

## FINANCIAL PROCEDURE 7

### AUDIT AND INSPECTION

*This Procedure forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council.*

#### 1. Principles Covered

1.1 The Audit and Inspection areas covered in this procedure include:

- Provision of Internal Audit
- Co-operation with other Agencies
- External audit
- Other inspection regimes
- National Fraud Initiative
- Voluntary Funds

#### 2. Reference Documents

2.1 Reference to the following documents may be required:

County Council Constitution :	<del>David O'Conner</del> <u>Richard Wills</u> – Executive Director and Monitoring Officer
Internal Audit Charter	Lucy Pledge – <del>Head of</del> Audit and Risk Management
Public Sector Internal Audit Standards – 2012	Lucy Pledge – <del>Head of</del> Audit and Risk Management
External & Internal Audit Joint Working Protocol	Lucy Pledge – <del>Head of</del> Audit and Risk Management

#### 3. Contacts for Advice

3.1 Lincolnshire County Council	David Forbes – <del>County Finance Officer</del> <del>Assistant Director – Finance and Resources</del>
	Lucy Pledge – <del>Head of</del> Audit and Risk Management

#### 4. Purpose of the Procedure

4.1 To inform officers of mandatory requirements, including those embodied in the County Council's Constitution and to provide guidance on principles of best practice.

- 4.2 To highlight the roles of internal and external audit and the responsibility of officers to these and other inspection regimes.
- 4.3 **Mandatory elements of the Financial Procedure are printed in bold type. Departures from the mandatory elements cannot be granted.** The Executive Director – Finance & Public Protection of Resources and Community Safety has statutory duties for the financial administration and stewardship of the Council which cannot be overridden.

These statutory duties include:

- setting and monitoring compliance with corporate standards;
- advising on the key financial controls necessary to secure sound financial management.

Other parts of this Procedure represent best practice and provide guidance.

- 4.4 It is recognised that in a continually changing environment there may be a need for flexibility. In certain instances a departure from the guidance may be appropriate.
- 4.5 There should be a convincing need for any such departures and **any departures from the guidance must be agreed with the Executive Director – Finance and Public Protection of Resources and Community Safety in writing.**

## 5. Provision of Internal Audit

- 5.1 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.
- nominate one officer to take responsibility for the administration of those affairs.

- 5.2 The Section 151 officer has a number of statutory duties, including the duty to report any unlawful financial activity involving the authority (past, present or proposed) or failure to set or keep to a balanced budget. The Section 151 officer also has a number of statutory powers in order to allow this role to be carried out, such as the right to insist that the local authority makes sufficient financial provision for the cost of internal audit.

The Executive Director – Finance and Public Protection of Resources and Community Safety has been delegated this responsibility by the Council.

- 5.3 The Accounts and Audit Regulations 2015<sup>51</sup>, more specifically require that the Council (as a relevant body) must:

- undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance
  - ensure any officer or member of the Council for the purpose of internal audit:
    - make available such documents and records; and
    - supply such information and explanations;
- as considered necessary by those conducting the internal audit.

- must each year:
  - conduct a review of the effectiveness of the system of internal control
  - prepare an Annual Governance Statement
  - approve the Annual Governance Statement through the Audit Committee
- ~~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 system of internal control.~~
- ~~at least once in a year, conduct a review of the effectiveness of its internal audit.~~
- ~~approve an annual governance statement, prepared in accordance with proper practices for internal control.~~

#### *Purpose, Authority and Responsibility of Internal Audit*

5.4 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

~~5.5 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It examines, evaluates and reports on the adequacy of governance, risk and internal control as a contribution to the proper, economic, efficient and effective use of resources.~~

5.56 An internal audit providers mission is to:

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

5.7 Within Lincolnshire County Council, these duties are undertaken by the Audit & Risk Management Service, headed by the ~~Head of~~ Audit and Risk Management (The Head of Internal Audit).

