

Agenda Item No. 8.

TITLE DRAFT INTERNAL AUDIT PLAN 2017/18

To: Audit & Accounts Committee

Date: 21st March 2017

From: Duncan Wilkinson, Chief Internal Auditor

1. PURPOSE

- 1.1 To present the draft 2017/18 Internal Audit Plan and invite comments from the Committee.

2. BACKGROUND

- 2.1 The role of Internal Audit is to provide the Audit Committee and management independent assurance on the effectiveness of the controls in place to ensure that the Council's objectives are achieved. Internal Audit coverage is planned so that the focus is upon those areas and risks which will most impact upon the Council's ability to achieve these objectives.
- 2.2 This report outlines the proposed 2017/18 Internal Audit Plan (at Appendix 1, p.8).
- 2.3 A draft revised Internal Audit Strategy and Charter is also provided (at Appendix 2, p.15) for 2017/18 for comments. The final draft of the Strategy and Charter will be returned to the May meeting of the Audit and Accounts Committee for formal approval.

RECOMMENDATION

The Committee is requested to consider and comment on the contents of this report.

1. THE INTERNAL AUDIT PLAN

1.1 BACKGROUND

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors launched a common set of Public Sector Internal Audit Standards (PSIAS) in April 2013. The PSIAS set out the standard for internal audit across the public sector.

The principles in the PSIAS are consistent with the previous CIPFA code of practice for internal audit which applied across local government. They include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the 'Board'; for the purposes of the key duties laid out in the PSIAS, the Audit & Accounts Committee is effectively the 'Board' for the Council.

Under the Local Government Act, the Council's Section 151 officer is responsible for ensuring that there are arrangements in place for the proper administration of the Authority's financial affairs. The work of Internal Audit is therefore directly relevant to these responsibilities.

1.2 AUDIT PLANNING

PSIAS Performance Standard 2010 – *Planning* states that:

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

The standards refer to the need for the risk-based plan to consider the organisation's risk management framework, and to take into account the requirement to produce an annual internal audit opinion and the assurance framework.

Within the Council, the Chief Audit Executive is the Chief Internal Auditor, for the purposes of the PSIAS. Performance Standard 2450 – *Overall Opinions* states that:

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

The risk-based plan therefore needs to include an appropriate and comprehensive range of work which is sufficiently robust to confirm that all assurances provided as part of the system of internal audit can be relied upon by the Audit & Accounts Committee. The Chief Internal Auditor will ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the internal audit plan.

1.3 THE PLANNING PROCESS

The plan is based on assurance blocks that each provides an opinion over key elements of the control environment, targeted towards in-year risks, rather than a more traditional cyclical approach examining each system over a number of years. For each assurance block, the most appropriate level of coverage necessary to provide an effective annual assurance opinion and added value to the organisation has been developed.

The audit plan is intended to remain dynamic in nature and will be reviewed and re-aligned on a regular basis to take account of new, emerging and changing risks and priorities. Resources will then be re-prioritised towards the areas of highest risk. The audit plan will be reported to Audit & Accounts Committee every quarter, and should be reviewed and robustly challenged by the Senior Management Team, the S151 Officer and the Audit & Accounts Committee.

In order to develop the audit plan, there must be a sound understanding of the risks facing the Council. The Internal Audit risk assessment of the authority is updated during the year and used to form the basis of the Internal Audit plan, alongside the Corporate Risk Register. Internal Audit has also engaged with members of senior management to ensure that known and emerging risks are considered in annual audit planning. Potential audit areas identified through this process are then assessed and weighted according to the level of risk they relate to.

1.4 THE ANNUAL PLAN

The Internal Audit Plan for the next year must be sufficiently flexible to enable assurance to be obtained over current risk areas, as well as emerging risks, and those risks which are yet to be identified. This is particularly relevant as we move into 2017/18, with the Council continuing to evolve and transform in the face of ongoing financial challenges.

Inevitably, the potential for risks is increased during periods of change. For instance, reductions or high levels of turnover in the workforce provide an opportunity for controls to break down – as well as an opportunity to consider new and more efficient ways of organising people, systems and processes, without adversely impacting internal control. To reflect this risk, the Audit Plan contains an allocation of time for advice and guidance. Reviews of the key financial systems and pro-active anti-fraud and compliance audits will provide assurance that the basic governance and control arrangements are continuing to operate effectively, minimising the risks of misappropriation, loss and error.

The Audit Plan reflects the environment in which public sector audit operates, recognising that this has changed considerably over the past few years with more focus on, for example, better assurance, safeguarding and achieving best value. The planned audit coverage is intended to ensure stakeholders receive a valuable assurance and that the audit service tangibly adds value to the organisation.

Maintaining an Audit Plan which is dynamic, challenging and prioritised based on the organisation's risks is not a new concept; however, in the current environment it is

ever more critical if Internal Audit is to help the Council to respond effectively to the scale of change required in 2017/18 and beyond.

1.5 HOW ASSURANCE CAN BE GIVEN

As detailed above, the plan is split into both assurance blocks and directorate areas for ease of understanding as well as to demonstrate how assurance on the organisation's control environment can be given. There are a number of key assurance blocks:

1.5.1 *Key Financial Systems*

This is the traditional area of internal audit work, required by external audit, and very much focuses on providing the Section 151 officer assurance that "the Council has made arrangements for the proper administration of its financial affairs." These systems are agreed in advance with External Audit and are used as the basis by which External Audit area able to place reliance on Internal Audit work. These are generally the systems that have the highest financial risk. These reviews also give an opinion as to the effectiveness of financial management procedures and the arrangements to ensure the integrity of accounts.

