the success of the council's ICT strategy. Internal audit review to provide assurance over the adequacy and effectiveness of the strategy to deliver the council's priorities.</p>	20
Cross cutting Review (Children's Services & Health & Care Services)	Transition from Children's to Health and Care Services	Risk based audit	<p>Identified through management consultation as a priority for internal audit assurance. Audit & Assurance Committee have previously requested management assurance over this area.</p> <p>Internal audit review to provide assurance over the systems and process in place to manage the transition whilst ensuring appropriate levels of care are provided and value for money secured.</p>	20

Directorate	Audit	Type of audit	Rationale / scope	Days
Children's Services	Looked After Children Action Plan	Risk Based audit	Identified through consultation with management as a priority for internal audit assurance. Review to provide assurance over the delivery of the plan, focusing on both financial and operational governance and building on the previous audit from 2014/15. A follow up of the agreed actions from the 2014/15 audit of Better Placements Programme will also be undertaken.	20
Children's Services	Cumbria Alliance of System Leaders (CASL)	Risk Based audit	Identified through management consultation as a priority for internal audit assurance. CASL is a limited company set up to provide support for schools and other educational establishments in Cumbria. Internal audit review to provide assurance over the arrangements to ensure that statutory local authority functions and council priorities are delivered under the new arrangements, that financial and governance arrangements are clearly defined and risks to the council are identified and effectively managed.	20
Children's Services	Early Help	Risk Based audit	Identified through consultation with management as a priority for internal audit assurance due to planned changes in how the service is delivered. Internal audit review to provide assurance that the new service delivery arrangements are properly embedded and are working effectively.	20
Children's Services	Safeguarding Hub	Risk Based audit	Identified through consultation with management as a priority for internal audit assurance as new arrangements have been introduced during 2014/15. A review to provide assurance over the effectiveness of the new Partnership arrangements, including data sharing.	20

Directorate	Audit	Type of audit	Rationale / scope	Days
Children's Services	Payments to Foster Carers	Risk Based audit	Identified through internal audit risk assessment as a priority for internal audit assurance. Internal audit review to provide assurance over the arrangements for ensuring that payments are only made in appropriate circumstances and are properly controlled.	20
Children's Services	Early Education Entitlement Fund	Risk Based audit	Experience from other local authorities has identified a need for close control of this fund to prevent fraud or error. Internal audit review to provide assurance that the arrangements in place are effective in protecting the council against fraud or error.	20
Children's Services	School Visits	Programme of visits to be determined	Internal audit reviews of schools provide assurance to the S151 Officer over the financial management arrangements in place. A risk based approach is taken to identifying schools for internal audit visit.	80
Children's Services	Transport of Children Looked After	Follow up of previous audit	In accordance with internal audit follow up methodology, the implementation of the agreed actions from the 2014/15 audit will be followed up.	5
Children's Services	Focus Families Programme	Follow up of previous audit	In accordance with internal audit follow up methodology, the implementation of the agreed actions from the 2014/15 audit will be followed up.	5
Children's Services	St Cuthbert's School Wigton	Follow up of previous audit	In accordance with internal audit follow up methodology, the implementation of the agreed actions from the 2014/15 audit will be followed up.	5

Directorate	Audit	Type of audit	Rationale / scope	Days
Cumbria Fire & Rescue Service	Planned Inspection and Testing Regime	Risk Based audit	Identified as a priority through management consultation. Internal audit review to provide assurance over the arrangements for: <ul style="list-style-type: none"> ensuring legislative requirements regarding equipment inspection & maintenance are met at full-time and on call stations ensuring there is effective monitoring of third party contracts where specialist inspection is required ensuring adequate recording and action is taken where issues from testing are identified 	20
Environment and Communities	Highways area offices	Risk Based audit	Review was deferred from 2014/15 plan due to limited resources in internal audit. The area is still considered to be a priority for internal audit assurance. Review to provide assurance that consistent practice is applied throughout the offices in relation to procurement and income management.	25
Environment and Communities	Highways supply chain	Risk Based audit	Identified through management consultation as a priority for internal audit assurance. Review to provide assurance over the arrangements to ensure appropriate use of the Council's call-off agreement for Plant.	20
Environment and Communities	Regeneration Support	Risk Based audit	Identified through management consultation as a priority for internal audit assurance. Review to provide assurance over the governance arrangements in place around key Partnerships and Accountable Body arrangements.	20
Environment and Communities	Connecting Cumbria	Follow up of previous audit	In accordance with internal audit follow up methodology, the implementation of the agreed actions from the 2014/15 audit will be followed up.	5
Environment and Communities	Professional & Works Frameworks	Follow up of previous audit	In accordance with internal audit follow up methodology, the implementation of the agreed actions from the 2014/15 audit will be followed up.	5

