

**CAMBRIDGE CITY COUNCIL
INTERNAL AUDIT CHARTER**

KEY CONTACTS

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Next Review: By March 2015

1. INTRODUCTION

- 1.1 Organisations in the UK public sector have historically been governed by an array of differing internal audit standards. The Public Sector Internal Audit Standards (the PSIAS), which took effect from the 1 April 2013, and are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) now provide a consolidated approach to promoting further improvement in the professionalism, quality, consistency, transparency and effectiveness of Internal Audit across the whole of the public sector.
- 1.2 The PSIAS require that all aspects of Internal Audit operations are acknowledged within an Audit Charter that defines the purpose, authority and responsibilities of the service provision. The Charter therefore establishes the position of the service within Cambridge City Council (CCC); its authority to access records, personnel and physical properties relevant to the performance of engagements; in addition to defining the scope of Internal Audit activities. There is also an obligation under the PSIAS for the Charter to be periodically reviewed / presented to Civic Affairs Committee, the Section 151 Officer and senior management. This Charter will therefore be revisited annually to confirm its ongoing validity and completeness, and be circulated in accordance with the requirements specified above.

2. PURPOSE

- 2.1 In accordance with the PSIAS, Internal Auditing is defined 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."

- 2.2 However, it should also be appreciated that the existence of Internal Audit does not diminish the responsibility of senior management to establish appropriate and adequate systems of internal control and risk management. Internal Audit is not a substitute for the functions of senior management, who should ensure that Council activities are conducted in a secure, efficient and well-ordered manner with arrangements sufficient to address the risks which might adversely impact on the delivery of corporate priorities and objectives.

3. AUTHORISATION

- 3.1 The requirement for an Internal Audit Service is outlined within the Accounts and Audit Regulations 2003, as amended in 2006 and 2011, which state that "a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control". This statutory requirement for continuous Internal Audit has been formally recognised and endorsed within CCC's Constitution.

- 3.2 Further, there are additional requirements placed upon the Chief Audit Executive (see Section 4: Organisation and Relationships), to fulfil all aspects of CIPFA's Statement on the Role of the Head of Internal Audit in Public Sector Organisations, whilst the Council's Constitution makes Internal Audit primarily responsible for carrying out an examination of the accounting, financial and other operations of the Council, under the independent control and direction of the Section 151 Officer. The role of Section 151 Officer at CCC, as at March 2014, is currently being recruited into. Interim arrangements exist with South Cambridgeshire District Council.
- 3.3 The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised to have full, free, and unrestricted access to any and all of the organisation's:
- Records, documents and correspondence (manual and electronic) relating to any financial and other transactions;
 - Physical properties, i.e. premises and land, plus cash, stores or any other Council property; and
 - Personnel – requiring and receiving such explanations as are necessary concerning any matter under examination and generally assisting the Internal Audit activity in fulfilling its roles and responsibilities.
- 3.4 Such access shall be granted on demand and shall not be subject to prior notice, although in principle, the provision of prior notice will be given wherever possible and appropriate, unless circumstances dictate otherwise.

4. ORGANISATION AND RELATIONSHIPS

- 4.1 Within the PSIAS, the terms 'Chief Audit Executive,' 'Board' and 'Senior Management' are used to describe key elements of the organisation's governance, and the ways in which they interact with Internal Audit. The PSIAS require that the terms are defined in the context of the governance arrangements in each public sector organisation, in order to safeguard the independence and objectivity of Internal Audit. At CCC, the following interpretations are applied, so as to ensure the continuation of the current relationships between Internal Audit and other key bodies at the Council. The following terms are explained:
- Chief Audit Executive
 - Board
 - Senior Management
 - External Audit
 - Other Internal Audit Service Providers
 - Other External Review and Inspection Bodies

4.2 Chief Audit Executive

At CCC, the Chief Audit Executive is the Head of Internal Audit (HoIA), who fulfils this role to Peterborough City Council (PCC) and South Cambridgeshire District Council (SCDC) as part of a shared service arrangement. A Memorandum of Understanding exists between all three authorities and this agreement is subject to annual review. Each authority, as at March 2014, had its own internal staff providing the Internal Audit service. The HoIA has a direct line of reporting to the Section 151 officer at each Council and in response to requirements laid down within the PSIAS, it is further confirmed that the HoIA has a direct reporting line and access to the Chief Executive should it be required.

