

## INTERNAL AUDIT CHARTER

### 1. Introduction

- 1.1 This Charter describes the purpose, authority, responsibilities and objectives of Internal Audit at Cumberland Council. It establishes Internal Audit<sup>1</sup>'s position within Cumberland Council and the nature of the Head of Internal Audit<sup>2</sup>'s functional reporting relationship with the Audit Committee and Senior Leadership Team. It also details Internal Audit's role in integrating the Integrated Assurance and Risk Management Framework, to obtain a complete view of the Council's Governance, Risk Management and Internal Control framework.
- 1.2 The Charter also provides for Internal Audit's rights of access to records, personnel and physical properties relevant to audit engagements.
- 1.3 Internal Audit is required to conform to the mandatory Public Sector Internal Audit Standards (PSIAS)<sup>3</sup>. The Standards comprise of a Definition of Internal Auditing, a Code of Ethics, the Seven Principles of Public Life, and the Standards by which internal audit work must be conducted. Any instances of non-conformance with the PSIAS must be reported to the Audit Committee (see section 11). Significant deviations must be considered for inclusion within the Annual Governance Statement and may impact on the external auditor's value for money conclusion.
- 1.4 An Audit Charter is one of the key requirements of the PSIAS. As such, failure to approve an Audit Charter may be considered a significant deviation from the requirements of the Standards.
- 1.5 The Charter must be presented to the Council's Senior Leadership Team. Final approval of the Audit Charter rests with the Audit Committee. This will be done alongside the approval of the annual audit plan.
- 1.6 The PSIAS uses the terms 'board' and 'senior management' and require that the Audit Charter defines these terms for the purpose of the internal audit activity. For the Council, senior management refers to the Senior Leadership Team. The board is the Audit Committee, which is charged with responsibility for governance.

### 2. The Mission of Internal Audit

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

### 3. Purpose

- 3.1 Cumberland Council's Internal Audit Service has adopted the Definition of Internal Auditing from the PSIAS. The definition explains the purpose of the internal audit activity:

---

<sup>1</sup> Cumberland's Internal Audit & Risk Management Service

<sup>2</sup> The Acting Head of Internal Audit & Risk Management

<sup>3</sup> The PSIAS may be subject to change following publication of updated Global Internal Audit Standards in January 2024. This Charter will be updated following any publicised amendments.

*Internal auditing 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.*

- 3.2 The CIPFA Local Government Advisory Note (LGAN) further explains that the Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements (collectively known as the control environment). Internal Audit plays a vital part in advising the Council that these arrangements are in place, effective and operating properly. The mandatory annual Internal Audit report and opinion informs the Council's Annual Governance Statement (AGS). It emphasises and reflects the importance of this aspect of Internal Audit's work and provides assurance to the Audit Committee that an effective internal control framework is in place. Senior Management's response to internal audit activity should lead to the strengthening of the control environment and contribute to the achievement of the Council's objectives.
- 3.3 Internal Audit also supports the business in the delivery of the Integrated Assurance and Risk Management Framework and promoting awareness of corporate fraud. A vital part of the work is providing advice and guidance on governance, risk management and assurance through the three lines model, mapping assurance to ensure a complete and efficient assurance framework is established and advocating best practice for risk management in line with the framework.
- 3.4 Internal Audit is described by the PSIAS as a key component of good governance within the public sector. When properly resourced, positioned and targeted, Internal Auditors act as a key source of assurance for Senior Management and the Audit Committee inside the Council, giving an unbiased and objective view on what's happening in the organisation.
- 3.5 Internal Audit's core purpose is to provide Senior Management and Elected Members with independent, objective assurance that the Council has adequate and effective systems of risk management, internal control and governance.
- 3.6 By undertaking an annual risk assessment for each Council department or business and using this to prepare an annual risk-based audit plan, Internal Audit is able to target resources at the areas identified as highest risk to the Council. In order to recognise changing risk priorities, the plan is flexible and subject to amendment when required by the Head of Internal Audit. This allows Internal Audit to give an annual, overall opinion on the Council's systems of risk management, internal control and governance.
- 3.7 Internal Audit supports the Chief Finance Officer (Section 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 responsibility on the Chief Finance Officer for ensuring that the authority has put in place effective

arrangements for Internal Audit, the control environment and systems of internal control as required by professional standards.

- 3.8 Internal Audit supports the Head of Paid Service (Chief Executive) in providing high level assurances relating to the Council's governance arrangements. Internal Audit also supports the Monitoring Officer in discharging their responsibilities for maintaining high standards of governance, conduct, and ethical behaviour.

