



GA.43 13/14

Committee: Governance and Audit Committee

Date: 9 January 2014

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Subject: Report title – Draft Audit Charter

Report by:

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Purpose / Summary:

To present Members with a Draft Audit Charter and local protocol for consideration following changes to public sector internal audit standards.

RECOMMENDATION(S):

- 1. That Members consider the suitability of the Draft Audit Charter and local protocol in terms of the overall assurance framework and identify any amendments prior to adoption.**

Local Protocol: Roles and Responsibilities with regard to Internal and external Audit

This protocol is designed to complement the Audit Charter.

NB The Chief Executive is Head of the Paid Service so will continue to play a leading role in respect of the performance of the Council including Audits. The S.151 Officer will be informed and consulted at all stages of all audits.

Lead officer: Director of Resources

The Director of Resources will be the Council's first point of contact with Internal and External Auditors.

The Director will agree the draft annual audit programme and will present it to CMT for agreement and then onto the Governance and Audit Committee for final approval.

The Director of Resources will call upon the Business Improvement Team for support and advice throughout, as necessary.

The Director of Resources will work closely with the Chief Operating Officer in order to :

1. Initial inception and scoping of the audit
2. Assembling and reviewing the documents which will form part of the audit
3. Reviewing the end of the on-site activity to ensure all appropriate material has been made available to the auditors
4. Receiving the draft report from the auditors
5. Agreeing any changes to the draft report before being signed off by the service.
6. Agreeing the management response to the audit I work closely with the Chief Operating Officer to ensure:

Supporting Officer: Chief Operating Officer with the relevant Head of Service

The Chief Operating Officer will work in partnership with the Director of Resources on all service specific audits, gateway reviews and best practice advice from Internal Auditors.

The Chief Operating Officer will engage the relevant Head of Service at all stages:

1. Initial inception and scoping of the audit
2. Assembling and reviewing the documents which will form part of the audit
3. Reviewing the end of the on-site activity to ensure all appropriate material has been made available to the auditors
4. Receiving the draft report from the auditors
5. Agreeing any changes to the draft report before being signed off by the service.
6. Agreeing the management response to the audit

The Chief Operating Officer will call upon the Business Improvement Team for support and advice throughout, as necessary.

IMPLICATIONS

Legal: We must comply with our Corporate Governance requirements including our responsibilities with regards audit thus ensuring sound lines of assurance and proper due diligence

Financial: FIN/62/14 None as a result of this report.

Staffing: None

Equality and Diversity including Human Rights: None

Risk Assessment: There is a risk of the Council’s Corporate Governance rating remaining red if Members and Officers do not continue to understand and/or deliver their responsibilities with regards audit.

Climate Related Risks and Opportunities: None

Title and Location of any Background Papers used in the preparation of this report:

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

1 Introduction

- 1.1 The purpose of the Charter is to set the nature, role, responsibilities and authority of the Internal Audit service and that of the Council's Senior Management and Governance and Audit Committee. The Council's Internal Audit Service is provided by Audit Lincolnshire.
- 1.2 The Audit Charter is reviewed annually by the Corporate Management Team and approved by the Governance and Audit Committee .
- 1.3 The Draft Audit Charter is attached for Members to review and comment upon. Particular emphasis should be placed on the assurance this provides around relative roles, authority and responsibilities.
- 1.4 The local protocol complements the Charter and identifies lead officers who will work closely with the Internal Audit Team.

INTERNAL AUDIT CHARTER



CONTROL

Owner/ Policy Lead Officer	Lucy Pledge – Head of Internal Audit
Consultation:	Senior Management and the Governance and Audit Committee
Date:	November 2013
Review Arrangements:	Annual (Owner/ Policy Lead Officer, Senior Management and Governance and Audit Committee).

The purpose of this charter is to set the nature, role, responsibilities and authority of the Internal Audit service within West Lindsey District Council (the Council). The Council's Internal Audit Service is provided by Audit Lincolnshire.

Purpose of Internal Audit

Internal Audit provides an independent assurance and consulting activity designed to add value and improve how the Council operates. We help the Council achieve its priorities and objectives by bringing a systematic, disciplined approach to evaluate and improve the management of risk, control and governance processes. A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised through the UK public sector.

As our primary objective is to provide independent and objective assurance on critical activities and key risks - we play a key part in the Council's overall assurance arrangements which are designed to ensure that its governance, risk and control frameworks are working.

