

Appendix A – Internal Audit Plan 2019/20

1 Introduction

- 1.1 This document is intended to demonstrate how Internal Audit will support the overall aims and objectives of the Council. It will be reviewed throughout the year to ensure its continued relevance, both in terms of supporting the council's aims and in achieving a professional, modern audit service.
- 1.2 The Accounts and Audit Regulations 2015 require that the Council "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."
- 1.3 The Public Sector Internal Audit Standards (PSIAS) require that the Head of Audit "must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals".
- 1.4 Internal Audit provides an independent, objective assurance and consulting service that adds value and improves the Council's control environment. It helps the Council deliver its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.5 The provision of assurance is the key role for Internal Audit. This role requires the Head of Shared Internal Audit to provide an annual Audit Opinion based on an objective assessment of the framework of governance, risk management and control. This opinion is provided to the Committee and also feeds into the Annual Governance Statement. The team also completes consulting services. These are advisory in nature, and are generally performed at the specific request of management with the aim of improving operations. Requests of this nature are considered in light of resource availability and our primary role of assurance.

2 Strategy

- 2.1 The strategy, and vision, of the Internal Audit team is “To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”.
- 2.2 A report to Strategy and Resources Committee (23 January 2017) set out the proposals for developing a shared service between Cambridge City Council (CCC) and South Cambridgeshire District Council (SCDC). Existing staff at SCDC transferred across to CCC. A new Head of Shared Internal Audit joined the Council in December 2017. Supplementary annual Business Plans are prepared for the Council.
- 2.3 As part of this strategy we aim to deliver a co-ordinated audit plan for both Councils. There are already a number of shared services, and this joint approach enables work to be undertaken which reflects the priorities for the Council whilst getting the benefits of co-ordinated reviews which can be covered in partnership.

3 Internal Audit Plan

- 3.1 Our work will support the Council’s corporate objectives, and the corporate governance framework.
- 3.2 The plan has considered the Corporate Plan, risk registers, consultation with key officers, committee reports, information from other assurance processes, plus horizon scanning to consider emerging risks and opportunities.
- 3.3 This identifies potential reviews, which are subsequently prioritised. Factors taken into account include materiality; corporate importance, vulnerability, risks and opportunities. The overall aim is to add value by providing assurance, reducing risk and improving controls.
- 3.4 There needs to be a flexible approach to planning, to ensure that our work meets the needs of the Council in the continually changing risk and control environment. The risk based planning approach enables the plan to be updated when new reviews are identified. The plan will be reviewed and monitored throughout the year, and any significant

changes will be reported to the Strategic Leadership Team and the Civic Affairs Committee.

- 3.5 The internal audit work should address key risk areas and draw attention to significant concerns and what needs to be done. Ideally the plan will provide coverage across the whole organisation, and some reviews may be cross cutting and involve multiple teams and partners. This enables the Head of Shared Internal Audit to produce an annual internal audit opinion that can be used to inform the Annual Governance Statement.

4 Resources

- 4.1 Resource requirements are reviewed each year as part of the audit planning process. The current establishment for the audit team enables sufficient resource to deliver the risk based plan. However there are currently three vacancies within the team, which are currently in the process of being advertised. Subject to successful recruitment, a small reduction in resource is reflected in the Audit Plan to allow for notice periods.
- 4.2 Demand for potential reviews will exceed the number of available days. The risk based planning approach identifies and matches audit work to the available audit resources, based on where the most value can be added.
- 4.3 The Internal Audit plan needs to be fluid and flexible enough to enable the Internal Audit service to be reactive as required to situations arising during the course of the period covered by the plan. A contingency reserve element has been built in, to assist in dealing with any such matters arising to hopefully at least minimise any major impact on the work plan itself.
- 4.4 Time allocations within the plan are based on previous year assessments, with any overall allocation for each key area. As each audit activity is fully scoped and agreed with the appropriate senior manager, each job will then be monitored to that time allocation.