1.5.2 *Policies & Procedures*

Effective policies and procedures drive the culture and risk appetite of the organisation and ensure key control principles are captured. A number of policies and procedures will be reviewed to ensure these are: up to date; fit for purpose; effectively communicated; routinely complied with across the organisation; monitored and routinely improved. Each audit undertaken should similarly review the current policies and procedures in the area being covered.

1.5.3 *Compliance*

Compliance work is fundamental as it provides assurance across all Directorates and therefore supports the Head of Internal Audit opinion on the control environment. The proposed coverage for compliance is underpinned by an assessment of the Council's framework of controls (informed by policies and procedures) and includes those core areas where a high level of compliance is necessary for the organisation to carry out its functions properly. The work involves compliance checks across the organisation to provide assurance on whether the critical controls within the key policies and procedures are being routinely complied with in practice. This work will continue to challenge the existing controls to ensure that they are modern, effective and proportionate.

1.5.4 *Making Every Penny Count*

This assurance block incorporates the on-going work on initiatives to promote the value of *making every penny count* across the organisation. Although each audit we undertake should have value for money at its core, the team will be suggesting areas where this work can be expanded.

1.5.5 Commissioning and Contracts

Within this assurance block, a number of days have been included for capital and current contract reviews. The first stage will be to agree the higher risk contracts for review and will incorporate open-book assurance where required to ensure that these are operating in accordance with the terms of the contracts. Work to examine the commissioning process as a whole is also included in this assurance block.

1.5.6 Anti-Fraud and Corruption

This is a key development area and a high-risk area across the public sector. This includes both reactive and pro-active elements, along with initiatives to raise awareness of the council's anti-fraud and corruption culture and to report on the arrangements in place. In addition to the time allocation for fraud investigation work including the risk assessment process for referrals, the assurance block includes an allocation of days for pro-active fraud strategy work.

1.5.7 ICT and Information Governance

The ICT assurance block includes reviews of key ICT risk areas – major ICT failure and ICT strategy. It also includes an allocation of time for the review of general computer controls to provide assurance that systems are correctly processing information accurately and on a timely basis. The assurance block also incorporates time for reviews of key risk areas around information governance and information security.

1.5.8 Contingency

The Audit Plan also includes a contingency provision to be utilised in-year, in response to unforeseen work demands and emerging risks. This is incorporated within the Risk Based Audits allocation.

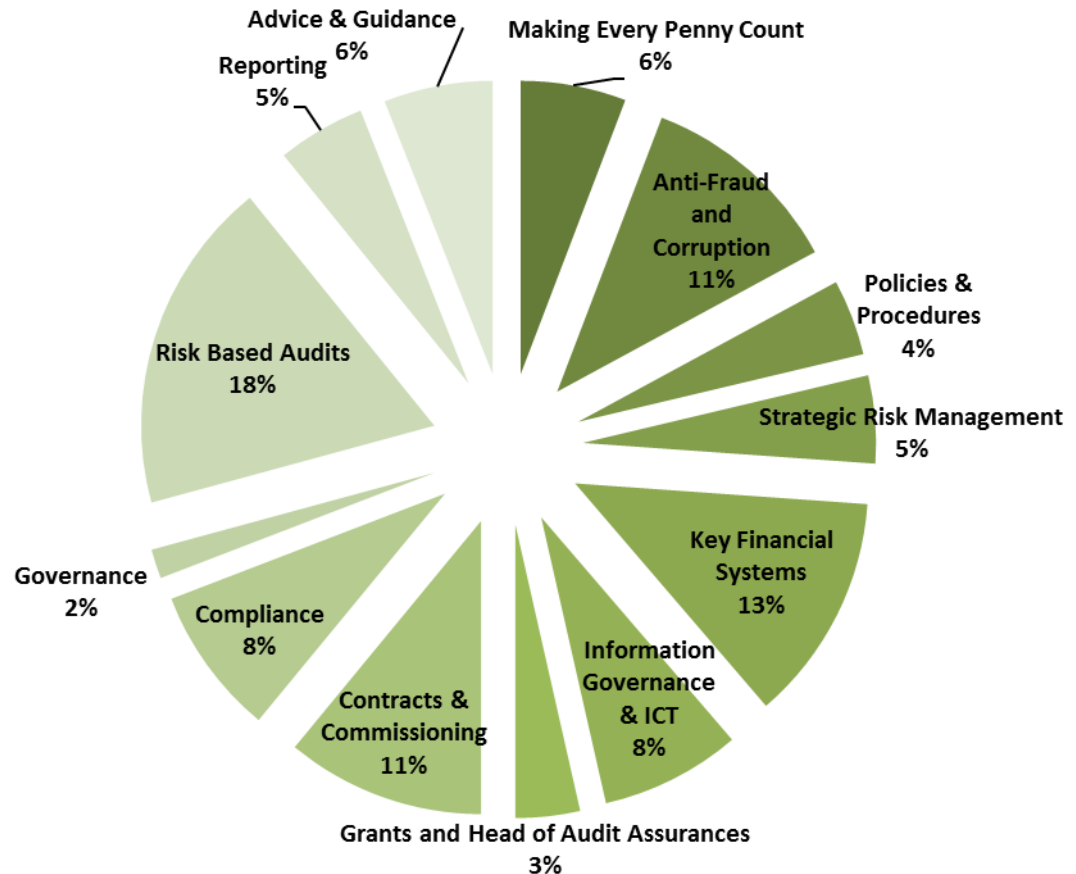
1.6 PLAN SUMMARY AND RESOURCES

In summary, the Audit Plan maintains a focus on risk-based and compliance audits as well as providing assurance on key financial systems. This reflects the need to focus on the management of emerging risks and to ensure the continued operation of key controls within the Council's governance arrangements, systems and processes. In order to contribute to the Council's efficiency agenda, there is also a continued need to allocate time to anti-fraud work and value for money reviews.

