

Agenda Item No: 8

Report No: 50/13

Report Title: Changes to the Public Sector Internal Audit Standards (PSIAS) 2013

Report To: Audit and Standards Committee Date: 18 March 2013

Ward(s) Affected: All

Report By: Director of Finance

Contact Officer

Name: David Heath

Post Title: Head of Audit and Performance

E-mail: David.Heath@lewes.gov.uk

Tel no 01273 484157

1 Purpose of Report:

1 To inform Councillors of the key changes in the Public Sector Internal Audit Standards (PSIAS) 2013 and the ways in which the changes will impact on the Council's Internal Audit Section.

2 Officers Recommendation(s):

1 To note the contents of the report.

2 To approve the proposed definitions of the terms 'Board,' 'Senior Management' and 'Chief Audit Executive' that are used to describe key elements of the Council's governance, and the ways in which they interact (see paragraphs 7 and 8).

3 To approve the proposed revised version of the Charter for Internal Audit (see paragraphs 9 to 11, and Appendix 1).

4 To note the revised version of the Guide to Internal Audit (see paragraph 11 and Appendix 2)

5 To note the proposed arrangements for an external assessment of Internal Activity in accordance with PSIAS requirements (see paragraph 12 to 14).

Reasons for Recommendations

1 At its meeting in March 2007, the Audit Committee approved amendments to the working methods, documentation and reporting arrangements for the Internal Audit Section at Lewes. The amendments were derived from the revised versions of the CIPFA Code of Practice for Internal Audit in Local Government and the Accounts and Audit Regulations (2006).

2 CIPFA has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that will apply from 1 April 2013. The Head of

Audit and Performance has reviewed the PSIAS for their impact on Internal Audit at Lewes, and is advising the Audit and Standards Committee of the outcome of the review.

Information

- 3** In many areas of the revised PSIAS the working practices at Lewes (eg risk based planning, ensuring the independence of Internal Audit, managing Internal Audit activity, communicating the results of individual audits, reporting an annual audit opinion) already meet the new standards, and no further changes will be required other than to make minor changes to internal documents to include new wording. However, there are some areas of the new standards that require consideration and these are outlined below.
- 4** All the necessary changes have been taken into a revised version of the Charter for Internal Audit (Appendix 1), which will be placed on the Council's website.

Definition of Internal Auditing

- 5** The PSIAS include a revised definition of Internal Auditing, which recognises that a significant part of the function's role involves giving advice on governance and control (consulting services) as well as the primary role of providing assurance. The revised definition is:

'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.'

Code of Ethics

- 6** The Code of Ethics is a mandatory element of the PSIAS. The existing Charter for Internal Audit at Lewes contains a Code of Ethics that is very similar to that in the PSIAS in terms of the standards of conduct that are required of internal auditors, but it will be updated to include the specific principles and rules of conduct that are set out in the PSIAS. The new Code of Ethics is given at Section 11 of the revised Charter (Appendix 1).

Key governance elements

- 7** Within the PSIAS the terms 'Board,' 'Senior Management' and 'Chief Audit Executive' are used to describe key elements of an organisation's governance, and the ways in which they interact. The PSIAS require that the terms are defined in the context of the governance arrangements in each public sector organisation in order to safeguard the independence and objectivity of Internal Audit.
- 8** At Lewes DC it is recommended that the following interpretations are applied so as to ensure the continuation of the current relationships between Internal Audit and different bodies at the Council.

Board

In the context of overseeing the work of Internal Audit at Lewes the 'Board' will be the Audit and Standards Committee of the Council. The revised Charter will apply the title of the Audit and Standards Committee in place of 'Board' as appropriate.

Senior Management

At Lewes DC, the Annual Governance Statement is signed by the Chief Executive and the Leader of the Council in recognition of their overall responsibility for corporate governance. The PSIAS do not change these key responsibilities.

In the context of ensuring effective liaison between Internal Audit and senior officers responsible for specific aspects of internal control and governance, in a way that ensures the independence of Internal Audit, and provides for a critical challenge to the way that Internal Audit activities are carried out, the 'Senior Management' will be the Section 151 Officer (Director of Finance) and the Monitoring Officer (Corporate Head – Legal and Democratic Services). The revised Charter will apply these functional titles in place of 'Senior Management' as appropriate. This approach reflects the way in which these aspects of governance are managed at present.

