

Appendix 2

Report Title: South Lakeland District Council – Internal Audit Annual Plan 2016-17

Purpose of this Appendix: This Charter should be approved by the Audit Committee alongside the annual Audit Plan.

INTERNAL AUDIT CHARTER

1. Introduction

- 1.1 This Charter describes the purpose, authority, responsibilities and objectives of internal audit. It establishes Internal Audit's position within South Lakeland District Council and the nature of the Audit Director's functional reporting relationships with the Audit Committee.
- 1.2 The Charter also provides for Internal Audit's rights of access to records, personnel and physical properties relevant to audit engagements.
- 1.3 TIAA Limited is required to conform to the mandatory Public Sector Internal Audit Standards (PSIAS). These standards comprise a Definition of Internal Auditing, a Code of Ethics and the Standards by which internal audit work must be conducted. Any instances of non-conformance with the PSIAS must be reported to the Audit Committee and significant deviations must be considered for inclusion within Annual Governance Statement and may impact on the external auditor's value for money conclusion.
- 1.4 An Audit Charter is one of the key requirements of the PSIAS. As such, failure to approve an Audit Charter may be considered to be a significant deviation from the requirements of the Standards.
- 1.5 The Charter must be presented to the Council's senior management and final approval of the Audit Charter rests with the Audit Committee. This will be done alongside the approval of the annual audit plan.
- 1.6 The Public Sector Internal Audit Standards use the terms 'board' and 'senior management' and require that the Audit Charter defines these terms for the purpose of the internal audit activity. For TIAA Limited, senior management refers to the respective client lead officer and the 'board' is the Audit Committee which is charged with responsibility for governance.

2. The Role of Internal Audit

- 2.1 Internal Audit is an independent, objective assurance and consulting service designed to add value and improve the Council's operations. Internal Audit helps the Council to accomplish its objectives by bringing a systematic,

disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

2.2 The services provided by Internal Audit are designed to assist the Council to continually improve the effectiveness of their respective risk management, control and governance frameworks and processes and to allow an independent, annual opinion to be provided on the adequacy and effectiveness of these arrangements.

2.3 Internal Audit activities in support of this include:

- Planning and undertaking an annual programme of risk-based internal audit reviews focusing on risk management, internal control and governance.
- Review of arrangements for preventing, detecting and dealing with fraud and corruption.
- Review of overall arrangements for risk management and corporate governance.
- Review of grant funded expenditure where assurance is required by funding bodies or where risks are considered to be high.
- Provision of advice on risk and control related matters.
- Consultancy services which may include hot assurance on projects or service and system development.
- Investigation of suspected fraud or irregularity or provision of advice and support to management in undertaking an investigation.
- Advice on strengthening controls following such an incident.

3. Purpose, Authority, Responsibility and Objectives

Purpose

3.1 Internal audit is described by the Chartered Institute of Internal Auditors as a key component of corporate governance. When properly resourced, positioned and targeted, internal auditors act as invaluable eyes and ears for Senior Management and the Audit Committee inside the Council, giving an unbiased and objective view on what's happening in the organisation.

3.2 Internal Audit's core purpose is to provide Senior Management and Elected Members with independent, objective assurance that their respective organisations have adequate and effective systems of risk management, internal control and governance.

3.3 By undertaking an annual risk assessment for each organisation within the shared service, and using this to prepare annual risk-based audit plans, Internal Audit is able to target resources at the areas identified as highest risk to each organisation. This then allows Internal Audit to give an annual

overall opinion on the organisation's systems of risk management, internal control and governance.

- 3.4 The annual report and opinion is a mandatory requirement and is a key contributor to the Annual Governance Statement which accompanies the annual statement of accounts. The Governance Statement provides assurance to the Audit Committee that an effective internal control framework is in place.
- 3.5 Internal Audit supports the Section 151 Officer to discharge their responsibilities under section 151 of the Local Government Act 1972, the Accounts and Audit Regulations 2011 and the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. This Statement places on the Chief Financial Officer, the responsibility for ensuring that the authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.
- 3.6 Internal Audit supports the Head of Paid Service (Chief Executive) in providing high level assurances relating to the Council's Governance arrangements.
- 3.7 Internal Audit also supports the Monitoring Officer in discharging his/her responsibilities for maintaining high standards of governance, conduct and ethical behaviour.

