

Appendix A – Internal Audit Plan 2022/2023



Cambridge City Council

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 Greater Cambridge Shared Audit was established as a shared service between Cambridge City Council (CCC) and South Cambridgeshire District Council (SCDC) in 2017.
- 2.2 Our aim is to deliver a co-ordinated audit plan for both Councils.
- 2.3 There are already a number of shared services, and this joint approach enables work to be undertaken which reflects the priorities for both Councils whilst getting the benefits of co-ordinated reviews which can be covered in partnership.
- 2.4 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".

3 Internal Audit Plan

- 3.1 Our work will support the Council's corporate objectives, and the corporate governance framework.
- 3.2 Our plan considers the Council's Corporate Plan, risk registers, consultation with stakeholders, 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, improving controls and reducing risk.
- 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, with regular updates reported to 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 our risk-based plan.
- 4.2 The broad scope of activities within the Council means that demand for potential reviews will exceed the number of available days within a year. 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 agile 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.
- 4.4 Time allocations for reviews are based on planning, plus experience from previous reviews. 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 Assurance Type and Key Themes

5.1 As in previous years, Internal Audit will continue to support the governance, risk and control environment within the Council. There will continue to be liaison with key stakeholders, such as the external auditors so that resources are used effectively.

5.2 The main types of audit and assurance work are:

Type	Details
Corporate Plan Objectives	Our audit plan is risk based and coverage will be prioritised towards the corporate priorities and risks to the Council, to help ensure that desired outcomes are delivered efficiently. The plan is grouped by the key objectives of the Council.
Core Assurance	We undertake audits reviews which aim to provide assurance that corporate systems and processes are robust and protect the Council. These will typically involve work around key financial systems, management controls, and programmed annual assurance.
Third party	We will take assurance from third parties where appropriate. This could include audit or review work in partnerships where another organisation is the lead stakeholder, or where a third party with professional expertise or a legal obligation has undertaken a review. If the outcome of these reviews impacts the control environment this may prompt us to undertake our own work in this area.

5.3 For each audit review, 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.

5.4 Our reviews are categorised by themes to help us communicate the areas of focus. Our major key themes for 2022 / 2023 include:

Theme	Details
Transformation	The Council continually seeks continuous improvement. We will proactively support this process as new opportunities are identified. We will also review any new key systems, once they are implemented, for benefits realisation and to provide assurance that key controls continue to operate effectively.
Resilience and recovery	The plan will need to reflect the continuous changing risk and control environment following major events which are driving rapid change across the Council. Recognition that hybrid working practices may lead to further change in working practices. We will add value to the Council by providing real-time assurance on new and developing processes and controls.
Governance	We will review key governance areas where there is a statutory requirement to undertake specific work, and this will feature in the Annual Governance Statement.
Counter fraud	The fraud risk profile increased during the COVID-19 pandemic as fraudsters identified the opportunity to take advantage of reduced internal controls and the urgency of government led support. We continue to be alert to these risks and will review the controls in place.

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 will add value to the Council by helping to improve systems, mitigate risks, and inform the Annual Governance Statement.

9 Our forward plan

9.1 We calculate our resources annually. The table below provides an overview of audit work in the plan for the next 12 months, by audit area, and a comparison with the previous year.

Audit area	Days	Current year	Previous Year
Corporate Plan Objectives	254	44%	46%
Core Assurance	81	14%	12%
Governance, Risk and Control	84	15%	12%
Other resource provisions	155	27%	30%
Grand Total	595	100%	100%

This is the allocation of work for Cambridge City Council and demonstrates how we expect resources to be consumed. It is broadly similar to the previous year.

A more detailed breakdown of planned assurance work for the next six months is given on the pages that follow.

9.2 Corporate Plan Objectives are reviews of systems and processes which have been risk appraised. The reviews planned for the next six months are listed in the table below:

9.3 Core Assurance work involves reviews of systems that are fundamental to the Council's governance, risk and control environment. They provide assurance to the s.151 officer for their commentary included in the authority's Annual Statement of Accounts. This type of work will also include mandatory activities, such as providing assurance to third parties, such as Central Government, and can also help to provide assurance for the External Auditor.

