



## INTERNAL AUDIT CHARTER

### **Introduction**

1. The Public Sector Internal Audit Standards (PSIAS) 2013 require each local government body to have an Internal Audit Charter in place. The Charter sets out the purpose, authority and responsibility of the internal audit activity at Pendle Council.
2. The Standards (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."*
3. CIPFA further define Internal Audit within their PSIAS Local Government Application Note as *"an independent and objective opinion to the organisation on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. It may also undertake consulting services at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources."*

### **Key roles and relationships**

4. The PSIAS require that the internal audit charter defines the terms 'Board' and 'Senior Management' in relation to the work of internal audit.
5. At Pendle, the role of 'Board' is taken to refer as the Accounts and Audit Committee and 'Senior Management' will be fulfilled by the Senior Management Team.
6. The PSIAS also refer to the 'Chief Audit Executive' which at Pendle is the Audit and Performance Manager. The Audit and Performance Manager is a professionally qualified member of the Institute of Internal Auditors and has extensive internal audit experience.
7. The Internal Audit Unit itself is an integral part of Financial Services. Its authority is drawn directly from its statutory responsibilities and the Council's Constitution (Part 4 - Financial Procedure Rules).
8. The Audit and Performance Manager has responsibility for day to day management of the Internal Audit Unit and reports to the Financial Services Manager who is a member of the Council's Senior Management Team and acts as the Section 151 Officer. In order to maintain independence however, the Audit & Performance manager also has unfettered access to the; Strategic Director (Head of Paid

Services); Corporate Director (Monitoring Officer); Management Team; Chair and members of the Audit Committee, Elected Members, External audit and other partner organisations.

### **Responsibilities**

9. The Financial Services Manager is responsible for maintaining an adequate and effective internal audit function and its key responsibilities are laid out in the Council's Financial Procedure Rules.
10. The Internal Audit Manager (The Audit and Performance Manager) has the authority to:
  - a. access Council premises at reasonable times
  - b. access all assets, records, documents, correspondence and control systems
  - c. receive any information and explanation considered necessary concerning any matter under consideration
  - d. require any employee of the Council to account for cash, stores or any other Council asset under his or her control
  - e. access records belonging to third parties, such as contractors, when required
  - f. directly access the Head of Paid Service, the Chair of the Accounts and Audit Committee and the Executive
11. To consult with Managers and to present for Committee approval the Strategic and Annual audit plans prepared by the Internal Audit Manager, which take account of the characteristics and relative risks of the activities involved.
12. To ensure that effective procedures are in place to investigate promptly any fraud or irregularity.

### **Audit Scope**

13. As an independent appraisal function within the Council, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources.
14. Internal Audit will undertake risk-based reviews and evaluations of the control environment (including, where appropriate, those of external bodies and partnerships). The work of Internal Audit is set out in the Annual Internal Audit Plan. This Plan is designed to support the Annual Internal Audit Opinion and the council's Annual Governance Statement.
15. The scope of Internal Audit work encompasses but is not restricted to the following: -
  - a. reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
  - b. the extent of compliance with Financial Regulations, Financial Procedure Rules, Contract Procedure Rules, the Council's constitution, laws and regulations;
  - c. appraising the effectiveness and reliability of the risk management framework and recommending improvements where necessary;
  - d. the extent to which the assets and interests are acquired, accounted for and safeguarded from losses;

- e. the suitability, reliability and integrity of financial and other management information and the means used to identify, measure, classify and report such information;
  - f. the integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud and loss of all kinds; and that the process aligns with the Council's strategic aims;
  - g. appraising the economy, efficiency and effectiveness with which resources are employed;
  - h. the follow-up actions taken to implement recommendations made and remedy weaknesses identified by Internal Audit, ensuring that good practice is identified and widely communicated;
  - i. the operation of the Council's corporate governance and risk management arrangements.
  - j. Investigation of suspected fraud, corruption and bribery cases.
16. For each assignment an audit brief is prepared, discussed and agreed with the relevant manager. The brief establishes the objectives, scope and timing for the audit work. Audit work is undertaken using a risk based audit approach which will consider the probability of significant errors, fraud and non-compliance.
17. The results of each assignment are reported in draft, including the objective, scope, conclusion, recommendations and timetable for implementation, and level of assurance (Full, Substantial, Limited, None) for comment and factual accuracy.
18. Any significant issues are brought to the attention of management during the engagement to allow for immediate action.
19. Responsible officers are required to respond to each recommendation, detailing action to be taken and the target date for completion. Each recommendation is given a priority rating designed to assist management in drawing attention to the risks associated with a control failing. Once the draft is agreed a final report is issued to management who are responsible for implementing agreed recommendations.
20. Internal Audit will monitor the progress made on agreed actions. It is the responsibility of management to implement and provide relevant evidence of the agreed actions to Internal Audit via an Internal Audit Recommendations Database. The work of Internal Audit is reported to the Accounts and Audit Committee each quarter.
21. Internal Audit may undertake consultancy activity or non-audit work (additional activity requested by management) where it has the necessary skills and resources to do this, and this will be determined by the Audit and Performance Manager in consultation with the Financial Services Manager on a case by case basis. Careful consideration will be given to avoid unnecessary conflict of interests.
22. An Annual Audit report is prepared by the Audit and Performance Manager. The opinion in this report is used to inform the Annual Governance Statement. The Annual Audit Report must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control giving an overall opinion and summary of the work undertaken to support this opinion. Consideration must also be given to a statement on the conformance with the PSIAS and the results of the quality assurance and improvement programme (QAIP).