Authority

- 3.8 This charter provides the authority for Internal Audit's right of access to all activities, premises, records, personnel, cash and stores as deemed necessary to undertake agreed internal audit assignments. In approving this charter, Senior Management and Members of the Audit Committee have approved this right of access and therefore the responsibility of all officers to comply with any reasonable request from TIAA Limited.
- 3.9 This charter delegates to the Head of Internal Audit, the responsibility to undertake an annual risk assessment for each organisation in consultation with the Council's management, and from this, prepare a risk-based plan of audit work for approval by the Audit Committee.
- 3.10 Internal audit shall have the authority to undertake audit work as necessary within agreed resources so as to achieve audit objectives. This will include determining the scope of individual assignments, selecting areas and transactions for testing and determining appropriate key contacts for interview during audit assignments.
- 3.11 The charter establishes that the Head of Internal Audit or nominated deputy has free and unfettered access to the Audit Committee and has the right to

request a meeting in private with the Chair of the Audit Committee should it become necessary.

Responsibilities and Objectives

- 3.12 Internal audit's primary objective is to undertake an annual programme of internal audit work that allows an annual opinion to be provided on the overall systems of risk management, internal control and governance for each participating organisation.
- 3.13 The Group Audit Manager/Audit Manager and their staff have responsibility for the following areas:

Planning

- Develop an annual internal audit plan using a risk based methodology, based on at least an annual assessment of risk and incorporating risks and concerns identified by senior management.
- Submit the annual audit plan to senior management and to Audit Committee for approval.
- Review agreed audit plans in light of new and emerging risks and report any necessary amendments to agreed plans to Audit Committee

Implementation

- Deliver the approved annual programme of internal audit work and report the outcomes in full to senior management (as agreed at the scoping stage of each engagement) and in summary to the Audit Committee. Where locally agreed, internal audit reports may also be reported in full to the Audit Committee.
- Assist, as required, in the investigation of significant suspected fraudulent activities within the Council and report the outcomes to senior management (S151 Officer, Monitoring Officer and other relevant directors).
- Monitor implementation of agreed audit recommendations through follow up process and report the outcomes to Senior Management and the Audit Committee.

Reporting

- Any significant issues arising during audit fieldwork will be discussed with management as they are identified.
- Draft audit reports will be produced on a timely basis following all audit reviews and these will be discussed with management prior to finalising, to

ensure the factual accuracy of the report and incorporate management responses.

- Quarterly progress reports will be prepared and discussed with management before being reported formally to the Audit Committee.
- Internal audit has a responsibility to report to the Audit Committee any areas where it is considered that management have accepted a level of risk that may be unacceptable to the organisation.
- Internal audit has a duty to bring to the attention of the Audit Committee where the Head of Internal Audit, or his/her nominated deputy Audit Manager, believes that the level of agreed resources will impact adversely on the provision of the annual audit opinion.

Relationships with other Inspectorates

- Internal Audit will maintain effective relationships with other providers of assurance and external inspectorates in order to avoid duplication of effort and enable Internal Audit, where appropriate, to place reliance on the work of other providers.

Non-Audit / management responsibilities

- 3.14 In order for Internal Audit to maintain its independence and thereby provide an independent and objective opinion, there are a number of areas that internal audit is not responsible for:
- Internal Audit does not have any operational responsibilities
 - Internal Audit does not have any part in decision making within the organisation or for authorising transactions
 - Internal Audit is not responsible for implementing its recommendations or for ensuring that these are implemented
- 3.15 The presence of internal audit does not in any way detract from management's responsibilities for maintaining effective systems of governance, risk management and internal control.
- 3.16 Internal audit does not have any responsibilities for preventing or detecting fraud or error, this is the responsibility of the management of the respective organisations. Internal audit's role is to provide senior management and the Audit Committee with assurance that the management of the organisation have themselves established procedures that allow them to prevent or detect fraud or error and to respond appropriately should this occur.
- 3.17 It is the responsibility of the senior management to maintain adequate systems of internal control and to review their systems to ensure that controls continue to operate effectively.

