

# **KIRKLEES COUNCIL**

## **INTERNAL AUDIT**

### **MISSION STRATEGY AND CHARTER**

**2023-24**

## **EXECUTIVE SUMMARY- INTERNAL AUDIT MISSION, STRATEGY & CHARTER**

1. Internal Audits mission is to independently assure the organisation and its management in achieving its objectives, by providing assurance, advice and insight.
2. Its work will involve.
  - a) Assurance about the internal financial and (other) business controls, and the Council's broader assurance framework, including both a programme of planned assurance based internal reviews, and other more ad hoc assurance based work and projects.
  - b) Advice and insight/consultancy work as commissioned, relating to business, financial and process controls and value for money, efficiency, and effectiveness.
  - c) Development of anti-fraud, anti-corruption and anti-bribery measures and investigation of any suspicions of inappropriate behaviour.
  - d) Information, advice, advocacy, and training in respect of best practice in achieving a high level of internal control, including Financial and Contract Procedure Rules.
  - e) Contributing to corporate/high impact projects, particularly those involving partnership and procurement.

Internal Audit coverage will apply to all the Council's direct operations, all wholly owned or controlled organisations or subsidiaries, including limited companies, and other partnership bodies (where the Council so determines).
3. Internal Audit work will address all the business controls of the organisation, prioritised based on risk. This involves a full coverage of all aspects of the Council's operation, including financial systems, processes and activities, all other business processes, risk management, governance arrangements, information management and appropriate use of technology-
4. Internal Audit activity will be planned, carried out and reported within a general philosophy of providing evidence-based analysis and helpful advice to all levels of management and achieving positive consequential progress.
5. Except where otherwise agreed, written reports will provide summary information, | detail on any findings of note, conclusions and recommendations to advise and inform managers at all levels.
6. Establishing effective systems of operation and implementation of audit recommendations is the responsibility of management. It is not the role of Internal Audit to act as a proxy for appropriate performance management of, or by, senior management.
7. Internal Audit will follow up the implementation of accepted recommendations in all cases where there were concerns about a system, process, or activity, or where recommendations result from an investigation. Other agreed recommendations may be followed up on a sample basis.
8. Internal Audit will co-ordinate the overall corporate assessment of business controls and risk management. It will help develop and monitor the Risk Management Statement.
9. Internal Audit will operate in accordance with the (mandatory) Public Sector Internal Audit Standards (PSIAS) and the supplementary CIPFA guidance.
10. Internal Audit officers will act ethically to achieve high professional standards: independence, objectivity and integrity and respect the confidentiality of organisational information.

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## Background and Context

1. Local Authorities are required under the Local Government Acts and the Accounts and Audit Regulations 2015 to have a continuous internal audit of their financial and other business controls. It will be delivered in compliance with the Public Sector Internal Audit Standards (PSIAS). This is mandatory guidance which states the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance. These standards in Local Authorities are supplemented by additional guidance from CIPFA that has regulatory authority for local government in the UK.
2. The PSIAS require that there is a formal Internal Audit Charter defining the purpose, authority and responsibilities of Internal Audit, which must be consistent with the PSIAS definition of internal audit, code of ethics and professional standards. For the purposes of comparability, the following terms apply.

PSIAS Term	Kirklees Arrangement
The Board	Corporate Governance & Audit Committee
Senior Management	Chief Executive & or Executive Team
Chief Audit Executive	Head of Internal Audit

3. The main purpose of Internal Audit is to support the organisation in achieving its objectives, and particularly to play a key role in the Council's Corporate Governance arrangements in ensuring Members and Corporate Managers have adequate assurance that they are meeting their responsibilities.
4. The role of Internal Audit is also to support the Council's statutory officers (Head of Paid Service, Chief Finance Officer and Monitoring Officer) in carrying out their roles, and equally needs their support in fulfilling its role.
5. This Charter and Strategy will be regularly presented to senior management and reviewed regularly by the Corporate Governance & Audit Committee. Its purpose is to set out the purpose, nature, objectives, outcomes and responsibilities of the internal audit service.
6. International internal audit standards are drawn up by the Institute of Internal Auditors, and there is a UK (government) statement of applicability to the public sector, with CIPFA having a particular role in standards as applicable to local authorities.
7. The Institute of Internal Auditors have drawn up revised standards that are likely to be applicable from 2024, which are in draft form substantially more prescriptive and onerous than those currently applicable.

<b>1. <u>MISSION OF INTERNAL AUDIT</u></b>
The mission of Internal Audit is to provide an independent, objective assurance and advice and insight designed to add value and improve the organization's operations. Internal Audit aims to help the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

## 2. THE INTERNAL AUDIT CHARTER

### 2.1 Objectives of internal Audit

#### 2.1.1 Internal Audit's objectives can be defined as:

“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”. (PSIAS)

This definition goes beyond basic compliance by evaluating and improving the effectiveness of the entire risk, control and governance arrangements (including financial and non-financial control systems). As an independent appraisal function Internal Audit can offer assurance on the effectiveness of internal control arrangements, contributing to the efficient use of resources and generally helping management to monitor performance, improve operational efficiency and target objectives. These actions will add value by supporting the organisation in achievement of the Council's objectives.

#### 2.1.2 Specifically the role is to provide:

- *Assurance, principally by a review of the control environment* - The 'control environment' comprises the business systems which are operated to implement the Council's statutory obligations and its policies and objectives. This includes systems and processes, governance and decision making, and risk identification and management. It involves the review of all the major financial and accounting systems and practices, and controls of other kinds (such as purchasing and human resources). For financial controls it involves a more detailed review of information, records, assets and other resources to identify appropriate financial stewardship. (See Appendix 1). It also includes matters relating to organisational ethics, use of technology and matters such as management of data and information.
- *Consultancy* - Undertake, when commissioned, other reviews and projects which use investigative, analytical and consultancy skills. This work can be specific or involve on-going advice and may include value for money related activity. Where this advice is provided it is given notwithstanding the responsibility to provide assurance as above. Any work performed will be accepted only within the competencies of staffing.
- *Assurance and Investigation into suspected Fraud, Corruption and Bribery* - Internal Audit oversees the Corporate Anti-Fraud, Anti-Corruption and Anti-Bribery policies and undertake investigations into suspected irregularity, fraud, or corruption, provides guidance for managers and Members and helps to promote good corporate governance and the highest ethical standards. It also coordinates the Council's approach to the mandatory national fraud initiative. (NFI). The Head of Audit is also required to be notified of all cases of suspected or detected fraud, corruption or impropriety.

