

# Internal Audit Charter 2021

## Our Mission

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

The Council expects the internal audit service to achieve the mission statement through its overall delivery arrangements – this Charter sets out how this is done.

# Internal Audit Charter

## Purpose of this Charter

This Charter formally defines Internal Audit's purpose, authority and responsibility. It establishes Internal Audit's position within the Council and defines the scope of Internal Audit activities.

## Internal Audit's Purpose

Internal Audit provides an independent, objective assurance and consulting activity that is designed to add value and improve the organisation's operations. It helps the 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 also provides the Audit & Accounts Committee with information necessary for it to fulfil its own responsibilities and duties.

Implicit in Internal Audit's role is that it supports the organisation's management to fulfil its own risk, control and compliance responsibilities.

*\* This is also the "definition" of internal auditing.*

## Internal Audit's Authority

There is a statutory requirement for the Council to have an internal audit of its governance, risk and control processes. The [Accounts and Audit Regulations 2015](#), more specifically require that the audit takes into account the [Public Sector Internal Audit Standards \(The Standards\)](#) or guidance which are mandatory.

These Standards set the basic principles for carrying out internal audit in the public sector and provide criteria against which quality and performance can be evaluated. The Chartered Institute of Public Finance (CIPFA) have also developed an [application note](#) for the Standards – which sets out the proper practice for Internal Audit in local government.

Internal Audit derives its authority from these, from this Charter and from the Council's Constitution, specifically the Financial Procedure Rules

The Head of Internal Audit is the "Chief Audit Executive (CAE)". The CAE and internal audit staff are authorised to:

- Have unrestricted access to all the organisation's records, property, and personnel, management and elected members relevant to the performance of its engagements. Including those relevant to services provided in partnership or under contract with external organisations.
- Receive information and explanations that are sought in the course of audit work
- Obtain the necessary assistance of the organisation's personnel in relevant engagements, as well as other specialised services from within or outside the organisation.

Internal Audit has no authority or management responsibility for any of its engagement subjects.

Internal Audit (and its auditors) will not make any management decisions or engage in any activity which could reasonably be construed to compromise its independence. Auditors are free from operational system involvement or influence.



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## Internal Audit's Responsibility

The CAE is responsible for all aspects of Internal Audit activity, including strategy, planning, performance, quality and reporting.

For each Authority, the CAE will:

### Strategy

- Develop and maintain an Internal Audit Strategy.
- Review the Internal Audit Strategy at least annually with management and Audit & Accounts Committee.

### Planning

- Develop and maintain a risk based Internal Audit Plan
- Engage with Management and consider the organisation's strategic and operational objectives and related risks in the development of the Internal Audit Plan.
- Review the Internal Audit Plan periodically with management to reflect changes in the risk environment and these changes are approved when significant.
- Present the Internal Audit Plan, including updates, to the Audit & Accounts Committee for periodic review and approval.
- Agree an Internal Audit Budget sufficient to fulfil the requirements of this Charter, the Internal Audit Strategy, and the Internal Audit Plan.

- The Internal Audit budget is reported to the Full Council for approval annually as part of the overall Council's budget. The CAE will draw to the attention of the Chief Executive, Section 151 officer and the Audit & Accounts Committee any resourcing issues that potentially impact on the effectiveness of the Internal Audit function.
- Coordinate with and (where relevant) provide oversight of other control, monitoring and assurance functions, including Risk Management, external audit.
- Consider the scope of work of the external auditors (and other assurance providers) for the purpose of providing optimal audit coverage to the organisation.

The CAE should be consulted about significant proposed changes to the internal control system and the implementation of new systems - providing advice on the standards of controls to be applied. This need not prejudice the audit objectivity when reviewing systems at a later date.

In developing the Internal Audit Plan we also take account of the Council's assurance framework – using the Three Lines of Assurance (see below) which is obtained through our Combined Assurance work.

# Internal Audit Charter

How do we assure ourselves about how the council is run?