Directorate	Audit	Type of audit	Rationale / scope	Days
Health & Care Services	Governance arrangements for pooled funds	Risk Based audit	Identified through consultation as a priority for internal audit assurance in 2015/16. Review to provide assurance that the governance arrangements are appropriate to protect the council against risk and that the arrangements are adequate and effective to ensure delivery of the Council's priorities.	20
Health & Care Services	The Care Act 2014	Risk Based audit	Identified through consultation as a priority for internal audit assurance in 2015/16. A review to provide assurance that the council has adequate arrangements in place to address the requirements of the Care Act.	20
Health & Care Services	Deferred Payments	Risk Based audit	Identified through consultation as a priority for internal audit assurance in 2015/16. A review to provide assurance that the arrangements around deferred payments are adequate and effective and that the council is protected against financial and reputational risks in this area.	20
Health & Care Services	Quality Assurance over independent provider homes	Risk Based audit	Identified through consultation as a priority for internal audit assurance in 2015/16. A review to provide assurance that the council's arrangements for quality assurance are adequate and effective to mitigate reputational and service user risks in this area.	20
Health & Care Services	Public Health – Health Protection	Risk Based audit	Identified through consultation as a priority for internal audit assurance in 2015/16. This area has not been reviewed by internal audit since the responsibility came into the local authority in April 2013. The Council has statutory responsibilities for health protection. Internal audit review to provide assurance that the arrangements are in place and operating effectively to manage the risks around this statutory responsibility.	20
Health & Care Services	Establishment visits	Compliance	A small programme of establishment audits is planned to cover six establishments identified using a risk based approach. Periodic review by internal audit provides assurance to management over consistency of arrangements, compliance with procedures and the effectiveness of arrangements for safeguarding service users' assets.	30

Directorate	Audit	Type of audit	Rationale / scope	Days
Resources	Information Governance	Risk Based audit	<p>Identified through management consultation as a priority for internal audit assurance. Also links to corporate risk register item C13 and Annual Governance Statement action plan.</p> <p>Internal audit review to provide assurance over arrangements for compliance with mandatory requirements in relation to:</p> <ul style="list-style-type: none"> • Freedom of Information Act • Subject Access Requests under the Data Protection Act • Environmental Information Regulations; and • Corporate complaints. 	20
Resources	Data Quality	Risk Based audit	<p>Identified as a priority for internal audit assurance through management consultation.</p> <p>Review to focus on providing assurance over the arrangements for ensuring the accuracy of key data sets – to include Absence Management data where there have been previously reported issues with data quality.</p>	20
Resources	Agency staff	Risk Based audit	<p>Review deferred from 2014/15 plan. This is still considered a priority for IA assurance. Links to AGS action plan item on workforce development.</p> <p>Internal audit review to provide assurance over the arrangements for controlling the use of agency staff and for ensuring that only appropriately skilled, trained and vetted staff are employed.</p>	20