Our aim is to align our work with other assurance functions – seeking to look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council. The assurance arrangements for the Council include:



Internal Audit objectively examines, evaluates and reports on the adequacy of the governance, risk and control environment as a contribution to the proper, economic, efficient and effective use of resources. Specifically we provide assurance to:

- Support the Head of Financial Services to help him to discharge his responsibilities Statutory Officer of the Council (S151 of the Local Government Act 1972 relating to the proper administration of the Council's financial affairs).
- Support the Monitoring Officer to help maintain an effective governance framework for the Council.
- Provide appropriate inputs and opinions to support the development of the Annual Governance Statement.
- Contribute to and support the Council's Business Plan objectives and performance framework.
- Support management to understand its exposure to risks and advise on risk management principles/methods and appropriate controls / contingencies to manage risks.

Scope of Internal Audit

Internal Audit has unrestricted right of access to all Council activities which includes all records, information, resources and assets deemed necessary to fulfil our responsibilities.

Internal Audit may enter Council property and have unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Authority or where contractual arrangements exist should be set out in conditions of funding and contract.

The Head of Internal Audit and Risk Management has direct access to all levels of management, all employees and to all elected members and particularly to those charged with governance i.e. the Chairmen of the Audit Committee, the Chief Executive, the Head of Central Services (Monitoring Officer), the Head of Financial Services (Section 151 Officer).

Independence is achieved through the organisational status of Internal Audit and the objectivity of Internal Auditors. Internal Audit provides objective assessment and advice and seeks to be free from operational systems involvement or influence. All Council and contractor staff in Internal Audit are required to make an annual declaration of interest so that any potential conflicts of interest are appropriately managed.

Authority of Internal Audit

The requirement for local authorities to have an internal audit function is determined by section 151 of the Local Government Act 1972, which requires that authorities 'make arrangements for the proper administration of their financial affairs'.

The Accounts and Audit Regulations 2011, more specifically require that the Council (as a relevant body) must:

- undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices for internal control.
- conduct a review, at least once in a year of the effectiveness of its internal audit and or a committee to consider the findings of that review. The Council's Governance and Audit Committee undertakes this responsibility.

Internal Audit seeks to meet the standards laid down by professional bodies and in particular the Public Sector Internal Audit Standards. These standards set the basic principles for carrying out internal audit in the public sector and provide quality criteria against which performance can be evaluated. Policies and practice guidance have been put in place to ensure all staff understand and comply with these standards.

The provision of Internal Audit is the responsibility of the Council; this responsibility has been formally delegated to the Head of Financial Services.

Responsibilities of Management

The effective operations of the Council's governance, risk and control processes are the direct responsibility of Senior Management (All Chief Officers and Statutory Officers).

Management are responsible for managing the risks facing their service and to maintain an adequate and effective system of internal control to increase the likelihood that established objectives and goals will be achieved. They also plan, organise and direct the performance of sufficient actions to provide a reasonable level of assurance that objectives and goals will be achieved. They are the key assurance provider in the Council's assurance framework.

They are also responsible for ensuring staff are aware of and comply with the policies, processes and procedures required to operate these control systems.

The Head of Financial Services ensures the Council has an adequately resourced and effective Counter Fraud and Internal Audit service.

Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the service, its reputation and independence. A key relationship is with Management and staff. Management at all levels need complete confidence in the integrity, independence and capability of Internal Audit. Co-operative relationships with management can enhance Internal Audit's ability to achieve its objectives.

Management can assist the process of Internal Audit by:

Commenting on and inputting to, the audit plan and activities. Agree the Terms of Reference for each audit assignment to ensure attention is focused on areas of greatest risk or concern to enable the most effective audit coverage and minimise duplication.

Audit work, especially its timing, should be planned in conjunction with management to minimise abortive work and time unless, for example this jeopardises the

Management can assist the process of Internal Audit by:

'challenge' aspect of internal audit work or where an unannounced visit is deemed necessary.

Giving information and explanations that are sought in the course of audit work

Providing access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.

Early notification of plans for change, including new operational systems and processes.

Considering and responding promptly to recommendations in audit reports.

Ensuring that agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.

Notifying the Head of Audit immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the Council's property or resources.

Pending investigation and reporting, the Corporate Director should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.

