

Subject: Internal Audit Charter

Report by:

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Purpose / Summary:

One of the key roles of the Governance and Audit Committee is to ensure that the Council has effective audit arrangements in place and the Internal Audit Charter is a key policy document in support of the audit arrangements.

This report presents the Committee with the revised document – taking into account the recently updated UK Public Sector Internal Audit Standards and Accounts and Audit Regulations 2015.

RECOMMENDATION(S):

That the Committee:

- 1 That the Committee approves the revised Internal Audit Charter.
- 2 To enable the Council to have assurance in the quality and effectiveness of the Council's Internal Audit Service provider – Assurance Lincolnshire.

IMPLICATIONS

Legal:

None arising from this report

Financial :

None arising from this report

Staffing :

None arising from this report

Equality and Diversity including Human Rights :

None arising from this report

Risk Assessment :

- Non compliance with legislation / mandatory professional standards
- Failure to deliver an effective Internal Audit Service will prevent an independent, objective assurance opinion being provided to those charged with governance and the Senior Management Team.

Climate Related Risks and Opportunities :

None arising from this report

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

None arising from this report

1 Introduction

- 1.1 The Council's Internal Audit function is delivered by the County Council through Assurance Lincolnshire – a collaborative partnership consisting of Lincolnshire County Council, City of Lincoln and East Lindsey District Council.
- 1.2 The Public Sector Internal Audit Standards (PSIAS) – which have been in place since April 2013 (updated April 2016) consist of the following elements:
 - Mission Statement
 - Definition of Internal Auditing
 - Code of Ethics, and
 - Attribute and performance Standards for the Professional Practice of Internal Auditing
- 1.3 The PSIAS aim to promote further improvement in the professionalism, quality and effectiveness of internal audit across both the public and private sectors. They reaffirm the importance of robust, independent and objective internal audit assurance.
- 1.4 The Internal Audit Charter is a key document setting out the nature, role, responsibilities and authority of the Internal Audit Service within the Council.
- 1.5 West Lindsey District Council's IA Charter has been updated to ensure conformance with the revised UK Public Sector Internal Audit Standards- published in April 2016.
- 1.6 The Standards require that the nature of assurance services must be defined in the Internal Audit Charter. The nature of any assurance provided to outside parties must also be defined in the IA Charter.
- 1.7 The nature of any consulting services provided must also be defined in the IA Charter.
- 1.8 The *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* must be recognised in the IA Charter.
- 1.9 As one of the Governance and Audit Committee's roles is the oversight and monitoring of the effectiveness of the Internal Audit Service, the revised IA Charter is being presented to the Committee to approve the content prior to wider consultation.
- 1.10 The revised IA Charter is attached as **Appendix 1**.

2 Overall Conclusion

- 2.1 Audit and inspection forms a key component of the District Council's governance framework and assurance arrangements. The IA Charter will strengthen the policy and procedures in this area.



West Lindsey District Council Internal Audit Charter



November 2016

What we do best...

Innovative assurance services

Specialists at internal audit

Comprehensive risk management

Experts in countering fraud

...and what sets us apart

Unrivalled best value to our customers

Existing strong regional public sector partnership

Auditors with the knowledge and expertise to get the job done

Already working extensively with the not-for-profit and third sector

Internal Audit Charter



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Internal Audit Charter

Introduction

West Lindsey District Council's internal audit function is provided by Assurance Lincolnshire¹. Our collaborative approach enables us to deploy resources where required and provide additional or specialist auditing services when needed.

There is a statutory requirement for the Council to have an internal audit of its governance, risk and control processes. The [Accounts and Audit Regulations 2015](#), more specifically require that the audit takes into account the [Public Sector Internal Audit Standards](#) (PSIAS) or guidance.

These Standards set the basic principles for carrying out internal audit in the public sector and provide criteria against which quality and performance can be evaluated. The Chartered Institute of Public Finance² (CIPFA) have also developed an [application note](#) for the Standards – which sets out the proper practice for Internal Audit in local government.

This Charter sets out how we conduct our work in accordance with this proper practice. Policies and practice guidance have been put in place to ensure all internal audit staff understand and comply with these Standards.

This Charter should also be read in conjunction with the Council's Financial Regulations.

Purpose of Internal Audit

As our primary purpose 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. A professional, independent and objective internal audit service is one of the key elements of good governance.

The assurance arrangements for the Council are shown in **Figure 1 – Three Lines of Assurance**.

Definition of internal auditing – 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.

Our mission

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

The Council expects the internal audit service to achieve the mission statement through its overall delivery arrangements – this Charter sets out how this is done.

Figure 1 – Three Lines of Assurance



¹ Collaboration between Lincolnshire County Council, City of Lincoln and East Lindsey District Council audit teams.

² Responsible for setting standards for proper practice for local government internal audit in England.