Directorate	Audit	Type of audit	Rationale / scope	Days
Resources	Capital Programme	Risk Based audit	<p>This is a key service priority within the Capital Programme and Property Service Plan for 2014/15 and aims to generate savings and significant capital receipts. Links to Risk C16 in the corporate risk register and AGS action plan item 'Slippage in the Capital Programme'. Whilst progress has been made, this is still considered to be an area appropriate for audit assurance.</p> <p>Internal audit review to provide assurance over the adequacy and effectiveness of the arrangements to deliver the strategy and achieve the stated outcomes.</p>	20
Resources	Governance of Redundancy Process	Risk based audit	<p>Identified through management consultation as a priority for internal audit assurance. A new system has now been implemented changing the process from manual to self-serve.</p> <p>Internal audit review will provide assurance that the new process is working effectively and delivering its intended objectives and that the process is being followed and risk to the council are being managed effectively.</p>	15
Resources	Accounts Payable	Financial systems audit	Review forms part of three year rolling programme of financial system audits.	25
Resources	Payroll	Financial systems audit	Review forms part of three year rolling programme of financial system audits.	25
Resources	Pension Fund	Financial systems audit	Review forms part of three year rolling programme of financial system audits.	15

Directorate	Audit	Type of audit	Rationale / scope	Days
Corporate / Cross Cutting	Grant claim audits	Compliance	A provision is included for the audit of grant claims where it is a requirement of the funding body for the Head of Internal Audit to sign off the claim.	25
Corporate / Cross Cutting	Follow ups arising in-year	Follow up of previous audit	Internal audit follow up approach includes the follow up of all audits receiving less than Reasonable assurance. Where appropriate these will be undertaken within the same financial year as the original audit and a revised assurance opinion issued as appropriate.	45
Corporate	National Fraud Initiative Data Matching	Compliance	Internal audit will co-ordinate the NFI Data Matching exercise, provide admin support and training on the process and will report outcomes to Audit & Assurance Committee during the year. The responsibility for investigating the individual matches will be undertaken by service management.	40
Corporate	Annual Governance Statement	Non-audit activity	The Group Audit Manager will participate in the annual review of governance in support of the preparation of the Annual Governance Statement.	20
Corporate	Ad-hoc advice / support for internal investigations	Advice	A provision is included for the provision of ad-hoc advice to management on matters relating to governance, risk and internal controls. Internal audit may also be called upon to support management investigations where the relevant skills exist within the team.	60
Cross Cutting	Audits carried forward from 2014/15	Risk based audit	A provision is included for audit work in progress as at 31 st March 2015 which will be concluded during the first quarter of 2015/16.	100

Internal Audit Approach to Follow Up

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.

In order to ensure the most effective use of internal audit resources, we will follow up the implementation of agreed actions arising from all audits that result in partial or limited assurance.

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 Audit & Assurance Committee.

We do not propose to follow up audit reviews where the initial assessment is reasonable or substantial as there is little merit in directing further audit resources at areas deemed to be effectively controlled.

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. Internal audit will undertake one follow up and the outcomes will be reported to Audit & Assurance Committee. Where the follow up does not allow for a revised audit opinion, Audit Committee will be informed in order that they can seek the appropriate assurances from management.

Wherever 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.

Cumbria County Council Internal Audit Charter

1. Introduction

- 1.1 This charter describes the purpose, authority, responsibilities and objectives of internal audit within Cumbria County Council. It establishes internal audit's position and the nature of the group audit manager's functional reporting relationships with the Audit and Assurance Committee.
- 1.2 The charter also provides for internal audit's rights of access to records, personnel and physical properties relevant to audit engagements. Final approval of the audit charter rests with the Audit and Assurance Committee.
- 1.3 The Cumbria Shared 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 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 and Assurance Committee and significant deviations must be considered for inclusion within the Council's 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 internal 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 (Corporate Management Team) and must be approved by the Audit and Assurance Committee.
- 1.6 The Public Sector Internal Audit Standards use 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 county council, senior management refers to the Corporate Management Team unless otherwise stated and the 'board' is the Audit and Assurance Committee.

2. The Role of Internal Audit

- 2.1 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.

- 2.2 The Cumbria Shared Internal Audit Service (“internal audit”) provides an internal audit function for each of the organisations that form part of the shared service, namely;
- Cumbria County Council (the host authority)
 - Carlisle City Council
 - Copeland Borough Council
 - Cumbria Constabulary and the Cumbria Office of the Police and Crime Commissioner
- 2.3 The services provided by internal audit are designed to assist the council to continually improve the effectiveness of its 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.
- 2.4 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.
 - Advice on strengthening controls following such an incident.