Audit	Assurance type	Progress update	Scope and description
Corporate Plan Objectives			
Whistleblowing effectiveness review	Governance	This work is in progress.	We will complete a compliance review to best practice standards, to inform a scheduled revision of the Policy.
Corporate Complaints and Feedback	Governance	This review is in progress	Review of the complaints process to provide assurance that it is effective in helping the Council to continuously improve its services
Fire Safety Governance	Compliance	This review is in progress.	Review of Corporate framework for Fire Risk Management - recognising there was a policy change introduced in 2019/20. Assurance around compliance on key Health and safety areas
Carbon management - Data Quality	Data quality	This work is scheduled for later in the year.	Council carbon emission data is collected to produce an annual Greenhouse Gas report. Data is quality assured by Internal Audit before being published.
Procurement – Contract Management	Policy and procedures	This work is scheduled for later in the year.	Review of policies and procedures for effective contract management

Audit	Assurance type	Progress update	Scope and description
Business Transformation	Transformation	This work is scheduled for later in the year.	Resource allocated for project-based assurance – key projects to be identified as required.
Information Governance - GDPR	Governance	This work is scheduled for later in the year.	Time allocated for a review of a selection of thematic areas.
Core Assurance Work			
Payroll – Core controls	Key Financial System	This work is scheduled for later in the year.	An annual key control review as this is a significant system.
Grant assurance - Disabled Facility Grant	Grant assurance	This work is scheduled for later in the year.	Certification of the annual grant payment from the Better Care Fund allocated to District Councils via the County Council. Review of a sample of payments made in respect of disabled facilities.
Financial Management Code	Policy and procedures	This work is in progress.	To provide assurance that the Council has effectively implemented a Financial Management Code.
Grant assurance – Business Grants PPAS	Grant assurance	This work is in progress.	PPAS is the BEIS term for Post Payment and Assurance Sampling. We will sample test grant payments to provide Central Government with assurance that effective internal controls were in operation throughout the grant process. Target timeline to be defined by BEIS.
Grant assurance - Energy Rebate Schemes	Grant assurance	This work is scheduled for later in the year.	Controls evaluation of new procedures developed at pace. Further sample testing of payments to provide assurance that effective internal controls are in operation throughout the payment allocation process.

Audit	Assurance type	Progress update	Scope and description
Grant assurance – Homes for Ukraine	Grant assurance	This work is scheduled for later in the year.	Controls evaluation of new procedures developed at pace. Further sample testing of payments to provide assurance that effective internal controls are in operation throughout the payment allocation process.
Ethics, Culture and Governance	Governance	This work is scheduled for later in the year.	Each year we will allocate some resource to assess and make appropriate recommendations to improve the organisation's governance processes, including promoting appropriate ethics and values within the organisation.
Benefits - parameter testing	Key Financial System	This work is scheduled for later in the year.	Resource allocated for System Parameter Testing of the benefits system.

Governance, Risk and Control

9.4 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 throughout the financial year. This includes:

Activity	Audit scope and description
Annual Audit Opinion	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	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	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	Internal Audit supports development and awareness of fraud and error 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, and is a key contact for data analytical tools.
Risk Management	Internal Audit is the corporate lead and facilitates the Risk Management Strategy and Framework. An allocation of time is also made for administration of the corporate 4Risk system. We anticipate a major system upgrade to be implemented within the next 12 months.

Other resource provisions

9.5 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:

Activity	Audit scope and description
Carry forward activities	A number of reviews continue from the previous plan, due to other activities taking precedence e.g. investigations or corporate projects.
Follow up provision	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.
Contingency: requested work / advice / irregularities	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. 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. An element of time has been set aside to allow for these activities within the plan.

