East
Cambridgeshire
District Council

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Internal Audit

Charter and Strategy

Executive summary

The Internal Audit Charter defines the purpose, authority and responsibility of East Cambridgeshire District Council's Internal Audit service. It establishes the scope of the Internal Audit service and outlines how the service complies with statutory requirements, ethical and professional standards.

The key principles of East Cambridgeshire District Council's Internal Audit service are as follows:

- Internal Audit provides an Annual Internal Audit Opinion based on an objective and comprehensive assessment of the Council's framework of governance, risk management and control.

- Internal Audit provides advice and consultancy services with the aim of adding value and improving organisational governance, risk management and control.

- All Council activities fall within the scope of Internal Audit, and the Internal Audit service has a complete right of access to all records and property held by East Cambridgeshire District Council and to all officers of the Council.

- Internal Audit operates in compliance with Public Sector Internal Audit Standards (PSIAS) and the Chartered Institute of Internal Auditors' Code of Ethics.

- Internal Audit is independent and may report directly to the Chief Executive and the Chair of the Audit Committee. Regular reporting on audit activity is provided to the Section 151 Officer, Corporate Management Team and the Audit Committee.

- Internal Audit team consists of qualified and part-qualified professionals in assurance and accounting. The service is committed to professional development and continuous quality assurance and improvement.

- Internal Audit staff have a professional duty to operate in an ethical way, be honest and professional and demonstrate integrity at all times.

- The Internal Audit Charter is regularly reviewed and approved annually by the Audit Committee and senior management.

1   Purpose, Mission Statement and Definition

Purpose of the Charter and Strategy

1.1   The purpose of this Internal Audit Charter is to define Internal Audit's purpose, authority and responsibility. It establishes Internal Audit activity'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. The Charter and Strategy should enable Internal Audit to deliver a modern and effective service that:

- Meets the requirements of the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations;
- Ensures effective audit coverage and a mechanism to provide independent and objective overall assurance in particular to Councillors and management;
- Provides an independent Annual Opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control environment;
- Identifies the highest risk areas of the Council and allocates available Internal Audit resources accordingly;
- Adds value and supports senior management in providing effective control and identifying opportunities for improving value for money; and
- Supports the Section 151 officer in maintaining prudent financial stewardship for the Council.

Internal Audit Mission Statement

1.2   The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Definition of Internal Audit

1.3   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.

2 Context

2.1 The Council's Internal Audit service is delegated to North Northamptonshire Council. The delegated service is led by North Northamptonshire Council's Chief Internal Auditor, who fulfils the role of the Chief Audit Executive.

2.2 The core governance context for Internal Audit is summarised as follows:

- **The Accounts and Audit Regulations (2015)** set out that:

A relevant authority must ensure that it has a sound system of internal control which—

(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;

(b) ensures that the financial and operational management of the authority is effective; and

(c) includes effective arrangements for the management of risk.

And 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.

A relevant authority must, each financial year—

conduct a review of the effectiveness of the system of internal control required by regulation 3; and prepare an annual governance statement.

- **The Public Sector Internal Audit Standards (PSIAS)** issued in 2017 include:

The need for risk-based plans to be developed for Internal Audit and to receive input from management and the 'Board' (usually discharged by the Council's Audit Committee).

The work of Internal Audit therefore derives directly from these responsibilities, including:

PSIAS 2010 - "The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."

PSIAS 2450 – "The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisations framework of governance, risk management and control".

2.3 The definitions applied to the PSIAS terminology throughout this document are provided in Table 1.

Table 1: Definitions

Terminology	Definition for East Cambridgeshire District Council
'Board', as per PSIAS	The Audit Committee
'Chief Audit Executive', as per PSIAS	The Chief Internal Auditor
'Senior management'	Corporate Management Team
'Assurance services'	An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the Council. Areas for assurance include financial controls, performance, policy compliance, system security and due diligence.
'Consultancy services'	Advisory and related client 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. Such examples would include advice, facilitation and training.

3   Strategy

3.1   Internal Audit will provide the public, Councillors and Council officers with confidence that Council operations are properly governed and controlled, risks are effectively managed and service delivery meets customer need. Where confidence is not possible the service will ensure that the implications and risks are understood to ensure proportionate action is taken. Internal Audit will be responsive to the Council's needs and the risks to which the Council is exposed.

