

LGSS INTERNAL AUDIT CHARTER

1 INTRODUCTION

- 1.1 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'. The Accounts and Audit Regulations 2011, regulation 6, more specifically require that a 'relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices' in relation to internal control. The provision of Internal Audit is the responsibility of each local authority.
- 1.2 This charter defines the purpose, authority and responsibility of the LGSS Internal Audit and Risk Management (LGSS IARM) Service and is consistent with the Public Sector Internal Audit Standards (2013), which are mandatory.

2 APPROVAL OF CHARTER

The Public Sector Internal Audit Standards (2013) refer to the term 'board' and in this charter that means the 'Audit Committee'. The term 'senior management' in this charter means the 'Chief Executives and the directors or executive directors' of the organisations. This charter is reviewed periodically and approved by senior management and the relevant Audit Committees.

3 DEFINITION OF INTERNAL AUDITING AND OBJECTIVES OF LGSS IARM

- 3.1 The definition of Internal Auditing is a mandatory part of the Public Sector Internal Audit Standards (2013) and is as follows:

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.

In the case of LGSS IARM, assurance is given to the partner organisations.

In addition, the other objectives of the function are to:

- support the Section 151 Officers to discharge duties as Statutory Officers of the Councils;
- provide appropriate input to the Annual Governance Statements or other assurance processes of the Councils;

- support management to understand their exposure to risks and advise on risk management principles/methods;
- investigate possible cases of fraud or corruption or other irregularity in accordance with the Councils' Anti-Fraud and Corruption Strategies;
- undertake consultancy type reviews as requested by senior management of the Councils.

3.2 LGSS IARM activity evaluates the adequacy and effectiveness of controls in responding to risks within the organisations' governance and operations systems regarding the:

- achievement of the organisations' strategic objectives;
- reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations and programmes;
- safeguarding of assets; and
- compliance with laws, regulations, policies, procedures and contracts.

3.3 Internal auditors will incorporate knowledge of controls gained from consulting engagements into evaluation of the organisations' control processes.

4 SCOPE OF INTERNAL AUDIT

4.1 LGSS IARM's role applies to all functions and services for which the Councils are responsible. LGSS IARM has unrestricted coverage of the Councils' activities and unrestricted access to all records and assets which is necessary for LGSS IARM to effectively fulfil its responsibilities, however and wherever these are held. This includes Council information which is held or managed by third parties on the Council's behalf. In addition LGSS IARM provides an internal audit function to various external organisations.

4.2 The Head of LGSS IARM has direct access, as appropriate, to:

- the LGSS Director of Law, Property and Governance;
- the LGSS Director of Finance;
- all levels of management, including the Chief Executives, the Monitoring Officers and the Section 151 officers;
- all elected members, including the Leaders and the Chairs of the Councils;
- employees of the Councils;
- agents of the Councils;
- external auditors.

4.3 The Head of LGSS IARM reports directly to the Audit Committees.

4.4 LGSS IARM is required (by the Public Sector Internal Audit Standards (2013)) to be sufficiently independent of the activities it audits such that it can make impartial and effective professional judgements and recommendations. Independence in the Councils is achieved through the organisational status of LGSS IARM, the objectivity of internal auditors and LGSS IARM's freedom to report directly to the Audit Committees. Should the independence or objectivity of the Internal Audit function be impaired in fact or appearance, the Head of

Internal Audit will disclose details of the impairment to the Chief Finance Officer (S.151 Officer) and / or the Chair of the Audit Committee depending upon the nature of the impairment.

4.5 The internal audit activity evaluates and contributes to the improvement of governance, risk management and control processes using a systematic and disciplined approach. LGSS IARM assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- promoting appropriate ethics and values within the organisations;
- ensuring effective organisational performance management and accountability;
- communicating risk and control information to appropriate areas of the organisations; and
- coordinating the activities of and communicating information among the Audit Committees, external and internal audit and management.

4.6 The internal audit activity evaluates the design, implementation and effectiveness of the organisations' ethics-related objectives, programmes and activities. It also assesses whether the information technology governance of the organisations supports the organisations' strategies and objectives.

