

INTERNAL AUDIT CHARTER

CONTROL

Owner/ Policy Lead Officer:	Head Audit & Risk Management <u>Manager</u>
Location:	Orchard House, County Offices, Lincoln, <u>LN1 1YG</u>
Consultation:	<u>Executive</u> Director – <u>Finance and Public Protection</u> of Resources & Community Safety / Audit Committee
Date:	October 2013 <u>November 2013</u>
Review Arrangements:	Annual (as required – by (Owner/Policy Lead Officer, Director of Resources & Community Safety / Audit Committee) <u>As Required</u>

The purpose of this charter is to set the nature, role, responsibilities and authority of the Internal Audit service within Lincolnshire County Council (the Council).

Purpose of Internal Audit

~~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.~~ 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 Internal Audit Standards (PSIAS).

As an internal audit provider our mission is to:

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

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.

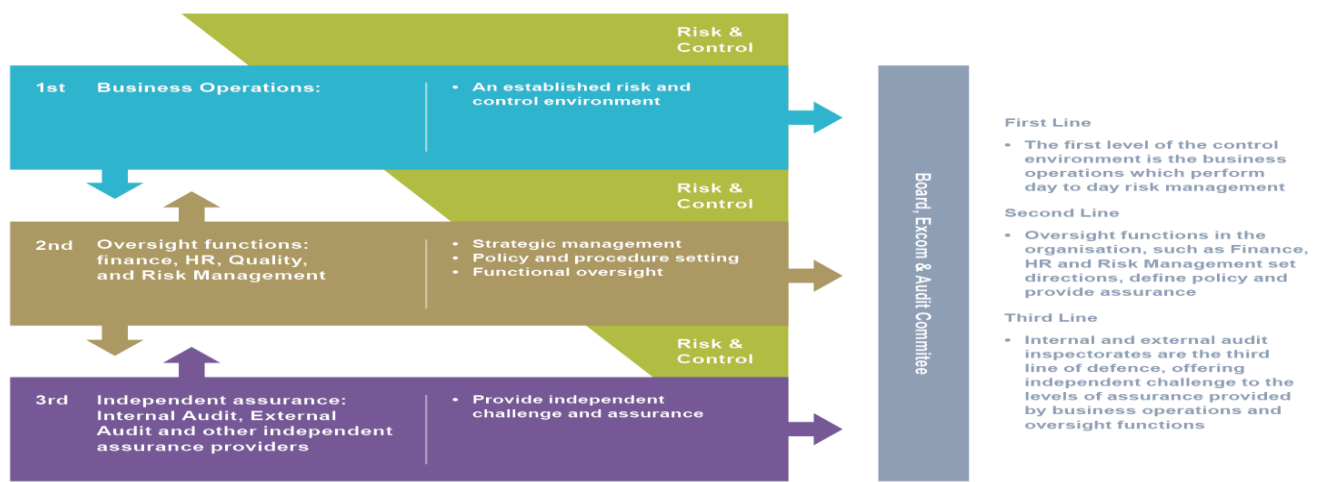
Our aim is to align our work with other assurance functions. We may seek to place reliance on, or use the work of others where we have confidence in the work carried out.

~~This helps us — 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.

We continue to have the right to conduct our own assurance activity freely and independently to fulfil our role and remit. However, if we need to provide assurance through our work plans then the reasons will be clearly understood by the Management Board and Audit Committee.

The assurance arrangements for the Council include:

Figure 1 – Three Lines of Assurance



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 Executive Director - ~~Resources & Community Safety~~ Finance & Public Protection 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.
- Operate the Whistleblowing arrangements.
- Provide resources to implement the Council's counter fraud policy and for the investigation of fraud and irregularities.

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 Council 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 ie the Chairmen of the Audit Committee, the Chief Executive, the Executive Director – Performance and Governance Environment & Economy (Monitoring Officer), the Executive Director - Finance & Public Protection Resources & Community Safety (Section 151 Officer).