4.3 Board

In the context of overseeing the work of Internal Audit, the 'Board' will be the Civic Affairs Committee of the Council, which has been established as part of the corporate governance arrangements at the Council. The Committee is responsible for the following with reference to Internal Audit:

- Internal Audit Plans;
- Progress and performance against approved plans;
- Annual Audit Opinion, and
- Compliance against Public Sector Internal Audit Standards.

Internal Audit will work closely with committee to facilitate and support its activities. Moreover, should it be needed, the HoIA also has a direct reporting line and free access to the Chair of the Civic Affairs Committee.

4.4 Senior Management

In the context of ensuring effective liaison between Internal Audit and senior officers, Internal Audit has regular access to Directors and Heads of Service. 'Senior Management' for the purposes of this Charter is the Strategic Leadership Team of which the Section 151 Officer is a key member.

4.5 External Audit

Internal Audit's interact with the Council's External Auditors – Ernst and Young – in order to minimise any potential duplication of work and determine the assurance that can be placed on the respective work of the two parties. As a result this will ensure that External Audit can place maximum reliance on the work of Internal Audit, wherever possible.

4.6 Other Internal Audit Service Providers

Internal Audit will also liaise with other Council's Internal Audit Service providers, where shared service arrangements exist. In such cases, a dialogue will be opened with the other Council's equivalent Chief Audit Executive to agree a way forward regarding the future auditing of 'shared' services, which will be both efficient and cost effective for all parties involved, and cause least disruption to the area(s) being audited.

4.7 Other External Review and Inspection Bodies

The Internal Audit Section confirms it will likewise co-operate with all external review and inspection bodies that are authorised to assess and evaluate the activities of the Council, to determine compliance with regulations, standards or targets. Internal Audit will, wherever possible, utilise third party assurances arising from this work.

5. OBJECTIVES AND SCOPE

- 5.1 The provision of assurance services is the primary role of Internal Audit and there is a duty of care on the Chief Audit Executive to give an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This responsibility to evaluate the governance framework far exceeds examination of controls applying to the Council's core financial systems. Instead, Internal Audit is required to scrutinise the whole system of risk management, internal control and governance processes established by management.
- 5.2 Internal Audit also has a secondary role, whereby it will provide consultancy services which are advisory in nature and generally performed at the request of the Council to facilitate improved governance, risk management and control, and potentially contribute to the annual audit opinion.
- 5.3 A risk based Audit Plan will be developed each year to determine an appropriate level of audit coverage to generate an annual audit opinion, which can then be used to assist with the formulation of the CCC's Annual Governance Statement. Moreover, audit work performed will seek to enhance the Council's overall internal control environment. In the event of deficiencies in arrangements being identified during audit assignments, Internal Audit will put forward recommendations aimed at improving existing arrangements and restoring systems of internal control to a satisfactory level, where relevant.

5.4 In accordance with the PSIAS, the Internal Audit Service will evaluate and contribute to the improvement of:

- The design, implementation and effectiveness of the organisation's ethics related objectives, programmes and activities.
- The effectiveness of the Council's processes for performance management and accountability.
- The Council's IT governance provisions in supporting the organisation's corporate priorities, objectives and strategies.
- The Council's risk management processes in terms of significant risks being identified and assessed; appropriate risk responses being made that align with the organisation's risk appetite, the capturing and communicating of risk information in a timely manner, and its use by staff, senior management and members to carry out their responsibilities and inform decision making generally.
- The provisions developed to support achievement of the organisation's strategic objectives and goals.
- The systems formulated to secure an effective internal control environment.
- The completeness, reliability, integrity and timeliness of management and financial information.
- The systems established to ensure compliance with legislation, regulations, policies, plans, procedures and contracts, encompassing those set by the Council and those determined externally.
- The systems designed to safeguard Council assets and employees.
- The economy, efficiency and effectiveness with which resources are used in operations and programmes at the Council.