5 Key Themes

- 5.1 As in previous years, Internal Audit will continue to support the compliance culture within the Council, with the emphasis on improving service ownership of controls and management of risk and governance including fraud. There will continue to be liaison with the external auditors so that resources are used effectively.
- 5.2 A number of audits are identified which aim to provide assurance that corporate systems and processes are robust and protect the Council.
- 5.3 Aside from core financial systems, coverage will be prioritised towards the corporate priorities and risks to the Council, to help ensure that desired outcomes are delivered efficiently.
- 5.4 The plan is grouped to the key objectives of the Council. For each discrete audit area, a brief description of the scope for the work is provided together with the type of audit. Timing and detailed scopes for each audit will be agreed with the relevant Senior Manager prior to commencement of the fieldwork.

6 Follow-ups

- 6.1 To ensure that agreed actions are being implemented, follow-up work will be carried out. If a review resulted in significant recommendations, then a full audit may be planned to evaluate the effectiveness of the implementation.

7 Other activities

- 7.1 In addition to delivering the risk based audit plan, resources are allocated to deliver other assurance based activities. Examples include:
 - Advice and consultancy: (participating in working groups such as information governance, procurement and project management);
 - Anti-fraud and corruption: (including response, proactive work and data analytics);
 - Governance: (activities which help deliver the assurance framework including Annual Governance Statement, Risk Management).

8 Summary

- 8.1 The draft internal audit plan should help add value to the Council by helping to improve systems, mitigate risks, and inform the Annual Governance Statement.

9 AUDIT PLAN

9.1 The table below provides an overview of the breakdown of audit time in the plan, and a brief comparison with the previous year.

| Audit area | Days | Current year | Previous Year |
|--------------------------------------|------|--------------|---------------|
| Corporate Plan Objectives | 348 | 51% | 52% |
| Core Assurance Work | 100 | 15% | 12% |
| Annual Governance and Assurance Work | 67 | 10% | 8% |
| Other resource provisions | 165 | 24% | 28% |
| Grand Total | 680 | 100% | 100% |

This is the allocation of work for Cambridge City Council. A more detailed breakdown of planned audit work is given on the pages that follow.

Corporate Plan Objectives

9.2 Corporate Plan Objectives are reviews of systems and processes which have been risk appraised. Where possible they are aligned to the Corporate Plan Objectives to demonstrate how they support the Council. The reviews are listed in the table below:

| Audit | Assurance type | Audit scope and description |
|--|----------------------|--|
| Delivering quality services within financial constraints | | |
| Brexit - preparation and response | Risk based | Resource has been allocated to review the Council's proactive and reactive management of risk for the unforeseen events from Brexit. |
| Business Transformation | Benefits realisation | Review the new framework and governance arrangements for managing projects, plus review of the new enterprise portfolio management system. |
| Clay Farm | Risk based | Lesson learnt review to inform good practice in future projects |
| Cultural Events management | Governance | Review of the management arrangements for Cambridge Live, and long term plans. |
| Emergency planning - Business Continuity | Compliance | Review of Council's ability to respond to unplanned events. |
| Estates & Facilities - Special Project Team | Risk based | Allocation of resources for review of projects. |

| Audit | Assurance type | Audit scope and description |
|-------------------------------|-----------------------|---|
| Fleet management - Fuel cards | Compliance | This review considers the processes and guidance for fuel cards, plus an analytical review of expenditure and a compliance check to procedures. |
| Gifts and hospitality | Policy and procedures | Review of the Council framework (policies, guidance and processes) for recording declarations of interests, and gifts and hospitality to best current practice. It will also consider whether processes cover partnership working, shared services and contractors. Supplemented by a compliance check for assurance. |
| Licences - Environmental | Risk based | Review of the system for managing applications and processing fees. This includes other licenses, such as animal businesses, skin piercing, tattoos, boat mooring, food licenses etc. |
| Licences - Taxis | Risk based | Review of the system for managing applications and processing fees. Includes Hackney and Private Hire. |

