

Audit Committee 18 June 2020

Internal Audit Plan and Internal Audit Charter for 2020/21

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WHAT BENEFITS WILL THESE PROPOSALS BRING TO COPELAND RESIDENTS?

These proposals ensure the proper administration of the Council's financial affairs to enable the continued delivery of services to Copeland residents.

WHY HAS THIS REPORT COME TO AUDIT COMMITTEE?

This report sets out the Internal Audit plan for 2020/21 and an updated Internal Audit Charter.

RECOMMENDATIONS:

The Audit Committee is recommended to:

1. Agree the Internal Audit Plan for 2020/21; and
2. Agree the Internal Audit Charter at Appendix A.

1. INTRODUCTION

- 1.1. Under the terms of the Public Sector Internal Audit Standards the 'Chief Audit Executive' (Director of Financial Resources (DoFR)) is required to prepare an annual risk based audit plan for review and approval by the Audit Committee.
- 1.2. Due to the impact of the Covid-19 pandemic on the organisation the Internal Audit service was suspended between March to the end of June. The plan therefore covers the period from July 2020 – March 2021
- 1.3. The attached plan has considered:
 - Consultation with individual members of the CLT;
 - Review of strategic risk register, corporate plan and the Corporate Peer Challenge review;
 - Review of outcomes of previous audit reviews / other inspections;

- Consideration of national, regional or emerging issues; and
- A risk assessment to identify highest priority areas for inclusion in the audit plan.

1.4. In the planning stage for 2020/21 additional internal audit resource was identified to respond to potential risks emerging from COVID19 and this is included in the plan for 2020/21. The scope of this will be developed during the year.

1.5. The 2020/21 plan has been prepared based on an Internal Audit resource of 206 audit days; from July 2020 to March 2021. Given the reduced time available the primary focus will be ensuring that the key financial systems and risks are reviewed to ensure the annual opinion over the Council's arrangements for governance, risk management and internal control can be provided.

1.6. A summary of the plan is set out below:

	Days
Risk-based audit reviews:	
ICT strategy & Purchasing (c/f from 19/20)	20
COVID19	20
Main Financial Systems	
Benefits	20
Payroll	20
Sundry Debtors	20
Cash Receipting (c/f from 19/20)	10
Additional assurance work	3
Governance: Performance Management	20
Follow up of previous audits	13
NFI/counter fraud work	15
Advice and guidance	20
Audit Committees	10
Planning / management	10
Contingency	5
Total	206

1.7. A three-year programme for reviewing the main financial systems ensures that each main financial system is reviewed in depth at least

once every three years. Provision is also included for cyclical reviews of the key governance systems.

2. INTERNAL AUDIT CHARTER

- 2.1. The Internal Audit Charter has been included in Appendix A, it describes the purpose, authority, responsibilities and objectives of Internal Audit. There are no changes from the Charter approved in 2019/20.

3. CONCLUSIONS

- 3.1. The Committee is asked to review and approve the audit plan for 2020/21 and the Internal Audit Charter.

4. STATUTORY OFFICER COMMENTS

- 4.1. The Monitoring Officer's comments are: Internal Audit is an important function within the Council and allows the required impartial examination and audit of a range of proposed and agreed audits in any one financial year. All audits are risk based audits and identify both inherent good practice and suggested areas of weakness for continued improvement.

- 4.2. The Section 151 Officer's comments are: Included in the report.

List of Appendices:

Appendix A Internal Audit Charter.

Consultees: Corporate Leadership Team (CLT)

Appendix A - Internal Audit Charter

1. INTRODUCTION

- 1.1 This charter describes the purpose, authority, responsibilities and objectives of Internal Audit. It establishes Internal Audit's position within Copeland Borough Council and the 'Chief Audit Executives' (CES) (the Director of Financial Resources) functional reporting relationship with the Audit Committee.
- 1.2 The Director of Financial Resources (DoFR) has day to day responsibility for internal audit function at the Council. In common with many small local authorities this arrangement is not uncommon and considered both pragmatic and to give value for money. However, safeguards need to be put in place to limit impairments to independence or objectivity, therefore, the following steps are put in place to achieve this:
- The DoFR will not undertake any audit work but purely manage the function;
 - For audits under the DoFRs responsibility the client representative will be the Deputy Section 151 Officer, Revenues Team Leader or Benefits Team Leader; and
 - The auditors are given full authority to report directly to the Chief Executive, Audit Committee, Mayor or External Audit if they have any concerns about the suppression of audit evidence or the conduct of the DoFRs.
- 1.3 The charter also provides for Internal Audit's rights of access to records, personnel and physical properties relevant to audit engagements. Final approval of the audit charter rests with the Audit Committee.
- 1.4 Internal Audit is required to conform to the mandatory Public Sector Internal Audit Standards (PSIAS). PSIAS is comprised of the following:
- Definition of Internal Auditing;
 - Code of Ethics; and
 - The Standards that determine the conduct of Internal Audit.