#### **4. Core Principles for the Professional Practice of Internal Auditing**

- 4.1 Taken as whole, the Core Principles articulate internal audit's effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. The Head of Internal Audit is responsible for ensuring that Internal Auditors, as well as the internal audit activity, demonstrate achievement of the Core Principles.

- 4.2 The Core Principles are: -

- a. Demonstrates integrity;
- b. Demonstrates competence and due professional care;
- c. Is objective and free from undue influence (independent);
- d. Aligns with the strategies, objectives, and risks of the organisation;
- e. Is appropriately positioned and adequately resourced;
- f. Demonstrates quality and continuous improvement;
- g. Communicates effectively;
- h. Provides risk-based assurance;
- i. Is insightful, proactive, and future-focused;
- j. Promotes organisational improvement.

#### **5. The Role of Internal Audit**

- 5.1 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. The 'Three Lines Model' diagram attached illustrates how Internal Audit supports the governance framework and provides assurances that the Council is adequately managing their risks through the Integrated Assurance and Risk Management Framework.
- 5.2 The PSIAS defines consulting services as: "Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the Internal Auditor assuming management responsibility. Examples include counsel, advice, facilitation and training."
- 5.3 Internal Audit operates as an independent in-house team at the Council, though the team will consider buying-in additional specialist or additional audit services from a third-party supplier as and when required.
- 5.4 The services provided by Internal Audit are designed to assist each of the Council's departments to continually improve the effectiveness of their respective governance, risk management and control frameworks. It provides an independent, annual opinion on the adequacy and effectiveness of these arrangements.

5.5 Internal Audit activities in support of this include:

- Planning and undertaking an annual programme of risk-based internal audit reviews focusing on governance, risk management and internal control;
- Reviewing arrangements for risk management and governance and advocating best practice in risk management through training and awareness;
- Providing oversight of all assurance functions to ensure effective delivery of the Integrated Assurance and Risk Management Framework;
- Reviewing grant funded expenditure where assurance is required by funding bodies, or where risks are considered to be high;
- Providing advice on risk and control related matters;
- Reviewing arrangements for counter-fraud and advocating best practice through training and awareness;
- Investigating suspected fraud or irregularity; providing advice and support for management investigations; control strengthening advice following such an incident; and
- Consultancy services which may include project assurance or service and system development.

**6. Authority, Responsibility and Objectives**

Authority

- 6.1 This charter provides the authority for Internal Audit's right of access to all activities, premises, records, personnel, cash and stores as deemed necessary. 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 Internal Audit.
- 6.2 This charter delegates to the Head of Internal Audit, the responsibility to undertake an annual risk assessment for each department in consultation with the Council's management, and prepare a risk-based plan of audit work for approval by the Audit Committee. The plan will also include work around the Integrated Assurance and Risk Management Framework.
- 6.3 Internal Audit shall have the authority to undertake audit and risk assurance 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.
- 6.4 The charter establishes that the Head of Internal Audit or nominated deputy 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

- 6.5 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 governance, risk management and internal control for the Council.
- 6.6 The Head of Internal Audit and their staff have 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 Senior Management and to Audit Committee for approval; and
- Review agreed audit plans in light of new and emerging risks and report any necessary amendments to agreed plans to Audit Committee (following consultation with Senior Management).

### ***Implementation***

- Deliver the approved annual programme of internal audit work and report the outcomes to Senior Management (as agreed at the scoping stage of each engagement) and Audit Committee. Internal Audit reports are reported in full to Audit Committee;
- Advocate and monitor adherence to the Integrated Assurance and Risk Management Framework through oversight, engagements, dialogue with risk owners and training events;
- Assist, as required, in the investigation of significant suspected fraudulent activities within the Council and report the outcomes to Senior Management (S151 Officer, Monitoring Officer and other relevant Corporate Directors); and
- Monitor implementation of agreed audit recommendations through follow up process and report the outcomes to Senior Management and the 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;
- Progress reports will be prepared and discussed with management before being reported formally to the Audit Committee;
- Internal Audit has a responsibility to report to the Audit Committee any areas where it is considered that management have accepted a level of risk that may be unacceptable to the Council; and
- Internal Audit has a duty to bring to the attention of the Audit Committee where the Head of Internal Audit, or his/her nominated deputy, believes that the level of agreed resources will 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 in order to avoid duplication of effort and enable Internal Audit, where appropriate, to place reliance on the work of other providers.

