

# AUDIT COMMITTEE

24 March 2021

## Annual Review of the Internal Audit Charter

### Report of Internal Audit and Assurance Manager (Chief Internal Auditor)

#### PURPOSE OF REPORT

Annual Review of the Internal Audit Charter

This report is public

#### RECOMMENDATIONS

(1) That the Audit Committee agree the revised Internal Audit Charter at Appendix A.

#### 1.0 Background

- 1.1 Specific requirements detailed in the Accounts and Audit Regulations 2015 require a relevant body to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Audit Standards (PSIAS) or guidance'. From 1 April 2013 the standards and guidance were defined in the PSIAS and CIPFA's Application Note which provides guidance on the specific requirements for local government internal audit services.
- 1.2 The Application Note documents a number of specific local government requirements, including the requirement to complete an extensive checklist for assessing compliance with the PSIAS. One of the mandatory requirements within the checklist is to have an Internal Audit Charter in place which is reviewed periodically.
- 1.3 The attached Internal Audit Charter was last approved by the Audit Committee at its meeting on 19 February 2020.
- 1.4 In addition to annual reviews by the Audit Committee, the PSIAS external peer review process also provides for an independent assessment of this document. The last review (March 2018) confirmed the document conforms to best practice.

## **2.0 Report**

- 2.1 The annual review of the Audit Charter has only identified one minor change in relation to paragraph 6.8. The Charter now clearly documents the existing arrangements for reporting audit assurance opinions to the Committee and the escalation processes should an audit opinion remain limited / minimal following two follow-up reviews.
- 2.2 The Audit Committee are asked to approve the minor change made to the Audit Charter.

## **3.0 Details of Consultation**

- 3.1 No consultations have taken place when reviewing the Audit Charter other than with the Section 151 Officer.

## **4.0 Options and Options Analysis (including risk assessment)**

- 4.1 The options available are to either accept the Audit Charter which will provide the council and its Internal Audit function with the basis for continued compliance with established Internal Audit standards or recommend alternative wording if necessary. Any deviation from best practice or changes to this Charter should be agreed by the Section 151 Officer, the Audit Committee and reported to the Council's External Auditors.

## **5.0 Conclusion**

- 5.1 It is timely and appropriate to update the council's Internal Audit Charter; this is a key component in establishing compliance with professional standards for Internal Audit.

### **CONCLUSION OF IMPACT ASSESSMENT**

**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

Not applicable.

### **FINANCIAL IMPLICATIONS**

None directly arising from this report.

### **SECTION 151 OFFICER'S COMMENTS**

The Internal Audit Charter is a key part of the framework in which Internal Audit operates, it formally defines the Service's purpose, authority, responsibility and reinforces the emphasis on core principles around objectivity and independence.

The proposed Charter reflects current best practice as defined by PSIAS and CIPFA and so the benefits of any departure, or deviation would need to be clearly defined and articulated and subject to formal agreement by s151 Officer and the Audit Committee.

**LEGAL IMPLICATIONS**

None directly arising from this report.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

**BACKGROUND PAPERS**

Public Sector Internal Audit Standards

Local Government Application Note for the UK PSIAS - (CIPFA, in collaboration with the Chartered Institute of Internal Auditors)