The Audit Plan has been agreed as 1,550 days, consistent with the 1,550 days for 2016/17. The proposed approximate split of time across the 2017/18 Audit Plan follows:

Internal Audit Plan 2017/18

Breakdown of total days by Assurance Block



To help understand the breadth of audit coverage across the organisation, we have also broken the draft Plan down into organisational themes. This helps to demonstrate how the planned reviews will provide coverage of key organisational risks. In particular, in alignment with the Council's Transformation Programme, the Audit Plan for 2017/18 has a focus on procurement risk, and includes reviews of commissioning and contract management of major corporate contracts; reviews focused on new governance arrangements around procurement and commissioning; and reviews of compliance with procurement policies and guidance.

The breakdown of the proposed Plan across these organisational themes is as follows:

Internal Audit Plan 2017/18

Breakdown of total days by Audit Theme



1.7 CONCLUSIONS

The 2017/18 Audit Plan has used a risk-based approach to prioritising internal audit work and includes sufficient coverage to ensure an evidence-based assurance opinion on the control environment can be provided at the end of the year.

The Plan is responsive in nature and all efforts will be made to maximise coverage to provide the most effective and agile internal audit service possible that focuses on key risks facing the organisation throughout the year.

Progress against the plan will be monitored throughout the year and key issues reported to SMT and the Audit Committee each quarter.

1.8 THE DRAFT INTERNAL AUDIT PLAN 2016/17

The Draft Internal Audit Plan is presented at Appendix 1.

Any changes agreed as a result of this meeting will be incorporated into the draft Plan prior to presentation to Audit & Accounts Committee on the 21st March.

APPENDIX 1 – DRAFT INTERNAL AUDIT PLAN 2017/18

Internal Audit Plan 2017/18				
Audit	Days	Theme	Directorate	Why?
Making Every Penny Count				
Governance of Financial Assessments	30	Value for Money	CFA	Requested by Wendi Ogle-Welbourn. Focus on ensuring clawback of Direct Payments. Including benchmarking against Peterborough CC processes following a recent Peer Review at Peterborough which gave extremely positive feedback.
Traded Services	20	Value for Money	CFA	Requested by Wendi Ogle-Welbourn. Risk of a lack of clear policies around charging for services, particularly outside the remit of 'traditional' traded services. Risk that full costs, including overheads, are not being passed on when we charge for items and services.
Section 106	20	Value for Money	ETE	Requested by Graham Hughes. Major income stream; risk that income is not collected when due or is not utilised and has to be returned to developers. Light touch review of compliance with processes, to include following a sample of s106 agreements from receipt of the funding to its application.
Overtime and Enhancements in CFA	20	Value for Money	Cross-Cutting	Requested by Wendi Ogle-Welbourn. Compliance testing of claims for overtime and enhanced payments in CFA and tracing these back to evidence of hours worked. Review of policy to confirm whether it is in line with national guidance and practice elsewhere (e.g. whether Saturday working is considered eligible for enhancements).
Total Making Every Penny Count:	90			
Anti-Fraud and Corruption				
Proactive Fraud Work				
Preventative & Pro-Active Fraud Work	10	Fraud & Corruption	Cross-Cutting	Deterrent; stopping fraud and encouraging reporting of concerns.
National Fraud Initiative	40	Fraud & Corruption	Cross-Cutting	Deterrent; stopping fraud; recouping lost funds.
Reactive Fraud Work				
Fraud Investigations	125	Fraud & Corruption	Cross-Cutting	Deterrent; stopping fraud; recouping lost funds.
Total Anti-Fraud and Corruption:	175			

Key Financial Systems				
Accounts Receivable	15	Financial Governance	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Purchase to Pay	20	Financial Governance	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Payroll	25	Financial Governance	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Payroll Transaction Testing & Safe Recruitment in Schools	60	Financial Governance	CFA	Review to provide assurance over schools payroll, with testing on new starters to include review of compliance with Safe Recruitment requirements.
General Ledger	10	Financial Governance	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Bank Reconciliation	5	Financial Governance	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Treasury Management	5	Financial Governance	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Financial Systems IT General Controls	10	Financial Governance	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Risk Management	5	Risk Management	Cross-Cutting	Review focusing on the risk management procedures and processes in place at the Council, and compliance with these.
Procurement Governance	20	Procurement	Cross-Cutting	Review covering policies and procedures governing procurement processes, and arrangements for monitoring compliance with procurement policies. Assurance over risk that best value is not being achieved across all Council procurement.
Debt Recovery	20	Value for Money	Cross-Cutting	Review of debt recovery, with a focus on: appropriate policies and procedures for debt recovery; areas of high debt write-offs; and debt recovery timescales. Increasing levels of corporate debt particularly in social care have been picked up by Committee as a risk.
Total Key Financial Systems:	195			
Grants and Other Head of Audit Assurances				
Growth Deal	5	Financial Governance	ETE	Grant certification required. 29th July 2017 deadline.
Local Transport Capital Block Funding	5	Financial Governance	ETE	Grant certification required. 30th September 2017 deadline.
Bus Service Operators	5	Financial Governance	ETE	Grant certification required. 30th September 2017 deadline.
Pothole Action Fund	5	Financial Governance	ETE	Grant certification required. 30th September 2017 deadline.
Cycle City Phase II	5	Financial Governance	ETE	Grant certification required. 31st March 2018 deadline.
Troubled Families Grant	20	Financial Governance	CFA	Grant certification required. Ongoing throughout year.
Other grants to be identified	10	Financial Governance	CCC	Allowance of time for additional grants identified in-year as requiring Internal Audit certification.
Total Grants and Other Head of Audit Assurances:	55			