4. Scope of Internal Audit Work

- 4.1 The scope of Internal Audit work covers the entire systems of risk management, internal control and governance across each participating organisation. This allows Internal Audit to provide assurance that appropriate arrangements are in place to ensure that:
- the organisation's risks are being appropriately identified, assessed and managed;
 - information is accurate, reliable and timely;
 - employees' actions are in compliance with expected codes of conduct, policies, laws and procedures;
 - resources are utilised efficiently and assets are secure;
 - the organisation's plans, priorities and objectives are being achieved;
 - legal and regulatory requirements are being met

5. Position and Reporting Lines for Internal Audit

- 5.1 Internal Audit reports operationally to the Section 151 Officer / Chief Financial Officer within the Council. Functional reporting is to the Audit Committee.
- 5.2 On a day to day basis Internal Audit will report the outcomes of its work to the senior officer responsible for the area under review. Progress and performance of Internal Audit will be monitored by the Chief Financial Officer who is charged with ensuring the Council has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.
- 5.3 Internal Audit reports the outcomes of its work to the Audit Committee on a quarterly basis. This includes as a minimum, a progress report summarising the outcomes of Internal Audit engagements as well as the performance of Internal Audit against the approved plan of work.
- 5.4 On an annual basis, Internal Audit will prepare and present to the Audit Committee, an annual report containing:
- the overall opinion of the Head of Internal Audit (or delegated Audit Manager)
 - a summary of the work undertaken to support the opinion; and
 - a statement of conformance with the Public Sector Internal Audit Standards
- 5.5 Should significant matters arise in relation to the work of Internal Audit, these will be escalated through the management hierarchy and to the Chair of the Audit Committee as appropriate.

- 5.6 Where major changes are required to agreed audit plans or Internal Audit is required to divert resource to urgent non-planned work, this will be agreed with the Responsible Financial Officer and / or Chief Executive and reported to the Audit Committee. Where changes are less urgent, these will be discussed with senior management and the Chair of Audit Committee before being implemented. All changes to approved audit plans will be reported to the next meeting of the Audit Committee.

6. Ethics, Independence and Objectivity

Ethics

- 6.1 Internal Audit works to the highest standards of ethics and has a responsibility to both uphold and promote high standards of behaviour and conduct.
- 6.2 All internal auditors working within the UK public sector are now required to comply with the mandatory Code of Ethics contained within the new Public Sector Internal Audit Standards. As such this Code has been adopted by the Shared Internal Audit Service and all staff will be requested to sign up to the Code on an annual basis. Auditors within the shared service are also required to comply with the codes of ethics of their professional bodies.

Independence

- 6.3 Internal Audit is independent of all of the activities it is required to audit which ensures that the Audit Committee can be assured that the annual opinion they are given is independent and objective. While Head of Internal Audit (or delegated Audit Manager) reports operationally to the Assistant Director (Resources), there is also a functional reporting line to the Audit Committee and the Head of Internal Audit (or delegated Audit Manager) has direct access to the Chair of Audit Committee.
- 6.4 Internal auditors will not undertake assurance work in areas for which they had operational responsibility during the previous 12 months.
- 6.5 Internal Audit will report annually to the Audit Committee to confirm that the independence of Internal Audit is being maintained.

Resourcing, Proficiency and Due Professional Care

- 6.6 For internal audit to provide an opinion there must be a sufficiently resourced team of staff with the appropriate mix of skills and qualifications. Resources must be effectively deployed to deliver the approved programmes of work.