- *Advice* - Provide operational advice on the development of processes and systems and on the interpretation of the Council's rules (principally Financial Procedure Rules and Contract Procedure Rules).
- 2.1.2 Audit advice and recommendations are given in all cases without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later date.
- 2.1.3 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit advises the Council on whether effective and efficient arrangements exist, cumulating in the annual opinion of the Head of Internal Audit, which informs the Annual Governance Statement. Optimum benefit to the Council should arise when Internal Audit work in partnership with management to
- improve the control environment.
  - achieve organisational objectives.

## **2.2. Independence, Responsibility and Authority**

2.2.1 An effective internal audit function must be independent, objective and unbiased, operating in an ethical way.

### **2.2.2 Governance**

It is the responsibility of the Council and its senior management, and in particular the statutory officers (Head of Paid Service, Chief Finance Officer and Monitoring Officer) to ensure that the organisation has all appropriate operational and business control arrangements.

Internal Audit is a part of the Directorate of Legal, Governance, Commissioning and Risk, within the Corporate Resources and Public Health Strategic Directorate and reports both to the senior management and to the Corporate Governance & Audit Committee.

Details about internal audit, its authority and the role of the Head of Internal Audit are in the sections below.

### **2.2.3 Authority**

Internal Audit has authority to:

- Enter at all times any Council premises, land or location from which Council services are provided (including those of partners and contractors).
- Have access to all property, records, documents, correspondence, data (in all forms) relating to all activities of the Council.
- Require and receive explanations in respect of any matter; and
- Require any employee of the Council, without prior notice, to produce cash, stores or any other property for which they are responsible.

- Require the assistance of any employee, such as by the attendance at meetings (of any form), submission of information in any required media, or any other reasonable action to enable Internal Audit to fulfil its role and objectives.

The rights and responsibilities of Internal Audit are set out in Financial Procedure Rules (an extract is included at Appendix 2)

#### **2.2.4 The Head of Internal Audit**

- Reports functionally to the Corporate Governance & Audit Committee which operates as the Audit Committee of the Council, and issues reports under his own name.
- Reports managerially to the Chief Executive, Service Director for Finance and Service Director, Legal, Governance & Commissioning (Monitoring Officer) and for supervisory purposes to the Service Director, Legal, Governance & Commissioning
- Has the right to communicate directly with any Strategic or Service Director, or any other Council officer. The Head of Internal Audit may also communicate with any Cabinet Member or Councillor, or other person.
- Has the right to communicate confidentially with the Chair of the Corporate Governance & Audit Committee on any matters.
- Must advise the Corporate Governance & Audit Committee on any matter where any significant risk or threat to the organisation, identified through audit assurance work, has not been adequately addressed by management.
- Is responsible for the delivery of the Internal Audit function and achievement of the standards described within this document.

The Head of Internal Audit will ensure that audit work is shared with Strategic Directors, Service Directors and other senior managers and their appointees, and commissioning officers for investigations and reviews. Additionally, summaries will be provided to the Corporate Governance & Audit Committee, individual Members or others (e.g., whistle-blowers) who refer matters to Internal Audit, the external auditor and to other authorities and agencies to facilitate joint and partnership working as appropriate. Audit work will (except when otherwise agreed) be treated as confidential, but in certain circumstances may be wholly or partially subject to disclosure under the Freedom of Information.

#### **2.2.5 Responsibilities of Internal Audit**

The responsibilities and objectives of Internal Audit are as follows:

- To provide soundly based assurances to management on the adequacy and effectiveness of their internal control, risk and governance arrangements, including ethics, information management and technology.



- To review, appraise and report on the extent to which the assets and interests of the Authority are accounted for and safeguarded from loss.
- To review, appraise and report on the suitability and reliability of financial and other management data and information.
- To assess the adequacy and effectiveness of the Authority's procurement, contract and partnership arrangements.
- To support schools in achieving high standards of control and governance.
- To assess the corporate risk management processes.
- To evaluate the risk of fraud and how it is managed and controlled. To provide corporate fraud and irregularity prevention, detection and investigation services in accordance with the Counter Fraud, Corruption and Bribery Strategy.
- To reach conclusions about the effectiveness of the Council's control environment, and to recommend improvements to management.
- To contribute to assurances in relation to the robustness and reliability of internal controls and governance to support the Annual Governance Statement (AGS).
- To support the achievement of efficiency, value for money and effective change management.
- To provide advisory and consultancy services intended to add value and improve value for money, governance, risk management and control processes.
- To provide advice in respect of the development of new or significant changes to existing programmes and processes including the design of appropriate controls. This is usually through membership of groups, boards or working parties as well as direct contact with officers within Services.
- To support effective procurement.
- To support activities of the Corporate Governance & Audit Committee to discharge its responsibilities.
- To support the Service Director of Finance as the Council's Chief Financial (s151) Officer and all senior management in meeting their corporate responsibilities.
- To monitor the implementation of agreed recommendations.
- To plan, manage and operate the internal audit function in an efficient and effective manner.

#### 2.2.6 **Responsibilities and expectations of Internal Auditors**

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined, working with honesty, diligence and responsibility. They must always observe the law and respect and contribute to the legitimate and ethical objectives of the Council.

##### **Objectivity:**

Internal Auditors must make a balanced assessment of all the relevant circumstances and not be, or appear to be, unduly influenced.

This means.

- Not taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment.
- Declaring any real or perceived interests on an annual basis, or at any time that they recognise any impairment to the objectivity.
- Not accepting anything that may impair or be presumed to impair their professional judgement such as gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties.
- Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review.
- Not using information obtained during duties for personal gain and.
- Complying with the Bribery Act 2010.

**Confidentiality:**

Internal Auditors must.