## Non-Audit / management responsibilities

- 6.7 In order for Internal Audit to maintain its independence and thereby provide an independent and objective opinion, there are a number of areas that internal audit is not responsible for:
- Internal Audit does not have any operational responsibilities;
  - Internal Audit does not have any part in decision making within the Council or for authorising transactions; and
  - Internal Audit is not responsible for implementing its recommendations (though may offer further consultancy advice where necessary).
- 6.8 All Internal Audit Officers will complete an annual declaration of business interests, which will include mitigating controls to prevent any potential conflicts of interest.
- 6.9 While managers are responsible for the day-to-day management of business risks in line with the Integrated Assurance and Risk Management Framework Internal Audit will support this by assisting managers to achieve embedded risk management by facilitating risk management, providing assurance on the effectiveness of their risk management arrangements wherever possible and making recommendations to optimise levels of control, take advantage of opportunities and improve systems and processes. The service will also periodically review the Integrated Assurance and Risk Management Framework for approval by management. This work will be undertaken by the Risk Manager, who works independently to the Internal Audit function within the service.
- 6.10 To ensure independence of the Internal Audit function is maintained, the following controls are in place in line with best practice ([IIA Position Paper – Risk Management & Internal Audit](#)):
- Maintain ongoing clarity that management are responsible for risk management through documented processes and ongoing communication;
  - Prevent Internal Audit being named as risk owner for risks (other than those for the Internal Audit and Risk Management Service itself);
  - Ensure all Internal Audit work on risk management is advisory in nature for responsible management approval;
  - Procure objective/independent assurance on the Council's risk management processes on a regular basis;
  - Reflect the dual roles within the Council's Audit Committee Terms of Reference.
- 6.11 Internal Audit's role is to provide Senior Management and the Audit Committee with assurance that management have established procedures that allow them to prevent or detect fraud or error and to respond appropriately should this occur. Internal Audit does not have any responsibilities for preventing or detecting fraud or error, this is the responsibility of the Council's managers.
- 6.12 It is the responsibility of the Council's managers to maintain adequate systems of internal control and to review their systems to ensure that controls continue to operate effectively.

## **7. Scope of Internal Audit Work**

- 7.1 The scope of Internal Audit work covers the entire systems of governance, risk management and internal control across the Council. This allows Internal Audit to provide assurance that appropriate arrangements are in place to ensure that:
- The Council's risks are being appropriately identified, assessed and managed;
  - Information is accurate, reliable and timely;
  - Employees' actions are in compliance with expected codes of conduct, policies, laws and procedures;
  - Resources are utilised efficiently and assets are secure;
  - The Council's plans, priorities and objectives are being achieved; and
  - Legal and regulatory requirements are being met.

## **8. Position and Reporting Lines for Internal Audit**

- 8.1 Internal Audit reports operationally to the Chief Legal Officer within the Council. Functional reporting is to the Audit Committee. The Head of Internal Audit has unfettered access to both the Chief Executive and Chair of Audit Committee.
- 8.2 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. Progress and performance of Internal Audit will be monitored by the Monitoring Officer and Section 151 Officer, the latter is charged with ensuring the Council has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.
- 8.3 Internal Audit reports the outcomes of its work to the Audit Committee on an 8-weekly 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.
- 8.4 On an annual basis, Internal Audit will prepare and present to the Audit Committee, an annual report containing:
- The overall opinion of the Head of Internal Audit;
  - A summary of the work undertaken to support the opinion; and
  - A statement of conformance with the Public Sector Internal Audit Standards.
- 8.5 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 the Audit Committee as appropriate.

## **9. Ethics, Independence and Objectivity**

### Ethics

- 9.1 Internal Audit works to the highest standards of ethics and has a responsibility to both uphold and promote high standards of behaviour and conduct.
- 9.2 All Internal Auditors working within the UK public sector are required to comply with the mandatory PSIAS Code of Ethics and the Seven Principles of Public Life. Internal Auditors will also be expected to adhere to the Officers' Code of Conduct in place for Cumberland Council. As such this Code has been adopted by the Internal Audit and all staff will be requested to sign up to the Code on an annual basis. Auditors within

the service are also required to comply with the codes of ethics of their professional bodies.

#### Independence

- 9.3 Internal Audit is independent of all of the activities it is required to audit which ensures that Audit Committees can be assured that the annual opinion they are given is independent and objective. The Head of Internal Audit reports operationally to the Chief Legal and Monitoring Officer; there is a functional reporting line to the Audit Committee.
- 9.4 Internal Auditors will not undertake assurance work in areas for which they had operational responsibility during the previous 12 months.
- 9.5 Internal Audit will report annually to the Audit Committee confirming that Internal Audit independence is being maintained.