Instances of non-conformance with the PSIAS are reported to the Audit Committee. Significant deviations must be considered for inclusion within the Annual Governance Statement.

- 1.5 An audit charter is one of the key requirements of the PSIAS. As such, failure to approve an internal audit charter is a significant deviation from the requirements of the Standards.
- 1.6 The CAE presented the Charter to senior management and obtained approval of the Audit Committee.
- 1.7 The PSIAS use the terms 'board' and 'senior management' and require that the audit charter define these terms in relation to internal audit activity. For Copeland Borough Council, senior management refers to the Corporate Leadership Team (CLT) and the 'board' is the Audit Committee.

2. THE ROLE OF INTERNAL AUDIT

- 2.1 Internal Audit is an independent, objective assurance and consulting service designed to add value and improve the Council's operations. Internal Audit helps the Council to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.2 The design of the services provided by Internal Audit assist the Council to continually improve the effectiveness of its respective risk management, control and governance frameworks and processes and to allow an independent, annual opinion to be provided on the adequacy and effectiveness of these arrangements.
- 2.3 Internal Audit activities in support of this include:
 - Planning and undertaking an annual programme of risk-based Internal Audit reviews focusing on risk management, internal control and governance;
 - Review of arrangements for preventing, detecting and dealing with fraud and corruption;

- Review of overall arrangements for risk management and corporate governance;
- Reviews of grant funded expenditure where the funding bodies require assurance or risks are high;
- Provision of advice on risk and control related matters;
- Consultancy services, which may include hot assurance on projects or service and system development;
- Investigation of suspected fraud, irregularity or provision of advice and support to management in undertaking an investigation; and
- Advice on strengthening controls following such an incident.

3. PURPOSE, AUTHORITY, RESPONSIBILITY AND OBJECTIVES

Purpose

- 3.1 The Chartered Institute of Internal Auditors describes internal audit as being a key component of corporate governance. When properly resourced, positioned and targeted, internal auditors act as invaluable eyes and ears for senior management and Audit Committees. From inside their organisations, internal audit gives an unbiased and objective view on what is happening in the organisation.
- 3.2 Internal Audit's core purpose is to provide senior management and Elected Members with independent, objective assurance that there are adequate and effective systems of risk management, internal control and governance.
- 3.3 By undertaking an annual risk assessment and using this to prepare the annual risk-based audit plan, Internal Audit targets resources at the areas identified as highest risk to the Council. This then allows Internal Audit to give an annual overall opinion on the Council's systems of risk management, internal control and governance.
- 3.4 The annual report and opinion is a mandatory requirement and is a key contributor to the Annual Governance Statement, which accompanies the annual statement of accounts. The Governance Statement provides

assurance to the Audit Committee that an effective internal control framework is in place.

- 3.5 Internal Audit supports the Director of Financial Resources (S.151 Officer) to discharge their responsibilities under section 151 of the Local Government Act 1972, the Accounts and Audit Regulations 2015 and the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. This Statement places on the Chief Financial Officer, the responsibility for ensuring that the authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.
- 3.6 Internal Audit supports the Director of Corporate Services and Commercial Strategy (M.O.) and Director of Financial Resources (S.151 Officer) in providing high-level assurances relating to the Council's governance arrangements.
- 3.7 Internal Audit also supports the Director of Corporate Services and Commercial Strategy (M.O.) in discharging responsibilities for maintaining high standards of governance, conduct and ethical behaviour.

Authority

- 3.8 This charter provides the authority for Internal Audit's right of access to all activities, premises, records, personnel, cash and stores as deemed necessary to undertake agreed internal audit assignments. In approving this charter, senior management and Members of the Audit Committee have approved this right of access and therefore the responsibility of all officers to comply with any reasonable request from members of the Internal Audit team.
- 3.9 This charter delegates to the CAE the responsibility to undertake an annual risk assessment in consultation with the Council's management, and from this, to prepare a risk-based plan of audit work for approval by the Audit Committee.

- 3.10 Internal Audit shall have the authority to undertake audit work as necessary within agreed resources to achieve audit objectives. This will include determining the scope of individual assignments, selecting areas and transactions for testing and determining appropriate key contacts for interview during audit assignments.
- 3.11 The charter establishes that Internal Audit has free and unfettered access to the Audit Committee and has the right to request a meeting in private with the Chair of the Audit Committee should it become necessary.