- Act prudently when using information acquired in the course of their duties and protecting that information, and
- Not use information (derived or obtained through their official role) for any personal gain.

All records, documentation and information accessed while undertaking internal audit activities are to be used solely for the conduct of these activities. The Head of Internal Audit and all Internal Audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during their work.

**Integrity:**

In the conduct of audit work, Internal Audit staff will:

- Comply with relevant professional standards of conduct and perform their work with honesty, diligence and responsibility.

**Competency:**

Internal Auditors are expected to be competent in their role by:

- Possessing the knowledge, skills and technical proficiency relevant to the performance of their duties.
- Being skilled in dealing with people and communicating audit, risk management and related issues effectively.
- Maintaining their technical competence through a programme of continuous professional development.
- Exercising due professional care in performing their duties; and
- Complying with all requirements of the PSIAS.

**Awareness:**

- Being alert to the issue of fraud and corruption.

Internal Audit staff must declare any conflict of interest, or potential conflicts of interest, actual or perceived, to their manager.

### **2.2.7 Independence & Objectivity**

Internal Audit has no operational or non-audit functions to perform and is therefore independent of all Council operational activities that it audits. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair an internal auditor's judgement. This allows Internal Audit to make independent, impartial and effective professional judgements and recommendations on the area under review. The internal audit activity will remain free from undue interference from any part of the Council, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited and will exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all of the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

Audit responsibilities are periodically rotated to avoid over-familiarity and complacency and to provide for service continuity and resilience. Internal Auditors are not involved in undertaking non audit activities and an Auditor will not be involved in the audit of any system or process for which they had previous operational responsibility.

### **2.2.8 Statement of pre-existing areas of conflict in current audit activity**

The Head of Internal Audit – as “Head of Risk” has direct operational responsibility for the Insurance, Risk Management and Corporate Customer Standards (complaints) functions and provides input into certain procurement functions and corporate projects. When audits are required of these areas, the Audit Manager reports direct to the Service Director Legal, Governance & Commissioning. This arrangement helps maintain independence and avoid any conflicts of interest.

On an advisory basis, but as a matter of routine, Internal Audit staff provide advice about the methods of financial evaluation of contracts and contractors and carry out on a task specific basis financial evaluation of prospective suppliers to the Council.

## **2.3. Performance Management & Quality Control**

### **2.3.1 Performance Management**

The Corporate Governance & Audit Committee will establish performance measures for the Council, in respect of the control environment, and for the

Internal Audit function, and consider performance against those measures in reviewing the activity of Internal Audit.

### 2.3.2 **Quality Control**

The PSIAS requires the operation of quality assessment and review mechanisms, which must be assessed internally at least annually, and by an external assessor at least every 5 years.

The Head of Internal Audit is responsible for advising the Committee on the appropriateness of measures and targets, and on collecting this information.

The Head of Internal Audit will establish internal quality control and review practices consistent with the requirements of the PSIAS, and report on the outcome of this review work to the Corporate Governance & Audit Committee as a part of the Annual Report.

Quality control will include direction and supervision of work performed, the retention of appropriate, reliable and relevant evidence to justify findings and conclusions and recommendations, and the internal review and assessment of work, including its preparation in accordance with detailed standards, and compliance with the requirements of PSIAS and CIPFA.

The Head of Internal Audit is responsible for arranging for the external assessment, providing the necessary information, and acting on any outcomes from the assessment. This will be done under the oversight of the Chair of the Corporate Governance & Audit Committee.

The external auditor and other external review agencies may evaluate the work of Internal Audit as part of their assessment of Council activity.

### 2.4. **Reporting**

The Head of Audit and Risk will report to the Corporate Governance & Audit Committee.

- Quarterly on each piece of work completed in the period, the opinion arising from that work and performance of internal audit (achievement of the annual audit plan (as revised when required), client satisfaction and quality assessment).
- Annually on the overall achievement and assessment of the Council's internal audit work programme, including an opinion on the control system, risk management and governance arrangements, and performance information, such as issuing reports on time, completing work within time allocated.
- Annually on the overall risk environment and the overall planned work on assurance in the forthcoming year, plus any investigative and consultancy tasks. This will include an assessment on the availability of

resources, and any impact this may have on the ability to assess the control environment.

- As necessary on any matter impacting on the overall integrity of the Council's control environment, typically indicated by a "no assurance" audit opinion, or on any operational matter that seriously impacts on the delivery of the audit plan or resourcing of the internal audit function.

Internal Audit reports to all levels of management, with reporting of detailed operational work usually being to Service-Directors. The Chief Executive and Strategic Directors receive the full Council wide summary of activity.

## **2.5 Partnerships, and Obtaining & Providing Assurance to Others**

In respect of operations through partnership and semi-independent organisations:

- (i) Usually, the Council will require its internal auditors to have access to property, records, documents and correspondence in respect of any activity operated or controlled by the organisation working for the Council, and for its auditors to be provided with explanations by officers of the organisation. Contracts and agreement documents will set out these rights where it is appropriate.
- (ii) The Council (through agreement by the Head of Internal Audit) may agree that alternative review arrangements operated by or on behalf of the organisation, or independently, will provide sufficient evidence to enable the Council to secure assurance conclusions about the aspects of the effectiveness of the Council's control environment to which the partnership relates, although the Council will retain an ultimate right to review any activity dependent on the Council's funding. In this context the Head of Internal Audit will seek to develop relationships, formalised where practical, with other internal auditors and other review agencies to facilitate this. This may include obtaining all or some elements of assurance from the internal auditors employed by the organisation, and/or participating with other internal auditors (e.g., employed by local authorities in the sub region) to evaluate the procedures operated by shared partners (such as a regional wide public body) and using such assurance instead of obtaining direct assurance.
- (iii) The Council will, when requested and appropriate, provide assurance (based on work performed) to other partner organisations.

## **2.6 The external auditor of the Council**

The Council's external auditor has full and free access to any records and work performed by Internal Audit. Action will be taken to coordinate work to avoid any duplication, and to ensure effective mutual working.

Appendices set out the following.