CIPFA - The Role of the Head of Internal Audit

**Contact Officer:** Joanne Billington

**Telephone:** 01524 582028

**E-mail:** jbillington@lancaster.gov.uk

**Ref:**



**LANCASTER**  
**CITY COUNCIL**

*Promoting City, Coast & Countryside*

# **LANCASTER CITY COUNCIL INTERNAL AUDIT CHARTER**

**DRAFT**

**TO BE APPROVED BY AUDIT COMMITTEE 24 MARCH 2021**

## **1. Introduction**

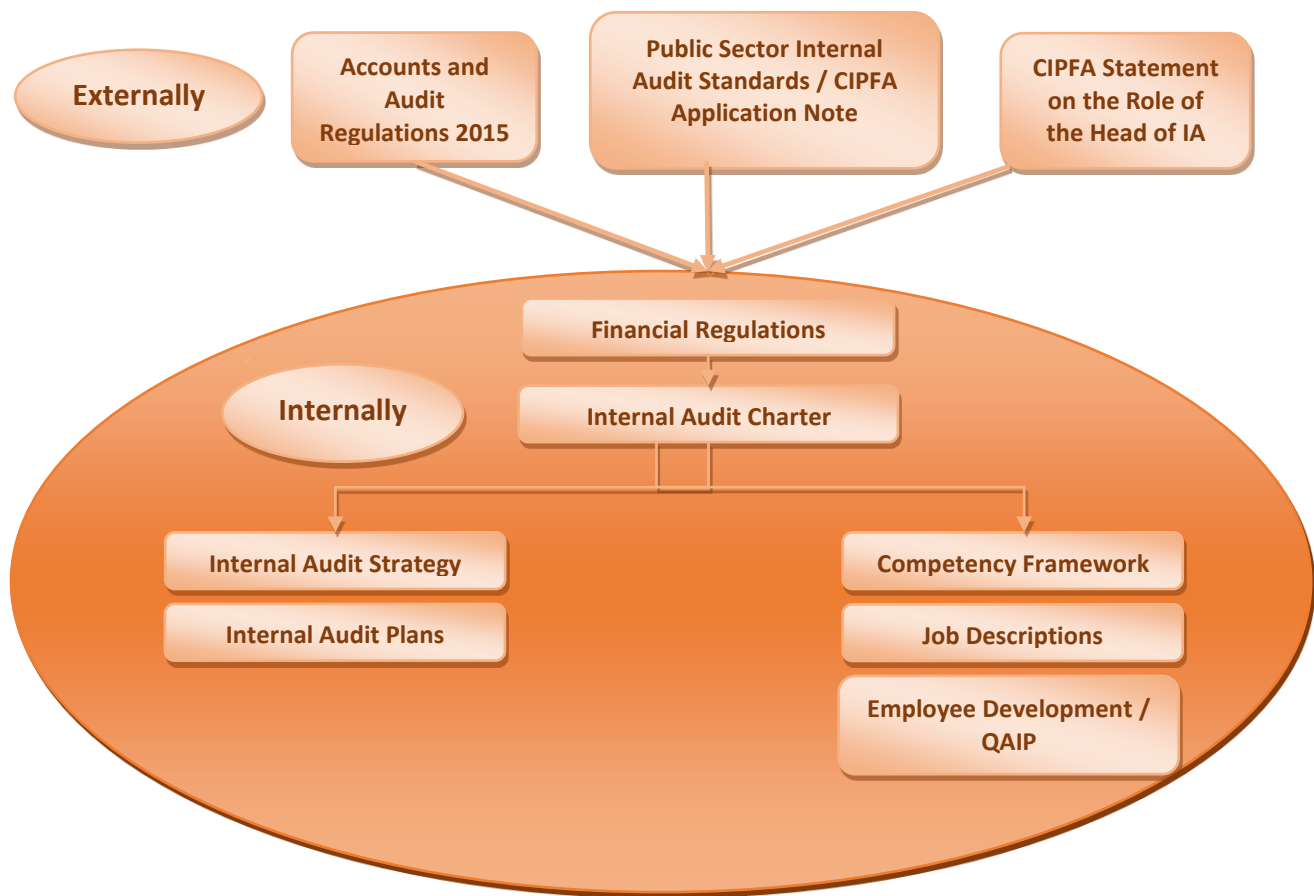
- 1.1 Internal Audit in local authorities is a statutory function, required under section 5 of the Accounts and Audit Regulations 2015. Section 5 requires that local authorities to which the Regulations apply “must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”
- 1.2 From 1 April 2013, “public sector internal auditing standards or guidance” are defined as those set out by the UK Public Sector Internal Audit Standards (PSIAS). The standards combine best practice from the global and private sector experience of the Institute of Internal Auditors (IIA), with the UK public sector expertise of CIPFA and other audit bodies in the public services and form the benchmark against which local authority internal audit services are assessed.
- 1.3 The Standards comprise a revised definition of Internal Auditing, a Code of Ethics for Internal Auditors working in the Public Sector and the Standards themselves. The Standards are mandatory for all internal auditors working in the UK public sector.