Commissioning & Contracts				
Highways Contract Management Arrangements	20	Procurement	ETE	Key risk within the ETE directorate given the size of this contract. Review of contract management arrangements, pre contract let (July). To include a lessons learned review of the process of letting the contract.
Highways Contract Open Book Reviews	40	Procurement	ETE	Quarterly open book reviews of the Highways Contract.
Street Lighting PFI	20	Procurement	ETE	Review of the contract management of the Council's Street Lighting PFI Contract.
Waste PFI	20	Procurement	ETE	Requested by Graham Hughes. Ongoing audit support to the renegotiation of the contract to resolve legacy issues. Scale of the contract (£35m p.a.) means this is a key financial risk for the Council.
CFA Contract Audit	20	Procurement	Cross-Cutting	Allowance of time for review of further contract(s) identified in-year.
Capital Programme Board	10	Procurement	Cross-Cutting	Requested by Chris Malyon. To focus on how the Boards are operating and integrating; whether the Boards are carrying out their roles as originally envisioned; whether they carry out an appropriate level of challenge and enforcement; and any recommendations for how to maximise the value achieved by these arrangements.
Commercial Board	20	Procurement	Cross-Cutting	As above.
Commissioning Board	20	Procurement	CFA	As above.
Total Commissioning & Contracts:	170			
Risk-Based Audits				
Deputyships	20	Safeguarding	CFA	Follow-up review of transfer to LGSS and new procedures to confirm risks identified by previous audit have been addressed in terms of financial management, fraud risk, safeguarding and efficiency.
Deprivation of Liberty/Mental Capacity Act (DoLs/MCA)	20	Safeguarding	CFA	Requested by Wendi Ogle-Welbourn. Risk that the team are not operating within statute, particularly in relation to children and the recent focus on children in residential homes and the extent to which this constitutes a deprivation of their liberty.
Joint Safeguarding Board Arrangements	20	Safeguarding	CFA	Requested by Wendi Ogle-Welbourn. The project to join up Safeguarding Board arrangements between Cambridgeshire and Peterborough constitutes a major change and a review would provide assurance that safeguarding risks, information security risks and the risk of non-compliance with statutory requirements are being appropriately mitigated by the new arrangements.

Multi Agency Safeguarding Hub (MASH)	20	Safeguarding	CFA	Requested by Wendi Ogle-Welbourn. The MASH is undergoing major changes as part of the Children's Change Programme and a review will provide assurance that the new arrangements effectively mitigate safeguarding risks, information security risks and the risk of non-compliance with statutory requirements.
Safe Recruitment	15	Safeguarding	CFA	Review of safe recruitment practice across the Council with a focus on DBS check compliance, to ensure safeguarding risk is appropriately mitigated.
Corporate Capacity Review Outcomes	20	Transformation	Cross-Cutting	Cross-cutting review of the outcomes and how processes are being managed following the CCR. Requested by Chris Malyon.
Business Intelligence Continuity	20	Transformation	CST	Review of whether aspirations around business continuity and resilience within the Business Intelligence function are being met, as well as the effectiveness of the commissioning of outcomes from the new service. Requested by Sue Grace.
Property Portfolio Development Project	10	Transformation	Cross-Cutting	Embedded assurance support to the Property Portfolio Development Project, including Internal Audit representation on the Property Portfolio Development Board.
Public Health Joint Commissioning Unit	20	Procurement	PH	Post-implementation review of the new PH Joint Commissioning Unit, to confirm that the unit is functioning as planned and identify any further recommendations for improvement.
Project Management Methodologies	20	Project Management	Cross-Cutting	A major review of project management methodologies is underway, including a move towards more agile project management. Review to provide assurance that the new methodologies in use are mitigating project risks and resulting in effective project management.
Projects Assurance	50	Project Management	Cross-Cutting	4x reviews of major projects, to provide assurance over the implementation of new project management methodologies. Internal Audit staff will act as corresponding members of the project board as part of the review and focus on key gateway stages of each selected project. This will include the Mosaic implementation project, and the Citizen First, Digital First project.
Other risk-based audits	50	TBC	Cross-Cutting	Further audit reviews, to be determined by SMT/Audit Committee each quarter based on their assessment of risk.
Total Risk-Based Audits:	285			
Key Policies & Procedures				
Whistleblowing Policy & Compliance	15	Governance	Cross-Cutting	Review of the Council's Whistleblowing Policy, to include review of a sample of whistleblowing disclosures, to provide assurance over the risk that fraud or malpractice are not properly dealt with.
Fees and Charges Policy & Compliance	20	Value for Money	Cross-Cutting	Requested by Graham Hughes. Risk that new processes around setting fees and charges are not followed, leading to the Council missing out on income or legislative non-compliance.