#### Objectivity

- 9.6 The Head of Internal Audit will ensure that Internal Auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made and that they do not subordinate their judgement on audit matters to others.

#### Resourcing, Proficiency and Due Professional Care

- 9.7 For Internal Audit to provide an opinion to the Council there must be a sufficiently resourced Internal Audit team of staff with the appropriate mix of skills and qualifications. Resources must be effectively deployed to deliver the approved programmes of work. This may include bought-in specialist audit services, such as IT, from third parties.
- 9.8 It is the responsibility of the Senior Leadership Team to ensure that they approve a programme of audit work sufficient to provide an adequate level of assurance over their systems of risk management, internal control and governance.
- 9.9 Internal Auditors, by the nature of their work, will receive and review significant volumes of information from the various clients of Internal Audit. Confidentiality is therefore paramount and all Internal Audit staff are bound by the mandatory PSIAS Code of Ethics (in addition to compliance with the General Data Protection Regulations). The Code requires that auditors do not disclose information without the appropriate authority, unless there is a legal or professional obligation to do so.
- 9.10 In the event that the Head of Internal Audit considers that the level of agreed resources will impact adversely on the provision of the annual Internal Audit opinion, the consequences will be brought to the attention of the Audit Committee. This is a requirement of the standards.
- 9.11 In line with PSIAS and CIPFA Statement on the Role of the Head of Internal Audit (2010) requirements, the Head of Internal Audit, is professionally qualified and appropriately experienced.



### The Role of Internal Audit in Fraud-related work

- 9.12 The PSIAS require that the role of Internal Audit in any fraud-related work is defined within the audit charter.
- 9.13 Internal Audit may undertake planned reviews of areas considered to be at risk of fraud, including an annual review of counter-fraud arrangements. Such reviews will be included within audit plans following discussion with management for approval by the Audit Committee. In addition, where relevant, the risk of fraud is considered when undertaking risk-based audit reviews.
- 9.14 It is recommended that the Council regularly reviews its counter-fraud and confidential reporting code (whistle blowing) arrangements. It should ensure appropriate arrangements are in place for reporting and investigating suspected frauds or other irregularities, including the reporting of frauds to Internal Audit. The Council's Counter Fraud Policy<sup>4</sup> states that Senior Management are responsible for following up any allegation of fraud or corruption received and are required to report all suspected irregularities to the Chief Legal and Monitoring Officer. The Chief Legal and Monitoring Officer will liaise with the Head of Internal Audit to determine the appropriate way to proceed, including ensuring that any investigation is undertaken by suitably qualified and experienced staff.

### Advice / Consultancy work

- 9.15 Where Internal Audit is requested to provide advice, consultancy, or investigatory work, the request will be assessed by the Head of Internal Audit. Such assignments will be accepted where 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 the control framework;
  - No conflict of interest could be perceived from Internal Audit's acceptance of the assignment; and
  - The request relates to functions that are the responsibility of the Council's management.
- 9.16 In line with the PSIAS, approval will be sought from the Audit Committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

## **10. Management and Board Responsibilities**

- 10.1 The responsibilities of the Audit Committee are defined within its own Terms of Reference. In summary, the Committee is responsible for considering Internal Audit's annual report and opinion, as well as all Internal Audit reports throughout the year. The Committee is also responsible for reviewing the effectiveness of the Internal Audit function.
- 10.2 For Internal Audit to be fully effective, it needs the full commitment and cooperation from management at the Council. In approving this Charter, the Senior Leadership Team and the Audit Committee are mandating management to cooperate with Internal Audit in the delivery of the service by:
-

- Attending audit planning and scoping meetings, and agreeing terms of reference for individual audit assignments on a timely basis;
- Support Internal Audit in delivery of the Integrated Assurance and Risk Management Framework;
- Sponsoring each audit assignment at Service Manager level or above;
- Providing Internal Audit with full support and cooperation, including complete access to all records, data, property and personnel relevant to the audit assignment on a timely basis;
- Responding to Internal Audit reports and making themselves available for audit meetings to agree draft audit reports;
- Implementing audit recommendations within agreed timescales.

10.3 Instances of non-cooperation with reasonable audit requests will be escalated through the Senior Leadership Team and ultimately to the Audit Committee.