Appendix 1 Control Environment (definition)

Appendix 2 Financial Procedure Rules (extract)

Appendix 3 Role of the Audit Committee

Appendix 5 Public Sector Internal Audit Standards

### **3. INTERNAL AUDIT STRATEGY**

**This strategy statement must be read alongside the Annual Strategy**

#### **3.1 Internal Audit Delivery**

- 3.1.1 The Head of Internal Audit is responsible for the effective use of resources to deliver the Audit Plan.
- 3.1.2 Delivery is by direct employees of the Council, including trainees and secondees and, where necessary, temporary and casual employees. The use of specialist consultancy and contractors will be considered, if necessary, to deliver specific elements of the workload.
- 3.1.3 At least annually, the Head of Internal Audit will submit to the Corporate Governance and Audit Committee a risk based Internal Audit Plan for review and approval. The plan will consist of a schedule of planned assurance and consultancy work (including some contingency) which will establish resource requirements for the next financial year. This will be balanced between resource requirement and capacity. The standard requires the Head of Internal Audit to advise the Corporate Governance & Audit Committee if the number of resources available compromises the ability to offer appropriate levels of assurance.
- 3.1.4 The internal audit plan is based on a risk-based assessment. The current standard is to potentially cover all areas of activity from the most significant to the most minor, although prioritisation is to ensuring that assurance coverage concentrates on those areas of highest risk in terms of potential exposure or likelihood of failure, covering both financial and other business controls (where assurance work utilise the responsibilities and processes for control effected by other teams such as Health & Safety).
- 3.1.5 Necessary material variations from the approved Internal Audit Plan are reported to and approved by the Corporate Governance & Audit Committee.
- 3.1.6 The Council provides Internal Audit services to:
  - Kirklees Active Leisure, which is a charitable trust under a service level agreement. Although the Council is the main partner of KAL, audit accountability and reporting are to Kirklees Active Leisure only.
  - The West Yorkshire Fire & Rescue Authority, which is a separate public body. This organisation makes significant use of the Council's financial systems. Audit accountability and reporting is to West Yorkshire Fire & Rescue Service only.

Appendices set out the following.

- Appendix 4 Audit Planning, Resourcing & Reporting (detail)
- Appendix 5 Public Sector Internal Audit Standards
- Appendix 6 Statement of the Responsibilities of Management



## **CONTROL ENVIRONMENT**

The Control Environment comprises the Council's policies, procedures and operations in place to:

- a) Establish and monitor the achievement of the organisation's objectives.
- b) Identify, assess and manage the risks to achieving organisational objectives.
- c) Facilitate policy and decision making.
- d) Ensure the economical, effective and efficient use of resources
- e) Ensure compliance with established policies (including behavioural and ethical expectation), procedures, laws and regulations.
- f) Safeguard assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption; and
- g) Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes. This encompasses elements of corporate governance and risk management.

Control Environment audit work utilises a risk based, systematic approach for all control environment work to:

- i) Identify and record the objectives, controls and risks of the system or process.
- ii) Establish the congruence of operational objectives with higher-level corporate objectives.
- iii) Evaluate and review the application of risk management processes and documentation.
- iv) Evaluate the controls in principle to decide whether, or not, they are appropriate and can be reasonably relied upon to achieve their purpose.
- v) Identify any instances of over-control.
- vi) Determine and undertake appropriate tests of the effectiveness of controls, i.e., through compliance or substantive testing.
- vii) Arrive at conclusions and recommendations; and
- viii) Provide a written opinion on the effectiveness of the control environment.



**EXTRACT OF FINANCIAL PROCEDURE RULES**

(If approved the amended FPRs for 2023 will be incorporated here)

**5. INTERNAL AUDIT**

**Responsibility & Authority**

- 5.1 *The Chief Executive (in consultation with the Chief Finance Officer and Monitoring Officer) must arrange and direct a continuous internal audit, which is an independent review of the accounting, financial and other operations of the Council.*
- 5.2 *The Head of Risk will report directly to the Chief Executive, the Chair of the Corporate Governance & Audit Committee or the External Auditor in any circumstance where the functions and responsibilities of the chief finance officer are being reviewed. (Other than routine reporting of work carried out)*
- 5.3 *The Head of Risk has authority to: -*
- (a) *Enter at all times any Council premises or land or location from which Council services are provided.*
  - (b) *have access to all property, records, documents and correspondence relating to all activities of the Council.*
  - (c) *require and receive explanations concerning any matter; and*
  - (d) *Require any employee of the Council, without prior notice, to produce cash, stores or any other property for which they are responsible.*

*The chief finance officer has the same authority for any accounting or associated purpose.*

**Planning & Reporting**

5.4 *The Head of Risk must plan and report (in accordance with the approved Audit Strategy and Charter, Public Sector Internal Audit Standards and any instructions from the Councils Corporate Governance & Audit Committee) upon: -*

- a) *The risks inherent in and associated with each system.*
- b) *The soundness, adequacy and application of the financial and other management controls and systems within each Service.*
- c) *The extent of compliance with, and the financial effects of, established policies, plans and procedures.*
- d) *The extent to which the organisation's Assets and interests are accounted for and safeguarded from losses of all kinds arising from fraud, other offences, waste, extravagance and inefficient administration, poor value for money and other cause.*
- e) *The suitability, accuracy and reliability of financial and other*

*management data within the organisation; and*

*f) Value for money aspects of service provision.*

*5.5 In respect of any audit report or communication issued, the Director must reply within 4 weeks indicating the action proposed or taken, by whom and including target dates. Where a draft report is issued for initial comments, a reply must be made within 2 weeks of issue.*

*5.6 The Head of Risk will provide a written summary of the activities of the Internal Audit function to the Cabinet and Corporate Governance & Audit Committee at least four times per year and an Annual Report produced for consideration by Management Board, Cabinet and Corporate Governance & Audit Committee, including an audit opinion on the adequacy and effectiveness of the Council's risk management systems and internal control environment.*

*The Head of Risk will review the system of internal audit on an annual basis and report the outcome to the Corporate Governance & Audit Committee.*

**Investigations and Suspected Fraud, Corruption or Bribery.**

*5.7 The Chief Executive and Directors must ensure that all Members and employees are: -*

