

Cumbria County Council - Internal Audit Charter 2021/22

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
 - the mission of internal audit
 - core Principles for the Professional Practice of Internal Auditing; and
 - the standards by which internal audit work must be conducted.
- 1.4 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 be referred to in the external auditor's value for money conclusion.
- 1.5 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.
- 1.6 The charter must be presented to the Council's senior management (Corporate Management Team) and must be approved by the Audit and Assurance Committee.
- 1.7 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, Mission and Core Principles 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 mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

- 2.3 The Cumbria Shared Internal Audit Service (“internal audit”) provides an internal audit function for Cumbria County Council (the host authority), Cumbria Constabulary and the Cumbria Office of the Police and Crime Commissioner.
- 2.4 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.
- 2.5 Internal audit activities in support of this include:
- Planning and undertaking an annual programme of risk-based internal audit reviews focusing on risk management, internal control and governance
 - Review of arrangements for preventing, detecting and dealing with fraud and corruption
 - Review of overall arrangements for risk management and corporate governance
 - Review of grant funded expenditure where assurance is required by funding bodies or where risks are considered to be high
 - Provision of advice on risk and control related matters
 - Consultancy services which may include hot assurance on projects or service and system development (provided the assignment contributes to improved governance, risk management, internal control, and where relevant value for money, and does not impact on the level of core assurance work)
 - Provision of advice and support to management in undertaking investigations in line with the Counter-Fraud policy
 - Advice on strengthening controls following such an incident.
- 2.6 The Core Principles, taken as a whole, articulate internal audit effectiveness. The Principles as set out in the PSIAS are:
- 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
 - Promotes organisational improvement.

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 the Audit and Assurance Committee with independent, objective assurance that the Council has 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 its limited resources at the areas identified as highest risk to the Council. This then allows internal audit to give an annual overall opinion on the Council's systems of risk management, internal control and governance.
- 3.4 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 their responsibilities under section 151 of the Local Government Act 1972, the Accounts and Audit Regulations 2015 and the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. This statement places on the Chief Financial Officer, the responsibility for ensuring that the authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.
- 3.6 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 their 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 the 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 Internal Audit.

- 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. The Group Audit Manager will have at least an annual meeting in private with the Chair of the Audit and Assurance Committee.

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 Council's overall systems of risk management, internal control and governance.
- 3.13 The Group Audit Manager and their staff have responsibility for the following areas:

Planning

- Develop an annual internal audit plan using a risk based methodology, based on at least an annual assessment of risk and incorporating risks and concerns identified by senior management
- Submit the annual audit plan to senior management (Directorate and Corporate Management Teams) and to the 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 (circulation lists will be agreed at the scoping stage of each engagement) and in summary to the Audit and Assurance Committee
- Advise on and assist with 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 the 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 the Audit and Assurance Committee
- Internal audit has a responsibility to report to the 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 the 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 the 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 in relation to 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; and
 - legal and regulatory requirements are being met.

5. Position and Reporting Lines for Internal Audit

- 5.1 Internal Audit reports operationally to the Director of 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 Director of Finance (section 151 officer) who is charged with ensuring the organisation has put in place effective arrangements for internal audit of the Council's governance, risk management and internal controls.
- 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 the 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 Director of Finance and reported to the 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 the approved audit plan 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 and the Office of the Police and Crime Commissioner (representing also Cumbria Constabulary). The host authority for the delivery of the shared audit service is Cumbria County Council.
- 6.4 The governance of the shared internal audit service is carried out by the S151 Officers of the organisations 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 the 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 Director of Finance, there is also a functional reporting line to the Audit and Assurance Committee and the Group Audit Manager has direct access to the Chief Executive and the Chair of the 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 the 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 the 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 Council 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 2019, 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 Anti-Fraud, Bribery and Corruption policy and Whistleblowing policy that all suspected frauds are reported to the Group Audit Manager. Internal audit may advise on the appropriate way to proceed, and on ensuring appropriate controls are implemented following an investigation.

- 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 only 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 and / or improve value for money
 - No conflict of interest could be perceived from internal audit's acceptance of the assignment; and
 - The request does not relate to functions that are the responsibility of the Council's management and are thereby not appropriate internal audit tasks.
- 6.16 In line with the PSIAS, approval will be sought from the 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 the Audit and Assurance Committee are mandating management to cooperate with internal audit in the delivery of the service by:
- Attending audit planning and scoping meetings and agreeing the terms of reference for individual audit assignments on a timely basis 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 personnel 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 Director of Finance (s151 officer) and ultimately to the Audit and Assurance Committee if necessary.

- 7.3 Whilst Internal Audit is responsible for providing independent assurance to the Council and its Audit and Assurance Committee, it is the responsibility of 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:
- Ensuring 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 S151 Officers of Cumbria County Council, the Office of the Police and Crime Commissioner and Cumbria Constabulary before making recommendations for approval by the Audit and Assurance Committee.