### Key Controls

The key controls for Internal Audit are:

- It is independent in its planning and operation with internal auditors performing their work objectively.
- That the purpose, authority and responsibility of internal audit is set out in an Internal Audit Charter which has been approved by the Corporate Management Board and Audit Committee.
- An Internal Audit strategy that sets out the basis of internal audit activity and how the head of internal audit will provide an annual internal audit opinion on the Council's framework of governance, risk management and control.
- The ~~Head of~~ Audit and Risk Management direct access to the Executive Director – ~~Resources and Community Safety~~ Finance & Public Protection, all levels of management and to all elected members.
- The Head of Audit and Risk Management must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.
- Benchmark against CIPFA Statement on the Role of the Head of Internal Audit.
- Internal Auditors must conform to the Code of Ethics set out in the Public Sector Internal Audit Standards.
- Internal auditors comply with the Public Sector Internal Audit Standards.
- The ~~Head of~~ Audit and Risk ~~Management~~ Manager must develop and maintain a quality assurance framework and improvement programme that covers all aspects of the internal audit activity. Ensuring general conformance with the Public Sector Internal Audit Standards, including the Definition of Internal Audit, Code of Ethics, Core Principles and Standards of Practice.
- Executive Director – ~~Resources and Community Safety~~ Finance and Public Protection ensures the Council has an adequately resourced and effective ~~Counter Fraud and~~ Internal Audit service.
- The Council's Audit Committee monitors Council's policies and considers the effectiveness the Whistleblowing and Counter Fraud & Corruption arrangements.
- **The Council's Audit Committee monitors the effectiveness of the internal audit process, including its independence, objectivity, performance, and professionalism. Follow this link for the terms of reference of the Audit Committee (insert link).**
- Senior Management must consider and respond promptly to recommendations in audit reports – attending the Audit Committee if requested.

Responsibilities of the Executive Director of ~~Resources and Community Safety~~ Finance and Public Protection

5.68 The ~~Executive Director of Finance and Public Protection~~ ~~Director of Resources and Community Safety~~ is responsible for ensuring that internal auditors have the necessary authority to undertake their duties. This includes giving the authority to:

- Access ~~council~~ Council premises at all reasonable times.
- Access all assets, records, documents, correspondence and control systems.
- Receive any information and explanation considered necessary concerning any matter under review.
- Require any employee of the ~~council~~ Council to account for cash, stores or any other Authority asset under his or her control.
- Access records belonging to third parties, such as contractors, when required.
- Directly access the Council's Executive Directors, Executive and Audit Committee.
- To approve and report as necessary the audit plans prepared by the ~~Head of Audit and Risk~~ Management Manager in accordance with Council priorities and agreed ~~Internal Audit Strategy~~ risk assessment methodology.
- To ensure the effective procedures are in place to investigate promptly any fraud or irregularity. (See also Financial Procedure 6 Risk Management).

#### *Responsibilities of Executive Directors*

5.79 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.

5.810 Executive Directors are responsible for:

- Maintaining an adequate and effective system of internal control.
- Ensuring that staff are aware of the processes and procedures required to operate the control systems.
- 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.
- To notify Audit of any major changes in order that time can be allocated within the audit plan.
- To ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
- To ensure the auditors are provided with any information and explanations that they seek in the course of their work.
- To consider and respond promptly to recommendations in audit reports.
- To ensure that any agreed action arising from audit recommendations are carried out in a timely and efficient fashion.

- To notify the ~~Head of~~ **Audit and Risk Management** immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the authority's property or resources. Pending investigation and reporting, the Executive Director should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.
- To ensure that potential irregularities remain confidential and to determine what action should be taken as a result of an investigation

#### *Co-operation with other Agencies*

5.911 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.

