

Lancashire County Council
Internal Audit Service Charter
June 2013

1 Introduction

- 1.1 This charter establishes the framework in which Lancashire County Council's Internal Audit Service operates to best serve the council and to meet its professional obligations under the Public Sector Internal Audit Standards (PSIAS) which are applicable from 1 April 2013.
- 1.2 For local government in the United Kingdom the Chartered Institute of Public Finance and Accountancy's (CIPFA) is the relevant standard setter. CIPFA has adopted the PSIAS which encompass the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework, including its definition of internal auditing, code of ethics, and international standards for the professional practice of internal auditing.
- 1.3 Where the Internal Audit Service provides a fully out-sourced service to any other organisation, equivalent arrangements are made that match those set out in this document. So, for example, references in this document to the county council's Audit and Governance Committee should be read to mean the Audit and Accounts Committee at Rossendale Borough Council.

2 Definition of internal audit

- 2.1 The PSIAS 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.'
- 2.2 The requirement to be independent and objective means that an internal audit service cannot assume management responsibility for risk management, control or governance processes. The existence of the Internal Audit Service does not diminish management's responsibility to establish a control environment and systems of internal control, risk management and governance to ensure that the councils' objectives are met and its activities conducted in a secure and well-ordered manner.

3 Responsibilities and objectives

- 3.1 The PSIAS make clear that the provision of assurance services is internal audit's primary role. This role requires the Chief Internal Auditor to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. The scope of internal audit work therefore encompasses all of the council's activities including those operated through partnerships with other organisations.
- 3.2 Therefore, on the basis of work undertaken during the year, the Chief Internal Auditor will provide an opinion annually to the council on the overall adequacy and effectiveness of its control environment. This opinion will be an important element of the council's review of the effectiveness of its control environment and will be used by the council to inform its annual governance statement.
- 3.3 The Chief Internal Auditor will establish an annual risk-based plan that takes into account the requirement to produce an annual internal audit opinion and the council's wider assurance framework and other sources of assurance.

4 The statutory regime and related requirements

- 4.1 Internal audit is a statutory service in the context of the Accounts and Audit Regulations 2011, which state that:

'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control' (6(1)).
- 4.2 The PSIAS and their accompanying Local Government Application Note have been recognised as 'proper practices' by the Department for Communities and Local Government, which sponsors the Accounts and Audit Regulations.
- 4.3 In addition the Local Government Act 1972 (Section 151) states that local authorities are required to 'make arrangements for the proper administration of their financial affairs'. It is this legislation that requires internal audit to maintain a focus on internal financial controls as well as the controls over the council's wider risks as required by the Accounts and Audit Regulations.
- 4.4 The county council's Financial Regulations provide for the Internal Audit Service, representing the County Treasurer, to have access to all cash, property, documents, books of accounts and vouchers appertaining in any way to the finances of the county council, and to require explanations as necessary.

5 Reporting lines and relationships

- 5.1 The Chief Internal Auditor is managed by the County Treasurer, who is a member of the council's Management Team. For the purposes of the

PSIAS the Management Team is regarded as the council's senior management.

- 5.2 CIPFA's Statement on the Role of the Chief Financial Officer in Local Government, 2010, requires the County Treasurer to:
- Ensure an effective internal audit function is resourced and maintained;
 - Ensure that the council has effective arrangements in place for internal audit of the control environment;
 - Support the council's internal audit arrangements; and
 - Ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively.
- 5.3 The Chief Internal Auditor has, in addition, regular access to the chair of the Audit and Governance Committee. For the purposes of the PSIAS this committee is regarded as the 'board'. It meets at least four times each year, and the Chief Internal Auditor reports to each meeting of that committee under its terms of reference. The Audit and Governance Committee is responsible for approving (but not directing) the annual audit plan.
- 5.4 The Internal Audit Service and the council's external auditor operate to a protocol which sets out the relationship between internal and external audit, and supports regular liaison between the two services, leading to a joint improvement in performance and avoidance of duplication of work.

6 Independence and accountability

- 6.1 The Internal Audit Service remains independent of the council's other services, with the exception of its support to management in relation to risk management, counter fraud and investigatory work, no internal auditor has any other executive or operational responsibilities. Auditors are expected to deploy impartial and effective professional judgement.
- 6.2 The Chief Internal Auditor makes an annual declaration that the internal audit function is operationally independent. The Internal Audit Service's priorities are determined in consultation with the Management Team and the council's senior leadership team, but remain a decision for the Chief Internal Auditor.
- 6.3 The Internal Audit Service has direct access to the council's records, assets, premises and officers and is able to report independently and impartially as required. Accordingly the Chief Internal Auditor has direct access to and freedom to report in her own name and without fear or favour to, all officers and members and particularly the Audit and Governance Committee.
- 6.4 The Chief Internal Auditor has the formal opportunity prior to each committee meeting to meet with the chair and deputy chair of the Audit and Governance Committee.