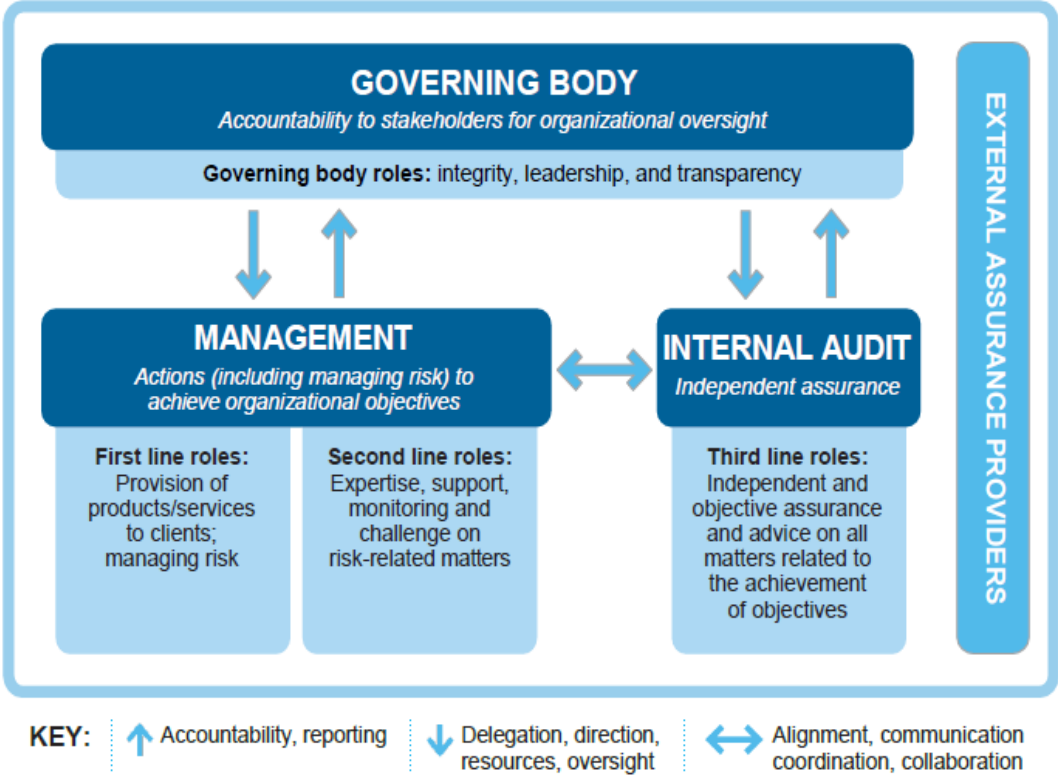
9. Review of Audit Charter

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

The Three Lines model

The Institute of Internal Auditors (IIA) updated its Three Lines of Defence model in July 2020. The updated model removes the term 'defence' and provides more focus on the need for regular interaction between Internal Audit and management, including a focus on providing advice whilst retaining independence from the responsibilities of management.

The IIA's Three Lines Model



The revised model sets out three broad categories or groups of roles critical for governance:

Governing Body

The Governing Body is accountable to stakeholders for oversight of the organisation. It engages with stakeholders to monitor their interests and communicates transparently on the achievement of objectives. It promotes a culture of ethical behaviour and accountability.

The Governing Body is responsible for establishing the structures and processes for governance, including supplementary committees as required. It delegates responsibility to management and provides resources to achieve organisational objectives.

Risk appetite and oversight of risk management (including internal control) is determined by the governing body which also maintains oversight of compliance with legal, regulatory and ethical expectations.

The governing body oversees an independent, objective and competent internal audit function.

Management

First line management roles lead and direct actions (including managing risk) and application of resources to achieve the organisation's objectives. It maintains continuous dialogue with and reports to the governing body.

First line management is responsible for establishing and maintaining appropriate structures and processes for managing the operations and risk (including internal control). It ensures compliance with legal, regulatory and ethical expectations.

Second line management provides expertise, support, monitoring and challenge related to managing risks including the development, implementation and continuous improvement of risk management practices at a processes, systems and entity level. It is responsible for maintaining compliance with laws, regulations, acceptable ethical behaviour, internal control, information and technology security, sustainability and quality assurance.

Internal Audit

Internal Audit is accountable to the governing body and is independent from the responsibilities of management. It provides independent and objective assurance and advice to management and the governing body on the adequacy and effectiveness of governance and risk management (including internal control) to support the achievement of organisational objectives and to promote and facilitate continuous improvement. It reports impairments to independence and objectivity to the governing body and implements safeguards as required.