**Management**  
Accountable for delivery

**Corporate and third party**  
External inspections and internal assurance functions

**Internal audit**  
Independent assurance



Speaking to senior and operational managers who have the day to day responsibility for managing and controlling their service activities.

Working with corporate functions and using other third party inspections to provide information on performance, successful delivery and organisational learning.

Using the outcome of internal audit work to provide independent insight and assurance opinions.

Considering other information and business intelligence that feed into and has potential to impact on assurance

## Performance

- Implement and deliver the risk based Internal Audit Plan
- Maintain professional resources with sufficient knowledge, skills and experience to meet the requirements of this Charter, the Internal Audit Strategy and the Internal Audit Plan.
- Allocate and manage resources to accomplish Internal Audit engagement objectives.
- Establish and maintain appropriate internal auditing procedures incorporating best practice approaches and techniques.
- Monitor delivery of the Internal Audit Plan using appropriate performance indicators.
- Hold regular senior management / statutory officer liaison meetings.

## Quality

- Establish a Quality Assurance Framework to:
  - ✓ Provide a system for monitoring and evaluating our effectiveness and conformance with the **Standards**.
  - ✓ Ensure continuous improvement within the Internal Audit service.
  - ✓ Ensure compliance with professional Standards, Code of Ethics and Council Codes of Conduct.
  - ✓ Meet client expectations / demonstrate our importance to the business.
  - ✓ Facilitate the CAE's statement on conformance with the International Standards for the Professional Practice of Internal Auditing.

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- Undertake annual assessment of the service and its compliance with the UK Public Sector Internal Audit Standards (the **Standards**) – with this assessment being undertaken through an external assessment at least every five years by a suitably qualified, independent assessor.
- Obtain regular feedback on the quality and impact of our work (added value).

The **Standards** are principles-focused and consist of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance. The ten **Core Principles** set out what we must do to be considered effective – all principles must be present and operating effectively to achieve our mission, they are:-

- 1 Demonstrating integrity.
- 2 Demonstrating competence and due professional care.
- 3 Being objective and free from undue influence (independent).
- 4 Aligns with the strategies, objectives and risks of the organisation.
- 5 To be appropriately positioned and adequately resourced.
- 6 Demonstrating quality and continuous improvement.
- 7 Communicating effectively.
- 8 Providing risk based assurance.
- 9 Being insightful, proactive and future focused.
- 10 Promoting organisational improvement

## Reporting

- Issue a report to management at the conclusion of each engagement to confirm the results of the engagement and the timetable for the completion of agreed management actions to be taken.

- Provide periodic reports to management and the Audit & Accounts Committee summarising Internal Audit activities and the results of Internal Audit Engagements.
- Provide periodic reports to management and the Audit & Accounts Committee on the status of agreed management actions taken in response to Internal Audit Engagements.
- Report annually to the Audit & Accounts Committee and management on Internal Audit performance against goals and objectives including an annual assurance opinion on governance, risk and control. This will also help inform the Council's Annual Governance statement.
- Report as needed to the Audit & Accounts Committee on management, resource, or budgetary impediments to the fulfilment of this Charter, the Internal Audit Strategy, or the Internal Audit Plan.
- Inform the Audit & Accounts Committee of emerging trends and practices in internal auditing.
- Provide results of the annual review on the effectiveness of internal audit (including outcomes of its Quality Assurance and Improvement programme to both the Management and the Audit & Accounts Committee. This will include a statement on organisational independence of Internal Audit and conformance with the Code of Ethics. Any significant non-conformance must be included in the Annual Governance Statement.
- The CAE will meet informally in private with members of the Audit & Accounts Committee or the Committee as a whole as required.
- Report as necessary any significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit & Accounts Committee or any response to risk by management that may be unacceptable to the organisation.

# Internal Audit Charter

## Internal Audit's Scope

The scope of Internal Audit activities includes all activities conducted by the organisation - the entire control environment including those services provided in partnership or under contract with external organisations. There are no restrictions.

