



EAST CAMBRIDGESHIRE
DISTRICT COUNCIL

INTERNAL AUDIT CHARTER

Introduction

Background

- 1) With effect from 1st April 2013, the Relevant Internal Audit Standard Setters (RIASS) adopted a common set of Public Sector Internal Audit Standards (PSIAS). The PSIAS encompasses the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework. The PSIAS replaces the CIPFA Code of Practice for Internal Audit in the United Kingdom 2006.
- 2) Section 3 of the PSIAS defines internal auditing as 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) The PSIAS also requires the Internal Audit Charter to be approved by the Corporate Governance & Finance Committee in order to define Internal Audit's purpose, authority and responsibility. It establishes Internal Audit's position within the Council and reporting lines, authorises access to records, personnel and physical property relevant to the performance of audit work, and defines the scope of Internal Audit activities.

Legislation and Guidance

- 4) In any local authority the Internal Audit function arises from two principal pieces of legislation:-
 - Section 151 of the Local Government Act 1972 which requires every local authority to make arrangements for the proper administration of its financial affairs and to ensure that one of the officers (the Chief Finance Officer) has responsibility for the administration of those affairs; and
 - Section 5 of the Accounts and Audit Regulations 2015 states that "a relevant authority must 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".
- 5) Internal Audit therefore discharges the above responsibilities which at East Cambridgeshire District are delegated to the Chief Financial Officer.
- 6) The practice of Internal Audit is governed by PSIAS in addition to policies, procedures, rules and regulations established by the Council and that of external bodies including CIPFA, external audit and other local government bodies.
- 7) The PSIAS contain a Code of Ethics which is mandatory for all internal auditors in the public sector. In addition, individual staff within the Internal Audit team are also required to adhere to the Codes of Ethics of their professional bodies where appropriate.

Definitions

- 8) The PSIAS require that the Internal Audit Charter defines the terms 'Board' and 'Senior Management' in relation to the work of Internal Audit. For the purposes of Internal Audit at East Cambridgeshire District Council:
- the 'Board' refers to the Council's Corporate Governance & Finance Committee which has responsibility for overseeing the work of Internal Audit; and
 - 'Senior Management' is defined as the Chief Executive, Directors and the Chief Financial Officer.
- 9) The PSIAS also refer to the Chief Audit Executive which in East Cambridgeshire District Council is deemed to be the Principal Auditor. The Principal Auditor is responsible for the effective review of all aspects of governance, risk and internal control throughout the full range of the Council's activities. The existence of Internal Audit does not however diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

Our Customers

- 10) The customers of Internal Audit comprise all those who expect assurance to be provided on the adequacy of the control environment and the processes that support the protection of public funds, and include:-
- The residents of East Cambridgeshire
 - Members
 - Chief Financial Officer
 - Senior Management and staff
 - Corporate Governance & Finance Committee
 - Partners
 - External audit

Aims and Objectives

Principal Objectives

- 11) The principal objectives of Internal Audit in East Cambridgeshire District Council are to:-
- Independently review and appraise systems of control throughout the Council
 - Deliver an annual Internal Audit opinion and report that can be used by the Council to inform the Annual Governance Statement
 - Provide an assurance to management regarding compliance with procedures, policies, regulations and legislation
 - Provide proactive advice and input into any significant system or procedural developments
 - Recommend improvements in control, performance and productivity in achieving corporate objectives

- Review and challenge processes and systems in order to achieve value for money
 - Work in partnership with the Council's external auditors
 - Lead and promote a counter fraud culture within the Council to deter crime
 - Facilitate good management in managing risks
 - Comply with the PSIAS and other relevant guidelines and professional practice
- 12) The annual Internal Audit opinion will focus on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control, and is the "assurance" element of the role of Internal Audit.
- 13) Internal Audit may also provide an independent and objective consultancy service, which is advisory in nature and performed at the specific request of Senior Management and Service Managers. The aim of a consultancy service is to assist management to improve risk management, governance and internal controls. This is the "consultancy" role of Internal Audit and contributes to the overall opinion. Consultancy work will only be undertaken where resources permit without impacting on the annual assurance process. In line with the PSIAS, approval will be sought from the Corporate Governance & Finance Committee before any significant unplanned consultancy work is accepted.