## **2. Definition of Internal Audit**

- 2.1 The PSIAS define internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

## **3. Framework for Internal Audit**

- 3.1 The following diagram sets out the key legislative, professional and organisational elements which create the framework within which internal audit operates.
- 3.2 Whilst the Council’s highest level of commitment to internal audit is set out in the Financial Regulations, it is the Internal Audit Charter which plays the central and most significant role in establishing the internal framework and environment for internal audit. The Audit Charter sets the scene for the production and management of the more detailed elements, including strategic and operational plans, people management and development, and working practices.
- 3.3 Within the overall framework established under the Charter, internal audit is managed and delivered in accordance with more detailed elements including those relating to HR matters (competency framework, Job Descriptions and the Employee Development and Performance Appraisal regime); strategy and planning; and operational management.



#### 4. Key Organisational Roles and Relationships

- 4.1 The PSIAS require that the Internal Audit Charter defines the terms *'Board'* and *'Senior Management'* in relation to the work of internal audit. For the purposes of internal audit work, the *'Board'* is taken to refer to the Full Council, although in practice, the Audit Committee has delegated responsibility for overseeing the work of internal audit, on behalf of full Council. *'Senior Management'* is taken to refer to the Chief Executive and the Executive Team.
- 4.2 The authority has adopted CIPFA's *"Statement on the Role of the Chief Financial Officer in Local Government"*, 2016, and the associated *"Statement on the Role of the Head of Internal Audit in Public Service Organisations"*, 2019. These statements set out principles and standards for the Section 151 Officer and the Internal Audit and Assurance Manager to act in a mutually supportive way in fulfilling their statutory and professional responsibilities.
- 4.3 Internal Audit supports the Chief Executive, as Head of Paid Service, in providing high level assurances relating to the council's strategy and governance arrangements.
- 4.4 Internal Audit also supports the Monitoring Officer, in discharging his/her responsibilities in maintaining high standards of governance, conduct and ethical behaviour.

- 4.5 The Internal Audit and Assurance Manager is responsible for the effective review of all aspects of governance, risk and internal control across the full range of the Authority's activities.
- 4.6 The existence of Internal Audit does not detract from or diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient, accountable and well-ordered manner.
- 4.7 Internal Audit works with, and is accountable to the council's Audit Committee, to ensure it can:
- rely on the assurances provided by Internal Audit; and
  - rely on the assurances provided in respect of all other aspects of the Council's governance arrangements, to enable them to perform an informed critique of the Annual Governance Statement, on behalf of the Council.

## **5. Internal Audit Independence and Objectivity**

- 5.1 Internal Audit operates independently within the Council to ensure it is able to appraise the Authority's governance, risks and internal control systems in the impartial and unbiased manner essential to the proper conduct of audits.
- 5.2 To ensure this independence, Internal Audit operates within a framework that allows unrestricted access to all council officers, senior management and Elected Members. As such, all Internal Audit staff have the right to access all premises, records and documentation held by the council, its officers and Elected Members, and to seek explanations as they see necessary to effectively discharge their duties. This position is supported by S5(2) of the Accounts and Audit Regulations 2015.
- 5.3 The Internal Audit and Assurance Manager will report in their own name to officers and Elected Members, as they are charged with maintaining effective governance within the organisation. The work of Internal Audit will be performed and reported in accordance with the direction and agreement of the Internal Audit and Assurance Manager.
- 5.4 Objectivity is preserved by ensuring that internal audit personnel are free from conflicts of interest and do not undertake any non-audit duties. The exception to this being that the Internal Audit and Assurance Manager has functional (though not operational) management of the services provided by the shared Corporate Enquiry Team (CET). Where there is a call for internal audit review and opinion on any area in which the Internal Audit and Assurance Manager has fulfilled an operational role, this will be managed and reported on directly by another member of the audit team where possible. If necessary, consideration will be given to procuring audit services from an external source in order to maintain independence.
- 5.5 Where internal auditors have a perceived or real conflict of interest in undertaking a particular piece of work, this will be managed through the internal audit management and supervisory process. Internal auditors are required to declare any potential conflict of interest both on an annual basis, and when they are assigned a particular audit review. The work will then be reassigned to another auditor.