Independence is achieved through the organisational status of Audit & Risk Management 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.

The Council's Internal Audit function is provided by an in house team which operates as part of Assurance Lincolnshire. Assurance Lincolnshire¹ is a collaborative working partnership where we operate common working practices, pool / share resources where can and share good practice.

The Council has We are an integrated assurance function for the Council with the Head of Audit and Risk Management Manager operationally responsible for internal audit, counter fraud, risk management, health and safety and insurance functions. External Assurance is sought on these functions- overseen by the Assistant Director – Finance and Resources County Finance Officer.

Internal Audit complies with the policies of the 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.

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'.

¹ Assurance Lincolnshire is collaboration between – Lincolnshire County Council, City of Lincoln, East Lindsey District Council and Leicester City Council.

The Accounts and Audit Regulations ~~2011~~2015, 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. ~~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 Audit Committee undertakes this responsibility.~~
 - 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.

Audit & Risk Management 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 quality and performance can be evaluated. Policies and practice guidance have been put in place to ensure all staff understand and comply with these ~~standards~~Standards.

The provision of Internal Audit is the responsibility of the Council; this responsibility has been formally delegated to the Executive Director – ~~Resources & Community Saf~~Finance and Public Protectionty. Financial procedure 7 – Audit and Inspections informs officers of the mandatory requirements and provides guidance on best practice.

Responsibilities of Management

The effective operations of the Council's governance, risk and control processes are the direct responsibility of Senior Management. ~~(Management Board (Executive Directors), Assistant Directors and Head of Service)~~. For the purposes of the UK Public Sector Internal Audit Standards – Senior Management are the Corporate Management Board.

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.

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.

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:
<p>Commenting on and inputting to, the audit plan and activities. Agree <u>(but not direct)</u> 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.</p> <p>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.</p>
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.
<p>Notifying the Head of Audit and Risk Management immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the Council's property or resources.</p> <p>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.</p>

Management can assist the process of Internal Audit by:

Internal Audit Service and Context

The ~~Head of~~ Audit and Risk ~~Management Manager~~ is required to manage the provision of a complete audit service to the Council. This includes:

Service Area	Specific Responsibilities
<p>Audit</p>	<p>The Head of Audit and Risk Management Manager is required to provide an annual opinion on the effectiveness of the Council’s governance, risk and control framework to the Council and Executive Director – Resources and Community Finance & Public Protection Safety. 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 where we can. • 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 Executive Director – Finance & Public Protection Resources & Community Safety and the 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

Service Area	Specific Responsibilities
	<p>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.</p>
<p>Counter Fraud</p>	<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>The National Fraud Initiative 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. Internal Audit co-ordinates the Council's involvement in this initiative.</p> <p>Internal Audit provides resources to implement the counter fraud policy and for the investigation of fraud, irregularities and the operation of the Council's whistleblowing arrangements.</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>
<p>Corporate Complaints Policy – Stage 2</p>	<p>A complaint occurs when someone feels that the County Council has failed to do something that it should have done, or has done something badly or when they feel that they have been unfairly treated.</p> <p>If the complainant is not satisfied with the response from the Service area then they can ask for the complaint to go to the next stage – the complaint will then be referred to an Executive Director or Assistant Director. The complaint or part of the complaint may require independent investigation. Corporate Audit provides resources for the investigation of</p>

Service Area	Specific Responsibilities
	Stage 2 complaint referrals, if required.
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 Audit Committee – these all help inform the Council's Annual Governance statement.</p> <p><u>As part of our risk based Internal Audit Plan we periodically review the Council's governance framework – benchmarking it against good practice guidance.</u></p>
External Audit	<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>
Best Practice Advice	<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>
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 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>
Consultancy work	<p><u>Corporate Internal</u> 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</p>

Service Area	Specific Responsibilities
	<p>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 • <u>advice on governance, risk and control</u> <p><u>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 Audit Committee - in so far as it impacts on the Council's governance, risk and control environment.</u></p>
<p>External work</p>	<p>Audit Assurance t Lincolnshire also provides internal audit services to a number of <u>the public sector</u> external clients. Approval is sought from the Section 151 officer and the Audit Committee before entering into any significant engagement.</p> <p>The level and extent of external work is also reported in the approval of the audit plan and the Head of Audit and Risk Management's annual report.</p>

Responsibilities of the Audit Committee

The Audit Committee is a key component of the Council's governance framework. Their role is to provide those ~~in-charge~~d 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 Committee performs the role of the 'Board'.