Internal Audit Charter

Scope of Internal Audit



The scope of internal audit work will cover the Council's entire operations³– this extends to services provided through partnership arrangements, irrespective of what legal standing or particular form these may take.

The Head of Internal Audit - in consultation with all relevant stakeholders and taking into account audit risk assessment processes - will determine what work will be carried out by the internal audit service.

Our aim is to align our work with other assurance functions. We may seek to place reliance on, or use the work of others where we have confidence in the work carried out. This helps us maximise the best use of the internal audit resource and other assurance functions in the Council.

Internal audit has unrestricted right of access to all Council activities and staff, which includes all records and information (in whatever form), resources and assets - seeking explanations necessary for the purpose of our work.

Right of access to other bodies funded by the Council or where contractual arrangements exist are set out in conditions of funding and / or contract.

Independence and Objectivity



The Head of Internal Audit 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 Chairman of the Governance and Audit Committee, the Chief Executive, the Strategic Lead - Business and Democratic Support and Monitoring Officer, the Director of Resources (Section 151 Officer).

Auditors will be free from operational systems involvement or influence and will remain sufficiently independent of the activities audited to enable them to provide an objective professional judgement.

Audit advice and recommendations will be made without prejudice to the rights of internal audit to review and make further recommendations on relevant policies, procedures, controls and operations at a later date.

All staff members in internal audit are required to make a declaration of interest so that any potential conflicts of interest are appropriately managed.

Internal audit staff complies with the policies of Lincolnshire County Council including the staff code of conduct which requires all staff to act with honesty, integrity, impartiality and objectivity and in an environment where all its employees are treated with dignity and respect.

³ Both financial and operational service objectives and systems. Internal Audit work is not limited to the review of financial controls only.

Internal Audit Charter



Internal Audit Responsibilities and Objectives

The Head of Internal Audit is responsible for the provision of a complete internal audit service to the Council. This includes:

Service Area	Specific Responsibilities
Audit	<p>Providing an annual report to the Council's Governance and Audit Committee and the Director of Resources. The report will include:</p> <ul style="list-style-type: none"> an opinion on the effectiveness of the Council's governance, risk and control framework (including reasons why this opinion was reached) any particular control weaknesses judged to be relevant to the development of the Annual Governance Statement a summary and evaluation of the results of internal audit work and information obtained through the combined assurance model and the impact on the control environment an overall summary of internal audit performance and the results of the quality assurance framework a statement on conformance with the PSIAS <p>To help achieve this we will:</p> <ul style="list-style-type: none"> adopt an overall strategy showing how the internal audit service will be delivered - focusing on the critical activities and key risks facing the Council. prepare an annual risk-based plan which is designed to implement the charter, the audit strategy and the PSIAS. This will be in consultation with senior management and taking into account the adequacy and outcomes of the Council's combined assurance framework. This plan is approved by the Director of Resources and the 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. 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. review the Council's financial control arrangements to ensure proper accounting controls, systems and procedures are in place and operate effectively. support management in their responsibilities in maintaining effective systems of governance, risk and control and, where necessary, making recommendations for improvement. 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.

Internal Audit Charter

Internal Audit Responsibilities and Objectives



Service Area	Specific Responsibilities
Audit (continued)	<ul style="list-style-type: none"> provide 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>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> <p>The Council should actively seek to deter and prevent fraud, corruption and theft to ensure that all possible risks in these areas are minimised.</p> <p>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>
Good Governance	<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>As part of our risk based internal audit Plan we periodically review the Council's governance framework – benchmarking it against good practice guidance.</p>
External Audit	<p>The internal audit section work in conjunction with the Council's External Auditors. 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>

Internal Audit Charter



Internal Audit Responsibilities and Objectives

Service Area	Specific Responsibilities
Best Practice Advice	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.
New Developments	<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>To maintain independence, any internal audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.</p>
Consultancy work	<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 on governance, risk and control <p>Our terms of reference makes it clear that no assurance opinion will be provided but the outcome of this work will be reported to the Governance and Audit Committee - in so far as it impacts on the Council's governance, risk and control environment.</p>

Management can assist the process of Internal Audit by:



Commenting on and inputting to, the audit plan and activities. Agree **(but not direct)** 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 '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 Internal Audit immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the Council's property or resources.

Pending investigation and reporting - Management should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.

Internal Audit Charter

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 charged 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 Audit and Accounts Committee performs the role of the 'Board'.

The Governance and Audit Committee is 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
- periodically undertake an 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 2015 and the UK Public Sector Internal Audit Standards. This includes oversight of the Quality Assurance Framework and any improvement plans.
- Oversee Internal Audit's 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

Recommendations made within assurance and compliance audits are ranked high or medium priority – depending upon the relative importance of the audit finding. The level of risk exposure associated with audit finding and the number and level of recommendations will influence the assurance opinion which will be either:

- High
- Substantial
- Limited
- Low

Appendix 1 - provides more guidance on the rationale we apply when forming our audit opinions

Internal Audit Charter

Audit Reporting Framework continued...

