

## **INTERNAL AUDIT CHARTER NORTH LINCOLNSHIRE COUNCIL**

### **1. Introduction**

- 1.1 Under the Accounts and Audit Regulations (2015) the Council is required to ensure there are sound systems of internal control and to undertake effective internal audit to evaluate the effectiveness of its risk management, control and governance processes. Internal audit must consider Public Sector Internal Auditing Standards (PSIAS) and guidance.
- 1.2 This document sets out the purpose, authority and responsibility of Internal Audit in accordance with the Standards.

### **2. Definitions**

- 2.1 Internal Audit is provided at North Lincolnshire Council (NLC) through a joint Audit and Assurance service between NLC and North East Lincolnshire Council. It is governed by the UK Public Sector Internal Audit Standards. They are mandatory for all internal auditors working in the UK public sector. The main components are:
- articulating the mission of internal audit;
  - providing a definition of internal audit;
  - laying out the key principles of effective internal auditing;
  - the code of ethics for internal auditors; and
  - the standards themselves.
- 2.2 The mission of internal audit as laid out in the standards is *“To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight”*.

The ‘Core Principles’ that underpin delivery of the mission require internal audit to:

- Demonstrate integrity;
- Demonstrate competence and due professional care;
- Be objective and free from undue influence (independent);
- Align with the strategies, objectives and risks of the organisation;

- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive, and future-focused; and
- Promote organisational improvement.

- 2.3 The standards define internal auditing as *“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”*.
- 2.4 As defined in the standards internal audit adds value to the organisation and its stakeholders when it considers strategies, operations and risk; strives to offer ways to enhance risk, governance and control processes; and objectively provides relevant assurance.
- 2.5 Internal Audit supports the Director of Governance and Communities to discharge her responsibilities for maintaining an adequate and effective system of internal audit as required under section 151 of the Local Government Act 1972 and by the Accounts and Audit Regulations 2015.
- 2.6 Internal Audit supports the Monitoring Officer in discharging his responsibilities for providing advice on vices issues, maladministration, financial impropriety, probity, Code of Conduct, policy framework and investigating cases reported under the confidential reporting policy as appropriate.
- 2.7 The Head of Audit and Assurance is responsible for the effective review of all aspects of governance, risk and internal control throughout the full range of the council’s activities.
- 2.8 The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.
- 2.9 The Public Sector Internal Audit Standards require that the internal audit charter defines the terms ‘board’ and ‘senior management’ in relation to the work of internal audit. For the purposes of internal audit work, the ‘board’ refers to the council’s Audit Committee which has delegated responsibility for overseeing the work of internal audit. The term senior management in this context is defined as the Strategic Leadership Team (SLT),

### **3. Independence**

3.1 Internal Audit is independent of the activities of the council to ensure it can appraise the council's governance, risks and internal control systems in the impartial and unbiased manner essential to the proper conduct of audits. Independence is secured by a number of means, in particular:

- unfettered access to all council officers, senior management and Elected Members;
- direct access to the Chair of the Audit Committee if appropriate;
- the right to all documentation held by the council and to seek explanations as they see necessary to effectively discharge their duties, from all officers and Elected Members of the council;
- the Head of Audit and Assurance reports in his / her own name to officers and Elected Members, particularly those charged with governance; and
- where internal audit staff have a perceived or real conflict of interest in undertaking a particular piece of work, this will be managed through the internal audit management and supervisory process. Staff are required to declare any potential conflict of interest when they are assigned a particular audit review and if necessary, the work will then be reassigned to another auditor. All staff are required to complete a yearly declaration of interests' form.

3.2 The responsibilities of the Head of Audit and Assurance include risk management, insurance and counter fraud. To maintain this independence in these areas, the Head of Audit and Assurance is not actively involved in the audit of those areas where he has some managerial responsibility, and usually a third-party provider will be asked to carry out an audit on the team's behalf.

3.3 In addition, although the Audit and Assurance team (primarily through the Strategic Lead- Risk and Governance) provides support and advice for the maintenance of the risk registers and the development of the council's risk framework, the definition of risk appetites and the management of individual risks lies purely with management. Furthermore, the Head of Audit and Assurance is not directly involved in management discussions relating to the determination of risk appetite.