5.4012 Internal Audit also co-operate with other agencies in undertaking reviews (e.g. HM Revenue and Customs)

### **6. Provision of External Audit**

6.1 **The Local Audit and Accountability Act 2014 make the Comptroller and Auditor General responsible for the preparation and maintenance of the code of Audit Practice (the Code) – with day to day operation via the National Audit Office.**

6.2 **External Auditors responsibilities are set out in the Audit Commission Act 1998 and the Audit Commission's Code of Audit Practice appointed by the Public Sector Appointments Ltd must comply with the Code.**

6.3 **The External Auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."**

6.4 ~~The Code of Audit Practice~~ summaries External Audit responsibilities into two objectives, requiring External Audit to review and report on the Council's:

- financial statements (including the Annual Governance Statement): providing an opinion on the Council's accounts; and
- ~~use of resources~~: concluding on the arrangements in place for securing economy, efficiency and effectiveness on the Council's use of resources (the value for money conclusion).

- 6.1 The ~~authority's~~ Council's accounts are examined by ~~external~~ External auditors Auditors, who must be satisfied that the statement of accounts 'true and fair view' of the financial position of the authority and its income and expenditure for the year in question and complies with the legal requirements.

As part of this work external audit will consider:

- ~~The~~ the adequacy of measures taken by the ~~council~~ Council to limit the possibility of fraud and corrupt practice.
- ~~The~~ the key risks affecting the Council's financial statements.
- ~~The~~ the significant qualitative aspects of the Council's accounting practices and financial reporting.
- ~~Assess~~ the Council's process for preparing the accounts and its support for an efficient audit.
- the Annual Governance Statement – confirming that it complies with Delivering Good Governance in Local Government – A Framework published by CIPFA/SOLACE. Ensuring that the Statement is not misleading or inconsistent with other information from the audit of the financial statements.
- whether the Council has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. Taking into account their knowledge of the relevant local sector as a whole, and the Council specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the Council's arrangements

- 6.2 The responsibility for ensuring completion, accuracy and completeness of grant claims lies with the ~~council~~ Council. Government departments usually require independent examination as a condition of their acceptance of claims or returns. In such circumstances the ~~Head of~~ Audit and Risk Management provides independent certification of the claim.

### Key Controls

- ~~External~~ External Auditors are appointed by the ~~Audit Commission~~ Public Sector Audit Appointments Ltd - normally for a minimum period of five years.
- ~~The~~ Audit Commission National Audit Office prepares a ~~code~~ Code of audit Audit practice Practice, which external auditors must follow when carrying out their audits.
- The Council's Audit Committee reviews the Council's annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statement or the audit that need to be brought to the attention of the Council.
- The Council's Audit Committee monitors the effectiveness of the external audit process, including its independence and performance. It specifically considers the external auditors annual Audit Letter, relevant reports and the report to those charged with governance. Follow this link for the terms of reference of the Audit Committee (insert link).



6.3 Responsibilities of the Executive Director of ~~Resources and Community Safety~~Finance and Public Protection

- **To ensure that external auditors are given access at all reasonable times to premises, personnel, documents, and assets that the external auditors consider necessary for the purposes of their work.**
- To ensure there is effective liaison between external audit and internal audit
- To work with the ~~external~~External auditor-Auditor and advise the ~~Full~~ Council, Executive and Executive Directors on their responsibilities ~~in~~ relation to external audit.
- To ensure that effective processes are in place to produce a complete set of ~~draft~~ accounts – meeting required deadlines.
- **To ensure that the Annual Governance Statement is considered and approved with the statement of accounts.**
- **To ensure that appropriate accounting practices in place and complied with.**
- **Determine the form of the Council's accounting records and -the Council's financial control systems including:**
  - a) measures to :**
    - **ensure that financial transactions are recorded as soon as, and as accurately as, reasonably practical**
    - **enable the prevention and the detection of inaccuracies and fraud, and the reconstruacion of any lost records**
    - **to ensure risk is appropriately managed**
  - b) identification of the duties of officers dealing with financial transactions and division of responsibilities of those officers.**
- **Ensure that the Council has a sound system of Internal Control which:**
  - a) facilitates the effective exercise of it's functions and the achievement of its aims and objectives**
  - b) ensures that financial and operational management of the Council is effective; and**
  - a)c) includes effective arrangements for the management of risk (see Financial Procedure 6 – Risk Management)**