Responsibilities and Objectives

- 3.12 Internal Audit's primary objective is to undertake an annual programme of internal audit work that allows an annual opinion to be provided on the overall systems of risk management, internal control and governance.
- 3.13 The CAE leading the Internal Audit team members has responsibility for the following areas:

Planning

- Develop an annual internal audit plan using a risk based methodology, based on at least an annual assessment of risk and incorporating risks and concerns identified by senior management;
- Submit the annual audit plan to CLT and Audit Committee for approval; and
- Review agreed audit plans following consideration of new and emerging risks and report any necessary amendments to agreed plans to Audit Committee.

Implementation

- Deliver the approved annual programme of internal audit work and report the outcomes in full to senior management (as agreed at the scoping stage of each engagement) and in summary to Audit Committee;
- Assist the investigating officer, as required, in significant suspected fraudulent activities within the organisation and report the

outcomes to senior management (Director of Corporate Services and Commercial Strategy (M.O.), Director of Financial Resources (S.151 Officer) and other relevant directors); and

- Assist the Director of Corporate Services and Commercial Strategy (M.O.) to monitor the implementation of agreed audit recommendations by undertaking follow up reviews and reporting the outcomes to senior management and Audit Committee.

Reporting

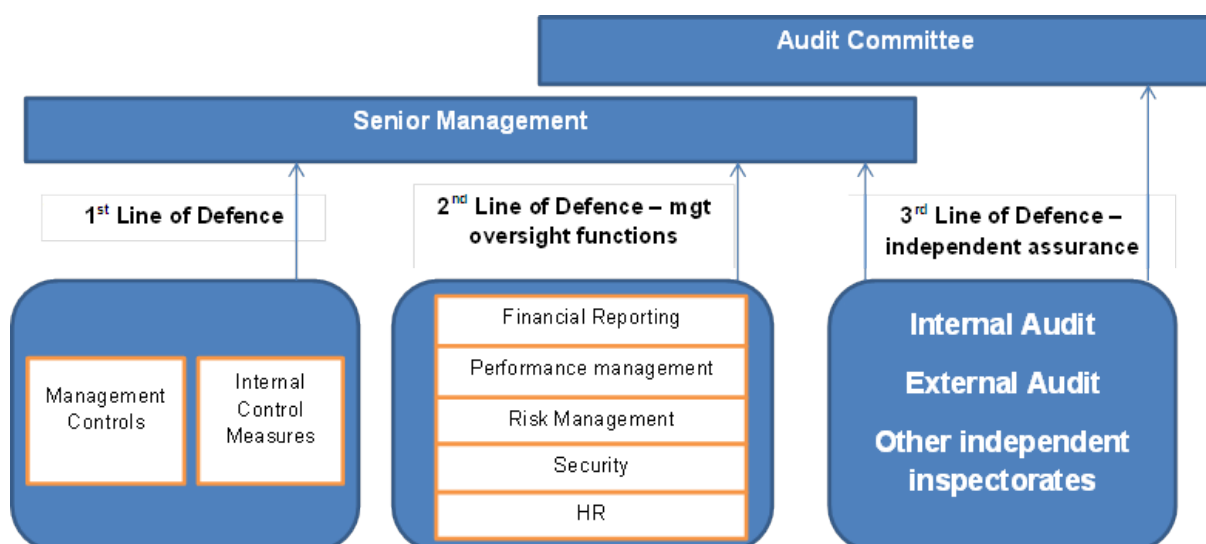
- Any significant issues arising during audit fieldwork will be discussed with management as they are identified;
- Draft audit reports will be produced on a timely basis following all audit reviews and these will be discussed with management prior to finalising, to ensure the factual accuracy of the report and incorporate management responses;
- Quarterly progress reports will be prepared and discussed with management before being reported formally to Audit Committee;
- Internal Audit has a responsibility to report to Audit Committee any areas where it is considered that management have accepted a level of risk that may be unacceptable taking in to account policies approved by the Council; and
- The CAE has a duty to bring to the attention of the Audit Committee resource issues that are likely to impact adversely on the provision of the annual audit opinion.

Relationships with other Inspectorates

- Internal Audit will maintain effective relationships with other providers of assurance and external inspectorates to avoid duplication of effort and enable Internal Audit, where appropriate, to place reliance on the work of other providers.

3.14 The presence of Internal Audit does not detract in any way from management's responsibilities for maintaining effective systems of governance, risk management and internal control.