Appendix B – Progress update and Opinion

1 Introduction

- 1.1 Management is responsible for the system of internal control and establishes policies and procedures to help ensure that the system is functioning correctly. On behalf of the Civic Affairs Committee, Internal Audit acts as an assurance function by providing an independent and objective opinion on the control environment.
- 1.2 The purpose of this section of the report is to provide an update on the recent work completed by internal audit and report our overall opinion on the control environment. This opinion will in turn be used to inform the Annual Governance Statement which accompanies the Statement of Accounts.
- 1.3 Where appropriate, reports are given an overall opinion based on four levels of assurance. This is based on the evaluation of the control and environment, and the type of recommendations we make in each report. If a review has either “Limited” or “No” assurance, the system is followed up to review if the actions are implemented promptly and effectively. Further information is available in Appendix E – Glossary of terms.

2 Resources and team update

- 2.1 An audit plan is presented at least annually to the Civic Affairs Committee. It is good practice to continually review the plan, to reflect emerging risks, revisions to corporate priorities, and changes to resourcing factors.
- 2.2 The team is currently fully resourced. We have maintained our periodic PSIAS assessments and identified learning and development opportunities for the team in 2022/2023.
- 2.3 At the June 2020 meeting the Committee approved our current approach to an audit plan and that, moving forwards, a six-month plan was the most appropriate approach. This gave us the flexibility to respond to emerging events and deliver an audit plan that added value to the Council.
- 2.4 As anticipated, we have been providing the Council with support on Business Grant stimulus packages. The amount of resource required for this activity has impacted our normal assurance work. However, we are pleased to have still completed audit reviews in the period as this enables us to provide an opinion for the Annual Governance Statement.
- 2.5 Progress of the plan delivery is illustrated on the following pages for information. We previously reported to the Committee in September 2021.

3 Assurance

- 3.1 The audit plan enables me to provide an independent opinion on the adequacy and effectiveness of the systems of internal control in place (comprising risk management, corporate governance and financial control). This opinion will inform the Annual Governance Statement.
- 3.2 Our work is carried out to assist in improving control. Management maintains responsibility for developing and maintaining an internal control framework. This framework is designed to ensure that:
- the Council's resources are utilised efficiently and effectively;
 - risks to meeting service objectives are identified and properly managed; and
 - corporate policies, rules and procedures are adequate, effective and are being complied with.
- 3.3 Assurance is received from a number of sources. These include the work of Internal Audit; assurance from the work of the External Auditor; the Annual Governance Statement together with the Local Code of Corporate Governance and the Risk Management process. This enables a broader coverage of risks and ensures that the totality of the audit, inspection and control functions deployed across the organisation are properly considered in arriving at the overall opinion.
- 3.4 If the audit reviews undertaken identified that the control environment was not strong enough, or was not complied with sufficiently to prevent risks to the organisation, Internal Audit has issued recommendations to further improve the system of control and compliance. Where these recommendations are considered to have significant impact on the system of internal control, the implementation of actions is followed-up by Internal Audit and is reported to Civic Affairs Committee.
- 3.5 It is the opinion of the Head of Shared Internal Audit that, taking into account all available evidence, reasonable assurance may be awarded over the adequacy and effectiveness of the Council's overall internal control environment, governance and risk management arrangements. This remains at a similar level to the previous period, based on the outcomes of our work, however we recognise the risks and challenges that the Council has faced with recent global events and the potential impact this has on the control environment. Consequently, our ongoing audit plan now features Resilience and Recovery as one of our key themes.

4 Independence and Objectivity

- 4.1 It is important that the Internal Audit service is sufficiently independent to provide an objective annual opinion. We safeguard against any potential ethical threats by preparing an Internal Audit Code of Ethics, which is presented to the Committee annually.
- 4.2 During the past year there has not been any impairment in independence or objectivity to the Head of Shared Internal Audit or the service itself.

5 Added Value Services

- 5.1 Although our primary responsibility is to give an annual assurance opinion it is also important that the Internal Audit service adds value to the organisation.
- 5.2 There needs to be a firm focus on assisting the organisation to meet its aims and objectives and on working in an innovative and collaborative way with managers to help identify new ways of working that will bring about service improvements and deliver efficiencies. Examples of how we have done this during the year include providing advice / input to support a number of projects and key working groups, such as supporting the Business Grants process.