Scheme of Delegation Policy & Compliance	15	Governance	Cross-Cutting	Review of a sample of decision-making to confirm that the Council's Scheme of Delegation is being complied with and that officers do not take decisions which are beyond their delegated powers. Focus on both financial and non-financial decision making risks.
Ethics Policies & Compliance	15	Governance	Cross-Cutting	Recommended as part of the Public Sector Internal Audit Standards. Review of policies and practice relating to organisational ethics, including gifts and hospitality; conflicts of interest; staff behaviour; and the risk of bribery.
Total Policies & Procedures:	65			
Compliance				
Direct Payments Compliance	15	Value for Money	CFA	Sample testing of Direct Payments files to provide assurance over the following risks: Direct Payments are misused by service users or subject to fraud; the Council does not monitor these effectively; and that surplus monies due for repayment are not identified.
Agency Staff Compliance	15	Procurement	Cross-Cutting	Following the implementation of the new arrangements for agency staffing, review of the use of agency staff to identify areas of high expenditure and/or non-compliance with Council policies on agency staffing, providing assurance over the achievement of best value through procurement.
Unannounced Visits	20	Value for Money	Cross-Cutting	2 - 3 services will be identified in conjunction with contract managers, for unannounced visits focusing on compliance with the Council's policies and expectations for management of finances and safeguarding risks, and providing an appropriate deterrent to fraud.
Key Performance Indicators	15	Governance	Cross-Cutting	Review of a sample of Key Performance Indicators to confirm that they are calculated and reported accurately in order to appropriately inform decision-making.
Procurement Compliance	32	Procurement	Cross-Cutting	4x reviews throughout the year of a sample of invoices, to provide assurance over risk that best value is not being achieved across all Council procurement. Once invoices have been selected, the review will work backwards through the commissioning process to confirm compliance and VFM.
Procurement Exemptions Compliance	15	Procurement	Cross-Cutting	Compliance review to provide assurance that necessary approvals are obtained when required, following audit reviews in 2016/17 identifying this as a risk to achieving best value. To include contract extensions; off-contract expenditure; and instances where fewer than three bids are obtained for a contract.
EU Procurement Regulations	15	Procurement	Cross-Cutting	Review of high-value procurements to confirm compliance with EU Procurement Regulations and that best value is being achieved through procurement.
Total Compliance:	127			

ICT and Information Governance				
Information Governance	20	Information Governance	Cross-Cutting	Review(s) focused around Information Governance, potentially to include further follow up on the implementation of the action plan resulting from the Information Commissioner's Office audit review in 2016.
New ERP System IT Controls	30	Information Governance	Cross-Cutting	Review of the General Computer Controls in place, with a focus on: access controls; physical security controls; system and data backup and recovery; system development and program change management controls.
Controls Review of critical systems	15	Information Governance	Cross-Cutting	Systems to be determined.
Agresso data migration	15	Information Governance	Cross-Cutting	Assurance on migration of data from Oracle to Agresso.
Assurances from 3rd Parties	10	Information Governance	Cross-Cutting	Review of risks and assurances from services providers who hold CCC data.
IT Security Culture	10	Information Governance	Cross-Cutting	Evaluation of IT security awareness amongst staff and senior managers.
Information Security	20	Information Governance	Cross-Cutting	Review of arrangements for Information Security, with a focus on: policies and procedures; compliance with legislative requirements; communication and staff awareness; compliance monitoring; and incident handling.
Total ICT Audit:	120			
Governance				
Annual Governance Statement/Code of Corporate Governance	15	Governance	Cross-Cutting	Annual Governance Statement/Code of Corporate Governance.
Transformation Programme	10	Transformation	Cross-Cutting	Embedded assurance support of the Transformation Programme, including feedback from individual audit reviews into the programme; internal audit responses to consultations; ad hoc advice and support etc.
Total Governance:	25			
Strategic Risk Management				
Risk Management	75	Risk Management	Cross-Cutting	Strategic risk management processes.
Total Risk Management:	75			
Advice & Guidance				
Advice & Guidance	50	Advice & Guidance	Cross-Cutting	Providing support and guidance to staff on ad-hoc queries.
Freedom of Information Requests	3	Advice & Guidance	Cross-Cutting	Allowance of time to respond to FOI requests received in-year.
Follow-Ups of Agreed Actions	40	Advice & Guidance	Cross-Cutting	Confirming agreed actions have been implemented to reduce key organisational risks.