- a) Aware of the Council's Anti-Fraud, Anti-Corruption and Anti Bribery Strategy.*
- b) Aware of the Whistleblowing Strategy; and*
- c) Operating in a way that maximises internal check against inappropriate behaviour.*

*The Head of Risk is responsible for the development and maintenance of the Anti-Fraud, Anti-Corruption and Anti Bribery Strategy and Whistleblowing Strategy and for directing the Council's efforts in fraud investigation.*

*5.8 It is the duty of any officer who suspects or becomes aware of any matter which may involve loss or irregularity concerning cash, stores or other property of the Council or any suspected irregularity in the operations or exercise of the functions of the Council to immediately advise the Director. The Director concerned must immediately notify the Head of Risk who may take action by way of investigation and report.*

*5.9 Where, following investigation, the Head of Risk considers that there are reasonable grounds for suspecting that a loss has occurred as a result of misappropriation, irregular expenditure or fraud, consultations will be held with the Director on the relevant courses of action, including the possibility of police involvement and the invoking of any internal disciplinary procedure in accordance with the relevant conditions of service. (Claimant fraud in respect of Housing Benefit and Council Tax Reduction and Discounts (where the claimant is not an employee or Member of the Council) is investigated by the Revenue & Benefits Service).*

## ROLE OF THE AUDIT COMMITTEE

<p>Extract from Terms of Reference of Corporate Governance &amp; Audit Committee from the Council Constitution.</p>
<p>6. To consider the Council's arrangements relating to Internal Audit requirements including:</p> <ul style="list-style-type: none"> <li>(a) considering the Annual Internal Audit report, reviewing and making recommendations on issues contained therein.</li> <li>(b) monitoring the performance of internal audit</li> <li>(c) agreeing and reviewing the nature and scope of the Annual Audit Plan</li> </ul> <p>7. To review the adequacy of the Council's Corporate Governance arrangements. This will include (but not be limited to) the following:</p> <ul style="list-style-type: none"> <li>7.1 Internal control and risk management.</li> <li>7.2 Oversight of whistleblowing and the Council's whistleblowing policy.</li> <li>7.3 Oversight of the complaints process and the role of the Local Government Ombudsman.</li> <li>7.4 Oversight of Information Governance and the role of the ICO.</li> <li>7.5 To review and approve the annual statement of Corporate Governance.</li> </ul> <p>8. To agree and regularly update the Council's Code of Corporate Governance, monitoring its operation and compliance with it, and using it as a benchmark against performance for the annual Statement of Corporate Governance.</p>

Monitoring the performance of Internal Audit might include: -

- i) Reviewing the scope, effectiveness and resourcing of the Internal Audit function;(including ensuring its budget is sufficient to achieve the work programme that the Committee considers to be necessary)
- ii) Assessing the balance between routine/unplanned/investigative work and systems /process/probity/unit/investigations/vfm studies/best value review/other work.
- iii) Appraising the accuracy and coverage of the work carried out.
- iv) Reviewing issues arising out of Internal Audit work.
- v) Reviewing management commitment to implementing audit recommendations.
- vi) Performance Management of Internal Audit work.

The Corporate Governance & Audit Committee can in support of its role:

- i) Call for Internal Audit reports to be submitted to it for consideration.
- ii) Commission specific pieces of Internal Audit work; and
- iii) Summon officers, Members or other persons to explain their actions, or inactions, in relation to Internal Audit work.

## AUDIT PLANNING, RESOURCING AND REPORTING (Detail)

### 1 Corporate Audit Planning

- 1.1 The Head of Internal Audit is responsible for appropriate planning and deployment of Internal Audit resources by production of:  
 A Strategic Statement of Areas of Auditable Activities and risk.  
 A detailed Annual Audit Plan setting out the specific assignments planned for the year, reflecting risk and priorities and matched to the available resources.
- 1.2 The Annual Audit Plan will identify the work which is necessary to fulfil the following obligations: Assurance on effectiveness of internal controls to deliver efficient operations, safeguard the Council's assets and ensure compliance with relevant legislation, regulations, policies and procedures. including:
  - (i) Assurance on key internal controls
  - (ii) Assurance on financial processes and systems.
  - (iii) General assurance on other business systems and processes.
  - (iv) Opinion on Risk Management
  - (v) Opinion on Governance Arrangements
- 1.3 The level of resources allocated, and work planned need to be balanced, to provide the levels of assurance, and other activities, which are expected as outcomes.

### 2 Risk Assessment

- 2.1 Both of the Strategic and Annual Plans are prepared based on an assessment of risk. Although this can be made ostensibly scientific, at its heart is professional judgement about the: -
  - i) Importance of a risk area.
  - ii) Existing level of internal control and risk management.
  - iii) Materiality.
  - iv) Significance in terms of organisational impact, sensitivity and accountability.
  - v) Previous coverage and experience and knowledge gained by Internal Audit; and
  - vi) Coverage by other review agencies.
- 2.2 The key financial systems will usually be subject to triennial review. The frequency of review of other business, governance and major and medium risk financial systems and processes will typically be between 3 and 5 years.-Some operational units and minor financial and business processes will be subject to audit work less frequently than every 5 years.
- 2.3 Any consultancy work will be separate from the control environment work and be based against specific objectives agreed with the Director responsible before the work commences.

### **3 Other Audit Work**

- 3.1 The Counter Fraud, Corruption & Bribery Strategy and the Financial Procedure Rules set down a procedure for investigation, reporting and decision making. Internal Audit will have the opportunity to determine if they wish to investigate any suspected irregularity or inappropriate behaviour by officers of the Council, its partners, suppliers or Service Users which involves the potential misuse or loss of the Council's resources, including cash, stores, or other amounts, and to investigate customer claims for Council Tax Reduction, Housing Benefit, Blue Badges, Right to Buy and other means tested care, or otherwise mandated payments, grants or loans. Investigations into the misuse of Council paid time (e.g. inappropriate absence from work) which, along with non- resource based disciplinary matters, are the responsibility of Service management.
- 3.2 In order to test compliance by management in implementing agreed recommendations, Internal Audit will follow up all cases where planned audit work identified that a system or process was considered to offer only limited assurance, or no assurance and in a sample of other cases. In the case of investigations, or consultancy, any outcome which results in agreed recommendations for improvements to process will also be subject to further review.