6 Progress against the plan

The following table summarises reviews with an audit opinion which have reached completion since our previous update to the Committee in September 2021.

Audit	Assurance and actions		Summary of report and actions
<p>Risk Management Strategy</p> 	<p>Assurance: Current: Previous: Actions: Critical High Medium Low</p>	<p>Reasonable Reasonable 0 0 0 0</p>	<p>We completed a review of the Risk Management Framework to professional standards. This helped inform a review of the Risk Management Strategy, which was approved by the Civic Affairs Committee.</p> <p>We provided the Committee with an update of the improvement program at the February 2022 meeting.</p>
<p>Fleet management – fuel cards</p> 	<p>Assurance: Current: Previous: Actions: Critical High Medium Low</p>	<p>Limited New review 0 6 1 1</p>	<p>We reviewed the policies, procedures, and processes around the fuel card system, and reviewed the contract. We also undertook data analytics to highlight trends and potential risks.</p> <p>Our review concluded that the contract is complete, in-line with market norms, and affords the Council the protections required.</p> <p>We identified opportunities to improve the management of cards, receipt retention, authorisation, and the monitoring of contract performance, and card expenditure. This will help to reduce risk exposure and we will follow-up the implementation of the actions in 2022/2023.</p>

Audit	Assurance and actions		Summary of report and actions
<p>Carbon management - Data Quality</p> 	<p>Assurance:</p> <p>Current:</p> <p>Previous:</p> <p>Actions:</p> <p>Critical</p> <p>High</p> <p>Medium</p> <p>Low</p>	<p>Full</p> <p>Reasonable</p> <p>0</p> <p>0</p> <p>0</p> <p>0</p>	<p>The Council collates annual energy consumptions and fuel usage data, and converts these into tonnes of CO2 emissions, to demonstrate how it is reducing carbon emissions. This information is then reported to members in the Annual Greenhouse Gas report and used to complete the Authority's annual carbon emissions data submission to the Department for Business, Energy and Industrial Strategy (BEIS).</p> <p>We completed a data quality check, which included reviewing the accuracy of data input, and that all calculations and formulae were correct. Data was also verified back to available source data. Feedback was provided where data was incorrect, the appropriate corrections were completed, and the revised data sets were subsequently rechecked. This provides assurance that the data was reliable.</p> <p>There were no actions arising.</p>
<p>VAT</p> 	<p>Assurance:</p> <p>Current:</p> <p>Previous:</p> <p>Actions:</p> <p>Critical</p> <p>High</p> <p>Medium</p> <p>Low</p>	<p>Full</p> <p>New review</p> <p>0</p> <p>0</p> <p>3</p> <p>0</p>	<p>We reviewed the policies and processes of the Finance team regarding VAT, held meetings with key Officers to discuss the operations and potential issues with VAT accounting at the Council, and conducted sample testing of invoices to determine whether or not they were coded correctly.</p> <p>Our review considered three main areas: the partial exemption, awareness of changes in VAT accounting, day-to-day accounting practices for VAT and concluded that controls were working well.</p>

Audit	Assurance and actions		Summary of report and actions
<p>Grant assurance – Disabled Facility Grant</p> 	<p>Assurance:</p> <p>Current:</p> <p>Previous:</p> <p>Actions:</p> <p>Critical</p> <p>High</p> <p>Medium</p> <p>Low</p>	<p>Full</p> <p>Reasonable</p> <p>0</p> <p>0</p> <p>0</p> <p>0</p>	<p>Central Government funding is allocated to the County Councils as part of the Better Care Fund. A proportion of this is allocated to District Councils to enable them to carry out improvements to housing stock, and for disabled adaptations.</p> <p>The review provides assurance to both the Council, plus the County Council and Central Government, as part of the grant certification process set by the Ministry of Housing, Communities and Local Government (MHCLG).</p>
<p>Grant Assurance PPAS</p> 	<p>Assurance:</p> <p>Current:</p> <p>Previous:</p> <p>Actions:</p> <p>Critical</p> <p>High</p> <p>Medium</p> <p>Low</p>	<p>Full</p> <p>New review</p> <p>0</p> <p>0</p> <p>0</p> <p>0</p>	<p>We have completed Post Payment Assurance Sampling (PPAS) reviews for the Department for Business, Energy & Industrial Strategy (BEIS) for the following Business Grant Schemes: Christmas Support Payment for Wet Led Pubs</p> <p>While it is not possible to completely eradicate the risk of fraud, this review provided assurance that adequate checks were undertaken to ensure recipients were eligible with the scheme conditions, and appropriate checks were made to minimise the risk of fraud and error.</p> <p>Further PPAS reviews will be completed for the remaining Business Grant Schemes in 2022/2023.</p>

