

# Internal Audit Charter

Lancaster City Council

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## 1 Introduction

The Internal Audit Charter is mandated through the Public Sector Internal Audit Standards (2017) and is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

This Charter is structured around the Public Sector Internal Audit Standards (2017), the CIPFA Local Government Application Note (LGAN) and aligned to the Core Principles for the Professional Practice of Internal Auditing.

Public Sector Internal Audit Standards – Attribute Standards
1000 - Purpose, Authority and Responsibility 1100 - Independence and Objectivity 1200 - Proficiency and Due Professional Care 1300 - Quality Assurance and Improvement Programme
Public Sector Internal Audit Standards – Performance Standards
2000 - Managing the Internal Audit Activity 2100 - Nature of Work 2200 - Engagement Planning 2300 - Performing the Engagement 2400 - Communicating Results 2500 - Monitoring Progress 2600 - Communicating the acceptance of risks

MIAA confirms ongoing compliance with the Public Sector Internal Audit Standards.

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## 2 Standard 1000 – Purpose, Authority and Responsibility

Internal auditing is “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<sup>1</sup>”.

The provision of assurance services is the primary role for internal audit in the public sector. This role requires the internal auditor to provide an independent opinion based on an objective assessment of the framework of governance, risk management and control. The main purpose of internal audit activity within the Council is therefore to provide the Chief Executive with an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. The Director of Internal Audit’s opinions is a key element of the framework of assurance that the Chief Executive needs to inform the completion of the Annual Governance Statement (AGS).

Internal audit also provides an independent and objective consultancy service which is advisory in nature, and generally performed at the specific request of the organisation. Such consultancy work is separate from but contributes to the opinion which internal audit provides on risk management, control and governance. When performing consulting services, the internal auditor will maintain objectivity and not take on management responsibility.

The above functions drive MIAA's Mission to support 'the transformation and effective delivery of public services by being a trusted partner in the provision of assurance and solution services that improve outcomes and really make a difference'.

Assurance Reviews will provide individual audit opinions to support the annual Director of Internal Audit Opinion. Formal agreement will be sought for the provision of third party assurances to other bodies in respect of the services provided by the Council.

The Internal Audit Section derives authority from the Audit Committee, the Council and statute (Section 151 Local Government Act 1972 and the Accounts and Audit Regulations 2015).

In accordance with the organisation's Financial Regulations, Internal Auditors will (without necessarily giving prior notice) have access to all records (including those of a confidential nature) and employees of the organisation.

### **3 Standard 1100 – Independence and Objectivity**

The internal audit activity must be independent, and internal auditors must be objective in performing their work. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the Director of Internal Audit will have direct and unrestricted access to senior management and the Audit Committee.

The Director of Internal Audit will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity.

The Director of Internal Audit will report functionally to the Audit Committee. and establish effective communication with, and have free and unfettered access to, the Chief Executive and the Chair of the Audit Committee. In addition the Director of Internal Audit also has direct access to the Council's Monitoring Officer, the S151 Officer and all senior

management. This will include communicating and interacting directly with the Audit Committee.

Internal audit activity will be free from interference in determining the scope of internal auditing, performing work and communicating results. Internal auditors will have an impartial, unbiased attitude and avoid any conflict of interest. Conflicts of interest may arise where an auditor provides services other than internal audit to the organisation. Steps will be taken to avoid or manage transparently and openly such conflicts of interest, so that there is no real or perceived threat or impairment to independence in performing the audit role.

All internal auditors will complete an annual declaration of interest identifying possible conflicts of interest and the actions taken to mitigate them. This process, and its outcomes, will be communicated to the Audit Committee annually through the Director of Internal Audit Opinion and Annual Report.

MIAA will also periodically review the specific audit manager assigned to the organisation to ensure that both parties are satisfied that relationships remain independent and objective.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

### **4 Standard 1200 – Proficiency and Due Professional Care**

Engagements will be performed with proficiency and due professional care. Internal auditors will possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively will possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities. The Director of Internal Audit is professionally qualified and is

responsible for ensuring access to the full range of knowledge, skills, qualifications and experience to meet the requirements of the Internal Audit Standards. MIAA internal auditors will ensure Continuing Professional Development and compliance with professional standards.

Internal auditors will apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

## 5 Standard 1300 – Quality Assurance and Improvement Programme

The Director of Audit will develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The quality assurance and improvement programme will include both internal and external assessments.

- Internal assessment will include;
- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments or assessment by other persons within the organisation with sufficient knowledge of internal audit practices.

External assessments will also be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organisation. The results of external quality reviews and any consequent improvement plans will to be reported to the Chief Executive and Audit Committee.

## 6 Standard 2000 – Managing the Internal Audit Activity

The Director of Internal Audit will develop and maintain an Internal Audit strategy designed to meet the main purpose of the internal audit activity and its service provision needs. This strategy will advocate a systematic and prioritised review, outlining the resources and skills required to meet the assurance needs of the Chief Executive, Full Council and Audit Committee. The strategy will take into account the relative risk maturity of the organisation, taking due regard of the assurance framework.

The Director of Internal Audit will establish risk based plans to determine the priorities of the internal audit activity consistent with the organisation's goals.