Total Advice & Guidance:	93			
Reporting				
Committee Reporting	25	Reporting	Cross-Cutting	Reporting to Audit and Accounts Committee.
Management Reporting	25	Reporting	Cross-Cutting	Reporting to SMT.
Audit Plan	25	Reporting	Cross-Cutting	Development of the Internal Audit Plan and any in-year revisions/updates.
Total Reporting:	75			
Operational Plan Total - 2017/18	1550			

APPENDIX 2

Duncan Wilkinson – Chief Internal Auditor

1. INTRODUCTION and CONTEXT

- 1.1. The Council's Internal Audit service is delivered by LGSS (a Cambridgeshire County Council, Northamptonshire County Council, and Milton Keynes Unitary Council partnership).
- 1.2. As austerity continues, the context for local government and for the overall governance, risk and control environment within which it operates is increasingly challenging. Efficiency and transformation programmes are fundamentally altering the nature and structure of the Council. Services have become increasingly sophisticated in their understanding of risk management and may accept greater levels of controlled risk in order to achieve their aims. This is accompanied by greater transparency and scrutiny of public expenditure and governance. This context will affect the overall governance, risk and control environment.
- 1.3. Internal Audit is required to maintain an Internal Audit Strategy and Charter. The core governance context for Internal Audit is summarised below:

The Accounts and Audit Regulations (2015) sets out that:

A relevant authority must ensure that it has a sound system of internal control which—
(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
(b) ensures that the financial and operational management of the authority is effective; and
(c) includes effective arrangements for the management of risk.

And that:

A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

A relevant authority must, each financial year—
(a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and
(b) prepare an annual governance statement

The Public Sector Internal Audit Standards (PSIAS) issued in April 2013 include the need for risk-based plans to be developed for internal audit and to receive input from management and the 'Board' (usually discharged by the Council's Audit Committee). The work of Internal Audit therefore derives directly from these responsibilities, including:

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

PSIAS : 2450 – "The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and

effectiveness of the organisation's framework of governance, risk management and control."

1.4. The purpose of the audit strategy and charter is to put in place an approach that will enable Internal Audit to deliver a modern and effective service that:

- Meets the requirements of the Public Sector Internal Audit Standards and the Accounts and Audit Regulations;
- Ensures effective audit coverage and a mechanism to provide independent and objective overall assurance in particular to Councillors and management;
- Provides an independent Annual Opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control environment;
- Identifies the highest risk areas of the Council and allocates available internal audit resources accordingly;
- Adds value and supports senior management in providing effective control and identifying opportunities for improving value for money; and
- Supports the S151 officer in maintaining prudent financial stewardship for the Council.

1.5. The following definitions apply throughout the Strategy and Charter:

- The Audit & Accounts Committee – acts as the PSIAS defined Council 'Board'.
- The LGSS Chief Internal Auditor – is the PSIAS defined 'Chief Audit Executive'.
- CCC Senior Management Team (SMT) – is the PSIAS defined 'senior management' team.
- Internal Audit – is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- Assurance Services – an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the Council. Examples include financial, performance, compliance, system security and due diligence.
- Consulting Services – Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisations governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

2. STRATEGY / VISION

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

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

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

- 2.3. LGSS Internal Audit will provide a robust high quality audit service that delivers honest, evidenced assurance, through:

- **Focusing on what is important:**
Deploying its resources where there is most value, aligned to the corporate objectives and priorities, the processes to facilitate these and the key risks to their achievement, whilst ensuring sufficient assurance to support the Annual Governance Statement.
- **Being flexible and responsive to the needs of the Council:**
The Annual Plan will be reviewed quarterly, enabling Audit resources to be redeployed as new risks emerge, with the agreement of senior management and the board.
- **Outward-looking and forward-focused:**
The service will be aware of national and local developments and of their potential impact on the Council's governance, risk management and control arrangements.
- **Providing Assurance:**
There is value in providing assurance to senior managers and members that the arrangements they put in place are working effectively, and in helping managers to improve the systems and processes for which they are responsible.
- **Balancing independent support and challenge:**
Avoiding a tone which blames, but being resolute in challenging for the wider benefit of the Council and residents.
- **Having impact:**
Delivering work which has buy-in and which leads to sustained change.
- **Ensuring it is welcomed at the top table:**
Identifying and sharing organisational issues and themes that are recognised and taken on board. Working constructively with management to support new developments.

- **Strengthening the governance of the Council:**

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

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

- Local Government / Public Sector;
- The Council and its community;
- Professional Audit and Corporate Governance standards.

2.5. All staff within the audit service hold a relevant professional qualification or part qualification. All participate in continuing professional development, both in relation to specific audit skills e.g. contract audit, and softer skills e.g. communication skills.

3. AUTHORITY

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

3.2. Internal Audit's authority is documented and defined within the Council's Constitution and Financial Regulations. Internal Audit's remit extends across the entire control environment of the Council.

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

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

3.5. All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities.

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

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

3.8. To provide for independence, the day-to-day management of the Internal Audit Service is undertaken by the Chief Internal Auditor who reports to the Audit Committee. This

accords with the Public Sector Internal Audit Standards which requires the Chief Internal Auditor to report to the very top of the organisation.

- 3.9. The Chief Internal Auditor has direct and unrestricted access to the Chief Executive, Resources Director (S151 Officer), Directors, External Audit, Audit and / or Scrutiny Committees at his/her discretion, including private meetings with the Chair of the Audit Committee.

4. INDEPENDENCE & OBJECTIVITY

- 4.1. Independence is essential to the effectiveness of the internal audit service; so it will remain free from interference in all regards. This shall include, but not be limited to matters of audit selection, scope, procedure, frequency, timing or report content.
- 4.2. Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 4.3. In addition to the ethical requirements of the various professional bodies, each auditor is required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest and declare any potential 'conflict of interest' on allocation of an audit. Any potential impairments to independence or objectivity will be declared prior to accepting any work.
- 4.4. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgment. Where auditors have previously been involved in any of these activities or consultancy work they will be prohibited from auditing those areas for at least 2 years. Audits are rotated within the team to avoid over-familiarity and complacency.
- 4.5. The Chief Internal Auditor will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit service.