Achieving Objectives

- 14) To meet the objectives outlined above, the East Cambridgeshire District Council Internal Audit function has been established as an independent team with management reporting lines within the Finance Service, however there are reporting lines to the Chief Executive and the Chair of Corporate Governance & Finance Committee as considered necessary. Further unrestricted access is also available to all officers and Members.
- 15) The Internal Audit function is led by the Principal Auditor. In addition to audit functions, the Principal Auditor is also responsible for promoting effective risk management arrangements across the Council and also has responsibility for managing and co-ordinating involvement in counter fraud work, including the National Fraud Initiative.
- 16) Internal Audit work is undertaken in accordance with the Annual Audit Plan which sets out the planned programme of work for each financial year. The Annual Audit Plan is approved each year by Corporate Governance & Finance Committee after consultation with Service Managers and Senior Management. The work of Internal Audit is reported to Corporate Governance & Finance Committee on a six monthly basis.
- 17) Where Internal Audit looks to undertake work on behalf of any other organisations, this will be determined in consultation with the both Senior Management and Corporate Governance & Finance Committee, to ensure that sufficient resources are available to provide the necessary level of assurance over the Council's activities.

Independence, Access and Remit

- 18) Internal Audit is independent of all activities of the Council, with the exception of those detailed in 15 above, to ensure that it is able to appraise the Council's governance, risk and internal

control systems in the impartial and unbiased manner that is essential to the proper conduct of individual audit assignments.

- 19) To ensure this independence is maintained and in order to undertake its function effectively, Internal Audit has unrestricted access to all Council records (whether manual or computerised), cash, property and may enter any Council owned property or land to obtain any information or explanations required. Access will be granted on demand and need not necessarily be subject to prior notice. This also extends to partner organisations working on behalf of the Council where this has been agreed within relevant contractual arrangements.
- 20) In order to promote independence and objectivity, Internal Audit should neither “own” a system under audit review, or be given any operational responsibilities within the line management structure or responsibility for any aspect of work subject to audit. Where Internal Audit staff have either a perceived or real conflict of interest in undertaking an audit assignment, this will be managed through the Internal Audit management process.
- 21) At a corporate level, the remit of Internal Audit may include audits covering the following areas:-
- Corporate governance
 - Risk management
 - Strategic framework
 - Ethical framework
 - Information governance
 - Information systems
 - Counter fraud
 - Fundamental systems
 - Partnership working
 - Asset management
 - Major projects and procurement
 - Health and safety
 - Business continuity planning
 - Grant certification work

Audit Planning

Strategic Audit Plan

- 22) The Internal Audit Strategic Plan details the “audit universe” at both a corporate level and across all service areas within the Council and forms the basis for the audit planning process. A risk score is attached to each area based on a number of factors including materiality and previous audit findings. This score influences the frequency of the audit review and an estimate of the resource requirements to cover each audit area over a period of 3 years. The Strategic Plan is reviewed annually to ensure that it remains up to date and continues to take account of emerging risks and service developments thus ensuring that the focus of Internal Audit work remains relevant to the Council’s vision and current priorities.

Annual Audit Plan

- 23) The Annual Audit Plan sets out the audit work programme for each financial year and is informed by a number of different sources including:-
- The Strategic Audit Plan
 - The corporate and operational risk registers
 - Weaknesses identified in the Annual Governance Statement
 - Service developments
 - National developments
 - Audit resource availability
- 24) Awareness of national issues is maintained through a number of sources such as subscription to internet based resources such as CIPFA's Technical Information Service (TISOnline), liaison with external audit and networking with other local authority audit teams both locally and nationally.
- 25) Whilst the Annual Audit Plan is subject to formal approval each year, it is recognised that it is flexible in nature and can be revised should unforeseen issues arise during the year. A contingency provision is included in the Annual Audit Plan for unplanned work such as special investigations involving suspected fraud and irregularity and the provision of ad hoc advice.

Forming and Evidencing the Audit Opinion

Audit Approach

- 26) Internal Audit is responsible for providing an annual opinion on the internal control environment of the Council as a whole. A risk based approach is taken with individual reviews, incorporating both operational and management controls and risk. This allows an opinion to be expressed on both the risk exposure and the adequacy of systems in place to manage those risks.

Core and Assurance Work

- 27) The Annual Audit Plan governs the audit activity each year, and to enable work to be planned and delivered effectively, audit coverage is prioritised and categorised as either "core" work or "assurance" work.
- 28) Core work relates to those areas, normally of higher risk, where Internal Audit review will add the greatest value. Core work will be given the highest priority in the event of competing demands on the service. Examples of core work are the annual reviews of key financial systems. Assurance work will compliment the work from the core plan and ensures that an adequate level of Internal Audit review each year within individual services. This approach enables a wide range of coverage to inform the annual audit opinion.

Audit Reporting

- 29) At the completion of each audit assignment a report is produced for management with recommendations for improvement made where considered appropriate. Prior to the issue of the final version of the report recommendations are agreed with management along with accountability for their implementation and an agreed timescale.
- 30) Recommendations contained in reports are categorised as high, medium or low priority. In addition each report will contain an opinion on the level of control operating in the area being audited, ranging from “full assurance” down to “no assurance”.