6.4 Responsibilities of Executive Directors

- To ensure that external auditors are given access at all reasonable times to premises, personnel, documents, and assets that the external auditors consider necessary for the purposes of their work.
- To ensure that all records and systems are up to date and available for inspection.

## 7. Other Inspection Regimes



7.1 There are a number of inspection bodies with statutory duty to monitor and review the services of Local Authorities. In addition the Authority may also be subject to audit or investigation by such bodies as the HM Revenue and Customs, who have statutory rights of access.

## 7.2 Responsibilities of Executive Directors

- To ensure officers remain up to date with legislation and regulations relating to inspection of their service.
- To ensure records and systems are up to date and available for inspection.
- To ensure that inspectors are given access at all reasonable times to premises, personnel, documents and assets that the inspectors consider necessary for the purposes of their work.
- To ensure that inspectors are provided with any information and explanations that they seek in the course of their work.
- To consider and respond promptly to inspection reports.
- To ensure any agreed actions arising from the inspection are carried out in a timely and efficient manner.

## 8. National Fraud Initiative (NFI)

8.1 The NFI is the ~~Audit Commission's Cabinet Office~~ data matching exercise that is designed to help participating bodies to detect fraudulent and erroneous payments from the public purse. ~~It began in 1996, and now runs every two years. The core of NFI is the matching of data to help reduce the level of housing benefit fraud, occupational pension fraud and tenancy fraud.~~

8.2 ~~The Audit Commission has~~ Local Audit and Accountability Act 2014 ~~requires Council's designated NFI to be part of the statutory external audit and authorities are legally obliged to provide the relevant data, which is required under Section 6 of the Audit Commission Act 1998 to support the NFI process.~~

## 9. Voluntary Funds (School and Amenity Funds)

9.1 Voluntary funds are in the main operated within schools and Social Services establishments. They are for the benefit of the service users, e.g. pupils or Social Service users.

They are any fund which although not officially owned by the ~~Authority Council~~ is controlled or administered solely or in part by an employee by reason of his or her employment by the Authority or by a school Governing body. ~~Some of the funds such as those in prime account schools may be shown as part of the Authority's accounts.~~

- 9.2 It is important to recognise the difference between school and amenity funds and the funds of outside bodies e.g. Parent Teachers Associations, Friends of the establishment. Such bodies are separate entities and have funds which are administered separately by their own rules and membership.

### Key Controls

- Declaration to the County Council, and in the case of schools Governors, by the Head of the establishment of the existence of the fund, the annual balances on the fund and confirmation they have been audited.
- Maintenance of a single comprehensive fund which reflects all the activities of the fund.
- **Appointment of an independent, competent auditor to provide an annual audit of the fund. The audit should be carried out in line with the Charity Commission requirement if the fund is so registered. Independence is the freedom of conditions that threaten the ability of the auditor to carry out their responsibilities in an unbiased manner. Auditors must be impartial and avoid any conflicts of interest.**
- Adequate accounting records and evidence to support transactions should be maintained as would be expected for the County Council accounts.
- Adequate security of all assets relating to the fund.
- **To notify the ~~Head of~~ Audit and Risk Management immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the fund.**

- 9.3 Responsibilities of the Executive Director ~~of Resources and Community Safety~~ Finance and Public Protection

- To provide advice where required on the operation of voluntary funds.

- 9.4 Responsibilities of Executive Directors

- To ensure officers operating the funds receive adequate detailed guidance.
- To monitor the existence of funds and that the annual audit has been undertaken and appropriately reported.