### **Audit Strategy and Annual Plan**

23. The Audit and Performance Manager will develop and maintain an Internal Audit Strategy for delivering the Internal Audit service which aligns with the Corporate Objectives. The Strategy is prepared to guide the medium term planning for the Internal Audit Unit. The current Strategy covers the period 2014-17.
24. The annual Internal Audit Plan is designed to complement the Audit Strategy. The Plan is developed by prioritising the audit universe using a risk based methodology taking into account the Council's objectives, service plans, discussions with Management Team and the External Auditor. The audit plan outlines the assignments to be carried out and the resources required for delivery. The Internal Audit Strategy and Annual Audit Plan are approved by the Accounts and Audit Committee.
25. The Audit and Performance Manager in consultation with the Financial Services Manager will ensure that the Internal Audit service has access to an appropriate range of knowledge, skills and experience required to deliver the audit plan. To assist in meeting these requirements, the internal audit service is supplemented by the use of an external provider, Furness Audit to undertake computer audit work.
26. Individual training needs are established and agreed through the Council's Performance Management Review process along with the most cost effective way of meeting those needs. As a professional service, audit staff are expected to actively participate in formal Continuing Professional Development (CPD) schemes.

### **Quality Assurance and Improvement Programme (QAIP)**

27. The PSIAS requires that the Head of Audit develops and maintains a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of internal audit activity. The quality assurance and improvement programme must include both internal and external assessments. The following activities make up the QAIP at Pendle:

#### **Internal Assessment**

- a. Completion of CIPFA's LGAN self-assessment checklist to assess compliance with PSIAS;
- b. Quarterly progress review of internal audit activity to the Accounts and Audit Committee and feedback from the Chair of the Accounts and Audit Committee on matters arising;
- c. Regular review and ICQ feedback of all internal audit reports;
- d. Annual certification confirming compliance with the Code of Ethics;
- e. Annual review of the system of Internal audit by the Financial Services Manager;
- f. Regular performance appraisal of Internal Audit staff and access to CPD training.

#### **External Assessment**

- a. Feedback on internal audit activity during the year by the External Auditor (Grant Thornton)
- b. Frequent benchmarking of Internal Audit activity with other internal audit sections organised through the Lancashire District Council's Audit Group.

- c. In compliance with PSIAS, external assessments to be carried out at least once every five years (i.e. from 2013) by a qualified, independent assessor or assessment team from outside the organisation. Pendle has already decided its preferred method would be through self-assessment with CIPFA's Application Note, with independent validation from a peer review (organised through the Lancashire District Councils' Audit Group) providing there is no conflict of interest and impairment to objectivity in this arrangement. The results of such a review will be reported to Accounts and Audit Committee.

### **Independence and Authority**

28. Internal Audit is sufficiently independent of the activities being audited to ensure auditors are able to make impartial and effective professional judgements and recommendations. To ensure this independence, internal audit staff are allowed unrestricted access to all council officers and elected members. Audit staff also have right to access any council premises with or without prior notice (subject to any statutory requirements), documentation held by the Council and seek explanation in order to discharge their duties. These access rights may also extend to partner organisations in some circumstances.
29. Where internal audit staff have a perceived or real conflict of interest in undertaking a particular piece of work (whether for personal reasons or through undertaking any non-audit duties), this will be managed by the Audit and Performance Manager or the Financial Services Manager. Work will be re-assigned where considered appropriate to do so. Adequate budgetary resources will be made available to enable the Internal Audit function to maintain its independence.

### **Due Professional care and Ethics**

30. The PSIAS contain a Code of Ethics (see below) which is mandatory for all internal auditors in the public sector. In addition, internal auditors are also required to comply with the requirements of their own professional bodies and the organisation in which they are employed. Internal Audit at Pendle Borough Council has adopted the PSIAS Code of ethics and a signed declaration from each member of staff is required on an annual basis.

