



**LANCASTER  
CITY COUNCIL**

*Promoting City, Coast & Countryside*

# **LANCASTER CITY COUNCIL INTERNAL AUDIT CHARTER**

**APPROVED BY AUDIT COMMITTEE XX/XX/XX**

In this draft document, paragraphs that have been revised from the previous Audit Charter are *highlighted in italics*.

New paragraphs are highlighted in *italics and underlining*

PREPARED BY THE INTERNAL AUDIT MANAGER

**Revision History**

Date of this revision:

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**Distribution**

Name	Title

**Approvals**

Name	Date Approved	Link to Approval Minutes	Version
Audit Committee			

Draft

## INTERNAL AUDIT CHARTER

### Introduction

The main objectives of this Charter are to;

- Explain the role and objectives of Internal Audit in general terms;
- List the actual services provided by Internal Audit;
- Clarify the working relationship with senior officers, managers, staff and the Council's external auditors;
- Specify the operational responsibilities and standards applicable to Internal Audit; and
- Clarify the obligations of clients

### **Definition of Internal Audit**

*“Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.” – CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. (note – updated from the 2003 Code of Practice)*

### **Purpose of Internal Audit**

To help improve, and provide independent assurance as to, the effectiveness of the Council's operations.

### **Internal Audit's Strategic Aims and Objectives**

Internal Audit's strategic aims and objectives are set out in its Business and Strategic Plan 2007/08 to 2009/10 as follows:

- to raise the level and robustness of Internal Audit's assurance work, thereby improving the evidence made available to those charged with governance in reviewing the Council's systems of Internal Control and Corporate Governance;
- to make an effective and demonstrable contribution to the Council's improvement programme;
- to contribute to improving standards of internal control and governance within the authority and its key partnerships;
- to provide an efficient and effective support and consultancy function to meet the needs and demands of the authority; and
- to meet and exceed existing and emerging professional standards.

### **Annual Governance Statement**

*To comply with Regulation 4(2) of the Accounts and Audit (Amendment) (England) Regulations 2006, the Council must publish an annual governance statement which is to include the results of a review of the effectiveness of its governance framework and system of internal control.*

*The review of effectiveness is informed by the work of managers who have responsibility for the development and maintenance of the governance environment, the Internal Audit Manager's Annual Internal Audit Assurance Statement and the comments of external auditors, review agencies and inspectorates. To facilitate the Internal Audit Manager's statement all Internal Audit Reports will contain a specific opinion on the level of assurance that can be given on the system/arrangements reviewed. Internal Audit will assist in the identification of other potential assurance providers and will liaise with them, especially the Council's external auditors, in planning assurance activity.*

*The Annual Statement of Assurance will be approved by the Audit Committee and signed by the Leader of the Council and the Chief Executive.*

### **Risk Management and Internal Audit**

*It is the responsibility of Corporate Directors and Service Heads to establish systems of internal control and to effectively manage both strategic and operational risks relating to their Services. Under the Council's Risk Management Policy, Service Heads have primary responsibility for the day-to-day management of business risk to be underpinned by risk registers linked to the Performance Management Framework. A corporate assurance framework is to be established for the identification and monitoring of significant risks. Internal Audit will contribute to the development, updating and monitoring of the assurance framework which it will use to help identify changing priorities and emerging local and national issues which might warrant audit attention. The Internal Audit Plan will reflect significant business risks and assurance needs. In undertaking audit assignments, Internal Auditors will evaluate risk, provide assurance where possible and seek action to optimise levels of control and attain a reasonable level of assurance.*

### Scope of Internal Audit

The scope of Internal Audit allows for unrestricted coverage of the authority's activities and unrestricted access to all records, assets, documents, correspondence and control systems deemed necessary in the course of the audit. In addition, Internal Audit, through the Internal Audit Manager, where deemed necessary, will have unrestricted access to:

- the Chief Executive;
- elected Members and the Audit Committee;
- individual Directors and Service Heads; and
- all authority employees.