The Internal Audit Plan identifies those activities that have been identified as the subject of specific Internal Audit engagements.

**Assurance engagements** involve the objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system or other subject matter. The nature and scope of the assurance engagement are **determined by Internal Audit**.

**Consulting engagements** are advisory in nature and are generally performed at the **specific request of management**. The nature and scope of consulting engagement are subject **to agreement with management** and should assist management in meeting the objectives of the organisation without undermining the key principles of independence and objectivity. Internal Audit should not assume management responsibility.

The CAE will assist with the implementation of the Council's counter fraud policy/strategy and the investigation of fraud and irregularities in line with policy/strategy and the constitution. The CAE must be notified of all suspected or detected fraud, corruption or impropriety

Consultancy engagements should only be performed where resources and skills exist and should focus on governance, risk and control – supporting the CAE's annual opinion. They **should not** replace assurance engagements.

The CAE cannot give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control within their area of accountability. They should ensure that appropriate and adequate risk management, control systems, accounting records, financial processes and governance arrangements exist (the control environment), without depending on internal audit activity to identify weaknesses or control failures.

## Independence and Internal Audit's Position within the organisation

To provide for Internal Audit's independence, the CAE reports directly to the Audit and Accounts Committee (The Board) and the Senior Leadership Team and the Chief Executive.

Internal Audit also supports the Chief Finance Officer, Monitoring Officer and the Head of Paid Service discharge statutory responsibilities including those responsibilities set out in the Constitution.

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The CAE has free and full access to the Chair of the Audit & Accounts Committee.

The CAE is employed by Lincolnshire County Council. The appointment or removal of the CAE will be performed in accordance with established procedures.

Internal Audit service will have an impartial, unbiased attitude and will avoid conflicts of interest.

If the independence or objectivity of the Internal Audit Service is impaired, details of the impairment should be disclosed to either the Section 151 Officer (currently Director of Resources & Deputy Chief Executive), or the Chair of the Audit & Accounts Committee, or both dependent upon the nature of the impairment.

The Internal Audit Service is not authorised to perform any operational duties for the organisation; initiate or approve accounting transactions external to the Internal Audit Service; or direct the activities of any organisation employee not employed by the Internal Auditing Service, except to the extent such employees have been appropriately assigned to Service or to otherwise assist the Internal Auditor.

Constructive working relationships make it more likely that internal audit work will be accepted and acted upon – although the internal auditor does not allow their objectivity or impartiality to be impaired.

## Audit & Accounts Committee

The Audit & Accounts Committee is a key component of the Council's governance framework providing an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. It provides independent assurance to the Council members of the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

For the purposes of the UK Public Sector Internal Audit Standards the Audit & Accounts Committee performs the role of the 'Board'. The Audit & Accounts Committee complies with CIPFA's best practice standards through their terms of reference and work programme.

The Audit & Accounts Committee will:

- Approve the Internal Audit Charter.
- Approve the risk-based internal audit plan.
- Receive reports from the CAE on internal audit activity's performance relative to its plan and other matters.

# Internal Audit Charter

## Standards of Internal Audit Practice

Internal Audit will perform its work in accordance with the International Professional Practices Framework of the Chartered Institute of Internal Auditors, and further guided by interpretation provided by the Public Sector Internal Audit Standards (the **Standards**), the CIPFA Local Government Application note and the CIPFA publication on the "Role of the CAE". This Charter is a fundamental requirement of the Framework.

## External Work

Assurance Lincolnshire provides internal audit services to a number of public sector external clients.

The nature and extent of work for external clients is kept under review to ensure:

- a) It does not impinge on the audit work carried out for the Council, and;
- b) There is no conflict of interest or impairment of independence arising from this work.

## Approval and Validity of this Charter

This charter shall be reviewed and resubmitted periodically. In particular, should there be any changes to Internal Audit arrangements or to the Public Sector Internal Audit Standards. Approval will be sought by Senior Management and by the Audit & Accounts Committee as the Board of the organisation and Council.