| Audit | Assurance type | Audit scope and description |
|---|------------------------|---|
| Planning Fee Income | Risk based | Review of system for managing planning fee income. Ensuring that policies are in place for both discretionary and nationally set charging, and that income opportunities are maximised, debts collected and balances reconciled to main accounting systems. |
| Procurement - Contract extensions | Compliance | Analytical review of extensions made to contracts, to understand the reasons that contracts are extended, and whether extensions are achieving value for money. |
| Procurement - Off contact spend | Compliance | Analytical review of expenditure made outside frameworks and corporate contracts, to ensure best value is achieved and to identify any areas where there may be potential to improve corporate contracts. |
| Trading operations - Bereavement services | Making resources count | Review of system for managing bereavement services, including fee collection and records management. |

| Audit | Assurance type | Audit scope and description |
|--|----------------------|--|
| Developing effective partnerships and an innovative and dynamic organisation | | |
| Information Governance - GDPR | Compliance | Follow-up review of the Councils implementation action plan for the General Data Protection Regulations, and identifying whether any further work needs to be completed. |
| Legal services | Governance | Periodic review of provision of legal services. |
| Project - Digital Transformation | Benefits realisation | Resources allocated to review project outcomes of the Council Anywhere project, focussing on local delivery. The review will provide assurance by considering any potential data security risks from revised ways of working. We will also use this as an opportunity to champion and share good practice. |
| Helping people in Cambridge who have the greatest need | | |
| Grant assurance - Disabled Facility Grant | Grant assurance | Certification of the annual grant payment from the Better Card Fund allocated to District Councils via the County Council. Review of a sample of payments made in respect of disabled facilities. |
| HRA - Former Tenant Arrears | Follow-up | Review of system for managing recovery of outstanding debt on the Housing Revenue Account. |

| Audit | Assurance type | Audit scope and description |
|---|------------------------|---|
| HRA - Leaseholder - Planned Maintenance (S20 Works) | Compliance | Leaseholders are recharged for planned maintenance works undertaken on their leasehold properties. The review will focus on the processes in place for managing planned works, and calculating costs and recharges. |
| HRA - Repairs and maintenance | Making resources count | Review of system for managing repairs and maintenance. |
| HRA - Voids and Lettings | Making resources count | Review of the process for managing voids and stock turnover. |
| Planning for growth and ensuring our new communities are successful | | |
| Building Control Fees | Follow-up | Review of the arrangements for the billing and collection of fees. |

| Audit | Assurance type | Audit scope and description |
|--|------------------------|---|
| Trading operations - Markets | Making resources count | Review of arrangements for awarding and monitoring licences and permits, calculation of fees, recharges, and collection of income. |
| Protecting our environment and tackling climate change | | |
| Carbon management - Data Quality | Data quality | Council carbon emission data is collected to produce an annual Greenhouse Gas report. Data is quality assured by Internal Audit before being published. |
| Contaminated Land | Follow-up | Follow-up of previous review. |

Core Assurance Work

- 9.3 This work includes reviews of systems that are fundamental to providing control assurance for internal financial systems, and allow the s.151 officer to make their statement included in the authority's Annual Statement of Accounts. The work can also help to provide assurance for the External Auditor. Systems are reviewed on a rolling cycle to ensure that all are covered.
- 9.4 For the current financial year there has been an increase in the allocation, to reflect the new Financial Management System. These reviews will commence after the system has been implemented.

| AUDIT ACTIVITY | AUDIT TYPE | SCOPE |
|---------------------------------------|-------------------|--|
| Accounts Payable | Assurance | Key controls audit as part of cyclical review of core systems |
| Accounts Receivable | Assurance | Key controls audit as part of cyclical review of core systems |
| Benefits - parameter testing | Assurance | System Parameter Testing (Detailed schedules are provided by External Audit) |
| Benefits and reductions | Assurance | Key controls audit as part of cyclical review of core systems |
| Budgetary Control | Assurance | Key controls audit as part of cyclical review of core systems |
| Capital - Strategy & Asset Management | Assurance | Key controls audit as part of cyclical review of core systems |
| HRA - Housing Rents | Assurance | Key controls audit as part of cyclical review of core systems |