The Director of Internal Audit will include in the internal audit strategy the approach to using other sources of internal and external assurance. Periodic plans will include any work associated with placing reliance upon such work.

The Director of Internal Audit will agree the strategy and periodic plans with the Chief Executive and Audit Committee.

Where the Director of Internal Audit believes that the level of agreed resources will prevent the Chief Executive being provided with an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, the consequences will be brought to the attention of the Audit Committee.

The Director of Internal Audit will agree arrangements for interim reporting to the Chief Executive and Audit Committee in the course of the year and produce an annual report that incorporates his opinion.

The Director of Internal Audit will provide to the Chief Executive an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, timed to support the Annual Governance Statement.

## 7 Standard 2100 – Nature of Work

The internal audit activity will evaluate and contribute to the improvement of governance, risk management and control processes, using a systematic and disciplined approach.

The internal audit activity will also evaluate the potential for the occurrence of fraud and consider how the organisation manages fraud risk. CIPFA has issued a *Code of Practice on Managing the Risk of Fraud and Corruption*. While compliance with the code is voluntary, CIPFA strongly recommends that it is used as the basis for assessment of how an organisation manages its fraud risk. The Director of Internal Audit should be notified of all suspected or detected fraud, corruption or impropriety in order to inform the annual opinion and risk based plans. The Director of Internal Audit will liaise on a regular basis with the nominated Corporate Fraud Manager (CFM) for the organisation to identify any potential risk of fraud and ensure that any potential or actual frauds identified through internal audit activity are referred to the CFM for investigation.

The Director of Internal Audit will also liaise with the organisation's external auditors and other review bodies to facilitate the effective co-ordination of audit resources and assurances.

## 8 Standard 2200 – Engagement Planning

The Director of Internal Audit will establish a risk based Internal Audit Plan in conjunction with the client and with the agreement of the Audit Committee. The plan will set out the priorities for Internal Audit activity, consistent with the organisation's goals and objectives.

Internal auditors will develop and document a terms of reference for each engagement, including the engagement's objectives, scope, timing and resource allocations, based on an evaluation of the nature and complexity of each engagement, time constraints and available resources. A work

plan will be developed and documented that achieves the engagement objectives.

Internal audit will meet regularly with the external auditor to consult on audit plans and discuss matters of mutual interest.

## 9 Standard 2300 – Performing the Engagement

Internal audit will identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives. Internal auditors will base conclusions and engagement results on appropriate analyses and evaluations. Internal auditors will document relevant information to support the conclusions and engagement results.

Engagements will be properly supervised to ensure objectives are achieved, quality is assured and staff are developed.

## 10 Standard 2400 – Communicating Results

Internal auditors will communicate the engagement results with appropriate parties, including the engagement's objectives and scope, as well as applicable conclusions, recommendations and action plans.

Working with the organisation, the Director of Internal Audit will ensure that communications are accurate, objective, clear, concise, constructive, complete and timely.

The Director of internal Audit will deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement.

The annual internal audit opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report will incorporate;

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

## 11 Standard 2500 – Monitoring Progress

The Director of Internal Audit will establish and maintain a follow-up process to monitor that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. This will be operated to support the organisation in ensuring the implementation of actions, and reporting progress to the Audit Committee.

## 12 Standard 2600 – Communicating the Acceptance of Risks

When the Director of Internal Audit believes that senior management has accepted a level of residual risk that may be unacceptable to the organisation, the Director of Internal Audit will discuss the matter with senior management. If the decision regarding residual risk is not resolved, the Director of Internal Audit will report the matter to the Audit Committee for resolution.

### Code of Ethics

MIAA will operate within the definition of Internal Auditing and ensure that the Code of Ethics (Institute of Internal Auditors, 2017) underpins the internal audit services provided to the organisation.

<b>INTEGRITY</b>	<b>OBJECTIVITY</b>
<ul style="list-style-type: none"> <li>• Honesty, diligence &amp; responsibility</li> <li>• Legal &amp; professional disclosure</li> <li>• Contribution to legitimate &amp; ethical objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Unbiased assessment</li> <li>• Relationships</li> <li>• Not subject to undue influence</li> <li>• Conflict of interest disclosure</li> </ul>
<b>CONFIDENTIALITY</b>	<b>COMPETENCY</b>
<ul style="list-style-type: none"> <li>• Prudence in use &amp; protection of information</li> <li>• Not use information for personal gain or contrary to legal requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Knowledge, skills and experience</li> <li>• Compliance with standards and professional practice</li> <li>• Continuous improvement</li> </ul>

## 13 Definitions

Board	The governing body of the organisation with overall responsibility for governance. For the local authority this role is performed by the Audit Committee and Full Council.
Chief Executive	Officer responsible and accountable for funds entrusted to the organisation.
Audit Committee	A sub-committee of the Full Council with overall responsibility for overseeing the establishment of an effective system of

	integrated governance, risk management and control across the organisation's activities.
Director of Internal Audit	Acts as the Chief Audit Executive as the independent corporate executive with overall responsibility for internal audit.
Senior Management	The overall lead director agreed by the organisation for each audit engagement.



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