5. HOW THE SERVICE WILL BE DELIVERED

5.1. Audit Planning

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

- Focusing assurance effort on the most important issues, the key obligations, outcomes and objectives, critical business processes and projects, and principal risks; pitching coverage therefore at both strategic and key operational aspects.
- Maintaining up-to-date awareness of the impact of the external and internal environment on control arrangements.
- Using a risk assessment methodology to determine priorities for audit coverage

based as far as possible on management's view of risk in conjunction with other intelligence sources e.g. corporate risk register, audit risk scores.

- Taking account of dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs, but recognising that in a resource-constrained environment, there will be situations when not all needs can be met which is where risk management is key.
- Being flexible so that the plan evolves through the year in response to emerging risks and issues.
- Providing for the delivery of key commitments, such as work done in support of the External Auditor thus reducing the external audit fee, and to deliver governance and anti-fraud responsibilities.
- Including provision for responding to requests for assistance with special investigations, consultancy and other forms of advice from management and sources.

Annex A illustrates the Planning cycle and the processes through which individual assignments are undertaken, reports issued and opinions given.

The number of available audit days to the Internal Audit Service will be reviewed to be sufficient to enable the audit service to deliver the risk based plan in accordance with professional standards. This takes into account the fact that additional resource will be procured as and when necessary, e.g. for technical IT audits, when significant resource is diverted through unplanned work. The focus on high-risk areas will reduce the overall coverage required.

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

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

- Risk-based system audit
- Compliance audit
- IT audit
- Procurement and contract management audit
- Project and programme audits
- Risk Management
- Fraud/investigation work
- Value for money audit
- Control self assessment techniques
- Consultancy and advice

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

5.2. Internal Audit Annual Opinion

Each year the Chief Internal Auditor will provide a publicly reported opinion on the effectiveness of governance, risk and control, which also informs the Annual Governance Statement. This will be supported by reliable and relevant evidence gathered through all work undertaken by Internal Audit during the year.

5.3. Conduct of work

The principles of how we conduct our work are:

- Focusing on what is important to the Council and in the ultimate interests of the public;
- Striving continuously to foster buy-in and engagement with the audit process;
- Ensuring findings and facts reported are accurate and informed by a wide evidence base, including requesting information from ex-employees and other stakeholders where appropriate;
- Ensuring that risks identified in planning are followed through into audit work;
- Ensuring that the right skills and right approaches are in place for individual assignments;
- Suggesting actions that are pragmatic and proportionate to risk, tailored for the best result and take into account the culture, constraints and the cost of controls;
- Focusing as a rule on ensuring compliance with existing processes and systems and reducing bureaucracy rather than introducing new layers of control;
- Being resolute in challenging; taking account of views, escalating issues and holding our position when appropriate;
- Driving the audit process by agreeing deadlines, meeting these on our part, and escalating non-response promptly in order to complete our work;
- Having high standards of behaviour at all times.

5.4. Reporting

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

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

A written report will be prepared and issued following the conclusion of each internal audit engagement, including follow up audits; unless in the opinion of the Audit Services Manager a written report is unnecessary.

Each report will:

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

Senior Management shall ensure that agreed corrective actions are introduced.

All audits and follow ups receiving a moderate or limited audit opinion will be highlighted to the senior management team, and the Audit Committee. Regular reports to the Audit Committee shall highlight each weak / limited report until controls have been restored to satisfactory levels at least.

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

- 1) Assess and test the CONTROL ENVIRONMENT;
- 2) Test COMPLIANCE with those control systems; and
- 3) Assess the ORGANISATIONAL IMPACT of the area being audited. is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables Internal Audit to give an assurance on the control environment.

5.5. Actions / Recommendations

Actions are categorised dependent on the risk as follows:

Importance	What this means
Essential	Action is imperative to ensure that the objectives for the area under review are met
Important	Requires actions to avoid exposure to significant risks in achieving objectives for the area
Standard	Action recommended to enhance control of improve operational efficiency

5.6. Follow up

All Essential and Important actions are followed up in accordance with the agreed action implementation dates. Further follow ups are undertaken as required. The Internal Audit Service will review their role in this area with the aim of prompting the action owner to proactively inform Internal Audit and provide evidence when an action has been fully implemented to inform the follow up process. Such an approach emphasises the need for managers to deliver required improvements without prompting, reinforcing their accountabilities.

5.7. Quality Assurance

The Internal Audit function is bound by the following standards:

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

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

- An audit manual documenting methods of working;
- Supervision and review arrangements;
- Customer feedback arrangements;
- Quality Standards;
- Annual Internal review;
- Periodic external reviews;
- Performance measures, including:
 - Proportion of Plan completed, including spread of areas covered;
 - Proportion of agreed actions implemented;
 - Proportion of Weak / Limited Assurance opinion reports that improve to at least satisfactory as at follow up;
 - Productive/direct time as a % of total time;
 - Customer satisfaction levels.