3.2   Internal Audit is not responsible for the control systems it audits. Responsibility for effective internal control rests with the management of the Council. Directors and Service Leads are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services and achieve approved objectives / policy.

3.3   Internal Audit will provide a robust, high quality audit service that delivers honest, evidenced assurance, by:

- **Providing assurance**
  There is value in providing assurance to senior managers and Members that the arrangements they put in place are working effectively, and in helping managers to improve the systems and processes for which they are responsible.

- **Balancing independent support and challenge**
  Avoiding a tone which blames, but being resolute in challenging for the wider benefit of the Council and residents.

- **Focusing on what is important**
  Deploying its resources where there is most value aligned to the corporate objectives and priorities, the processes to facilitate these and the key risks to their achievement, whilst ensuring sufficient assurance to support the Annual Governance Statement.

- **Being flexible and responsive to the needs of the Council**
  The Annual Plan will be reviewed quarterly enabling Audit resources to be redeployed as new risks emerge, with the agreement of senior management and the board.

- **Being outward looking and forward focused**
  The service will be aware of national and local developments and their potential impact on the Council's governance, risk management and control arrangements. The Chief Internal Auditor leads on the internal audit provision for five local authorities, thereby providing opportunities to share good practice, lessons learned and emerging risks.

- **Having impact**
  Delivering work which has support from management and leads to sustained change.

- **Strengthening the governance of the Council**
  Being ambassadors for, and encouraging the Council towards, best practice in order to maximise the chances of achieving its objectives, including the provision of consultancy and advice.

- **Enjoying a positive relationship with, and being welcomed, by the 'top table'**
  Identifying and sharing organisational issues and themes that are recognised and taken on board. Working constructively with management to support new developments.

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3.4   The Internal Audit Service maintains an ongoing and comprehensive understanding of:

- Local government / public sector issues;
- The Council and its community; and
- Professional Audit and Corporate Governance standards.

3.5   All staff within the Internal Audit service hold a relevant professional qualification, part qualification or are actively studying towards a relevant qualification. All participate in continuing professional development, both in relation to specific audit skills e.g. contract audit, and softer skills e.g. communication skills.

3.6   The mandatory core principles for the Professional Practice of Internal Auditing underpin the way in which the service is delivered and are embedded in ways of working, as detailed in this Charter. The principles ensure Internal Audit:

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

4   Authority

4.1   In accordance with the PSIAS, the Chief Internal Auditor has full responsibility for the operation and delivery of the Internal Audit function including the production and execution of the audit plan and subsequent audit activities. The annual audit plan will be agreed in consultation with relevant officers, the Audit Committee, and the senior management team.

4.2   Internal Audit's remit extends across the entire control environment of the Council.

4.3   Internal Audit has unrestricted access to all Council and partner records and information (whether manual or computerised systems), officers, cash, stores and other property, it considers necessary to fulfil its responsibilities. Internal Audit may enter Council property and has unrestricted access to all locations and officers without prior notice if necessary.

4.4   All Council contracts and partnerships should contain similar provision for Internal Audit to access records pertaining to the Council's business held by contractors or partners.

4.5   All Council employees are required to assist the Internal Audit service in fulfilling its roles and responsibilities.

4.6   The Audit Committee (as the Board) shall be informed of any restriction unduly placed on the scope of Internal Audit's activities which in the opinion of the Chief Internal Auditor prevents the proper discharge of Internal Audit functions.

4.7   The Chief Internal Auditor and individual audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

4.8   To provide for independence, the day to day management of the Internal Audit Service is undertaken by the Chief Internal Auditor who reports to the Audit Committee. This accords with the Public Sector Internal Audit Standards which requires the Chief Internal Auditor to report to the very top of the organisation.

4.9   The Chief Internal Auditor has direct and unrestricted access to the Council's Chief Executive, Section 151 Officer, Directors, External Auditor and Audit Committee at their discretion, including private meetings with the Chair of the Audit Committee.