10.4 While Internal Audit is responsible for providing independent assurance to the Council and the Audit Committee, it is the responsibility of the Council's management to develop and maintain appropriately controlled systems and operations. Internal Audit does not remove the responsibility from management to continually review the systems and processes for which they are responsible. They must provide their own assurances to Senior Management and Elected Members that appropriately controlled systems are maintained.

## **11. Quality Assurance**

11.1 The PSIAS require that the Internal Audit function is 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.

### Internal assessments

11.2 All Internal Audit reviews are subject to management quality review, ensuring that work meets the standards expected for audit staff. Such management review will include:

- Ensuring the work complies with the PSIAS;
- Planning and undertaking work in accordance with the level of assessed risk; and
- Appropriate testing to support conclusions drawn.

11.3 An annual self-assessment of compliance with the Standards will be undertaken by Internal Audit on an annual basis and reported to the Audit Committee. Areas for improvement will be included as part of the Internal Audit continuous improvement register.

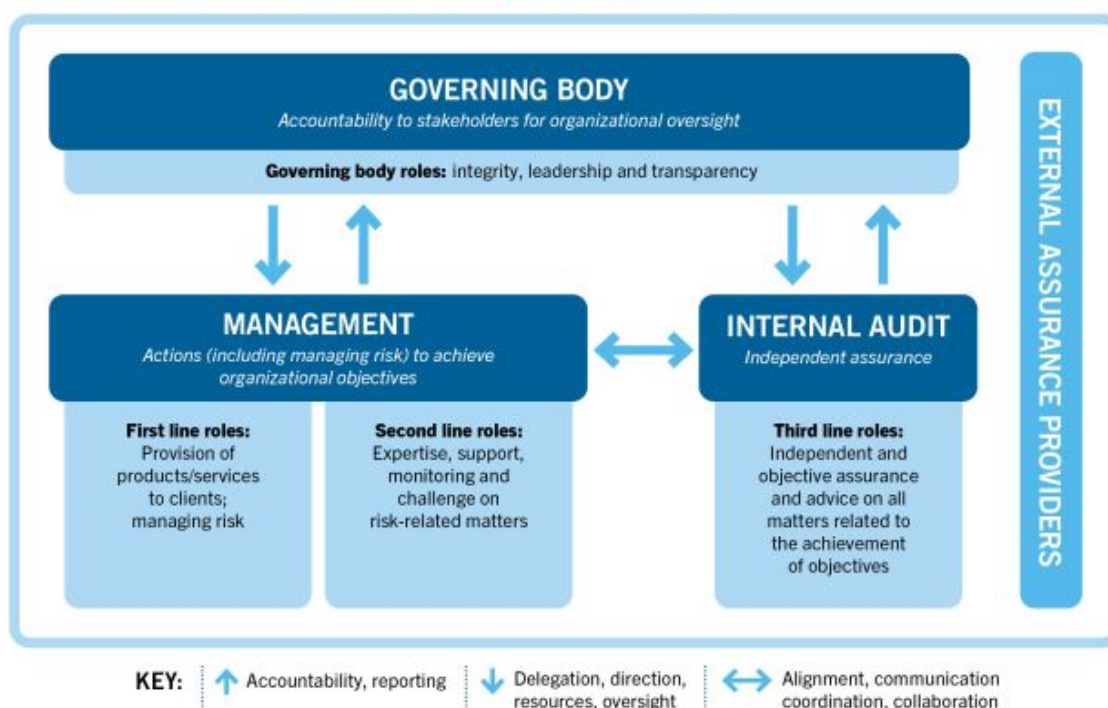
### External assessments

11.4 An external assessment must be conducted at least every five years by a qualified, independent assessor from outside the Council. The first review for Cumberland Council will be procured in 2024/25.

## **12. Review of the Audit Charter**

12.1 This Charter will be reviewed annually and approved alongside the annual audit plan.

## The IIA's Three Lines Model (2020)



Copyright © 2020 by The Institute of Internal Auditors, Inc. All rights reserved.

The above diagram demonstrates the Three Lines Model in ensuring that the Council is adequately managing its risks.

The first line 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.

The second line refers to the strategic oversight arrangements that are designed to provide management with information to confirm that the controls in the first line are operating effectively. For example, the risk management policies and strategies that determine how risks within the Council will be identified, assessed and managed and the reporting arrangements to confirm that these policies and strategies are being appropriately implemented and complied with.

Internal Audit forms the third line 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 are adequate and working effectively to manage the risks faced by the organisation.