Annual Governance and Assurance Work

9.5 Each year the Council issues a statement on the effectiveness of its governance arrangements. Internal Audit completes work which supports the production of the Annual Governance Statement.

| AUDIT ACTIVITY | AUDIT TYPE | SCOPE |
|------------------------------------|-------------------|--|
| Annual Audit Opinion | Assurance | This is the annual report, produced by the Internal Audit lead for their relevant audit committee, to provide an opinion on the state of governance and the internal control framework in place within the Council. |
| Internal Audit Effectiveness | Assurance | A regular review of the Internal Audit service, to the Public Sector Internal Audit Standards and the Local Government Application Note, is completed. This is also known as a Quality Assurance and Improvement Program. |
| Annual Governance Statement | Assurance | Internal Audit supports the development of the Annual Governance Statement, the associated Action Plan and review of the Local Code of Governance. |
| Prevention of Fraud and Corruption | Assurance | Internal Audit supports development and awareness of risks across the Council. A summary is reported annually to the Civic Affairs Committee on the status and levels of fraud, whistleblowing and corruption within the Council. A national survey is completed annually to help identify potential fraud risks. In addition Internal Audit co-ordinates the National Fraud Initiative, a proactive data matching exercise. |

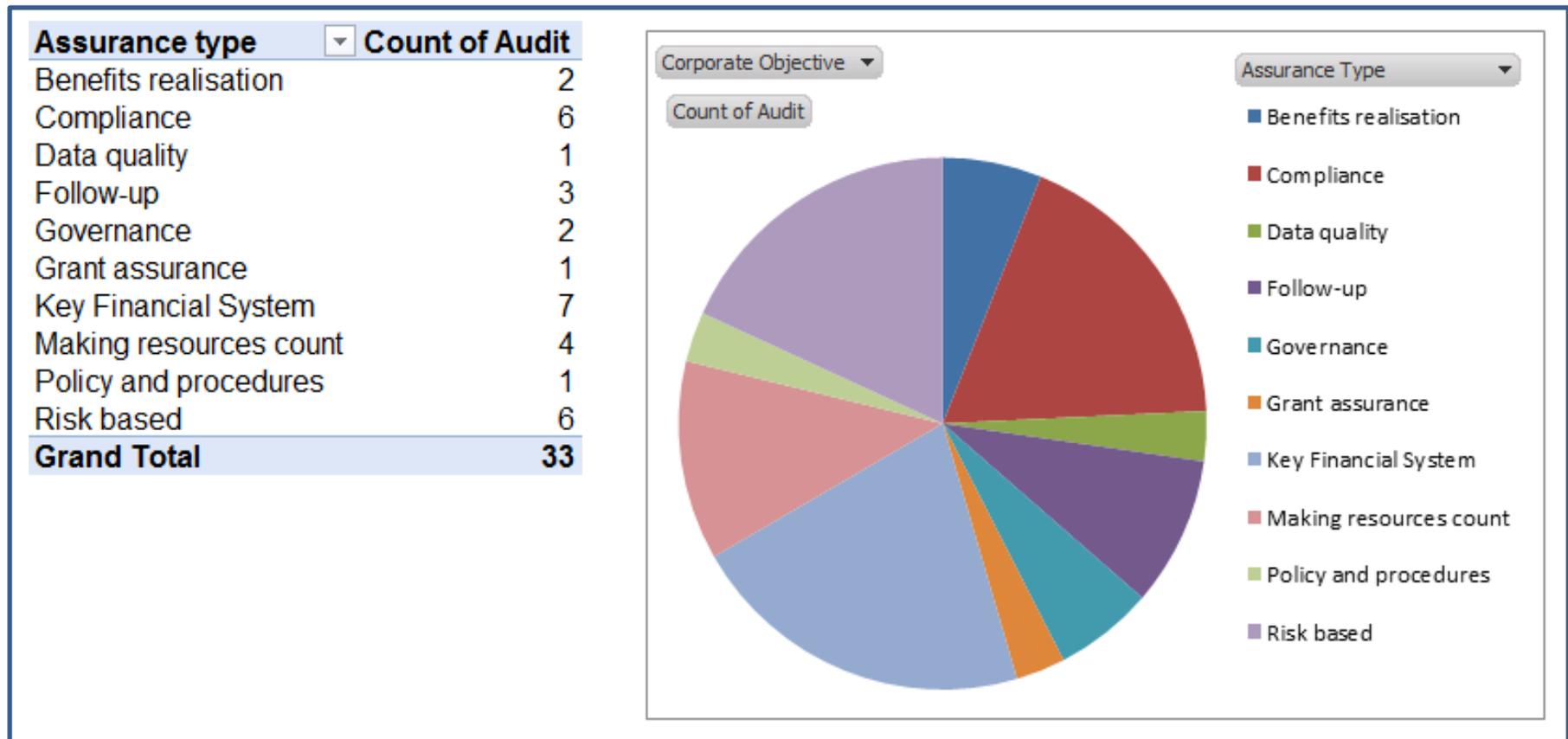
Other resource provisions

9.6 Throughout the year, audit activities will include reviews that have not been specified within the Audit Plan, including management requests as a result of changing risks; following up agreed audit actions and completion of audit works from previous plans. Examples include:

| AUDIT ACTIVITY | AUDIT TYPE | SCOPE |
|---|-------------------|---|
| Carry forward activities | Various | A number of reviews continue from the previous plan, due to other activities taking precedence e.g. investigations or corporate projects. |
| Contingency: requested work / advice / irregularities | Advice | <p>The Audit Plan is based only on a snapshot of the Council at any moment in time, and risks and priorities change throughout the year. Internal Audit act as a focal point to assist officers across the Council in providing advice / support in relation to projects; contracts; procurement or general controls.</p> <p>No matter how robust services and processes are, there is always the potential for anomalies to occur. Internal Audit assists by providing pro-active counter fraud work; and reactive work for suspected irregularities and whistleblowing referrals.</p> <p>An element of time has been set aside to allow for these activities within the plan.</p> |