### **4. Reporting Lines of the Head of Audit and Assurance**

4.1 Arrangements are in place to ensure that the Head of Audit and Assurance has suitable status within the Authority. Although he is an employee of NELC and is line managed within the senior management structure of NELC, at NLC he currently has a direct reporting line to the Director of Outcomes. In addition, he is a member of the Council's Corporate Assurance and Risk Board, which meets quarterly, is chaired by the Director of Outcomes, and is made up of the Strategic Leadership Team and other key senior managers with responsibilities for governance and internal control.

- 4.2 In addition monthly liaison meetings are held between the Head of Audit and Assurance, the Assistant Director of Governance and Partnerships, and the Assistant Director Law and Governance (NELC) to discuss matters concerning the operation of the Audit and Assurance Shared Service.
- 4.3 The work of Internal Audit is reported to the Audit Committee in summary via a quarterly progress report, and he has periodic meetings with the Chief Executive.

## **5. Scope of Internal Audit Work and Access to Information**

- 5.1 The main purpose of Internal Audit is to provide assurance on the Council's governance, risk management and internal control arrangements. This involves providing an annual report and opinion summarising the work carried out during the year and providing an opinion on the Council's arrangements based on this work, and where appropriate, other sources of intelligence.
- 5.2 The scope of Internal Audit allows for unrestricted coverage of all the council's activities and unfettered access to all records, assets, personnel and premises deemed necessary in the course of its work. It also has unrestricted access to all Authority employees and Elected Members and the authority to obtain such information and explanations, as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.
- 5.3 Internal auditors respect the value and ownership of information they receive and the reports they produce, and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. They are prudent in the use and protection of information acquired in the course of their duties and shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the Council's legitimate and ethical objectives.
- 5.4 The Head of Audit and Assurance has direct access to, and freedom to report to, all senior management including Directors, the Chief Executive, and the Audit Committee.
- 5.5 Where the council works in partnership with other organisations (other than NELC), the role of Internal Audit will be defined on an individual basis. Where Internal Audit undertakes work on behalf of any other organisations, this will be determined in conjunction with the Section 151 officer to ensure that appropriate audit resources are available to provide assurance over the council's activities.
- 5.6 The standards recognise that the Internal Audit Service may go beyond the work needed to meet its assurance responsibilities and provide services to support management, including consultancy services or assistance with the investigation of suspected fraud or corruption. Consultancy services are advisory in nature and are generally performed at the specific request of the organisation.

The nature and scope of the consulting engagement should aim to improve governance, risk management and control and should contribute to the overall opinion.

- 5.7 The scope of any consultancy work will be agreed with management and will only be undertaken where resources permit without impacting on the annual assurance process, and where the Head of Audit and Assurance is satisfied that the team has sufficient expertise to carry out the work. Consulting services are advisory in nature and are generally performed at the specific request of the organisation. The nature and scope of the consulting engagement should aim to improve governance, risk management and control and should contribute to the overall opinion. When attending project boards or steering groups, auditors will agree their role and act as “critical friend” or advisor and not have any decision-making responsibility. Internal Audit may provide assurance services where it has previously performed a consulting service, provided the nature of the consulting did not impair objectivity.
- 5.8 Internal Audit is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit’s work in relation to fraud includes carrying out an annual programme of audits to review the design and operation of controls in areas of the Council where there is an inherent higher risk of fraud, where appropriate reviewing counter fraud controls when carrying out assignments, providing advice on counter fraud controls built into systems, manage the Council’s response to the National Fraud Initiative, and where appropriate lead or support investigations for suspected fraud. However, internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.
- 5.9 The Head of Audit and Assurance should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for his opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.

## **6. Responsibility**

6.1 The Head of Audit and Assurance is responsible for:

- developing audit plans based on an understanding of the organisations strategies, key business objectives, associated risks and risk management processes, and adjust the plan in response to the organisation’s business, risk, operations, programmes, systems and controls;
- determining the strategic direction of the Audit and Assurance Service;

- the management of the Audit and Assurance Service that is compliant with the Public Sector Internal Audit Standards, including a Quality and Assurance Improvement Plan;
- the monitoring and reporting of the performance of the Audit and Assurance service;
- the production and reporting of an annual audit opinion based on the outcomes of internal audit work conducted throughout the year;
- providing advice and guidance on risks and the application and development of internal controls;
- the fostering of good working relationships with External Audit with an aim to achieving mutual recognition and respect, leading to a joint improvement in performance and the avoidance of unnecessary overlapping of work; and
- assessing all matters of potential fraud or irregularity brought to his attention in line with the requirement of the Council's Counter Fraud Strategy and arranging for team members to lead or support the investigations into such matters.