## **6. Reporting Lines and Audit Reports**

- 6.1 The Internal Audit and Assurance Manager reports administratively to the Section 151 Officer.
- 6.2 Functionally, the work of Internal Audit is reported in full to senior managers, Members of the Audit Committee and the External Auditor by means of specific reports, and in summary form to Audit Committee via periodic monitoring and activity reports.
- 6.3 The Internal Audit and Assurance Manager and the Chief Executive have mutual direct access to each other as they consider appropriate and the Internal Audit and Assurance Manager attends Executive Team meetings as and when required.
- 6.4 The Internal Audit and Assurance Manager and Chairman of the Audit Committee have mutual direct access to each other as they consider appropriate and hold regular one-to-one meetings.
- 6.5 Most internal audit assignments will result in the production of a formal report. Draft reports will be sent to the manager(s) responsible for the area under review for agreement of the factual accuracy of findings and to develop an action plan to address weaknesses in internal controls.
- 6.6 Once agreed, final reports will be copied to the Section 151 Officer, relevant Directors, Service Managers as well as Members of the Audit Committee and the External Auditors.
- 6.7 Internal Audit will report regularly on the results of its work to the Executive Team and the Audit Committee, highlighting significant control issues and potential for improving risk management, governance and internal control processes.
- 6.8 Whilst management are ultimately responsible for the implementation of agreed actions, follow up audits will be completed by Internal Audit to monitor implementation of the agreed actions and provide an updated assurance opinion where this was awarded limited or minimal. The Audit Committee will receive regular updates and should the overall assurance opinion remain unchanged following the completion of two follow-up reviews, the Committee may seek explanations directly from the managers responsible for the delay or failure to implement.

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

- 7.1 The scope of Internal Audit covers all the council's governance arrangements, procedures for ensuring the effective management of all significant risks and ensuring regularity in all its financial affairs, including achieving value for money.
- 7.2 Where the Council works in partnership with other organisations, the role of Internal Audit will be defined on an individual basis or agreed with the organisation through liaison with the relevant Director and the Section 151 Officer.
- 7.3 Where Internal Audit undertakes work on behalf of any other organisations, this will be determined in conjunction with the Audit Committee and in consultation with the Section 151 Officer to ensure that adequate audit resources remain available to provide assurance over the council's activities. External assurance



work will result in a report and assurance statement to the relevant organisation's Board and recommendations to its senior management.

- 7.4 Internal Audit may undertake consultancy work in addition to its primary assurance role and the extent of each type of work will be set out in internal audit plans. The scope of any consultancy work will be agreed with management and will only be undertaken where resources permit without impacting on the annual assurance process. In line with the PSIAS, the Audit Committee will be advised of any consultancy work requested and performed.
- 7.5 Where individual internal auditors undertake non-audit activities, for example in participating in corporate projects in a non-audit role, the auditor involved will not participate in future audits of the service/project area until at least one year has elapsed from completion of the activity.
- 7.6 The role of Internal Audit in fraud related work is set out in the following Council documents:
- Financial Regulations;
  - Anti-Fraud, Bribery and Corruption Policy; and
  - Raising Concerns at Work Policy.
- 7.7 The primary responsibility for maintaining a sound system of internal control, including arrangements to prevent and detect fraud and corruption lies with management. The completion of planned audit work assists this process by highlighting areas where controls are inadequate or are not operating as intended.