| Follow up provision | Follow Up | A number of audits completed in previous years, where there have been concerns identified, are followed up to ensure that agreed recommendations have been implemented. |

Analysis of work by assurance type

- 9.7 There are various different approaches to completing an effective audit review. When completing a review we categorise it according to the type of assurance that it provides. The chart below shows how the audit work for 2019/20 is allocated.
- 9.8 There is a broad spectrum of work, and the main focus is resources, risks and ensuring the key financial systems are operating effectively.



Appendix B – Internal Audit Charter



Our vision:

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

February 2019

Next Review: By February 2020

Version Control: 1.04

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 Standards have been revised from 1 April 2017 to reflect the latest changes in the IPPF. In addition the PSIAS are supported by a Local Government Application Note (LGAN), published by the Chartered Institute of Public Finance and Accountancy to provide relevant sectoral requirements guidance.
- 1.3 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 the Council; 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 and presented to the relevant audit 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 2015¹, which state 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.”

3.2 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, with 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.

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

¹ http://www.legislation.gov.uk/ukxi/2015/234/pdfs/ukxi_20150234_en.pdf

- 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. 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

Chief Audit Executive

4.2 The Chief Audit Executive is the Head of Shared Internal Audit Service (HoSIAS), part of a shared management arrangement between Cambridge City Council (CCC) and South Cambridgeshire District Council (SCDC). The HoSIAS reports to the relevant S151, and has access to the Chief Executive should it be required.

Board

4.3 The 'Board' oversees the work of Internal Audit. It will be the relevant audit committee of the Council, known as Civic Affairs Committee (CCC) and the Audit and Corporate Governance Committee (SCDC), which has been established as part of its corporate governance arrangements. The Committee is responsible for the following with reference to Internal Audit:

- Internal Audit Plans;
- Progress and performance against plans;
- Annual Audit Opinion; and
- Compliance with standards.

4.4 Internal Audit will work closely with the committee to facilitate and support its activities.

Senior Management

4.5 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 are the Strategic Leadership Team and the Senior Management Team (CCC) and the Executive Management Team (SCDC).