5.5 In addition to the areas recorded above, where Internal Audit will give input to their continuing enhancement; the Service will also provide support to the Section 151 Officer in the discharge of their duties, in particular with responsibility for the probity and effectiveness of the Authority's financial arrangements and internal control systems.

5.6 **Managing the risk of fraud and corruption is the responsibility of management.** However, as part of the scope of Internal Audit, it will be alert in all its work to the risks and exposures that could allow fraud or corruption to occur and will monitor the extent and adequacy of risk controls built into systems by management, sharing this information with External Audit and other corporate investigators e.g. Benefit Fraud.

5.7 In the course of delivering services encompassing all the elements stated above, should any significant risk exposures and control issues subsequently be identified, Internal Audit will report these matters to senior management, propose action to resolve or mitigate these, and appraise the Civic Affairs Committee of such situations.

6. **INDEPENDENCE**

- 6.1 The Internal Audit Section operates within an organisational framework that preserves the independence and objectivity of the assurance function, and ensures that Internal Audit activity is free from interference in determining the scope of internal auditing, performing work and communicating results. The framework allows the HoIA direct access to and the freedom to report unedited, as deemed appropriate, to the Civic Affairs Committee, the Chief Executive, Section 151 Officer and the Strategic Leadership Team.
- 6.2 Internal Auditors should have no operational responsibilities or authority over any of the activities that they are required to review. As a consequence, they do not develop procedures, install systems, prepare records, or engage in any other activity, which would impair their judgement. However, Internal Audit does have some surveillance over the development and facilitation of risk management advice and training. Overall ownership of risk management remains within Support Services.
- 6.3 In addition, Internal Auditors will not assess specific operations for which they were previously responsible, and objectivity is presumed to be impaired if an Internal Auditor provides assurance services for an activity for which they had responsibility within the previous 12 months. Internal Auditors may however provide consulting services relating to operations over which they had previous responsibility. The HoIA will confirm to the Civic Affairs Committee, at least annually, the organisational independence of the Internal Audit activity.

7. **PROFESSIONAL STANDARDS**

- 7.1 CCC's Internal Auditors operate in accordance with the Public Sector Internal Audit Standards, 2013.
- 7.2 The Internal Auditors are also governed by the policies, procedures, rules and regulations established by CCC. These include, but are not limited to, Financial Regulations and Contract Standing Orders, the Prevention of Fraud and Corruption Policy, and the Code of Conduct. Similarly, the Council's Internal Auditors will be aware of external bodies' requirements (e.g. as identified by CIPFA), and all legislation affecting the Council's activities.
- 7.3 The Council's Internal Auditors will additionally adhere to the Code of Ethics as contained within the PSIAS. Internal Auditors will also demonstrate due professional care in the course of their work and consider the use of technology-based audit and other data analysis techniques, wherever feasible and considered beneficial to the Council. All working arrangements and methodologies, which will be followed by CCC's Internal Auditors are set out in the Audit Manual.

8. **AUDIT RESOURCES**

- 8.1 The HoIA will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit management experience, to enable them to deliver the responsibilities of the role.

8.2 The HoIA will ensure that the Internal Audit Service has access to a team of staff that have an appropriate range of knowledge, skills, qualifications and experience to deliver requisite audit assignments. The type of reviews that will be provided in year include computer audits, contract audits, systems reviews, grant certification work, consultancy input to new / modified systems, and special / fraud investigations. In the event of special / fraud investigations being required, there is limited contingency in the Audit Plans to absorb this work. However, additional resources may need to be made available to the Internal Audit Service when such input is necessary.