- 6.5 Accountability for the response to the Internal Audit Service's advice and recommendations lies with the council's Management Team, which either accepts and implements the advice or accepts the risks associated with not taking action.
- 6.6 Audit advice and recommendations for action, including where the Internal Audit Service has been consulted about significant changes to internal control systems, are given without prejudice to the right of the Internal Audit Service to review and make further recommendations on the relevant policies, procedures, controls and operations at a later date.
- 6.7 All auditors are required to make an annual declaration of their interests, which is updated during the year as necessary, and where any auditor has a real or perceived conflict of interest this is managed to maintain the operational independence of the Service as a whole.

7 Internal audit resources

- 7.1 Lancashire County Council has taken the strategic decision to provide its internal audit service itself and is committed to providing a service that meets or exceeds the best quality standards.
- 7.2 The Chief Internal Auditor is responsible for ensuring that Internal Audit Service resources are sufficient to meet its responsibilities and achieve its objectives. If the Chief Internal Auditor or the Audit and Governance Committee considers that the level of audit resources or the terms of reference in any way limit the scope of internal audit, or prejudice the ability of the Internal Audit Service to deliver a service consistent with its statutory and related requirements, they will advise the council accordingly.
- 7.3 Nonetheless, the Internal Audit Service has finite resources and its workforce is therefore to be deployed to meet an annual audit plan that pays regard to the relative risks accepted, and levels of assurance required, by the council.
- 7.4 Lancashire County Council's performance and development review scheme is applicable to all staff within the Internal Audit Service. The Service supports continuous staff performance appraisal and development, and assessment of training needs.

8 Quality assurance

- 8.1 The Chief Internal Auditor operates a performance management and quality assurance framework that assesses on-going compliance with the PSIAS, and whether the Internal Audit Service is consistently meeting its internal quality standards.
- 8.2 Periodically, but not less than once every five years, the Internal Audit Service is subject to an external assessment by a qualified, independent assessor from outside the organisation. The Chief Internal Auditor will discuss with the Audit and Governance Committee the form of such an external assessment and the qualifications and

independence of the external assessor, including any potential conflict of interest. An external assessment will either be in the form of a full external assessment, or a self-assessment with independent external validation.

9 Non audit work

- 9.1 The PSIAS recognise that the Internal Audit Service may go beyond the work needed to meet its assurance responsibilities and provide services to assist with, for example, the investigation of suspected fraud or corruption, or provide a consultancy service to management. These services apply the professional skills of internal audit and contribute to the overall opinion.

10 Investigations and counter-fraud services

- 10.1 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management.
- 10.2 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 procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.
- 10.3 The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for their opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.
- 10.4 The Internal Audit Service operates the council's whistle-blowing helpline and provides an additional service to respond to and investigates instances of suspected or actual fraud, corruption or impropriety.

11 Risk management

- 11.1 The Internal Audit Service is not responsible for managing the council's risks, which is the responsibility of management.
- 11.2 However the Internal Audit Service supports management in making its assessment of risk. The Internal Audit Service will also share information gathered during the course of internal audit work with management to enhance management's understanding of the risks to the council and the financial and operational controls in place to manage them.

12 The Chief Internal Auditor

- 12.1 The Chief Internal Auditor holds a professional qualification (fellow of the Institute of Chartered Accountants in England and Wales) and is suitably experienced in internal audit work.

13 The Internal Audit Service business plan

13.1 The Internal Audit Service business plan is framed in terms of the Internal Audit Service's professional objectives, which require the Service to achieve:

- A best practice approach;
- Effective use of technology;
- Sound client management;
- A strong audit team; and
- Effective quality assurance.

13.2 These objectives underpin the Internal Audit Service's strategic development and operation in practice.

14 Performance measures and service standards

14.1 The Internal Audit Service assesses its performance as follows:

Measures focussed on client satisfaction:

- The degree to which client input is sought to the scope of audit work, and audit procedures agreed in advance;
- The clarity with which findings are communicated;
- The practicality of auditors' analysis and recommendations for remedial action;
- The level of auditors' knowledge of clients' business;
- The effectiveness of liaison arrangements; and
- Auditors' responsiveness to requests for advice, and the extent to which staff demonstrate a professional and helpful attitude.

14.2 Each of these measures is assessed at least annually.

Measures directed towards achieving professional standards:

- The timeliness of quality review processes at the scoping, fieldwork, and reporting stages;
- The timeliness of our audit reporting, within the targets agreed between the audit team and our clients;
- The degree of reliance placed on our work by the external auditor; and
- Achievement of a target level of chargeable time.

14.3 The reliability of the work of the Internal Audit Service is periodically assessed by the external auditor, as required by external audit standards, and its findings are reported to the Audit and Governance Committee.

Organisational measures:

**Lancashire County Council
Internal Audit Service charter**

- The delivery of internal audit assurance within the Internal Audit Service's budget; and
- Achievement of corporate policy targets including, for example, compliance with corporate health and safety procedures.