In pursuing its objectives, Internal Audit will:

- seek to direct audit resources to areas presenting the highest risk to the authority;
- review the effectiveness of operations in meeting the published and planned objectives of the Council;
- review the reliability and integrity of systems and procedures adopted to produce financial and operational information;
- review the effectiveness of systems in ensuring compliance with relevant policies, plans, laws and regulations;
- review the arrangements for safeguarding the Council's assets and interests;
- review and evaluate the economy, effectiveness, and efficiency with which resources are employed;
- conduct special reviews and investigations; and
- liaise with the Council's external auditors in order to maximise the effectiveness of audit activity.

### Audit Independence

A key determinant of the effectiveness of Internal Audit is that it is seen to be independent. To ensure this, Internal Audit will operate within a framework that allows:

- unrestricted access to senior management;
- reporting in its own name; and
- segregation from line operations.

Objectivity will be preserved by ensuring that all audit personnel are free from conflicts of interest and do not undertake any non-audit duties.

All Internal Audit activities will be carried out in accordance with the specific authorities provided by the Council's Financial Procedures.

### Location of Internal Audit

Internal audit is located within Financial Services, in accordance with the financial regulations, under the direction of the Head of Financial Services (the Council's s151 Officer).

### Internal Audit Responsibilities

The main areas of Internal Audit responsibility within the authority are to:

1. To report assurance opinions based on reviews appraising:
  - The effectiveness of arrangements to manage risk, maintain internal control and deliver high standards of governance;
  - The appropriateness and reliability of internal controls; and
  - The suitability and reliability of financial and performance management information.
2. Investigate frauds and irregularities.
3. Support and advise on the development of new policies, strategies, processes and systems.

In managing the Internal Audit function, the Internal Audit Manager is responsible for:

- *providing an Annual Assurance Statement to the Audit Committee based on the results of Internal Audit work and giving an opinion on the effectiveness of the Council's systems of internal control;*
- submitting an annual report to the Audit Committee detailing the performance of Internal Audit for the previous financial year;
- managing the internal audit function and determining the scope and methods of audit activity;
- identifying areas of operation for internal audit review consistent with corporate and other service plans and objectives;
- developing an annual operational plan based on an assessment of materiality and risk and assurance needs;
- reviewing/revising the plan on a quarterly basis, identifying the resources needed to achieve it;
- submitting reports to the Audit Committee on the development, monitoring and review of the annual plan and operational plans;
- ensuring that Internal Audit work is effectively planned, controlled and recorded and is undertaken with due professional care;
- reporting to management on the results of audit activities and agreeing actions for improvements where necessary;
- *providing quarterly updates of assurance opinions issued in audit reports where necessary to the Performance Management Group;*
- reviewing the progress by management to implement the agreed actions for improvements;
- performing audit reviews in collaboration with the Council's external auditors, and;
- maintaining a suitably skilled, qualified, and experienced internal audit service.

### Reporting Responsibilities

The Internal Audit Manager reports administratively and functionally to the Head of Financial Services as the Council's s151 Officer. S/he is also authorised to report directly to the Chief Executive and all levels of management as necessary.

The Internal Audit Manager will prepare and distribute to relevant managers and the Audit Committee a written report following the conclusion of each audit, *containing an assurance opinion and an agreed plan of action. Where the level of assurance provided is 'minimal' or 'limited' Internal Audit will seek quarterly updates from relevant managers to be reported to the Audit Committee/Performance Management Group.*

*Internal Audit will formally review progress with agreed actions following the agreed implementation date, update the assurance opinion as necessary and report to the Audit Committee.*

### Audit Resources

The Internal Audit staffing structure will comprise a mix of qualified, technician and trainee posts. *An Internal Audit Competency Framework is in place, which sets out the knowledge, skills and behaviour expected of the various positions within the section. As well as ensuring ongoing review of performance and development, the framework, in tandem with job descriptions, will inform the established Employee Development and Performance Appraisal process. The Section will seek to maintain professional focus taking advantage of suitable professional updates and developments.* Internal Audit staff will also contribute to regional Audit Group meetings as appropriate with a view to participating in the development and sharing of best practice. *Any shortages of particular skills to accommodate specific pieces of audit work will be addressed in considering the source and nature of bought-in resources. Alternative delivery options will be considered, including collaboration with other Local Authorities and services provided by consultancy bodies.*