9. **AUDIT PLANNING**

9.1 The HoIA will develop an annual audit strategy, together with annual audit plans and a summary of annual audit coverage using a risk based methodology. This will take into account documented corporate and operational risks, as well as any risks or concerns subsequently notified to Internal Audit by senior management. Copies of these documents will then be submitted to Departmental Management Teams and the Chief Executive for their approval prior to being taken forward to the Civic Affairs Committee for final endorsement, in advance of the new financial year to which they relate.

9.2 The Annual Audit Plan includes the timing, as well as budget and resource requirements for the year. Any difference between the plan and the resources available will be identified and reported to the Civic Affairs Committee. The plan will outline the assignments to be carried out and the broad resources and skills required to deliver the plan. It will provide sufficient information for the Council to understand the areas to be covered and for it to be satisfied that sufficient resources and skills are available to deliver the plan. Areas included in the audit plan are highlighted in **Table 1**.

TABLE 1: AUDIT ACTIVITIES	
•	Core system assurance work
•	Governance and Assurance Framework
•	Corporate / Cross Cutting audits, including value for money reviews
•	Contracts and Projects
•	Departmental specific reviews
•	Fraud and irregularities
•	Follow up activity
•	Internal consultancy / advice on risks, controls and procedures
•	Member support

9.3 The audit plan will be kept under review to identify any amendment needed to reflect changing priorities and emerging risks. It will be flexible, containing an element of contingency to accommodate assignments which could not have been readily foreseen. However, on occasions, specific audit requests take precedence over the original audit plan and will be required as additional work rather than as a

replacement. Resources, such as specialist or additional auditors may be required to supplement this. Internal Audit will reserve the right to make a charge for any additional work that is over and above that originally planned.

9.4 Annual audit plans will be discussed with each Departmental Management Team prior to their formal approval.

10. **REPORTING**

10.1 The process followed for completing each audit is set out in **Table 2**.

10.2 Upon completion of each audit assignment, an Internal Audit report will be prepared that:

- Provides an opinion on the risks and controls of the area reviewed, and this will contribute to the annual opinion on the internal control environment, which, in turn, informs the Annual Governance Statement; and
- Provides a formal record of points arising from the audit and management responses to issues raised, to include agreed actions with implementation timescales.

TABLE 2: WORKING ARRANGEMENTS DURING AUDITS	
Stage	Commentary
Audit Brief	Set up and agreed with manager(s)
Fieldwork	Assignment undertaking including interviews, testing etc.
Exit Meeting	At conclusion of fieldwork, issues raised for reporting (if not already provided during course of fieldwork).
Draft report	Produced within 15 working days of completion of fieldwork / exit meeting. Head of Service / Line Manager to formally respond within 15 days, including acceptance (or not) of actions together with timescale proposals to implement.
Final Report	Audit incorporates all management comments within report and re-issue as a final within 10 days of receiving the response. The report will be distributed in accordance with agreed protocols (see Table 4). Unless a special investigation, a questionnaire will be included with the final report to assess management's opinions on the conduct of the audit and the usefulness of the report

10.3 Exit meetings are accommodated enabling management to discuss issued Draft Audit Reports. Accountability for management's response to Internal Audit actions lies with the Chief Executive, Directors, and / or Heads of Service, as appropriate, who can either, accept and implement guidance given or formally reject it. However, if audit proposals to strengthen the internal control environment are

disregarded and there are no compensating controls justifying this course of action, an audit comment will be made in the Final Audit Report, reiterating the nature of the risk that remains and recognising that management has chosen to accept this risk. Furthermore, depending on the severity of the risk, the matter may be escalated upwards and drawn to the attention of the Civic Affairs Committee.

10.4 Actions are rated and an overall opinion given on the service area reviewed (see **Table 3**). Final Audit Reports will be issued in line with agreed working protocols to the relevant nominated officers and subject to follow up work as necessary.