5   Ethics, independence & Objectivity

5.1   Independence is essential to the effectiveness of the Internal Audit service; as such, it will remain free from interference in all regards. This shall include, but not be limited to, matters of audit selection, scope, procedure, frequency, timing or report content.

5.2   Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

5.3   The Chief Internal Auditor's role includes providing Risk Management support. Responsibility for implementing risk management activity is retained by the relevant officers at the Council, and the role of Internal Audit is to provide independent advice and support for this process rather than to undertake risk management activity directly or influence risk scoring. Internal Audit reviews of risk management focus on actual risk management activity undertaken by management, not the support of the Internal Audit team, thus avoiding potential conflicts of interest. This ensures that there is no impairment to Internal Audit's independence and objectivity, as well as ensuring that Internal Auditors have a high degree of familiarity with the principles of risk management within the organisation to inform their assurance work.

5.4   The Internal Audit service also leads on corporate counter fraud activity for the Council. Internal Audit would often be best placed to lead on investigating whistleblowing referrals relating to fraud and corruption or financial impropriety. Internal Audit also maintain the Report Fraud mailbox for the Council, providing an independent point of contact for referrals.

5.5   In addition to the ethical requirements of the various professional bodies, each auditor is required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest and declare any potential conflict of interest on allocation of an audit. Any potential impairments to independence or objectivity will be declared prior to accepting any work and managed by the Chief Internal Auditor.

5.6   Internal Auditors also sign acceptance of the Internal Auditor's Code of Ethics on an annual basis.

5.7   Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, 'approve' procedures, install systems, prepare records, or engage in any other activity that may impair the Internal Auditor's judgment. Where auditors have previously been involved in any of these activities or consultancy work they will be prohibited from auditing those areas for at least two years. Where appropriate, audits are rotated within the team to avoid over-familiarity and complacency.

5.8   The Chief Internal Auditor will confirm to the Audit Committee, at least annually, the organisational independence of the Internal Audit service.

6   How the service will be delivered

Audit Planning

6.1   The audit plan guides the work of the service during the year. The planning principles are:

- Focusing assurance work on the most important issues, the key obligations, outcomes and objectives, critical business processes and projects, and principal risks; pitching coverage therefore at both strategic and key operational aspects;
- Maintaining up to date awareness of the impact of the external and internal environment on control arrangements;
- Using a risk assessment methodology to determine priorities for audit coverage based as far as possible on management's view of risk in conjunction with other intelligence sources e.g. corporate risk register;
- Taking account of dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs, but recognising in a resource constrained environment there will be situations when not all needs can be met which is where risk management is key;
- Being flexible so that the plan evolves through the year in response to emerging risks and issues;
- Providing for the delivery of key commitments, such as any work that can be delivered in support of the external auditor thus reducing the external audit fee, and to deliver governance and counter fraud responsibilities; and
- Including provision for responding to requests for assistance with special investigations, consultancy and other forms of advice.

6.2   The number of available audit days to the Internal Audit Service will be reviewed to be sufficient to enable the audit service to deliver the risk based plan in accordance with professional standards.

6.3   In order to deliver the annual Audit Plan at the required quality and professionalism, Internal Audit strive to ensure that the team has the required mix of skills and experience. The use of external experts e.g. IT auditors compared to employing or developing these expensive resources in house is constantly under review to ensure that the service delivers a high quality product at best value for money. Future recruitment will take into account the expertise and skills required to fill any gaps within the current service.

6.4   The breadth of coverage within the plan necessitates a wide range of high quality audit skills. The types of audit work undertaken include:

- Risk based system audit
- Compliance audit
- IT audit
- Data protection audit
- Procurement and contract management audit
- Project and programme audits
- Fraud/investigation work
- Consultancy and advice

6.5   Internal Audit may procure external audit resource to enhance the service provision, as necessary.

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Internal Audit Annual Opinion

6.6 Each year the Chief Internal Auditor will provide a publicly reported opinion on the effectiveness of governance, risk and control, which also informs the Annual Governance Statement. This will be supported by reliable and relevant evidence gathered though all work undertaken by Internal Audit during the year and any other sources of assurance that the Chief Internal Auditor can place reliance upon.