3. Purpose, Authority, Responsibility and Objectives

Purpose

- 3.1 Internal audit is described by the Chartered Institute of Internal Auditors as a key component of corporate governance. When properly resourced, positioned and targeted, internal auditors act as invaluable eyes and ears for senior management & audit committees inside their organisations, giving an unbiased and objective view on what’s happening in the organisation.

- 3.2 Internal audit's core purpose is to provide Corporate Management Team and Audit and Assurance Committee with independent, objective assurance that their respective organisations have adequate and effective systems of risk management, internal control and governance.
- 3.3 By undertaking an annual risk assessment, 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 each organisation. This then allows internal audit to give an annual overall opinion on the organisation's systems of risk management, internal control and governance.
- 3.4 The annual report and opinion is a mandatory requirement and is a key contributor to the Annual Governance Statement which accompanies the annual statement of accounts. The governance statement provides assurance to the Audit and Assurance Committee that an effective internal control framework is in place.
- 3.5 Internal Audit supports the Section 151 Officer to discharge her responsibilities under section 151 of the Local Government Act 1972, the Accounts and Audit Regulations 2011 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.
- 3.6 Internal audit supports the Head of Paid Service (Chief Executive) in providing high level assurances relating to the Council's Governance arrangements.
- 3.7 Internal Audit also supports the Monitoring Officer in discharging her responsibilities for maintaining high standards of governance, conduct and ethical behaviour.

Authority

- 3.8 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, Corporate Management Team and Audit and Assurance Committee have approved this right of access and therefore the responsibility of all officers to comply with any reasonable request from members of the Cumbria Shared Internal Audit Service.
- 3.9 This charter delegates to the group audit manager, the responsibility to undertake an annual risk assessment in consultation with senior

management, and from this, prepare a risk-based plan of audit work for approval by the Audit and Assurance Committee.

- 3.10 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.
- 3.11 The charter establishes that the group audit manager has free and unfettered access to the Audit and Assurance Committee and has the right to request a meeting in private with the Chair of the Audit and Assurance Committee should it become necessary.

Responsibilities and Objectives

- 3.12 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 each participating organisation.
- 3.13 The group audit manager and her 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 (Departmental and Corporate Management Teams) and to Audit and Assurance Committee for approval.
- Review agreed audit plans in light of new and emerging risks and report any necessary amendments to agreed plans to Audit and Assurance 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 and Assurance Committee.

- Assist as required in the investigation of significant suspected fraudulent activities and report the outcomes to senior management (S151 Officer, Monitoring Officer and other relevant directors).
- Monitor implementation of agreed audit recommendations through follow up process and report the outcomes to senior management and Audit and Assurance 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 Audit and Assurance Committee.
- Internal audit has a responsibility to report to Audit and Assurance Committee any areas where it is considered that management have accepted a level of risk that may be unacceptable to the organisation.
- Internal Audit has a duty to bring to the attention of Audit and Assurance Committee where the group audit manager 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

3.14 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 organisation or for authorising transactions
 - Internal audit is not responsible for implementing its recommendations or for ensuring that these are implemented
- 3.15 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.
- 3.16 Internal audit does not have any responsibilities for preventing or detecting fraud or error, this is the responsibility of the council's management. Internal audit's role is to provide Corporate Management Team and Audit and Assurance Committee with assurance that the management of the organisation have themselves established procedures that allow them to prevent or detect fraud or error and to respond appropriately should this occur.
- 3.17 It is the responsibility of management to maintain adequate systems of internal control and to review their systems to ensure that controls continue to operate effectively.
- 3.18 The role of internal audit vs the management of the organisation is summarised in the diagram at appendix A.