### Client Liaison and Reporting

*The Internal Audit Plan will be developed through consultation with Service managers and the Corporate Management Team and liaison with other review bodies, especially the Council's external auditor.*

In addition to consultation on audit plans, Service Heads will also be consulted at the start of all audit assignments. The audit plan and schedule of work will be posted on the Intranet and *wherever practical work will be scheduled to fit around the workloads of auditees.*

## Appendix A

All substantive audit assignments will be the subject of formal reports. All reports will be drawn up in consultation with auditees and agreed for factual accuracy. Findings will be discussed with a view to agreeing actions for improvement as appropriate. Any unresolved issues will be reported as such together with the reasons why an agreed action cannot be formulated.

Once agreed final reports will be issued to relevant managers, Directors, the Head of Financial Services and the Audit Committee. A copy is sent to the Council's external auditors and a copy of the report will be posted on the Intranet.

To assist Audit Committee in reviewing progress and ensuring management take appropriate action to implement the agreed actions Internal Audit will seek quarterly updates from service managers where the assurance opinion given is 'minimal' or 'limited'. Internal Audit will also formally follow up the implementation of agreed actions and update their assurance opinion following the agreed implementation date.

**Performance Management and Quality Control** (note – replaces section titled “quality Control”)

All aspects of the Internal Audit service are assessed directly by the Council's external auditors as part of a three-yearly detailed review based on the Audit Commission's Code of Practice. The most recent review was undertaken during the 2005/06 audit and reported to Audit Committee on 20 September 2006. A similar review is to be undertaken by the Council's newly appointed auditors, KPMG for the 2007/08 audit year. During years when a detailed review is not scheduled, the external auditor undertakes an overview of Internal Audit and comments on the extent to which he is able to rely on Internal Audit's work. This will be supplemented by an internal self-assessment against the Code of Practice.

Additionally, the effectiveness of Internal Audit and particularly its relationship with the Council's Audit Committee is reviewed in the annual “Use of Resources” Key Line of Enquiry (KLOE) regarding Internal Control.

Internal Audit Feedback questionnaires will be issued following each audit report to enable managers to give feedback on the audit assignment in order to facilitate continuous improvement of internal audit work. Every quarter the Internal Audit Manager will review the responses to the satisfaction surveys and take action as appropriate. Outcomes from satisfaction surveys will be reported to Audit Committee.



### Relationship with External Audit

To ensure proper co-ordination of the authority's overall audit arrangements, the Internal Audit Service will, in conjunction with the authority's external auditor, produce a protocol for liaison and joint working and keep it under review.

The protocol will contain provisions enabling the Internal Audit Service to follow up external audit reports and recommendations.

### Client Obligations

Service charters not only require the obligations and responsibilities of the service provider to be clear, but also those of the client. Effective service delivery is a two-way process. In the Internal Audit and Risk Management context this is particularly important as Service Heads and managers need to understand what their role is in relation to internal control and the management of risk. In specific terms, this involves:

- identifying, evaluating and managing business (including financial) risks on a day-to-day basis in accordance with the Council's Risk Management Policy;
- informing Internal Audit of proposed new systems to enable involvement from the outset, the scope of involvement to be mutually agreed;
- identifying specific risk areas for potential review by Internal Audit;
- discussing 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;
- agreeing with the Lead Auditor the plan for the review including timescales, communication lines and expectations, in-line with Corporate policy;
- providing constructive input and adequate resources to complete the review within the agreed timescale;
- responding to audit requests and documentation on a timely basis ensuring that accurate, up-to-date information is made available to auditors as required;
- evaluating and taking ownership of agreed actions, taking account of risk and cost-effectiveness, and;
- implementing agreed actions in line with agreed timescales.