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

- The audit and risk strategy, internal audit plan and internal audit charter are presented to Directors and the Governance Corporate Leadership Team. Both are approved by the Governance and Audit Committee.
- The Head of Internal Audit will meet informally in private with members of the Governance and Audit Committee or the Committee as a whole as required.
- Performance and delivery against the internal audit plan and any significant risks and control issues arising from internal audit work are reported independently to the Governance Corporate Leadership Team and the Governance and Audit Committee on a regular basis
- Results of the review on the effectiveness of internal audit (including outcomes of its Quality Assurance and Improvement programme) will be reported to both the Governance Corporate Leadership Team and the Governance and Audit Committee.
- The Head of Internal Audit will draw to the attention of the Director of Resources and the Governance and Audit Committee any resourcing issues that potentially impact on the effectiveness of the internal audit function.
- The Head of Internal Audit has unfettered access to the Chief Executive, Director of Resources (Section 151 Officer), Strategic Lead – Business and Democratic Support and Monitoring Officer and the Governance and Audit Committee as required



Internal Audit Charter

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 Standards in Public Life's **Seven Principles of Public Life**).

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

- A practice manual that outlines the key responsibilities of auditors and defines an audit process which:
 - Promotes conformance with the Standards - helping us meet the ten Core Principles in the **PSIAS**
 - encourages consistency and quality
 - results in assignment conclusions that can be supported by sufficient, relevant and reliable fieldwork
- Supervision and review of work standards. This incorporates review of all audit documentation and reports prior to release to the relevant Senior Manager
- Annual appraisal of the Head of Internal Audit. This includes reference to CIPFA's 'comply or explain' statement on the 'Role of the Head of Internal Audit'
- Regular liaison meetings are also undertaken with Senior Management to discuss work performed and planned.
- Opinions are regularly canvassed from management responsible for activities under review.

- 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 via a progress and delivery report
- 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
- A programme of Continuous Professional Development for all internal audit staff to ensure they maintain and enhance their knowledge, skills and audit competencies.

Core Principles

The core principles, taken as a whole, must be present and operating effectively for our internal audit service to be considered effective – they are:-

- demonstrates integrity
- demonstrates competence and due professional care
- is objective and free from undue influence (independent)
- aligns with the strategies, objectives and risks of the organisation
- is appropriately positioned and adequately resourced
- demonstrates quality and continuous improvement
- communicates effectively
- provides risk based assurance
- is insightful, proactive and future focused
- promotes organisational improvement



Internal Audit Charter

Location



Assurance Lincolnshire
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Advice and Support



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Whistleblowing:

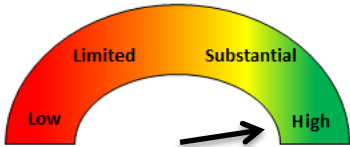
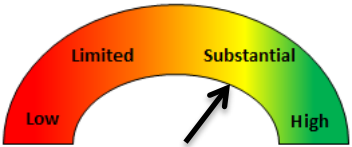
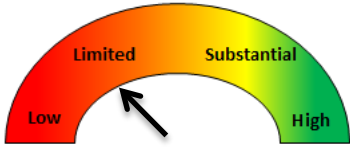
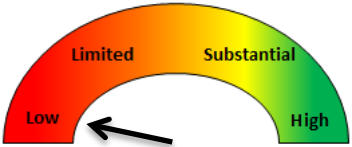
Telephone: 0800 0853716
Email whistleblowing@Lincolnshire.gov.uk

Address:

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Appendix 1 – Assurance Definitions

Our assurance definitions are the criterion against which to draw our conclusions. They act as a guide to help consistency but the rating may be different if the area being reviewed has more impact on the Council. In drawing our conclusions we consider our findings in the context of what was expected, what was found and how significant (material) and important (impact) our findings are. The definitions are listed below, noting that points of good practice or actions not in place do not affect the overall opinion.

High (positive assurance)	Substantial (positive assurance)
 <p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>	 <p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
Limited (negative assurance)	Low (negative assurance)
 <p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>	 <p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p>

Action Priority	
High	Immediate management attention is required - an internal control or risk issue where there is a high certainty of: substantial loss / non-compliance with corporate strategies, policies or values / serious reputational damage / adverse regulatory impact and / or material fines (action taken usually within 3 months).
Medium	Timely management action is warranted - an internal control or risk issue that could lead to financial loss / reputational damage / adverse regulatory impact, public sanction and / or immaterial fines (action taken usually within 6 to 12 months).