4. Scope of Internal Audit Work

- 4.1 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 organisation's plans, priorities and objectives are being achieved;
 - legal and regulatory requirements are being met

5. Position and Reporting Lines for Internal Audit

- 5.1 Internal audit reports operationally to the Assistant Director, Finance (section 151 officer). Functional reporting is to the Audit and Assurance Committee.
- 5.2 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 Chief Financial Officer who is charged with ensuring the organisation has put in place effective arrangements for Internal Audit of the control environment and systems of internal control as required by professional standards.
- 5.3 Internal Audit reports the outcomes of its work to the Audit and Assurance Committee on a quarterly basis. This is in the form of a progress report summarising the outcomes of internal audit engagements as well as the performance of internal audit in delivering the approved plan of work.
- 5.4 On an annual basis, internal audit will prepare and present to Audit and Assurance Committee, an annual report containing:
- the overall opinion of the group audit manager
 - a summary of the work undertaken to support the opinion; and
 - a statement of conformance with the Public Sector Internal Audit Standards
- 5.5 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 Audit and Assurance Committee as appropriate.
- 5.6 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 Assistant Director, Finance and reported to Audit and Assurance Committee. Where changes are less urgent, these will be discussed with senior management and the chair and vice chair of Audit and Assurance Committee before being implemented. All changes to approved audit plans will be reported to the next meeting of the Audit and Assurance Committee.

6. Ethics, Independence and Objectivity

Ethics

- 6.1 Internal audit works to the highest standards of ethics and has a responsibility to both uphold and promote high standards of behaviour and conduct.
- 6.2 All internal auditors working within the UK public sector are now required to comply with the mandatory code of ethics contained within the new Public Sector Internal Audit Standards. As such this code has been adopted by the

Shared Internal Audit Service and all staff will be requested to sign up to the code on an annual basis. Auditors within the shared service are also required to comply with the codes of ethics of their professional bodies.

Governance and Independence of the Shared Internal Audit Service

- 6.3 Internal audit is a shared audit service between Cumbria County Council, Carlisle City Council, Copeland Borough Council, Cumbria Constabulary and the Office of the Police and Crime Commissioner. The host authority for the delivery of the shared audit service is Cumbria County Council.
- 6.4 The governance of the provision of the shared internal audit service shall be carried out by the shared service operations board and strategic board whose role is to:
- Ensure that the shared internal audit service meets the requirement of the proper practices for internal audit
 - Reach common agreement over issues such as standards, goals and objectives and reporting requirements
 - Agree on the range of audit outputs
 - Confirm the scope and remit of the audit function
 - Agree reporting and performance arrangements for internal audit, including performance measures, delivery of plan, cost, and impact tracking.

Independence

- 6.5 Internal audit is independent of all of the activities it is required to audit which ensures that Audit and Assurance Committee can be assured that the annual opinion they are given is independent and objective. Whilst the group audit manager reports operationally to the Assistant Director, Finance, there is also a functional reporting line to the Audit and Assurance Committee and the group audit manager has direct access to the Chair of Audit and Assurance Committee.
- 6.6 Internal auditors will not undertake assurance work in areas for which they had operational responsibility during the previous 12 months.
- 6.7 Internal audit will report annually to Audit and Assurance Committee to confirm that the independence of internal audit is being maintained.

Resourcing, Proficiency and Due Professional Care

- 6.8 For internal audit to provide an annual opinion to the council's senior management and Audit and Assurance Committee, 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.
- 6.9 It is the responsibility of the organisation to ensure that it approves a programme of audit work sufficient to provide an adequate level of assurance over their systems of risk management, internal control and governance.
- 6.10 In line with the requirements of the standards, in the event that the group audit manager 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 and Assurance Committee.
- 6.11 In line with the requirements of the PSIAS and the CIPFA Statement on the Role of the Head of Internal Audit 2010, the group audit manager is professionally qualified and appropriately experienced.

The Role of Internal Audit in Fraud-related work

- 6.12 The PSIAS require that the role of internal audit in any fraud-related work is defined within the audit charter.
- 6.13 It is a requirement of the County Council's counter fraud and corruption policy and whistleblowing policy that all suspected frauds are reported to the group audit manager who will advise on the appropriate way to proceed, including ensuring that any investigation is undertaken by suitably qualified and experienced staff.
- 6.14 Internal audit may also undertake planned reviews of areas considered to be at particular risk of fraud. Such reviews will be included within the audit plan following discussion with management for approval by the Audit and Assurance Committee. In addition, where relevant, the risk of fraud is considered when undertaking risk based audit reviews.

Advice / Consultancy work

- 6.15 Where internal audit is requested to provide advice, consultancy or investigatory work, the request will be assessed by the group audit manager. 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 organisation's management and are thereby not appropriate internal audit tasks.