### **4 Audit Resources**

- 4.1 The Strategic Audit Plan includes a schedule of risk areas with an assessment of their nature and potential severity in terms of probability and impact.
- 4.2 At the start of each year, an Annual Plan will be prepared that looks at the degree of risk, based on the extent of assessed severity, and the date and findings of the previous work.
- 4.3 The Annual Plan needs to be interactively monitored against emerging risks, with the Plan being amended to reflect need, to ensure that resources are deployed on a priority basis.
- 4.4 The Head of Internal Audit will have the authority to change the plan to achieve this objective, and report back as a part of quarterly reporting of any significant changes made.
- 4.5 The Head of Internal Audit must monitor to ensure that there is sufficient resource to enable adequate coverage, and report at least annually on this.
- 4.6 The Annual Plan (IA control version) will include an allocation of days for each assignment (based on an expectation of an adequate arrangement)
- 4.7 In addition to the programmed audit work there needs to be time allowed:
- i) As a contingency for dealing with unexpected issues/delays in planned work.
  - ii) To allow for un-programmed work and investigations.

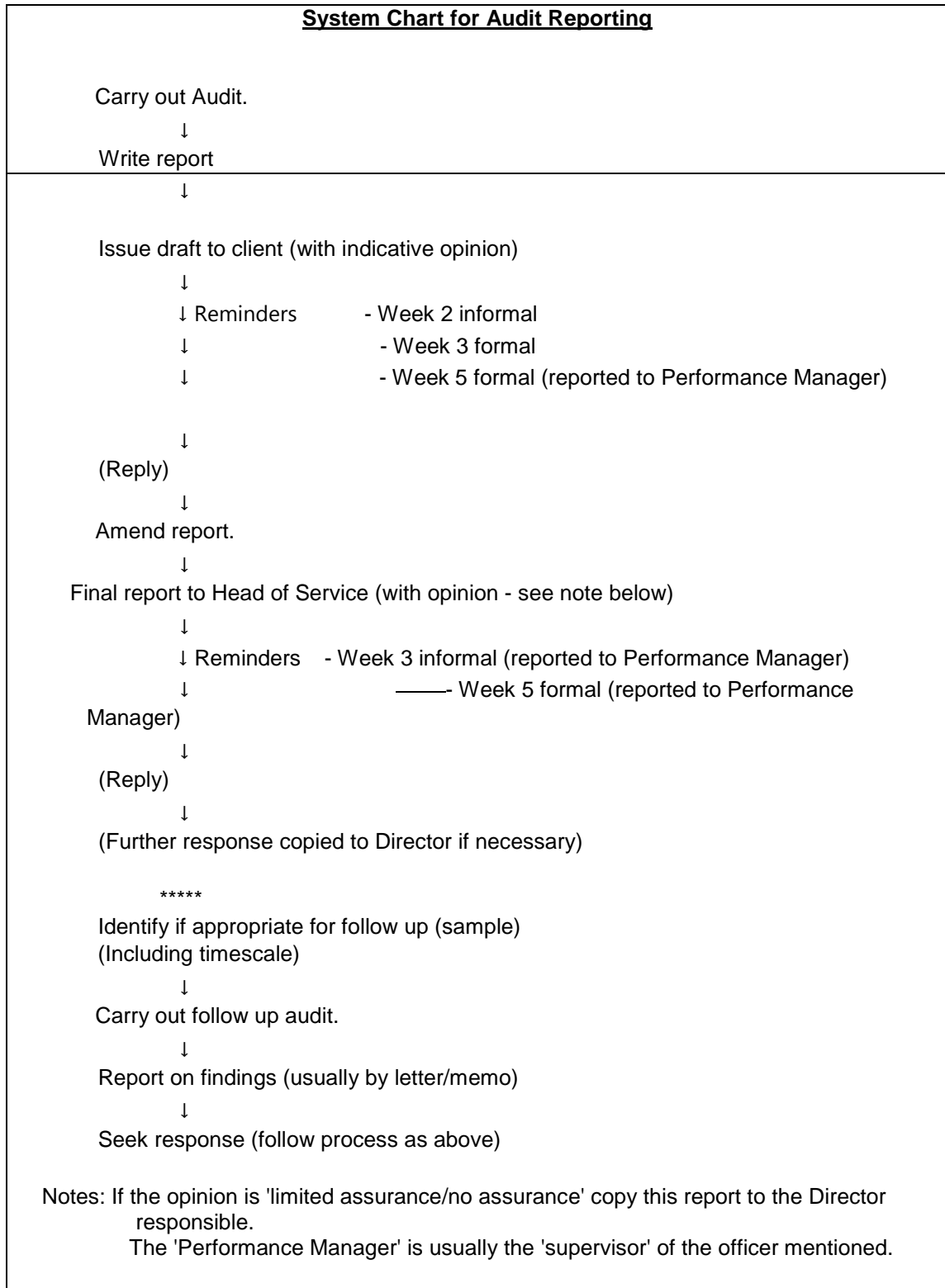
### **5 Audit Assignments**

- 5.1 Each specific Internal Audit assignment will identify its objectives and a time allocation and be either:

- (i) Subject to a routine audit programme developed in relation to the activity; or
  - (ii) Subject to a specific audit brief developed for the specific task and agreed with the client. (This can be either an infrequent piece of assurance work, or a unique piece of consultancy).
- 5.2 Prior to the commencement of routine audits, Internal Audit will usually inform the manager responsible for the Service area under review about the purpose, scope and expected timing of the work. However, for some types of audits, such as special investigations, advance warning of the audit visit may not be appropriate, and this is at the discretion of the Head of Internal Audit.
- 5.3 Internal audit work will look to assess and provide information on the:
- i) Soundness, adequacy and application of the financial and other management controls and systems within each Service.
  - ii) Extent of compliance with, and the financial effects of, established policies, plans and procedures.
  - iii) Extent to which the organisation's assets and interests are accounted for and safeguarded from losses of all kinds arising from fraud, other offences, waste, extravagance and inefficient administration, poor value for money and other cause.
  - iv) Suitability, accuracy and reliability of financial and other management data within the organisation; and (where applicable)
  - v) Value for money aspects of service provision
- 5.4 During the conduct of reviews, Internal Audit staff will consult, orally and/or in writing, with relevant officers to:
- i) Ensure information gathered is accurate and properly interpreted.
  - ii) Allow management to put their case to ensure that a balanced assessment is made.
  - iii) Keep management informed on the progress of the audit.
  - iv) Ensure recommendations are cost effective and practicable; and
  - v) Ensure that all recommendations agreed are followed up and that action has been taken leading to implementation.
- 5.5 Whatever the source of the evidence, Internal Audit must be satisfied as to its nature, reliability, completeness and relevance before drawing conclusions.
- 5.6 Internal Audit working papers (paper and electronic) will contain the principal evidence to support reports and they also provide the basis for review of work by documenting: -
- i) Planning.
  - ii) Examination and evaluation of the adequacy and effectiveness of internal controls.
  - iii) The audit procedures employed, the information obtained, and the conclusions reached.
  - iv) The management reviews.
  - v) The report; and (as applicable, if any)
  - vi) Follow up.
- 5.7. The Auditor and Audit Manager will use their best endeavours to deliver the completed assignment within the time allocated and the timescale determined. This may not be possible due to inability to access key staff,

other programming difficulties, the state of the records and information presented.

## 6 Audit Reporting



### 6.1 Internal Audit Reports

In respect of each assignment Internal Audit will produce a written report. This will usually set out summary information about the objectives and the work performed, providing detail of any adverse findings on an "exception only basis" setting out the extent to which operations fail to conform to the established standard and other important matters identified, stating the conclusions reached and recommendations, with an Action Plan to address these recommendations.

Where a report is issued, generally this will initially be in the form of a draft report, issued to the auditee and line manager, for comment on factual accuracy and the potential practicality of draft recommendations. Services can indicate at this stage if they agree with the recommendations and how they intend to action them. This will be usually issued by email.

In respect of investigative work, the draft report (when produced) will be discussed with the responsible Director (or nominee). For consultancy work, the draft will be discussed with the commissioning manager.

On occasions where there are no adverse findings or recommendations, a report may progress to final stage without a draft being necessary.

The final Internal Audit report will be issued to the Service Director (or where agreed, the Strategic Director). An accompanying letter or email will indicate the Internal Audit opinion on the state of the system / process at the time the audit was undertaken, (and if the report is to feature in detail in subsequent reporting, a summary text).

## 6.2 Management Response

A formal written reply is required. This should indicate specifically:

- i) That the recommendations are accepted, and actions are to be taken, including timescale and the names of individual officers who are specifically responsible for their implementation.
- ii) That specific recommendations are not accepted. The reason should be provided, and any alternative actions should be listed.

A reply is not required where there are no recommendations, or when a detailed response was made at draft stage.

At this stage the matter will be considered to be finalised, except where the actions / inactions proposed under (ii) appear unjustified or unclear whereupon if the Head of Internal Audit believes the rejection or alternatives are unreasonable, further discussions will take place and, if necessary, the matter will be reported to the relevant Strategic Director, or through the Internal Audit reporting process to the Corporate Governance & Audit Committee.

Management should respond to Internal Audit reports as quickly as possible, and within the following maximum timescales established in FPRs.

Draft Reports: Within 2 weeks of issue

Final Reports: Within 4 weeks of issue

Failure to adhere to the above timescales will be reported to Corporate Governance & Audit Committee on a quarterly basis.

## 6.3 Audit Opinion



The report will express an opinion on the level of assurance that is offered by the system/process at the time the audit work was undertaken.

In respect of any audit work where the specific objective is to assess value for money, the opinion will reflect the assurance of the extent that current arrangements do, or are likely to, deliver value for money. Where value for money is one of several objectives, a separate opinion will be stated (on the grounds that a system may be highly effective in respect of the controls that it provides but does not do so in a way that is efficient).

<b>Assurance level</b>	<b>Control Adequacy</b>	<b>Control Application</b>
Substantial Assurance	A robust framework of all key controls exists that is likely to ensure that objective will be achieved	Controls are applied continuously or with only minor lapses
Adequate Assurance	A sufficient framework of all key controls exists that is likely to result in objectives being achieved, but the overall control framework could be stronger	Controls are applied but with some lapses
Limited Assurance	Risk exists of objectives not being achieved due to the absence of several key controls in the system	Significant breakdown in the application of several key and/or other controls
No Assurance	Significant risk exists of objectives not being achieved due to the absence of key controls in the system	Serious breakdown in the application of key controls

6.4 The assurance is judgement based, around the following criteria.

<b>Assurance Level</b>	<b>Fundamental</b>	<b>Significant</b>	<b>Merits Attention</b>
Substantial Assurance	There are no fundamental recommendations	There is no more than one significant recommendation	There are no more than five merits attention recommendations
Adequate Assurance	There are no fundamental recommendations	There are 2 to 4 significant. recommendations	There are 6 to 10 merits attention recommendations
Limited Assurance	There are one or more. fundamental recommendations	There are more. than four significant recommendations	There are more. than ten merits attention recommendations
No Assurance	The number of fundamental recommendations made reflects an unacceptable control environment	Not applicable	Not applicable

Although the above is a general assessment model, there will be an element of discretion, as a single fundamental failing can, in certain circumstances, mean that an entire operation offers no assurance.

## 6.5 Prioritisation of Recommendations

Audit recommendations are allocated a priority rating to signify the risk, or level of internal control weakness, associated with the issue identified. The ratings used are: -

Priority Rating	Guidance
Fundamental	A recommendation, often requiring immediate action, which is key to maintaining an appropriate control environment and thereby avoiding exposure to a significant risk to the achievement of the objectives of the system, process or location under review.
Significant	A recommendation requiring action that is necessary to improve the control environment and thereby avoid exposure to a risk to the achievement of the objectives of the system, process or location under review.
Merits Attention	A recommendation where action is advised to enhance control or improve operational efficiency.