4.7 The internal audit activity also evaluates the potential for the occurrence of fraud and how the organisations manage fraud risk.

5. INTERNAL AUDIT AND RISK MANAGEMENT STAFFING

5.1 The Head of LGSS IARM will be professionally qualified (CMIIA, CCAB or equivalent) and will be suitably experienced.

5.2 The LGSS Managing Director will review the performance appraisal of the Head of LGSS IARM and feedback will also be sought from the chairs of the Audit Committees.

5.3 The Head of LGSS IARM ensures that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plans.

5.4 LGSS IARM will be appropriately staffed in terms of number, grade, qualification levels and experience to enable the Councils' audit plans to be delivered effectively. This will be achieved through the recruitment of staff suitably skilled and experienced for the post appointed to and through the Council's performance appraisal and development programme.

5.5 Internal auditors will possess the knowledge, skills and other competencies needed to perform their individual responsibilities. Internal auditors will enhance their knowledge, skills and other competencies through continuing professional development. The Head of LGSS IARM will obtain competent advice and assistance if the internal auditors lack the knowledge, skills or other competencies needed to perform all or part of an engagement.

- 5.6 Internal auditors will have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but will not all have the expertise of a person whose primary responsibility is detecting and investigating fraud. There will be a specific fraud and investigation internal audit team within LGSS IARM.
- 5.7 Internal auditors will have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.
- 5.8 The Head of LGSS IARM will decline a consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills or other competencies needed to perform all or part of the engagement.
- 5.9 Internal auditors will apply the care and skill expected of a reasonably prudent and competent internal auditor.
- 5.10 The Head of IARM ensures that resources are sufficient by matching the staffing levels to the requirements of the approved plans.
- 5.11 LGSS IARM is not responsible for services outside of the delivery of Internal Audit. Where staff transfer internally to Internal Audit the Head of Internal Audit will ensure they do not audit activities they were previously responsible for, for at least 18 months. This includes transfers after periods of secondment whilst undertaking professional training.
- 5.12 Assurance engagements for functions over which the Head of LGSS IARM has responsibility will be overseen by a party outside the internal audit activity.

6 RESPONSIBILITIES OF MANAGEMENT

- 6.1 All levels of management have a role to identify key risks to their service and to ensure these risks are effectively mitigated to an adequate degree in accordance with the councils' stated risk appetites. Management is also responsible for ensuring that staff are aware of the processes and procedures required to operate the internal control systems.
- 6.2 All managers can assist the process of internal audit by:
- providing access at all reasonable times to premises, personnel, documents and assets that the internal auditors consider necessary for the purposes of their work;
 - giving information and explanations that are sought by the internal auditors in the course of their work;
 - providing input to both the audit plans and the Terms of Reference for each review, to ensure attention is focused on areas of greatest risk;

- early notification of LGSS IARM of plans for change, including new operational systems and processes;
- implementing agreed actions arising from audit recommendations in a timely and effective manner;
- notifying suspicions of fraud, theft, or other irregularity, in accordance with the Councils' Anti-fraud and Corruption Strategies. Pending investigation and reporting, the relevant Director should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration;
- ensuring that where key systems are managed by an external organisation that contractual documentation identifies, in consultation with the Head of LGSS IARM, the internal audit arrangements for those key systems.

6.3 When the Head of LGSS IARM concludes that management has accepted a level of risk that may be unacceptable to the organisation, the Head of LGSS IARM will discuss the matter with senior management. If the Head of LGSS IARM determines that the matter has not been resolved, the Head of LGSS IARM will communicate the matter to the Audit Committee. It is not the responsibility of the Head of LGSS IARM to resolve the risk.