Conduct of work

6.7 The principles of how the Internal Audit work is conducted are:

- Focusing on what is important to the Council and in the ultimate interests of the public;
- Ensuring that risks identified in planning are followed through into audit work;
- Agreeing the scope, objectives and any limitations of audit coverage at the outset of every assignment, which will be documented in an audit planning record. This record will be approved by the relevant Director, and will set out the risks which will covered within the audit fieldwork;
- Ensuring that the right skills and suitable approaches are in place for individual assignments;
- Applying an informed, unbiased approach to sample selection and audit testing;
- Striving continuously to foster buy-in and engagement with the audit process;
- Ensuring findings and facts reported are accurate and informed by a wide evidence base, including requesting information from other stakeholders, where appropriate;
- Informing management of key findings at the earliest, appropriate opportunity;
- Suggesting actions to address findings which are pragmatic and proportionate to risk, tailored for the best result and taking into account the culture, constraints and the cost of controls;
- Focusing, as a rule, on ensuring compliance with existing/expected processes and systems and reducing bureaucracy rather than introducing additional, unnecessary layers of control;
- Being resolute in challenging; taking account of views, escalating issues and holding position when appropriate;
- Driving the audit process by agreeing, and delivering to, deadlines and escalating non-response promptly in order to complete assignments; and
- Maintaining high standards of behaviour at all times and operating in line with the Council's Code of Conduct and Equality and Diversity policies.

Reporting

6.8 The reports produced by the service are its key output. The reporting principles are:

- Providing balanced evidence-based reports which recognise both good practice and areas of weakness;
- Reporting in a timely, clear and professional manner;
- Ensuring that reports clearly set out assurance opinions on the objectives/risks identified in planning work;
- Always seeking management's response to reports so that the final report includes a commitment to action;
- Sharing outcomes with senior management and Members, identifying key themes and potential future risks so that audit work has impact at the highest levels; and

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- Sharing learning with the wider organisation with a view to encouraging best practice across the Council.

6.9 A written report will be prepared and issued following the conclusion of each Internal Audit engagement, including follow up audits; unless in the opinion of the Chief Internal Auditor a written report is unnecessary.

6.10 Each report will:

- provide an evidenced opinion on the adequacy of the governance, risk and control processes;
- identify inadequately addressed risks and non-effective control processes;
- detail agreed actions including explanation for any corrective action that will not be implemented;
- provide management's response and timescale for corrective action;
- provide management's explanations for any risks that will not be addressed; and
- Identify individuals responsible for implementing agreed actions.

6.11 Each draft audit report will be issued to the lead officer and Service Lead for initial comments, responses to recommendations and agreement of accuracy. A final draft will be issued to the Director for agreement and sign off. Alternative reporting arrangements can be agreed to incorporate specific officers and/or additional senior management leads, as appropriate, where agreed in the scoping of the audit and audit planning record.

6.12 Senior Management shall ensure that agreed corrective actions are introduced.

6.13 Periodic summary reports are issued to the Audit Committee. In consultation with the Audit Committee Chair, senior management from the respective service area may be invited to attend the Audit Committee meeting in respect of any reports receiving an opinion of Limited Assurance or below.

6.14 To assist the reader in easily identifying the areas that are well managed and the significance of areas of concern, actions, objectives and overall assurance opinions are categorised using three key elements as summarised below (and set out in detail at Annex A):

1) Assess and test the **control environment**;

2) Test **compliance** with those control systems; and

3) Assess the **organisational impact** of the matters arising.

Actions / Recommendations

6.15 Recommendations made by Internal Audit are categorised dependent on the associated risk. The definitions are as provided in Annex B. For each recommendation made, a management response is sought, and an agreed action plan is finalised within the audit report. This must include owners and dates for implementation.

Follow up

6.16 All actions are followed up in accordance with the agreed action implementation dates. Further follow ups are undertaken as required. Management are asked to provide evidence when a High or Medium category action has been fully implemented.

Quality assurance

6.17 The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards (PSIAS);
- Professional standards and Code of Ethics required by auditor's respective professional bodies;
- Internal Audit Strategy, Charter and Audit Manual; and
- All relevant legislation.