- 3.15 Internal Audit does not have any responsibilities for preventing or detecting fraud or error, this is the responsibility of the management of the respective organisations. Internal Audit's role is to provide senior management and the Audit Committee with assurance that the management of the organisation have themselves established procedures that allow them to prevent or detect fraud or error and to respond appropriately should this occur.
- 3.16 It is the responsibility of the Council's management to maintain adequate systems of internal control and to review their systems to ensure that these controls continue to operate effectively.
- 3.17 The role of Internal Audit within the organisation is summarised in the diagram below.



- 3.18 The above diagram demonstrates the three lines of defence in ensuring that Copeland Borough Council is adequately managing its risks.
- 3.19 The first line of defence comprises the arrangements that operational management have implemented to ensure risks are identified and managed. These include the controls that are in place within systems and processes together with the management and supervisory oversight designed to identify and correct any issues arising.
- 3.20 The second line of defence refers to the strategic oversight arrangements that are designed to provide management with

information to confirm that the controls in the first line of defence are operating effectively. For example, the risk management policies and strategies that determine how:

- Risks within the organisation will be identified, assessed and managed; and
- Reporting arrangements confirm implementation and compliance with these policies and strategies.

3.21 Internal audit forms the third line of defence alongside other independent providers of assurance. The role of internal audit is to provide the senior management and Elected Members of the organisation with assurance that the arrangements within the first and second lines of defence are adequate and working effectively to manage the risks faced by the organisation.

4. SCOPE OF INTERNAL AUDIT WORK

4.1 The scope of Internal Audit work covers the entire systems of risk management, internal control and governance. This allows Internal Audit to provide assurance that appropriate arrangements are in place to ensure that:

- The organisation's risks are being appropriately identified, assessed and managed;
- Information is accurate, reliable and timely;
- Employees' actions comply with expected codes of conduct, policies, laws and procedures;
- Resources are utilised efficiently and assets are secure;
- The organisation's plans, priorities and objectives are being achieved; and
- Legal and regulatory requirements are being met.

5. POSITION AND REPORTING LINES FOR INTERNAL AUDIT

5.1 Internal Audit reports operationally to the Director of Financial Resources (S.151 Officer). Functional reporting is to the Audit Committee.

- 5.2 On a day-to-day basis, Internal Audit will report the outcomes of its work to the senior officer responsible for the area under review. The Director of Corporate Services and Commercial Strategy (M.O.) and the Director of Financial Resources (S.151 Officer) monitor the progress and performance of Internal Audit. Both managers are charged with ensuring the organisation has put in place effective arrangements for Internal Audit of the control environment and systems of internal control as required by professional standards.
- 5.3 Internal Audit reports the outcomes of its work to the Audit Committee on a quarterly basis. This includes as a minimum, a progress report summarising the outcomes of Internal Audit engagements as well as the performance of Internal Audit against the approved plan of work.
- 5.4 On an annual basis, the CAE will prepare and present to Audit Committee, an annual report containing:
- The overall opinion of the CAE;
 - A summary of the work undertaken to support the Audit opinion; and
 - A statement of conformance with the PSIAS.
- 5.5 Should significant matters arise in relation to the work of Internal Audit; these will be escalated through the management hierarchy and to the Chair of Audit Committee as appropriate.
- 5.6 Agreement of the Director of Corporate Services and Commercial Strategy (M.O.) and CLT is required following requests to make major changes to the agreed audit plan. Major changes to plans to respond to non-planned work, alternative or urgent requirements are reported to Audit Committee. Less urgent changes are discussed with senior management, the Chair and Vice Chair of Audit Committee before being implemented. Internal Audit report all changes to approved audit plans to the next meeting of the Audit Committee.

6. ETHICS, INDEPENDENCE AND OBJECTIVITY

Ethics

- 6.1 Internal Audit works to the highest standards of ethics and has a responsibility to both uphold and promote high standards of behaviour and conduct.
- 6.2 All internal auditors working within the UK public sector are now required to comply with the mandatory Code of Ethics contained within the new PSIAS. This has been adopted by Internal Audit and all staff will be requested to sign up to the Code on an annual basis. Auditors are also required to comply with the codes of ethics of their professional bodies.

Independence

- 6.3 Internal auditors are independent of all activities they are required to audit to provide assurance to the Audit Committee that the annual opinion they are given is independent and objective. Whilst Internal Audit report operationally to the Council's Director of Financial Resources (S.151 Officer), safeguards have been put in place to limit any impairments to independence or objectivity because '...the chief audit executive has roles that fall outside of internal auditing' (above at paragraph 1.3).
- 6.4 Internal auditors will not undertake assurance work in areas for which they had operational responsibility during the previous 12 months.
- 6.5 The CAE will report annually to Audit Committee to confirm that the independence of Internal Audit is being maintained.