The 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 Councils 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 2011-2015 and the UK Public Sector Internal Audit Standards. This includes oversight of the Assurance Framework and any improvement plans.

- 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 and Risk Management also has the opportunity to meet in private with the 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 are held with each Executive Director or their nominees 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 and Risk Management 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 Executive Directors and the Management Board. Both are approved by the Audit Committee.
- The annual Internal Audit Plan is compiled by the ~~Head of~~Audit & Risk Management taking account the Council's governance, risk and control frameworks (including the effectiveness of its combined assurance arrangements). This is after input from Executive Directors and senior management. The Internal Audit Plan is then presented to the Management Board 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 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 Audit Committee.

- Any non-conformance with the UK Public Sector Internal Audit Standards will be included in the Head-of-Audit & Risk Management 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 & Risk Management will draw to the attention of the Executive Director – Resources and Community Safety Finance and Public Protection and the 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 & Risk Management has to the Chairman of the Audit Committee.
- The Chairman of the Audit Committee also provides the Council with an annual report on the work of 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 Standards in Public Life's Seven Principles of Public Life. the Seven Principles of Public Life (Nolan Principles).

We have a Quality Assurance and Improvement Programme 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 promotes conformance with the Public Sector Internal Audit Standards (PSIAS) - 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
- Internal review of work standards through a system of management review involving senior audit staff and the Head-of Audit & Risk Management. This incorporates review of all audit documentation and reports prior to release to the relevant Senior Manager.
- Annual appraisal of the Head-of Audit & Risk Management informed by both the Chief Executive and the Chairman of the Audit Committee. This includes reference to

CIPFA's 'comply or explain' statement on the 'Role of the Head of Internal Audit' in ~~Public Service Organisation 2010~~.

- Regular liaison meetings are also undertaken with Senior Management in each Directorate to discuss work performed and planned.
- Opinions are regularly canvassed from management responsible for ~~establishments and/or~~ 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 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.
- External review by Audit Committee who undertakes an annual assessment as to whether adequate skills and resources are available to provide an effective audit function.
- A programme of Continuous Professional Development for all staff to ensure they maintain and enhance their knowledge, skills and audit competencies.
- The ~~Head of~~ Audit and Risk Management is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

Location

Within Lincolnshire County Council the Internal Audit function is located within the ~~Resources Directorate~~ Finance & Public Protection, County Offices, Newland, Lincoln LN1 1YG. ~~Corporate Audit & Risk Management is headed by Lucy Pledge, the Head of Service – Corporate Audit and Risk Management.~~

Advice and Support

Key contacts:

Lucy Pledge (~~Head of~~ Audit & Risk ~~Management~~ Manager)

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John Sketchley (~~Audit Manager~~ Team Leader – Audit)

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~~Rachel Abbott (Team Leader – Audit)~~ [Rachel.abbott@lincolnshire.gov.uk](mailto:rachel.abbott@lincolnshire.gov.uk)

~~Stephanie Kent~~ Dianne Downs (~~Audit Manager~~ Team Leader – Counter Fraud)

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

General contact:

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Email whistleblowing@Lincolnshire.gov.uk

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PO Box 640
Lincoln
LN1 1WF

Approval of Charter

This charter is reviewed annually as necessary and approved by the Corporate Management Team and the 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
- Financial Procedure No 7 which forms part of the Financial Regulations and Procedures in the Constitution of Lincolnshire County Council
- Audit Protocol with External Audit

Links to be inserted

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