The completion of every assignment shall be monitored against:

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

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

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

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

6. AUDIT COMMITTEE OVERSIGHT

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

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

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

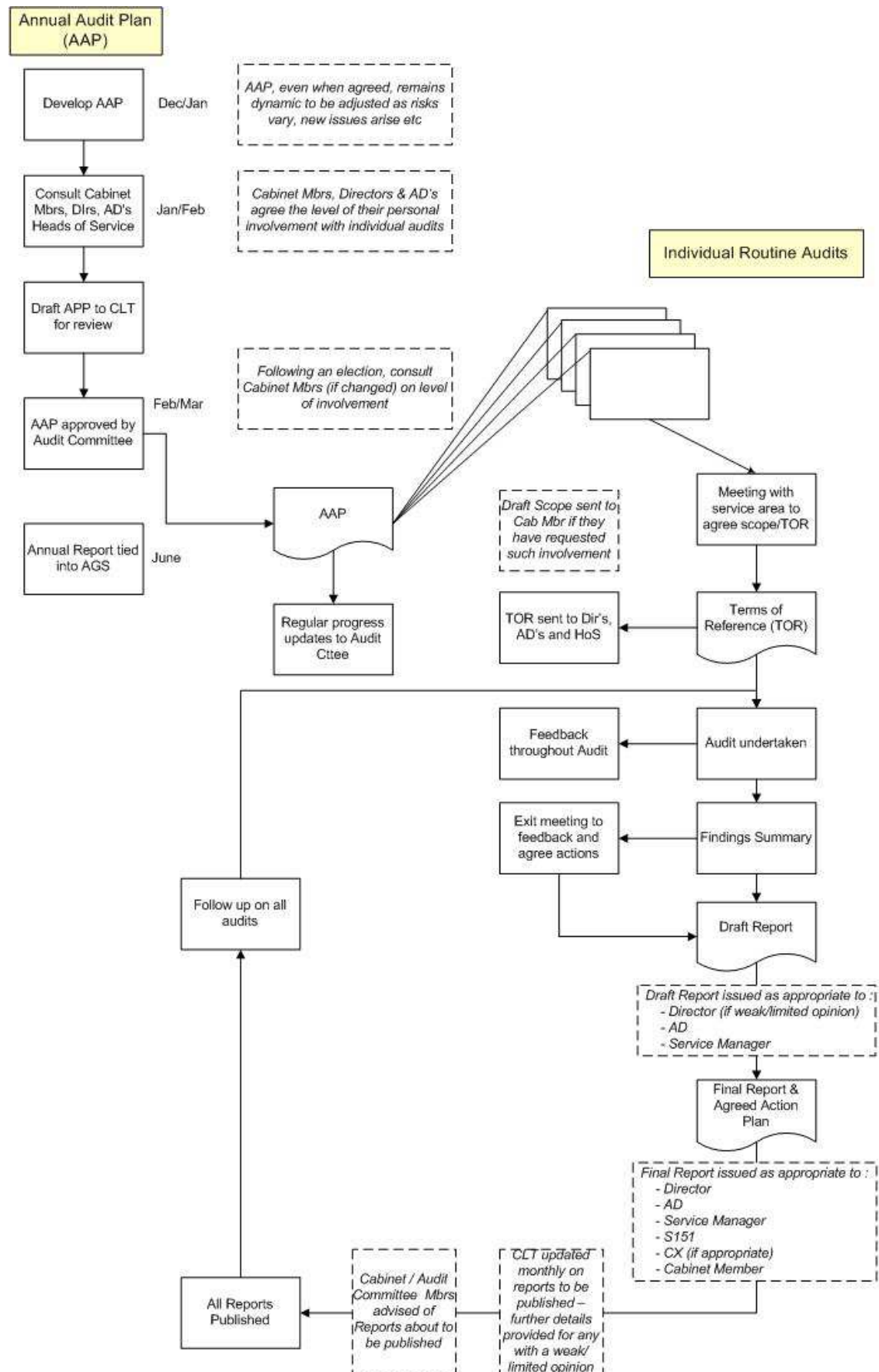
7. ANTI-FRAUD and ASSOCIATED ISSUES

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

- Anti-Fraud and Corruption policy;
- Whistleblowing policy;

- Anti-Money Laundering Policy.

All Internal Audit staff will be alert to possibility of fraud during all work but are not responsible for identifying fraud.



Annex B

INTERNAL CONTROL ASSESSMENT

Control Environment Assurance	
Level	Definitions
Substantial	There are minimal control weaknesses that present very low risk to the control environment
Good	There are minor control weaknesses that present low risk to the control environment
Satisfactory	There are some control weaknesses that present a medium risk to the control environment
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment

Compliance Assurance	
Level	Definitions
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.
Good	The control environment has largely operated as intended although some errors have been detected
Satisfactory	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact	
Level	Definitions

Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Where specific compliance reviews are undertaken e.g. grant certification, the following definitions are used to assess the level of compliance in each individual reviewed, albeit each certification usually requires the Chief Internal Auditor to formally certify compliance with grant conditions.

Opinion for Compliance Audits – Levels of Compliance	
Level	Definitions
High	There was significant compliance with agreed policy and/or procedure with only minor errors identified.
Medium	There was general compliance with the agreed policy and/or procedure. Although errors have been identified there are not considered to be material.
Low	There was limited compliance with agreed policy and/or procedure. The errors identified are placing system objectives at risk.

Individual audits are reported to relevant Manager / Service area, Finance Director and the Chief Executive. Periodic summary reports are issued to the Audit Committee.

An Annual Audit Opinion is then constructed based upon the years' work and formally reported to the Senior Management Team, the audit committee and relevant stakeholders to inform Annual Governance Statement and Accounts.