Resourcing, Proficiency and Due Professional Care

- 6.6 For Internal Audit to provide an opinion to the Council there must be a sufficiently resourced team of staff with the appropriate mix of skills and qualifications. Resources must be effectively deployed to deliver the approved programmes of work.
- 6.7 It is the responsibility of the CLT and the Audit Committee to approve a programme of audit work, sufficient to provide an adequate level of

assurance over their systems of risk management, internal control and governance.

- 6.8 In line PSIAS, where the CAE considers that the level of agreed resources will adversely affect the provision of the annual internal audit opinion, the consequences will be brought to the attention of the Audit Committee.
- 6.9 In line with the requirements of the PSIAS, the CAE is professionally qualified and appropriately experienced.

The Role of Internal Audit in Fraud-related work

- 6.10 The PSIAS require that the role of Internal Audit in any fraud-related work be defined within the audit charter.
- 6.11 Internal Audit may undertake planned reviews of areas considered to be at risk of fraud. Such reviews will be included within audit plans following discussion with management for approval by the Audit Committee. In addition, where relevant, Internal Audit considers fraud risk, during risk based audit reviews.
- 6.12 Any involvement of Internal Audit in investigating suspected frauds or irregularities will be agreed with the Director of Corporate Services and Commercial Strategy (M.O.), the Director of Financial Resources (S.151 Officer), and as appropriate, the CLT, on an individual basis.

Advice / Consultancy work

- 6.13 Internal Audit can provide advice, consultancy or investigatory work. Such assignments may be agreed during annual audit planning or arise from requests during the year. Consultancy assignments must only be accepted by the CAE when the following criteria are met:
- The work request aligns with the available skills and resources within Internal Audit at the time;
 - The assignment will contribute to strengthening risk management, governance, performance and the control framework; and

- No conflict of interest could be perceived from Internal Audit's acceptance of the assignment.

6.14 In line with the PSIAS, approval will be sought from Audit Committee for any significant additional consulting services not already included in the audit plan prior to accepting the engagement.

7. MANAGEMENT RESPONSIBILITIES

7.1 For Internal Audit to be fully effective, it needs the full commitment and cooperation from the CLT. In approving this charter, the Audit Committee is mandating management to cooperate with Internal Audit in the delivery of the service by:

- Attending audit planning and scoping meetings and agreeing the terms of reference for individual audit assignments on a timely basis;
- Sponsoring each audit assignment at Director or Service Manager level;
- Providing Internal Audit with full support and cooperation, including complete access to all records, data, property and personal relevant to the audit assignment on a timely basis;
- Responding to Internal Audit reports and making themselves available for audit closeout meetings to agree draft audit reports; and
- Implementing audit recommendations agreed within the timescales stated in the management response.

7.2 Instances of non-cooperation with reasonable audit requests will be escalated through the Director of Financial Resources (S.151 Officer), the Director of Corporate Services and Commercial Strategy (M.O.), Chief Executive and ultimately to the Audit Committee if necessary.

7.3 Whilst Internal Audit is responsible for providing independent assurance to the Council, it is the responsibility of management to develop and maintain appropriately controlled systems and operations. Internal Audit does not remove the responsibility from management to review the systems and processes for which they are responsible and to provide

their own assurances to senior management and Elected Members that they are maintaining appropriately controlled systems.

8. QUALITY ASSURANCE

8.1 PSIAS require that the Internal Audit function be subject to a quality assurance and improvement programme that must include both internal and external assessments. Internal Audit will report the outcomes of quality assessments to the Audit Committee through its regular reports.

Internal assessments

8.2 All internal audit reviews are subject to a CAE quality review to ensure that the work meets the standards expected for audit staff. Such management review will include:

- Ensure the work complies with the PSIAS;
- Work is planned and undertaken in accordance with the level of assessed risk; and
- Appropriate testing is undertaken to support the conclusions drawn.

External assessments

8.3 Internal Audit should be subject to an external assessment at least every five years, by a qualified, independent assessor from outside the organisation. The CAE will discuss options for the assessment with the Director of Corporate Services and Commercial Strategy (M.O.) and the CLT before making recommendations for approval by the Audit Committee.

9. REVIEW OF AUDIT CHARTER

9.1 This charter is subject to an annual review. The CAE submits the revised document to CLT and the Audit Committee for approval alongside the annual audit plan.