7 Counter fraud and corruption update

National Fraud Initiative

- 7.1 The Council participates in a national data matching service known as the National Fraud Initiative (NFI), which is run by the Cabinet Office. Data is extracted from Council systems for processing and matching. It flags up inconsistencies in data that may indicate fraud and error, helping councils to complete proactive investigation. Nationally it is estimated that this work has identified £1.69 billion of local authority fraud, errors and overpayments since 1996. Historically this process has not identified significant levels of fraud and error at Cambridge City Council, and this provides assurance that internal controls continue to operate effectively.
- 7.2 We have continued to work on the 2020/2021 exercise and have recently uploaded new datasets for the Business Grant Schemes to supplement our own data matching.

8 Other audit and assurance activity

Business Grants

- 8.1 The team has been assisting the Council with delivery of Central Government funded Business Grant schemes. This work has included undertaking fraud and error risk assessments, so that we can proactively advise on the design of low friction controls.
- 8.2 To help safeguard the public purse and ensure that funds are provided to legitimate applicants, we have maintained a post-assurance plan, which sets out checks and tests.
- 8.3 We are utilising government recommended tools to check applicants for compliance with scheme eligibility. In addition, we have also designed our own local assurance tools, and this has helped us to proactively prevent some applications that were non-compliant with the regulations.
- 8.4 We have completed assurance reporting to Central Government and also worked with Counter Fraud agencies to share intelligence on areas of fraud risk.
- 8.5 The work helps the Council to have assurance that it has taken proportionate and effective controls to mitigate the risk of fraud and error.

Public Sector Internal Audit Standards

- 8.6 The Public Sector Internal Audit Standards (PSIAS) require that Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the Internal Audit activity. External assessments must be conducted at least once every five years by a qualified, independent assessor. In 2018 CIPFA independently verified that we “**Generally Conform**” with the Public Sector Internal Audit Standards (PSIAS) and the accompanying Local Government Application Note (LGAN).
- 8.7 We completed our annual internal review process which provides assurance that we continue to meet the standards. We recognise that the impact of Covid-19 has meant that, while we have completed a reasonable volume of audit work, the breadth of coverage has reduced in comparison to previous years. This can potentially reduce our ability to provide a comprehensive annual opinion on the overall control environment. Consequently, the risk of not complying with the standards has significantly increased, although we expect the risk to be reduced as we return to more normal ways of working. We have been responding to guidance issued by our professional bodies, undertaking pandemic related risk assessments, and adapting our assurance approach to help maintain compliance with the standards.

Governance

- 8.8 We facilitated the review of the Annual Governance Statement, and the Local Code of Governance, which accompanies the Statement of Accounts.

Risk management

- 8.9 We have continued to provide support on the identification of risks and controls and have commenced a review of the Risk Management Framework.
- 8.10 We led a review of the Risk Management Strategy and provided the Civic Affairs Committee with updates on the progress of our improvement program.

9 Conclusion

- 9.1 The work carried out by the Internal Audit Team conforms to the Public Sector Internal Audit Standards.
- 9.2 A continuous risk-based audit plan is completed, providing assurance. The team also provides added value consulting activities such as providing advice and fraud and error activities.
- 9.3 The audit work completed has provided sufficient coverage to enable Internal Audit to form an opinion on the internal control environment, governance and risk management arrangements. There is Reasonable assurance awarded during the year, and this remains at a similar level to the previous period.