Internal Audit Service and Context

The Head of Audit is required to manage the provision of a complete audit service to the Council. This includes:

Service Area	Specific Responsibilities
Audit	<p>The Head of Audit is required to provide an annual opinion on the effectiveness of the Council's governance, risk and control framework to the Council and Section 151 Officer. To help achieve this Internal Audit will:</p> <ul style="list-style-type: none">• Prepare an audit and risk strategy showing how the internal audit service will be delivered – focussing on the critical activities and key risks facing the Council and leveraging assurance for other assurance providers

Service Area	Specific Responsibilities
	<p>where we can.</p> <ul style="list-style-type: none"> • Prepare a risk based plan designed to implement the audit strategy in consultation with senior management and taking into account the adequacy and outcomes of the Authority’s combined assurance framework. This plan is approved by the Section 151 Officer and Governance and Audit Committee. The audit plan will be regarded as flexible rather than as an absolute expression of audit policy/coverage. This will enable the audit plan to be able to reflect changing risks and priorities. • Internal Auditors agree the terms of reference for an audit assignment in consultation with management. This helps to confirm the objectives of the activity and agree the scope and focus of the audit assurance being given. • Ensure that appropriate links are developed and maintained with the Council's risk management function – evaluating and contributing to the improvement of risk management in the Council. • Providing resources required to deliver the audit strategy and annual plan. A workforce strategy exists, which reflects the required roles, qualifications, competencies, skills experience and personal attributes necessary to deliver the service. This strategy includes the flexibility to engage external consultants to support the delivery of the annual audit plan thereby accessing expertise for specialist audit areas and addressing any capacity issues that may arise.
Counter Fraud	<p>The Council will actively seek to deter and prevent fraud, corruption and theft to ensure that all possible risks in these areas are minimised. Where fraud, corruption or theft is suspected or detected it will be thoroughly investigated and any proven fraud dealt with in a consistent and proportionate manner.</p> <p>Internal audit does not have responsibility for the prevention or detection of fraud and corruption. Internal Auditors should, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that a fraud or corruption may have been occurring. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Managing the risk of fraud and corruption is the responsibility of management.</p>

Service Area	Specific Responsibilities
<p>Good Governance</p>	<p>Our internal audit activity is designed to improve the governance, risk and control processes of the Council. The outcome of our work is reported in regular progress reports and an annual report to Senior Management and the Governance and Audit Committee – these all help inform the Council's Annual Governance statement.</p>
<p>External Audit</p>	<p>The Internal Audit section work in conjunction with the Council's External Auditors under a "Managed Audit" arrangement. The External Auditor seeks to place reliance on the work of Internal Audit where this is relevant to their work, particularly when appraising the controls operated by management over financial systems. This arrangement makes the best use of the combined audit resources and helps reduce any unnecessary overlap of audit effort.</p>
<p>Best Practice Advice</p>	<p>Internal Audit will also respond to requests for support, advice and guidance on implementing and/or improving best practice control procedures for current and new systems.</p>
<p>New Developments</p>	<p>Internal Audit may also provide consultancy services, such as providing advice on new systems and emerging risks – any significant consultancy not already included in the annual Internal Audit plan that may affect the level of assurance work undertaken will be reported to the Governance and Audit Committee.</p> <p>Where we provide support, advice and guidance on risks and controls to staff involved in the design and implementation of new systems and processes. To maintain independence, any staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.</p>
<p>Consultancy work</p>	<p>Internal Audit can also, where resources and skills exist, provide additional services beyond their assurance work. The scope of this type of work is agreed with management and should assist management in meeting the objectives of the organisation without undermining the key principles of independence and objectivity. Work may include:</p> <ul style="list-style-type: none"> • facilitation • training • advice

Responsibilities of the Governance and Audit Committee

The Governance and Audit Committee is a key component of the Council's governance framework. Their role is to provide those charge with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. For the purposes of the UK Public Sector Internal Audit Standards the Governance and Audit Committee performs the role of the 'Board'.

The Governance and Audit Committee is also responsible for the following aspects of the internal audit function:

- formally approving (but not directing) the overall strategy to ensure that it meets the Council's overall strategic direction.,
- approving the annual internal audit plan (paying particular attention to whether there is sufficient and appropriate coverage)
- monitoring progress against plan
- supporting the effectiveness of the internal audit process through regular oversight of performance and delivery
- undertaking an annual assessment as to whether adequate skills and resources are available to provide an effective audit function meeting the requirements set out in Accounts and Audit Regulations 2011 and the UK Public Sector Internal Audit Standards
- Oversee Internal Audits independence, objectivity and professionalism.
- Ensure that effective relationships exist between external audit and internal audit and that the value of the audit process is actively promoted

The Head of Internal Audit also has the opportunity to meet in private with the Governance and Audit Committee if the need arises.