Monitoring

- 31) Progress in completing the Audit Plan is monitored on an ongoing basis through regular meetings with the Chief Financial Officer along with periodic meetings with the external auditor and the Council’s Senior Management Team. Audit recommendations are followed up on an ongoing basis and reported to Corporate Governance & Finance Committee.

Annual Audit Opinion

- 32) The annual assessment of the overall internal control environment included in the Internal Audit Annual Report and Opinion is informed by a collective view of all the levels of assurance given during the year. The annual opinion then forms part of the review of the effectiveness of the Council’s governance framework and is included in the published Annual Governance Statement.

External Audit

- 33) External audit, in the performance of their work, also place reliance on Internal Audit’s review of key financial systems, and the assessment of key controls supported by appropriate testing. This relationship is enhanced through liaison meetings between Internal Audit and external audit.

Outcomes

- 34) The main outcomes from the work of Internal Audit are as follows:-
- The delivery of the Annual Audit Plan, taking into account necessary changes for unplanned work, revised priorities, special investigations, staff absence and vacancies
 - The issue of audit reports at the conclusion of each audit review
 - The follow up on implementation of agreed audit recommendations
 - The presentation of reports to Corporate Governance & Finance Committee on the work of Internal Audit
 - The provision of an Internal Audit Annual Report and Opinion on the overall effectiveness of the control environment, the opinion being included in the Annual Governance Statement which accompanies the Council’s Annual Statement of Accounts.
 - The provision of ad-hoc advice on control and governance issues

- The investigation of referrals of cases of suspected financial irregularity, fraud, bribery and corruption, with the exception of benefit related fraud, which are investigated by the Anglia Revenues Partnership.

Internal Audit Team

- 35) The size of the Internal Audit team should be informed by the Strategic Audit Plan and should be subject to ongoing review and consideration to ensure that it continues to be adequate to deliver an effective service and an annual opinion.
- 36) Internal Audit is resourced by a mixture of in-house provision (Principal Auditor) and the procurement of additional resources from the West Suffolk Internal Audit Section. This approach works well in a small Council as it provides the opportunity to tap into different areas of expertise and specialisms that are available within a larger audit team. The current level of resources is considered sufficient to ensure both the delivery of the Audit Plan and provide the necessary assurance on the effectiveness of the system of internal control.
- 37) The Principal Auditor is required to undertake a programme of continuing professional development to maintain and develop competencies. This is achieved through professional training, attendance at ad-hoc seminars and in-house training courses. Training needs are assessed on an ongoing basis and formally reviewed as part of the Council's Performance Management Scheme.

Internal Audit Performance

- 38) The performance of the Internal Audit function is measured through the inclusion of a number of key performance indicators which are included in the Principal Auditor's accountabilities/measures which form part of the Performance Management Scheme. Performance is not routinely reported in the Committee arena.

Governance and the Role of Internal Audit

- 39) Local government bodies operate through a governance framework which brings together an underlying set of legislative requirements, governance principles and management processes. The corporate governance framework "Delivering Good Governance in Local Government" published by CIPFA and SOLACE in 2007, and its subsequent addendum published in 2012, defines the principles that should underpin the governance of each local authority body. It provides a structure to help authorities with their own approach to governance and contains six core principles focusing on:-
- The purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
 - Members and officers working together to achieve a common purpose with clearly defined functions and roles
 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
 - Developing the capacity and capability of members and officers to be effective
 - Engaging with local people and other stakeholders to ensure robust local public accountability
- 40) The framework is intended to be followed as best practice for developing and maintaining a local code of corporate governance and for discharging responsibility for the proper conduct of public business, and this is summarised in the Annual Governance Statement. Time is included within the Annual Audit Plan to evaluate the effectiveness of the governance arrangements and to produce the Annual Governance Statement.

Review of the Effectiveness of Internal Audit

- 41) In order to comply with the Accounts and Audit Regulations, the Council must, at least once a year, conduct a review of the effectiveness of its internal audit. The Internal Audit Annual Report which is presented to Corporate Governance & Finance Committee provides an overview of the work and performance of Internal Audit throughout each year and provides an opportunity for Members to challenge both the audit process and specific issues identified. This Annual Report, along with further independent reviews by the external auditors, provides an assurance of the effectiveness of the Internal Audit service.
- 42) The PSIAS also require an external assessment of Internal Audit every five years, and whilst not prescriptive in terms of how this should be fulfilled, CIPFA guidance indicates that external assessments can be in the form of a full external assessment, or a self-assessment with independent external validation. Internal Audit must also complete an annual self-assessment against the PSIAS for approval by the Chief Financial Officer, and the results reported to the Corporate Governance & Finance Committee within the Internal Audit Annual Report.

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