### **Fraud and Corruption**

31. Managing the risk of fraud and corruption is vital to the success of the Council achieving its corporate objectives. Internal Audit will assist management in the effective discharge of this duty. Whilst it is not a primary role of Internal Audit to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud. It will however remain alert to risk and exposures both internal and external to the organisation and will work closely with other agencies such as the Police when required to do so.
32. The Audit and Performance Manager will 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. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

33. Internal Audit will lead or assist in maintenance and effectiveness of policies around fraud and corruption e.g. Anti-Fraud and Corruption Policy, Bribery Policy, Whistleblowing Policy, Gifts and Hospitality Policy and Money Laundering Policy.

34. The Audit and Performance Manager will report regularly to the Accounts and Audit Committee on the Council's work to manage fraud, theft and corruption.

**Review of the Charter**

35. This Charter will be subject to an annual review and any changes presented to the Accounts and Audit Committee for approval.

**Approval Date:**

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**Audit and Performance Manager:**

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**Kevin Stansfield**

**Chairman of the Accounts and Audit Committee:**

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**Lyle Davy**



## **Code of Ethics**

### **Introduction**

This Code is the standard of ethics for Internal Auditors working for Pendle Borough Council. It is the minimum expectations for the performance of Internal Audit and does not replace any requirements for Internal Auditors to comply with organisational or professional standards or codes of conduct. Working to this code ensures that the Internal Audit Service is compliant with the standards expected in the Public Sector Internal Audit Standards and CIPFA's Application Note for Internal Audit.

It has four main principles: Integrity, Objectivity, Competence and Confidentiality.

### **Integrity**

Internal Auditors should demonstrate integrity. Relationships should be based on honesty and fairness. This encourages trust in the work of the auditor and underlies the reliance that is placed on that work.

### **Objectivity**

Audits should be undertaken with an objective state of mind. One that considers all relevant issues without being unduly influenced by personal interest or others views. This is required in the formation of opinions, judgements and recommendations.

### **Competence**

The Code of Ethics for Internal Audit requires that Auditors apply the knowledge, skills and experience required in their audits. Internal Auditors should not perform work that they are not competent to undertake. They should be adequately trained or supported to perform the work to the required standard.

### **Confidentiality**

As part of the trust in relationships there is an expectation that Auditors safeguard the information that they receive. Any disclosure of information should be authorised only on the basis that there is a legal or professional requirement to do so. Any information gathered in an audit must not be used for personal benefit.

### **Systems to Support Compliance with the Code of Ethics**

Each Auditor should annually confirm that they understand these ethical responsibilities and will comply with them in carrying out audits.

### **Independence**

The independence of Internal Auditors is an important requirement to support objectivity. Internal Auditors should declare any potential conflicts of interest as they

arise. This will enable alternative auditors to be assigned to the audit where these conflicts are identified. Auditors will not be allowed to audit areas where they previously had operational roles for a suitable period (usually 12 months) to ensure that they are not auditing their own role. In addition, audits will be rotated between auditors to encourage innovation in approach and independence from previous advice or actions agreed.

The Audit and Performance Manager will take account of these declarations in assigning audits. For the Audit and Performance Manager, the Financial Services Manager will be required to review any declarations and ensure that arrangements are made to maintain independence.

### **Integrity in Audits**

This will be achieved through the quality control processes, which includes the consideration of fairness and objectivity, through review of working papers and feedback.

Auditors should declare all offers of Gifts or Hospitality and agree an appropriate response with either the Audit and Performance Manager or the Financial Services Manager.

### **Ensuring Competent Auditor**

The Council has IIP status and a system of ensuring that staff training requirements are identified and provided is linked to the achievement of objectives. All Internal Audit Staff should understand

- a. The Council's Objectives, its risk and governance arrangements
- b. The purpose, risks and issues of the activity being audited
- c. The brief for the audit including the scope for the audit
- d. The relevant legislation, regulation or policy arrangements for the activity

### **Maintaining Confidentiality**

Disclosure of audit information will be made through compliance with the Council's Financial Procedure rules. Identified breaches of confidentiality will be considered for disciplinary action.

### **Due Professional Care**

The Code of Ethics requires the following concerning Due Professional Care. Internal Auditors are expected to follow this approach.

### **Principles of Due Professional Care**

This is working with competence and diligence, and does not mean infallibility. Auditors are expected to use their audit skills, knowledge and judgement, based on appropriate experience, training, ability, integrity and objectivity. In undertaking audits the requirement for confidentiality should be understood and respected. Following the Code of Ethics will contribute to showing due professional care.

### **Individual Auditor's Responsibilities**

Individual Auditors are personally responsible to follow due professional care in audits.

They should:-

- a. be fair and not allow prejudice or bias to override objectivity
- b. declare any interest that could be perceived to be conflicting or could potentially lead to conflict (see above)
- c. not accept any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the Council's policy)
- d. use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base their conclusions, professional judgements and recommendations
- e. be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest
- f. have sufficient knowledge to identify indicators that fraud or corruption may have been committed
- g. disclose all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to confidentiality requirements
- h. disclose any non-compliance with these standards
- i. not use information they obtain in the course of their duties for personal benefit or gain.