Audit Reporting Framework

All audit activity is intended to assist management to fulfil their objectives of delivering services and contributing to the overall objectives of the Council. Outputs from Audit work can range from informal advice to formal written reports.

The reporting structure is designed to ensure that final versions are agreed with and by managers and are both accurate and practicable. After agreement any report or guidance will be issued to senior management of the area reviewed. Copies of audit reports are also made available to the Council's External Auditors. The circulation of audit reports will be agreed at the outset of an audit assignment and will have due regard to confidentiality and legal requirements. Any information gained in the course of audit work remains confidential without limiting or preventing Internal Audit from meeting its reporting responsibilities to the wider organisation.

In addition to meetings about individual pieces of work, liaison meetings with the Council's client liaison to discuss at a summary level, any issues or themes arising from work performed and to agree planned work.

The UK Public Sector Internal Audit Standards requires the Head of Audit to report at the top of the organisation and this is done in the following ways:

- The audit and risk strategy and internal audit charter is presented to Corporate Directors and the Management Board. Both are approved by the Governance and Audit Committee.
- The annual Internal Audit Plan is compiled by the Head of Audit taking account the Council's governance, risk and control frameworks (including the effectiveness of its combined assurance arrangements). This is after input from senior management. The Internal Audit Plan is then presented to the Corporate Management Team for noting and comment.
- Performance and delivery against the Internal Audit plan and any significant risks and control issues arising from Internal Audit work are reported to the Corporate Management Board and the Governance and Audit Committee on a regular basis.
- Results of the annual review on the effectiveness of Internal Audit (including outcomes of its Quality Assurance and Improvement programme) will be reported to both the Management Board and the Governance and Audit Committee.
- Any non-conformance with the UK Public Sector Internal Audit Standards will be included in the Head of Audit annual report. If this is significant then this will be included in the Council's Annual Governance Statement.
- The internal audit budget is reported to the Executive and Full Council for approval annually as part of the overall Council's budget. The Head of Audit will draw to the attention of the Section 151 and the Governance and Audit Committee any resourcing issues that potentially impact on the effectiveness of the Internal Audit function.
- Member involvement in the audit process is critical. This commences with key issues being shared with Portfolio Holders by Directors and Internal Audit. Another key element is the free and unfettered access the Head of Audit has to the Chairman of the Governance and Audit Committee

Quality of Service and Due Professional Care

The Internal Audit section operates in accordance with standards of best practice applicable to Internal Audit (in particular the UK Public Sector Internal Audit Standards and the Seven Principles of Public Life (Nolan Principles)).

We have a Quality Assurance and Improvement Programme that covers all areas of internal audit activity. This consists of:

- Internal review of work standards through a system of management review involving senior audit staff and the Head of Audit. This incorporates review of all audit documentation and reports prior to release to the relevant Senior Manager.
- Opinions are regularly canvassed from management responsible for establishments and/or activities under review.

- Regular liaison meetings are also undertaken with Senior Management to discuss work performed and planned.
- A suite of performance indicators and targets have been developed to monitor the quality of the service provided. Performance reports are submitted on a quarterly basis to the Governance and Audit Committee.
- Annual assessment of the service and its compliance with the UK Public Sector Internal Audit Standards – with this assessment being undertaken through an external assessment at least every five years by a suitably qualified, independent assessor.
- External review by Governance and Audit Committee undertakes an annual assessment as to whether adequate skills and resources are available to provide an effective audit function.
- The Head of Audit is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

Location

Audit Lincolnshire is located within the Resources Directorate of Lincolnshire County Council, County Offices, Newland, Lincoln.

Advice and Support

Key contacts:

Lucy Pledge (Head of Audit)
 John Sketchley (Audit Manager)
 Rachel Abbott (Principal Auditor)

lucy.pledge@lincolnshire.gov.uk
john.sketchley@lincolnshire.gov.uk
rachel.abbott@lincolnshire.gov.uk

<http://microsites.lincolnshire.gov.uk/AuditLincolnshire>

General contact:

Email CorporateAudit@lincolnshire.gov.uk

Telephone: 01522 5536836

Approval of Charter

This charter is reviewed annually and approved by the Corporate Management Team and the Governance and Audit Committee.

Related Documents

The other related documents that should be read in conjunction with this charter are:

- Risk Management Strategy
- Counter Fraud policy
- Whistleblowing policy

- Audit Protocol with External Audit

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