## **8. Internal Audit Obligations and Responsibilities**

- 8.1 The Internal Audit and Assurance Manager is responsible for:
- Developing and proposing the future strategic direction for Internal Audit within the Authority;
  - Developing an annual audit plan in the context of the strategic direction and based on an understanding of the significant risks to which the organisation is exposed;
  - Managing the provision of a complete professional internal audit service to the authority that is compliant with the PSIAS;
  - Monitoring and reporting the performance of the Internal Audit service;
  - Producing and reporting to Audit Committee an annual audit opinion, based on the outcomes of internal audit work conducted throughout the year;
  - Providing advice and guidance on risks and the application and development of internal controls;
  - Maintaining good working relationships with External Audit based on mutual recognition and respect, leading to a joint improvement in performance and the avoidance of unnecessary overlapping of work;
  - Assessing all matters of potential fraud or irregularity in line with the requirement of the Council's Anti-Fraud, Corruption and Bribery Policy. Internal audit will undertake or commission investigations as necessary into

such matters and advise the Statutory Officers and Audit Committee of the outcomes.

## **9. Limitations of Internal Audit Responsibilities**

9.1 In seeking to discharge the obligations and responsibilities set out in section 8 above, it should be noted that Internal Audit is not responsible for the following, which are the proper responsibility of management:

- Controlling the risks of the Authority;
- Establishing and maintaining systems of internal control;
- Determining operational policies or procedures; and
- Preventing or detecting fraud and irregularity.

## **10. Client Obligations and Responsibilities**

10.1 The effective fulfilment of the objectives of internal audit reviews and the robustness of internal audit assurance opinions requires commitment from the managers of services under review to:

- understand their responsibilities to establish systems of internal control which ensure that activities are conducted in a secure, efficient, accountable and well-ordered manner;
- identify, evaluate and manage business (including financial) risks on a day-to-day basis;
- inform Internal Audit of proposed new systems to enable involvement from the outset, the scope of involvement to be mutually agreed;
- discuss risks identified with the lead auditor at the start of an audit assignment with a view to agreeing the scope, objectives and methodology for the review, to be formalised in the audit brief;
- agree with the lead auditor the plan for the review including timescales, communication lines and expectations;
- provide constructive input and adequate resources to complete the review within the agreed timescale;
- respond to audit requests and documentation on a timely basis ensuring that accurate, up-to-date information is made available to auditors as required;
- evaluate and take ownership of agreed actions, taking account of risk and cost-effectiveness: and
- implement agreed actions in line with agreed timescales.

## **11. Resourcing and Staffing Matters**

11.1 The Internal Audit and Assurance Manager will hold an appropriate professional qualification (CMIIA, CCAB or equivalent) and have extensive internal audit experience.

11.2 Internal audit will be staffed according to the staffing structure as approved by the Section 151 Officer and advised to the Audit Committee and will aim to

maintain experienced and qualified staff. Adequate resources will be maintained to enable meaningful, evidenced assurances to be provided.

11.3 The Internal Audit and Assurance Manager will ensure that the Internal Audit service has access to an appropriate range of knowledge, skill, qualifications and experience required to deliver the audit plan.

11.4 Individual training needs are established and agreed through the Employee Development and Performance Appraisal (EDPA) process along with the most cost effective means of meeting those needs. As a professional service, staff are expected to actively participate in relevant formal Continuing Professional Development (CPD) schemes.

## **12. Ethics**

12.1 The PSIAS contain a Code of Ethics which is mandatory for all internal auditors in the public sector. In addition, individuals are also required to adhere to the council's Code of Conduct for Employees and the Codes of Ethics of their professional bodies, where appropriate.

12.2 Internal Audit has adopted the PSIAS Code of Ethics. Staff will be required to declare annually any personal interests and certify that they understand and will comply with requirements of the Code.

## **13. Review**

13.1 The Internal Audit and Assurance Manager will review this Charter annually and in the event of any substantive changes, present it to the Audit Committee for approval.