6.18 The Chief Internal Auditor maintains an appropriate Quality Assurance Framework and reports on this annually. The framework includes:

- An audit manual - documenting ways of working and expected standards
- Staff supervision and review arrangements
- Customer feedback arrangements
- Quality standards and performance measures, including:
  - o Proportion of audit plan completed
  - o Productive/direct time as a % of total time
  - o Customer satisfaction levels
- Annual internal review
- Periodic external reviews

6.19 The completion of every assignment shall be monitored against:

- end to end time
- days taken to complete
- time between key audit stages e.g. draft issue to final report issue
- customer satisfaction

6.20 The Audit Committee, senior management and the Section 151 Officer receive regular updates on audits completed, the assurance opinions and actions implemented. Weak and limited opinion reports and key actions not implemented are discussed in more detail as appropriate with management, the Section 151 Officer and / or the Audit Committee.

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6.21 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of its activity. This consists of:

- ongoing performance monitoring;
- an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards (PSIAS);
- an external assessment at least once every five years by a suitably qualified, independent assessor;
- a programme of Continuous Professional Development (CPD) for all staff to ensure that auditors maintain and enhance their knowledge, skills and audit competencies;
- the Chief Internal Auditor holding a professional qualification (current Chief Internal Auditor is a member of CIPFA) and being suitably experienced; and
- encouraging, and where appropriate acting upon, customer feedback.

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7 Audit Committee oversight

7.1 The Chief Internal Auditor will provide regular progress reports to the Audit Committee to advise on the delivery of the audit plan, the outcomes of each Internal Audit engagement, and any significant risk exposures and control issues identified during audit work.

7.2 The Chief Internal Auditor will also provide an annual report giving an opinion on the overall adequacy and effectiveness of the control environment which will be timed to support the Council's Annual Governance Statement. In addition, the Audit Committee will:

- approve any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken;
- approve, but not direct, changes to the audit plan;
- be informed of results from the quality assurance and improvement programme; and
- be informed of any instances of non-conformance with the Public Sector Internal Audit Standards.

8 Counter fraud and associated issues

8.1 The Chief Internal Auditor will ensure that all work is undertaken in accordance with, and all staff are conversant with, the Council's Counter Fraud policies and culture, including:

- Anti-Fraud and Corruption strategy
- Bribery Act policy statement
- Whistleblowing policy
- Anti-Money Laundering Policy

8.2 All Internal Audit staff will be alert to the possibility of fraud during assignments, but auditors are not responsible for identifying fraud.

Annex A

Internal control assessment

Control Environment Assurance	
Level	**Definitions**
Substantial	There is a sound system of internal control to support delivery of the objectives.
Good	There is generally a sound system of internal control, with some gaps which pose a low risk to delivery of the objectives.
Moderate	There are gaps in the internal control framework which pose a medium risk to delivery of the objectives.
Limited	There are gaps in the internal control framework which pose a high risk to delivery of the objectives.
No	Internal Audit is unable to provide any assurance that a suitable internal control framework has been designed.

Compliance Assurance	
Level	**Definitions**
Substantial	The control environment is operating as intended with no exceptions noted which pose risk to delivery of the objectives.
Good	The control environment is generally operating as intended with some exceptions which pose a low risk to delivery of the objectives.
Moderate	Controls are not consistently operating as intended, which poses a medium risk to the delivery of the objectives.
Limited	Key controls are not consistently operating as intended, which poses a high risk to the delivery of the objectives.
No	Internal Audit is unable to provide any assurance that controls have been effectively applied in practice.

Organisational Impact	
Level	**Definitions**
High	The weaknesses identified during the review have left the Council open to a high level of risk. If the risk materialises it would have a high impact upon the organisation as a whole.
Medium	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a medium impact upon the organisation as a whole.
Low	The weaknesses identified during the review have left the Council open to low risk. This may have a low impact on the organisation as a whole.

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Annex B

Audit recommendation categories

Category	Definition
High	Requires actions to avoid exposure to substantial risks in achieving objectives for the area.
Medium	Requires actions to avoid exposure to significant risks in achieving objectives for the area.
Low	Action recommended to enhance control or improve operational efficiency.