6.16 In line with the PSIAS, approval will be sought from Audit and Assurance Committee for any significant additional consulting services not already included in the audit plan prior to accepting the engagement.

7. Management Responsibilities

7.1 For internal audit to be fully effective, it needs the full commitment and cooperation from management across the council. In approving this charter, Corporate Management Team and Audit and Assurance Committees 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 as agreed at the commencement of each piece of internal audit work.
- Sponsoring each audit assignment at a senior level.
- Providing internal audit with full support and cooperation, including complete access to all records, data, property and personal relevant to the audit assignment on a timely basis.
- Responding to internal audit reports and making themselves available for audit closeout meetings to agree draft audit reports.
- Implementing audit recommendations within agreed timescales.

7.2 Instances of non-cooperation with reasonable audit requests will be escalated through the Assistant Director, Finance and ultimately to the Audit and Assurance Committee if necessary.

7.3 While internal audit is responsible for providing independent assurance to the council and its Audit and Assurance Committee, it is the responsibility of the organisations' 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.

8. Quality Assurance

- 8.1 Public Sector Internal Audit Standards 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 Audit and Assurance Committee through its regular progress reports.

Internal assessments

- 8.2 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
 - Appropriate testing is undertaken to support the conclusions drawn

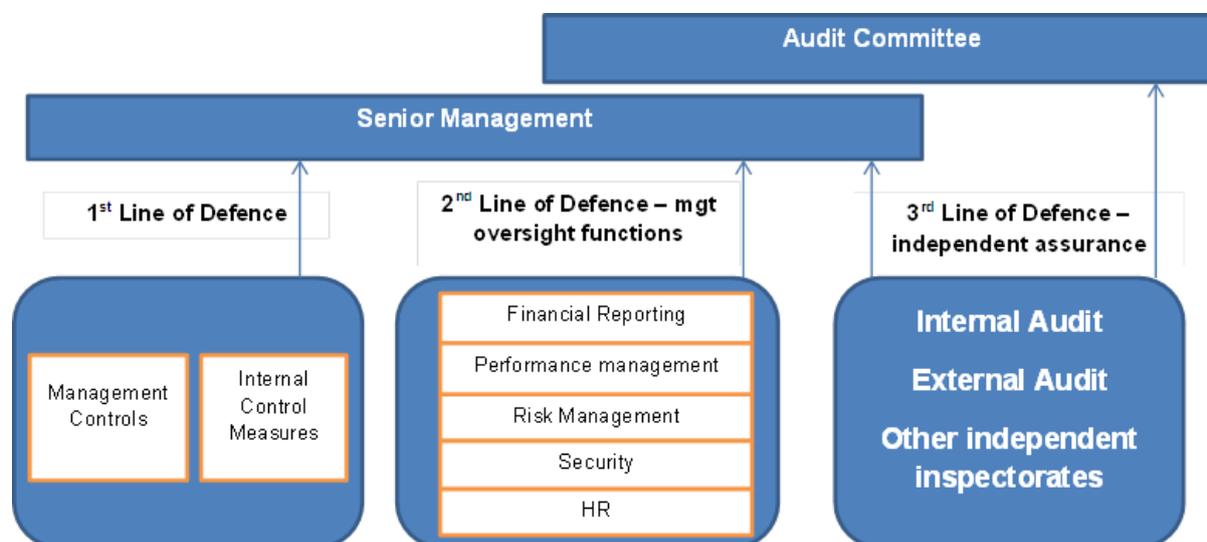
External assessments

- 8.3 An external assessment must be conducted at least every five years by a qualified, independent assessor from outside the organisation. The group audit manager will discuss options for the assessment with the shared services board before making recommendations for approval by Audit and Assurance Committee.

9. Review of Audit Charter

- 9.1 This charter will be reviewed annually and submitted to Corporate Management Team and Audit and Assurance Committee for approval alongside the annual audit plan.

Internal Audit - The Third Line of Defence



The above diagram demonstrates the three lines of defence in ensuring that organisations are adequately managing their 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 organisation 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.