## 6.6 Acting on Audit Reports

It is the responsibility of senior management to consider audit reports and implementation of audit recommendations. The Service Director has the right to accept or reject internal audit advice.

## 6.7 Consolidating Information to form Overall Opinions and Advice

In respect of key financial systems, the overall opinion on the system will often be informed by several discrete pieces of work.

In addition, Internal Audit will also analyse various discrete audit assignments to ascertain if information or advice of benefit to a wider audience of managers can be obtained and distributed.

## 6.8 Corporate Management Reporting

Internal Audit will produce:

- i) A Quarterly Report on Internal Audit activity
- ii) An Annual Report on Internal Audit activity expressing an opinion on the integrity and appropriateness of all significant financial systems and business control systems.  
The Quarterly Report will contain details of work which has been finalised and agreed in the period, including:
  - i) Specific details of all investigations, special studies and reviews and non-standard work.
  - ii) Summary information on systems and processes reviewed, and key reasons or findings when the system is providing only 'limited assurance' or 'no assurance'.
  - iii) Information about all follow up work; and
  - iv) Information about any senior managers who have failed to comply with their obligations.The report will indicate if:
  - i) At the time of the audit, the system or process reviewed provided

- “substantial”, “adequate”, “limited” or “no” assurance.
- ii) Management have not agreed the recommendations; and
- iii) In the case of follow up work, if agreed recommendations have not been implemented.

The report will be presented to the Chief Executive and Strategic Directors and formally to the Corporate Governance & Audit Committee.

The Annual Report will use information from the Quarterly Reports and analyse this against systems and across Service areas to provide an opinion in respect of those systems and arrangements that have been subject to review during the year of:

- i) All major financial and business systems.
- ii) Other business control systems.
- iii) The overall quality of the operation of control systems in individual Service areas; and
- iv) An overall assessment of risk, and governance.

The report will be presented to the Chief Executive and Strategic Directors and formally to the Corporate Governance & Audit Committee.

## **7. Management responsibilities**

- 7.1 It is the responsibility of operational managers, Heads of Service, Service Directors, Strategic Directors and Cabinet Members to implement and operate control systems which accord with statute, Council policy and organisational rules (e.g., Financial Procedure Rules).
- 7.2 They must ensure that appropriate records are kept and maintained as necessary to comply and demonstrate compliance with their requirements and ensure that staff employed are suitably skilled and trained.
- 7.3 Managers must ensure that appropriate access is granted for Internal Audit - to employees, premises, and records.
- 7.2 Accountability for the responses to the advice and recommendations of Internal Audit lies with management, who must either accept and implement the advice, offer an alternative action that addresses the deficiency identified (which is acceptable to Internal Audit), or formally reject it.
- 7.5 It is the responsibility of managers to establish systems and procedures to deter, prevent and detect fraud, corruption and bribery and suspected fraud, corruption and bribery.

### The Public Sector Internal Audit Standards (PSIAS)

The Public Sector Internal Audit Standards took effect from 1 April 2013 and apply to almost all public organisations in the UK. They are based on a development of international standards for internal auditing, largely developed by the Institute of Internal Auditors.

The document produced is mandatory guidance which states the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance.

These standards in local authorities are supplemented by additional guidance from CIPFA that has regulatory authority for local government in the UK. This includes substantial checklists of process and procedure.

The Public Sector Internal Audit Standards use several specific terms. These include terms which in the Council are as shown below in preparing this charter.

Term in the Public Sector Internal Audit Standards	Interpretation in this Charter Document
Chief Audit Executive	Head of Audit & Risk
Board	Corporate Governance & Audit Committee
Senior Management	Chief Executive and Strategic Directors

The Public Sector Internal Audit Standards document makes several statements as regards employment arrangements of the Chief Audit Executive. Whilst the UK standard and CIPFA identifies that some of the stated practices are not relevant to local government, these rules do look to transfer some employment related matters away from purely the executive arm of the organisation, by involving requirement of the Board.

### Statement of the Responsibilities of Management

1. It is the responsibility of management to establish sound and adequate operational systems and processes designed to achieve the organisation's objectives efficiently and effectively. It is their responsibility to organise operations efficiently in a way that achieves required outcomes, statutory compliance and adequate levels of internal control including, as appropriate, matters such as the correct management of information. Senior managers must ensure that operational managers understand their role, operate systems as designed and intended, train staff appropriately in the required systems and procedures, and keep and retain adequate records. It is the responsibility of managers to establish systems and procedures to deter, prevent and detect fraud, corruption and bribery.
2. In dealing with Internal Audit managers should.
  - Arrange appointments for planned audit work promptly.
  - Respond diligently and promptly to any unplanned visit or request for information.
  - Have appropriate records and accesses available as necessary to assist the audit work.
  - Have the appropriate staff available to describe any system or arrangement, and answer questions or resolve queries as the audit work progresses.
  - Be available to discuss the conclusions of audit work and any recommendations.
  - Reply promptly to any draft audit report.
  - Reply promptly to any final audit report.
  - Complete any necessary action plan indicating agreement or otherwise.
  - Implement agreed actions.
3. In respect of assurance, consulting or other activity (such as investigations) it is the role of Internal Audit to assess and report independently on systems and process and the efficiency and effectiveness of an activity. Whilst management will be consulted, and their comments considered, and can seek to offer advice and opinion, the auditor is responsible for production of the report based on the evidence that they have available. Managers are not required to agree with the conclusions reached.
4. Managers are not required to implement audit recommendations. Where they believe that a recommendation is inappropriate, they should say why. Where they would prefer an alternative action, they should propose this.
5. Although internal auditors will always attempt to be helpful, their role is to provide assurance and specific consulting, and it is not their prime role to offer advisory services, although they can often be a useful final arbiter if there is a lack of clarity about appropriateness of a procedure, or interpretation of a rule or requirement.
6. The Chief Executive, Chief Financial Officer (s 151 officer) and Monitoring Officer are ultimately responsible for the implementation of matters as required by their statutory responsibilities.