TABLE 3: AUDIT OPINION / CLASSIFICATION OF RISKS	
We categorise our opinions according to our assessment of the controls in place and the level of compliance with these controls:	
Opinion / Assurance	Description
FULL	The system is designed to meet objectives and controls are consistently applied that protect the Authority from foreseeable risks.
SIGNIFICANT	The system is generally sound but there are some weaknesses of the design of control and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks.
LIMITED	There are weaknesses in the design of controls and / or consistency of application, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.
NO	Controls are weak and /or there is consistent non-compliance, which can result in the failure of the system. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives.

10.5 Following the end of the year, an annual report will be produced setting out Internal Audits opinion on the state of the internal controls and governance across the Council. This will comment upon:

- The scope including the time period to which the opinions pertains;
- Any scope limitations;
- Consideration of all related projects including the reliance on other assurance providers;
- The risk or control framework or other criteria used as a basis for the overall opinion;
- The overall opinion, providing reasons where an unfavourable overall opinion is given; and
- A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

TABLE 4: PLANNING AND REPORTING FREQUENCY			
Report Produced	For	Reason	Content
Audit Assignment Report	<ul style="list-style-type: none"> • The relevant departments' Director • Head of Service 	The end of each audit assignment as the main recipient and those charged with actioning the issues identified	<ul style="list-style-type: none"> • Executive Summary • Audit Opinion • Detailed risk issues • Agreed improvement plan
	<ul style="list-style-type: none"> • Chief Executive • Lead of the Council • Executive Councillor • External Audit • S.151 Officer • Members • Monitoring Officer 	At the conclusion of the audit for information purposes	As above, with the exception of Members and the Monitoring Officer who receive the Executive Summary only
Half Year Progress Reports	Civic Affairs Committee	To provide the Council with progress at delivering the audit service and any key governance issues arising.	<ul style="list-style-type: none"> • Progress against annual plan • Any amendments to current annual plan • Details of significant risk issues • Details of non-responses or non-implementation of actions
Annual Opinion and Performance Report	<ul style="list-style-type: none"> • Civic Affairs Committee • External Audit 	The end of each year in accordance with PSIAS. An evaluation of the works undertaken and the level of assurance established.	<ul style="list-style-type: none"> • Annual assurance report giving HoIA's opinion on the control environment • Achievement of the annual plan and performance data. • Effectiveness of Internal Audit • Compliance with PSIAS and any associated quality improvement plan
Annual Audit Plan	<ul style="list-style-type: none"> • Civic Affairs Committee • S.151 Officer • External Audit 	Beginning of year. Details of the service delivered and the future plans to provide assurance across the Council in accordance with PSIAS.	<ul style="list-style-type: none"> • Audit Plan and days to be delivered • Audit Charter • Code of Ethics • Performance indicators to monitor service delivery and quality

11. **QUALITY ASSURANCE AND IMPROVEMENT**

11.1 The PSIAS require that the Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the Internal Audit activity, and includes both internal and external assessments. In the event of an improvement plan proving necessary to formulate and implement, in order to further develop existing service provisions, the HoIA will initiate the appropriate action and annually, the results of the quality and assurance programme together with progress made against the improvement plan will be reported to senior management and the Civic Affairs Committee.

11.2 **Internal Assessments**

Internal Assessments must include on-going monitoring of the performance of the internal audit activity. The Service operates in accordance with a number of key performance indicators. Performance is subject to regular review by the Audit Team.

Internal arrangements also include receipt of post audit feedback from auditees and should criticism be received, this will immediately be investigated and steps taken to resolve matters raised.

The PSIAS additionally require periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of Internal Audit practices. This obligation is satisfied by the HoIA performing an annual self-assessment of the effectiveness of Internal Audit, before the results are submitted to the Civic Affairs Committee. Presenting this information to the Civic Affairs Committee enables members to be assured that the Internal Audit Service is operating in a satisfactory manner such that reliance can be placed on the subsequent annual audit opinion provided by the HoIA.

11.3 **External Assessments**

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external verification.

The HoIA will agree with the Director of Business Transformation and / or Section 151 Officer the form of the external assessments; and, the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. As part of the shared service arrangements, it would be prudent for each authority to be reviewed at the same time. This is currently planned for 2015 / 2016.