7 AUDIT SERVICES & CONTEXT

7.1 The Head of LGSS IARM is required to manage the provision of a complete audit service to the Authorities. This includes:

- preparing annual plans, including resource requirements, in consultation with senior management, for review and approval by senior management and the relevant Audit Committee. These plans will be prepared using a risk based approach, aligned to Council risk registers, taking account of the risk maturity of the organisation and the assurance framework. They will include a documented risk assessment and will explain the approach to using any other sources of assurance and any work required to place reliance upon those other sources. The risk-based plans will incorporate or be linked to a strategic or high level statement of how the internal audit service will be delivered in accordance with this charter and how it links to the organisational objectives and priorities. The plan will also explain how LGSS IARM's resource requirements have been assessed;
- where the Head of LGSS IARM believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences will be brought to the attention of the relevant Audit Committee;
- providing suitably skilled and experienced staff to undertake internal audit reviews;
- working in conjunction with the authorities' external auditors under the concept of the "managed audit", whereby external audit places reliance on the work of LGSS IARM;
- undertaking internal audit reviews, including Value for Money reviews, in accordance with the approved Annual Plans and the Internal Audit Manual;
- agreeing any amendments to the Annual Plan, in response to the Councils' business needs, with senior management. Any such amendments will be reported to the relevant Audit Committee;

- considering accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisations' operations ('Consulting Services' can be defined as 'the provision of audit advice and guidance provided outside of normal planned audit / assurance activity'). Accepted engagements will be included in the plan;
- seeking approval from the relevant Audit Committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement;
- assessing all requests for non-audit activity particularly where this activity may introduce a conflict of interest or impair independence. Where it is assessed that the non-audit activity does provide a potential conflict the activity will not be performed unless appropriate mitigation activities are put in place to minimise the potential impact of the conflict;
- providing an audit opinion on each individual review undertaken for each Council together with an annual audit opinion on the adequacy of the internal control framework operating within the Councils;
- responding to requests for support, advice and guidance on implementing and/or improving control procedures for current and new systems.

7.2 The Audit Committees will make appropriate enquiries of management and the Head of LGSS IARM to determine whether there are inappropriate scope or resource limitations.

7.3 The Head of LGSS IARM will also provide an audit opinion on each individual review undertaken for external clients together with an annual audit opinion on the adequacy of the internal control framework operating within those external organisations.

7.4 The LGSS IARM Service will be provided by an in house service.

8 RISK MANAGEMENT

8.1 The LGSS IARM team evaluate the effectiveness and contribute to the improvement of risk management processes through the internal auditor's assessment of the extent to which:

- organisational objectives support and align with each organisation's mission;
- significant risks are identified and assessed, including the risk of fraud;
- appropriate risk responses are selected that align risks with the organisations' risk appetite; and
- relevant risk information is captured and communicated in a timely manner across the organisations, enabling staff, management, Cabinet and the Audit Committees to carry out their responsibilities.

8.2 The internal audit activity will evaluate risk exposures relating to the organisations' governance and operations systems regarding the:

- achievement of the organisations' strategic objectives;
- reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations and programmes;

- safeguarding of assets; and
- compliance with laws, regulations, policies, procedures and contracts.

8.3 During consulting engagements, internal auditors will address risk consistent with the engagement's objectives and will be alert to the existence of other significant risks. Internal auditors will incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisations' risk management processes.

8.4 When assisting management in establishing or improving risk management processes, internal auditors do not assume any management responsibility by actually managing risks.

9 AUDIT REPORTING FRAMEWORK

9.1 All LGSS IARM activity is undertaken to assist management fulfil their objectives of delivering services and contributing to the overall objectives of the Council. Outputs from LGSS IARM work range from informal advice to formal written reports. The LGSS IARM reporting process allows auditee management to have the opportunity to agree the factual accuracy of report content and to discuss the action plan. Final reports are issued to auditee management which include the engagement's objectives and scope, applicable conclusions and identify agreed actions showing responsibilities and implementation dates.

9.2 Final reports also include an opinion regarding the level of assurance that can be given for the control environment of the system or unit being audited.

9.3 Final reports issued to parties outside the organisations include limitations on distribution and use of the results.

9.4 In addition to meetings about individual pieces of work, regular liaison meetings are held with each director (or executive director) or their nominee to discuss at a summary level, any issues or themes arising and to agree the timing and content of planned work.

9.5 Outstanding recommendations are followed up every quarter and the results of this follow up process, including whether senior management has accepted the risk of not taking action, are reported to the Audit Committees.