## **7. Resourcing and Staffing Matters**

- 7.1 Internal audit is staffed to meet the needs of both Councils. The structure is designed to ensure that there is a suitable mix of experienced and qualified staff. In line with the standards the Head of Audit and Assurance will annually confirm whether there are sufficient resources available to deliver a reliable annual audit opinion and comply with the standards.
- 7.2 Individual training needs are established and agreed through the respective performance management systems of both councils, involving regular 1-2-1 meetings and the development of a locally produced competency framework for audit staff. A training and development plan is produced for each team member, and the team has access to both Councils' training budgets.

## **8. Ethics**

- 8.1 The Public Sector Internal Audit Standards contain a Code of Ethics which is mandatory for all internal auditors in the public sector. In addition, individual staff are also required to adhere to the Codes of Ethics of their professional bodies where appropriate.
- 8.2 Team members are reminded of the need to comply with the Code on an annual basis including the requirement to complete a Code of Ethics Declaration Form to confirm they have read and understood them. In addition, they are expected to be aware of the seven standards of public life. Discussions on ethics, using ethical scenarios, are held periodically at audit team meetings.

## **9. Limitations of Internal Audit Responsibilities**

9.1 In seeking to discharge the responsibilities detailed above, and in line with the responsibilities of Internal Audit it should be noted that the Internal Audit Service is not responsible for:

- controlling the risks of the Council;
- establishing and maintaining systems of internal control;
- determining operational policies or procedures; and
- ensuring the prevention or detection of fraud and irregularity.

## **10. Reporting**

10.1 The exact form of reporting for internal audit assignments may vary depending on the nature of the assignment, but in most cases will be the subject of formal reports. Draft reports will be sent to the manager(s) responsible for the area under review for agreement of the factual accuracy of findings and the implementation of agreed actions made to address weaknesses in internal controls. Once agreed, final reports will be copied to all relevant stakeholders, with a summary of the outcomes reported to the Audit Committee and Senior Management.

10.2 Internal Audit will provide regular reports to the Audit Committee and the Senior Leadership Team (in its role as the Assurance Group), including:

- The annual review of the Audit Charter (including confirmation of the independence of audit activity);
- The audit plan (including confirmation of resource requirements) and progress against the plan; and
- The Annual Head of Internal Audit Report and Opinion (supported by Interim Reports throughout the year) summarising the outcome of audit activities; providing an overall opinion on the Council's governance, risk and internal control arrangements; and confirmation of compliance with quality and ethical standards, including the identification of improvement actions where appropriate.

## **11. Management Responsibilities**

11.1 For internal audit to be fully effective, it needs the full commitment and cooperation from management across the council. In approving this charter, senior management and the Audit Committees 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 as agreed at the commencement of each piece of internal audit work;
- sponsoring each audit assignment at a senior level;

- providing internal audit with full support and cooperation, including complete access to all records, data, property and personnel relevant to the audit assignment on a timely basis;
- Responding to internal audit reports and making themselves available for audit closure meetings to agree draft audit reports;
- Implementing audit recommendations within agreed timescales.

11.2 Instances of non-cooperation with reasonable audit requests will be subject to Internal Audit's escalation policy, which sets out the timescales and steps for raising such issues with senior management if required.

11.3 While internal audit is responsible for providing independent assurance to the council and its Audit Committee, it is the responsibility of the organisation's 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.

## **12. Quality Assurance**

12.1 The 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 progress reports.

12.2 All internal audit assignments are subject to a management quality review to ensure that the work meets the standards expected for audit staff. Such management reviews 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

12.3 An external assessment must be conducted at least every five years by a qualified, independent assessor from outside the organisation. The next assessment is due in 2023.

## **13 Review of the audit charter**

13.1 This charter will be reviewed annually by the Head of Audit and Assurance and presented to the Leadership Team and the Audit Committee for approval.

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