External Audit

4.6 Internal Audit aims to minimise any potential duplication of work and determine the assurance that can be placed on the respective work of the two parties. Our audit plans and reports are shared with the appointed external auditor, Ernst and Young.

Other Internal Audit Service Providers

4.7 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 each Council's equivalent Chief Audit Executive to agree a way forward regarding the future auditing regime.

Other External Review and Inspection Bodies

- 4.8 Internal Audit will 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 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 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.
- 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 Committee of such situations.

6 INDEPENDENCE

- 6.1 Internal Audit 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 HoSIAS direct access to and the freedom to report unedited, as deemed appropriate, to the Committee, the Chief Executive, Section 151 Officer and Senior Management.
- 6.2 Internal Audit has 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. 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 HoSIAS will confirm to the Committee, at least annually, the organisational independence of the Internal Audit activity.

7 PROFESSIONAL STANDARDS

- 7.1 Internal Auditors operate in accordance with the PSIAS and LGAN. The Internal Auditors are also governed by the policies, procedures, rules and regulations established by the Council. These include, but are not limited to, Financial Regulations and Contract Standing Orders, the Anti-Fraud and Corruption Policy and the Code of Conduct. Similarly, the Council's Internal Auditors will be aware of external bodies' requirements and all legislation affecting the Council's activities.
- 7.2 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 the Internal Auditors, are set out in the Audit Manual.

8 AUDIT RESOURCES

- 8.1 The HoSIAS will be professionally qualified (CCAB, CMIIA or equivalent) and have wide internal audit management experience, to enable them to deliver the responsibilities of the role.
- 8.2 The HoSIAS will ensure that the Internal Audit Service has access to 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 systems reviews, consultancy input to new / modified systems, and special investigations. In the event of special 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 HoSIAS 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. This will be submitted to the Senior Management for their approval prior to being taken forward to the Committee for final endorsement, in advance of the new financial year to which they relate.

9.2 Any difference between the plan and the resources available will be identified and reported to the Committee. It 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 | Departmental specific reviews |
| Governance and Assurance Framework | Follow up activity |
| Corporate / Cross Cutting audits | Internal advice on risks, controls and procedures |

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.

9.4 Annual audit plans will be discussed with Senior Management 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.
- 10.3 Exit meetings are accommodated enabling management to discuss issued Draft Audit Reports. Accountability for responses to Internal Audit recommendations 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 Committee.

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 following completion of fieldwork / exit meeting. Head of Service / Line Manager to formally respond including acceptance of actions together with timescale proposals to implement. |
| Final Report | Internal Audit incorporates all management comments within the report and re-issue as a final. The report will be distributed in accordance with agreed protocols (see Table 4). |

10.4 It is important that following production of each audit report, there is prompt dialogue between managers and Internal Audit so that findings can be discussed, actions identified to remedy any weaknesses and finally an agreed timescale to rectify them. Internal Audit will monitor implementation and report any gaps to senior management.

10.5 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 ASSURANCE

We categorise our opinions according to our assessment of the controls in place and the level of compliance with them

| Assurance | Description |
|----------------------|---|
| Full Assurance | Controls are in place to ensure the achievement of service objectives and good corporate governance, and to protect the Authority against significant foreseeable risks. |
| Reasonable Assurance | Controls exist to enable the achievement of service objectives and good corporate governance, and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with control process were identified and/or opportunities still exist to mitigate further against potential risks. |
| Limited Assurance | Controls are in place and to varying degrees are complied with, however, there are gaps in the process which leave the service exposed to risks. Therefore, there is a need to introduce additional controls and/or improve compliance with existing ones, to reduce the risk exposure for the Authority. |
| No Assurance | Controls are considered to be insufficient, with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls, and errors and omissions have been detected. Failure to improve controls leaves the Authority exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives. |

We categorise our **recommendations** according to their level of risk and priority for implementation

| Priority | Description | Timescale for action |
|-----------------|---|--|
| CRITICAL | Extreme control weakness that jeopardises the complete operation of the service. | To be implemented immediately. |
| HIGH | Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency. | To be implemented as a matter of priority. |
| MEDIUM | Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority. | To be implemented at the first opportunity. |
| LOW | Control weakness, which, if corrected, will enhance control procedures that are already relatively robust. | To be implemented as soon as reasonably practical. |

10.6 Our assurance ratings will be subject to regular review to ensure that they remain relevant and robust for the service / organisation.