- 6.7 It is the responsibility of the Council to ensure that they approve a programme of audit work sufficient to provide an adequate level of assurance over their systems of risk management, internal control and governance.
- 6.8 In line with the requirements of the Standards, in the event that the Head of Internal Audit considers 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 Audit Committee.
- 6.9 In line with the requirements of the PSIAS and the CIPFA Statement on the Role of the Head of Internal Audit 2010, the Audit Director and Audit Manager who perform this function are professionally qualified and appropriately experienced.

The Role of Internal Audit in Fraud-related work

- 6.10 The PSIAS require that the role of internal audit in any fraud-related work is defined within the audit charter.
- 6.11 Internal audit may also undertake planned reviews of areas considered to be at particular risk of fraud. Such reviews will be included within audit plans following discussion with management for approval by the Audit Committee. In addition, where relevant, the risk of fraud is considered when undertaking risk based audit reviews.
- 6.12 It is recommended that each participating authority reviews its counter-fraud and whistleblowing arrangements and key contact details in light of the appointment of TIAA and ensures appropriate arrangements are in place for reporting and investigating suspected frauds or other irregularities, including the reporting of frauds to Internal Audit. It should be a requirement of the Council's Anti-Fraud and Corruption Policy and Whistleblowing Policy that all suspected frauds are reported to the Head of Internal Audit (or delegated Audit Manager) who will advise on the appropriate way to proceed, including ensuring that any investigation is undertaken by suitably qualified and experienced staff.

Advice / Consultancy work

- 6.13 Where Internal Audit is requested to provide advice, consultancy or investigatory work, the request will be assessed by the Head of Internal Audit. Such assignments will be accepted where it is considered the following criteria are met:
- The work request aligns with the available skills and resources within Internal Audit at the time;
 - The assignment will contribute to strengthening the control framework;
 - No conflict of interest could be perceived from Internal Audit's acceptance of the assignment; and

- The request relates to functions that are the responsibility of the organisation's management and are thereby not appropriate internal audit tasks.

6.14 In line with the PSIAS, approval will be sought from the Audit Committee for any significant additional consulting services not already included in the audit plan prior to accepting the engagement.

7. Management Responsibilities

7.1 For Internal Audit to be fully effective, it needs the full commitment and cooperation from management in the Council. In approving this Charter, the S151 Officer (the Assistant Director (Resources)) and the Audit Committee are mandating management to cooperate with Internal Audit in the delivery of the service by:

- Attending audit planning and scoping meetings and agreeing the terms of reference for individual audit assignments on a timely basis.
- Sponsoring each audit assignment at Head of Service level or above.
- Providing Internal Audit with full support and cooperation, including complete access to all records, data, property and personal relevant to the audit assignment on a timely basis.
- Responding to internal audit reports and making themselves available for audit closeout meetings to agree draft audit reports.
- Implementing audit recommendations within agreed timescales.

7.2 Instances of non-cooperation with reasonable audit requests will be escalated through the S151 Officer and ultimately to the Audit Committee if necessary.

7.3 While Internal Audit is responsible for providing independent assurance to the Council and the Audit Committee, it is the responsibility of the organisations' management to develop and maintain appropriately controlled systems and operations. Internal Audit does not remove the responsibility from management to continually review the systems and processes for which they are responsible and to provide their own assurances to senior management and Elected Members that they are maintaining appropriately controlled systems.

8. Quality Assurance

8.1 Public Sector Internal Audit Standards require that the Internal Audit function is subject to a quality assurance and improvement programme that must include both internal and external assessments. Internal Audit will report the outcomes of quality assessments to the Audit Committee through its regular and annual reports.

Internal assessments

8.2 All internal audit reviews are subject to management quality review to ensure that the work meets the standards expected for audit staff. Such management review will include:

- Ensure the work complies with the PSIAS;
- Work is planned and undertaken in accordance with the level of assessed risk; and
- Appropriate testing is undertaken to support the conclusions drawn

External assessments

8.3 An external assessment must be conducted at least every five years by a qualified, independent assessor from outside the organisation.

9. Review of Audit Charter

9.1 This Charter will be reviewed annually and submitted to Senior Management and the Audit Committee for approval alongside the annual Audit Plan.