9.6 LGSS IARM report to the Audit Committees in accordance with the reporting timetable agreed with the Committees. This includes three quarterly progress reports and an annual audit report which incorporates the following:

- an annual audit opinion;
- a summary of the work that supports the opinion;
- a statement on conformance with the UK Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme (see 10.6 below).

9.7 The annual audit opinion and report will be used to inform the annual governance statement.

9.8 In addition, the Head of LGSS IARM will provide a report annually to senior management and the Audit Committees outlining the contents and any updates to the Internal Audit Charter, including the Definition of Internal Auditing, the Code of Ethics and the Standards.

10 QUALITY OF SERVICE

10.1 The LGSS IARM Section operates in accordance with the Public Sector Internal Audit Standards. These include specific reference to the Code of Ethics which internal auditors in UK public sector organisations must conform to. This Code of Ethics includes the following principles: Integrity, Objectivity, Confidentiality and Competency. Breaches of the Code of Ethics will be evaluated and administered according to the Institute of Internal Auditors' Disciplinary Procedures. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of the Code of Ethics. If individual internal auditors have membership of a professional body then he or she must also comply with the relevant requirements of that organisation.

10.2 Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest. They must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life. Adherence to expected standards will be subject to management overview through actions 10.3 and 10.4 below.

10.3 Internal review of work standards is undertaken through a system of management review involving senior audit staff and the Head of LGSS IARM. This incorporates review of all audit documentation and reports prior to release to the relevant auditee manager. Appropriate evidence of review is documented and retained. The Head of LGSS IARM is responsible for reviewing and approving the final audit report before it is issued and for deciding to whom and how it will be disseminated. If these duties are delegated, the Head of LGSS IARM retains overall responsibility.

10.4 If not otherwise mandated by legal, statutory or regulatory requirements, prior to releasing results to parties outside the organisation, the Head of LGSS IARM will:

- assess the potential risk to the organisation;
- consult with senior management and / or legal counsel as appropriate; and
- control dissemination by restricting the use of the results.

10.5 The Head of LGSS IARM is responsible for communicating the final results of consulting engagements to clients. During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organisation, they will be communicated to senior management and the relevant Audit Committee.

10.6 Quality questionnaires are issued to auditees at the end of each audit review. Completed questionnaires are recorded and monitored against LGSS IARM's Performance Indicator for Customer Satisfaction. Regular liaison meetings are also held with senior management across the Councils to discuss quality issues.

- 10.7 A suite of performance indicators and targets has been developed to monitor the quality of the service provided. These indicators are subject to review by the Audit Committees within the Councils' performance management processes.
- 10.8 A quality assurance and improvement programme has been developed by the Head of LGSS IARM, which includes both internal and external assessments and covers all aspects of the internal audit activity. Internal auditors can report that their engagements are "conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*", only if the results of the quality assurance and improvement programme support the statement.
- 10.9 Periodic self-assessments are conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. Any areas of non-compliance are reported to the Audit Committee.
- 10.10 External review of the work of LGSS IARM takes place through the following mechanisms:
- the Councils' External Auditors who keep the performance of LGSS IARM under continuous review to enable reliance to be placed on its work as part of the statutory external audit of the Council's accounts;
 - the use of benchmarking to compare performance with other County Councils across the country;
 - external assessment of LGSS IARM will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Head of LGSS IARM will agree the scope of external assessments with an appropriate sponsor, e.g. the Section 151 Officer or chair of the Audit Committee as well as with the external assessor or assessment team. The external assessment may be in the form of a full external assessment, or a self-assessment with independent external validation.
- 10.11 The results of the quality assurance and improvement programme are reported by the Head of LGSS IARM to senior management and the Audit Committees in the annual report.

11 STRUCTURE AND LOCATION

- 11.1 The LGSS IARM Service is within the LGSS Law, Property and Governance directorate and is located at John Dryden House, Northampton; Shire Hall, Cambridge and City Hall, Norwich. LGSS IARM reports to the LGSS Director of Law, Property and Governance.