Appendix C – Internal Audit Charter



Our vision:

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

May 2023

Next Review: By February 2024

Version Control: 1.05

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
- 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.

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

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 Leadership Team and the Senior Management Team (CCC) and the Leadership Team and Corporate 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.

5.8 Risk Management is the responsibility of Officers and Members. Internal Audit is a member of the Risk Management Group at both Councils; providing advice on the development of proportionate mitigation and actions. At CCC Internal Audit is also the Strategic Lead for Risk Management and facilitates the Risk Management Strategy and Framework. Management are still responsible for identifying, managing and mitigating risks within their services. This approach does is consistent with best practice set out by the IIA.

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 audit strategy, together with agile audit plans and a summary of 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 consulted with Senior Management prior to being taken forward to the Committee for final endorsement.

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, Risk and Control	Follow up activity
Corporate Plan Objectives	Internal advice on risks, controls and procedures
Cross Cutting audits	

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.

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, where appropriate, 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.
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 Internal Audit reports include actions which are agreed with management and prioritised, plus an overall assurance opinion. These are explained further on the next page.

Assurance ratings

Internal Audit provides management and Members with a statement of assurance on each area audited. This is also used by the Head of Shared Internal Audit to form an overall opinion on the control environment operating across the Council, including risk management, control and governance, and this informs the Annual Governance Statement (AGS).

Term	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.

Organisational impact

The overall impact may be reported to help provide some context to the level of residual risk. For example, if no controls have been implemented in a system it would have no assurance, but this may be immaterial to the organisation. Equally a system may be operating effectively and have full assurance, but if a risk materialised it may have a major impact to the organisation.

Term	Description
Major	The risks associated with the system are significant. If the risk materialises it would have a major impact upon the organisation.
Moderate	The risks associated with the system are medium. If the risk materialises it would have a moderate impact upon the organisation.
Minor	The risks associated with the system are low. If the risks materialises it would have a minor impact on the organisation.

Action ratings

As part of the review we have identified opportunities for improvement, which have been shared with Management. These are developed into actions to improve the effectiveness of the governance, risk management arrangements, and the internal control environment.

Management are responsible for implementing their actions and providing assurance when they are completed. Timescales for implementing actions should be proportionate and achievable to the available resources. To help prioritise the actions we have produced guidance below:

Priority	Description	Timescale for action	Monitoring
Critical	Extreme control weakness that jeopardises the complete operation of the service.	To be implemented immediately.	Within 1 month
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.	Within 6 months
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.	Within 12 months
Low	Control weakness, which, if corrected, will enhance control procedures that are already relatively robust.	To be implemented as soon as reasonably practical.	Within 24 months

The Council has a Risk Management system, which is used for tracking their progress. This will be updated upon distribution of this report and we will follow up the actions where appropriate. It is the responsibility of Risk Owners and Action Owners to regularly review and update the risk register with details of action taken to mitigate the risks.

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 Period reports will be produced to summarise the output of audit reviews and to set 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 to report performance and the Control Opinion)	Relevant Audit Committee	To provide the Council with progress at delivering the audit service and any key governance issues arising. This will include an evaluation of the works undertaken and the level of assurance established. To provide assurance on compliance with PSIAS
Audit Plan	Relevant Audit Committee S.151 Officer	Details of the future plans to provide assurance across the Council in accordance with PSIAS. This may be included in Progress reports depending on the Committee Cycle.

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 shared with 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 D – 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.

To uphold the principles, Internal Auditors shall:

INTEGRITY:	<ul style="list-style-type: none">• 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:	<ul style="list-style-type: none">• 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:	<ul style="list-style-type: none">• 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:	<ul style="list-style-type: none">• 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.

Appendix E – Glossary of terms

Assurance ratings

Internal Audit provides management and Members with a statement of assurance on each area audited. This is also used by the Head of Shared Internal Audit to form an overall opinion on the control environment operating across the Council, including risk management, control and governance, and this informs the Annual Governance Statement (AGS).

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