10.7 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 covered;
- 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.

10.8 Significant issues identified will be referred through to senior management for inclusion in the Annual Governance Statement.

10.9 All reports produced are set out in Table 4.

| TABLE 4: PLANNING AND REPORTING FREQUENCY | | |
|--|---|--|
| Report Produced | For | Reason |
| Audit Report | Chief Executive S.151 Officer Relevant Director / Head of Service | The end of each audit assignment as the main recipient and those charged with implementing the issues identified |
| Progress Reports (based around the committee cycle) | Relevant Audit Committee | To provide the Council with progress at delivering the audit service and any key governance issues arising. |
| Annual Opinion and Performance Report | Relevant Audit Committee | End of year report in accordance with PSIAS. An evaluation of the works undertaken and the level of assurance established. |
| Annual Audit Plan | Relevant Audit Committee S.151 Officer | Details of the future plans to provide assurance across the Council in accordance with PSIAS. |

11 QUALITY ASSURANCE AND IMPROVEMENT

11.1 The PSIAS require that the Internal Audit develops and maintains a quality assurance and improvement programme (QAIP) 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 HoSIAS 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 Committee.

Internal Assessments

11.2 Internal Assessments must include on-going monitoring of the performance of the internal audit activity and these are reported as part of the annual report.

11.3 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 Committee. Presenting this information 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 HoSIAS.

External Assessments

11.4 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.

11.5 The HoSIAS will discuss with the Committee and the 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, each Council will be reviewed jointly which will reduce the level of duplication.

Appendix C – Internal Audit Code of Ethics

1 INTRODUCTION

- 1.1 The purpose of a Code of Ethics is to promote an appropriate ethical culture for Internal Audit. The Code sets out the minimum standards for the performance and conduct of the Council's Internal Auditors. It is intended to clarify the standards of conduct expected when carrying out their duties and promote an ethical, professional culture at all times when undertaking audit duties.

2 PRINCIPLES

- 2.1 Internal auditors are expected to apply and uphold the following principles:

- Integrity The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
- Objectivity Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- Confidentiality Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- Competency Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

INTEGRITY: Internal Auditors shall:

- Perform their work with honesty, diligence and responsibility;
- Observe the law and make disclosures expected by the law and the profession;
- Not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation;
- Respect and contribute to the legitimate and ethical objectives of the organisation; and
- Maintain relationships with colleagues, internal clients and external contacts that are characterised by honesty, truthfulness and fairness

OBJECTIVITY: Internal auditors shall:

- Not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- Not review any activity for which they have previously had operational responsibility;
- Not accept anything that may impair or be presumed to impair their professional judgement; and
- Disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

CONFIDENTIALITY: Internal auditors shall:

- Be prudent in the use and protection of information acquired in the course of their duties but should ensure that requirements of

confidentiality do not limit or prevent reporting within the authority as appropriate;

- Not make unauthorised disclosure of information unless there is a legal or professional requirement to do so; and
- Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

COMPETENCY: Internal auditors shall:

- Engage only in those services for which they have the necessary knowledge, skills and experience;
- Perform Internal Audit services with the International Standards for the Professional Practice of Internal Audit; and
- Continually improve their proficiency, effectiveness and quality of their services

3 MANAGING ARRANGEMENTS:

3.1 To ensure compliance with the Code of Ethics:

- There is an annual review of the Code to reinforce understanding and confirm on-going commitment;
- Quality control processes are in place to demonstrate integrity in all aspects of the work;
- All staff are obliged to declare any potential conflicts of interest, at least annually;
- Confidentiality breaches will not be tolerated; and
- All staff are aware and understand the organisations aims and objectives together with an appreciation of the policies and procedures which govern the areas to be audited.