The ways in which Internal Audit consults with the Corporate Management Team (CMT) in formulating the Strategic Audit Plan and in agreeing the scope of internal audits are not affected by the above definition, and will continue to operate as now.

Chief Audit Executive

In the context of the officer responsible for managing the Internal Audit service, and its relationships with the Audit and Standards Committee, senior officers and other bodies in the Council, the 'Chief Audit Executive' will be the Head of Audit and Performance. The revised Charter will continue to apply the title of the Head of Audit and Performance as appropriate.

Charter for Internal Audit

- 9** The Charter for Internal Audit is a formal document that defines the purpose, authority and responsibilities of Internal Audit at LDC. The Charter establishes the position of Internal Audit within the organisation, authorises access to records, personnel and physical properties relevant to the performance of Internal Audit engagements, and defines the scope of Internal Audit activities.
- 10** The PSIAS require that the Head of Audit and Performance periodically reviews the Charter for Internal Audit and presents it to the Audit and Standards Committee and the Section 151 Officer and the Monitoring Officer. This has been the standard approach at Lewes since 2002, and this report is the third time that the Charter has been presented to the Committee.

- 11 The revised Charter for Internal Audit is given at Appendix 1. Once approved, the Charter will be published on the Council's website. A less formal version of the Charter is published on Infolink for the guidance of staff as a Guide to Internal Audit. The revised Guide to Internal Audit is given at Appendix 2.

Quality Assurance and Improvement

- 12 The PSIAS require that the Head of Audit and Performance develops and maintains a quality assurance and improvement programme that covers all aspects of Internal Audit activity. The programme must be designed to enable an evaluation of Internal Audit's conformance with the definition of Internal Auditing and the Standards, and an evaluation of whether internal auditors apply the Code of Ethics. Internal monitoring and assessment practices at Lewes already meet most of the requirements, but will be updated to ensure compliance with the terminology of the PSIAS and the arrangements for reporting the results of assessments, as shown in Section 10 of the revised Charter (Appendix 1).
- 13 The PSIAS set new requirements in terms of external assessments, which must be conducted at least every five years by a qualified, independent assessor (or assessment team) from outside the organisation. The Head of Audit and Performance must discuss with the Audit and Standards Committee the form of external assessments and the qualifications and independence of the assessor.
- 14 It is proposed that the Head of Audit and Performance will put in place suitable arrangements for an external assessment, and will report the arrangements to a future meeting of the Committee.

Financial Appraisal

- 15 The main financial implication of this report is the possible cost of the new external assessment arrangements (see 13 and 14 above). At this stage, it is not possible to say what these costs may be because there has been no decision how the assessments will be sourced. It may be possible to put in place reciprocal arrangements with neighbouring authorities in the Sussex Audit Group at relatively low cost.

Sustainability Implications

- 16 I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is an internal monitoring report.

Equality Screening

- 17 This report involves no key decisions and therefore screening for equality impacts is not required. However, if Internal Audit notes equalities issues during their work these will be raised with the Equalities Officer to ensure the appropriate equality impact screening is carried out.

Risk Management Implications

- 18 The risk assessment shows that if the Audit Committee does not ensure proper oversight of the adequacy and effectiveness of Internal Audit there is a risk that

a key aspect of the Council's control environment will not comply with best practice standards.

Background Papers

- 19** Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector.

<http://www.cipfa.org/Policy-and-Guidance/Standards/-/media/Files/Publications/Standards/Public%20Sector%20Internal%20Audit%20Standards.pdf>

Appendices

- 20** Appendix 1 - Charter for Internal Audit (3/13 version) – for agreement.
- 21** Appendix 2 – Guide to Internal Audit (3/13 version) - for information.

Appendix 1

Charter for Internal Audit

1 Introduction

- 1.1 This Charter defines the purpose, authority and responsibilities of the Internal Audit Section of Lewes District Council (LDC). The Charter establishes the position of the Section within the Council; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.

2 Purpose

- 2.1 Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council 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 existence of Internal Audit does not diminish the responsibility of line management to establish appropriate and adequate systems of internal control and risk management. Internal Audit is not a substitute for the functions of line management who should ensure that Council activities are conducted in a secure, efficient and well ordered manner.

3 Authorisation

- 3.1 The requirement for an Internal Audit function within Local Authorities has been established and developed over a period via a series of legislative Acts and government regulations, the most recent being the Accounts and Audit Regulations 2003, as amended in 2006 and 2011.
- 3.2 The Accounts and Audit Regulations 2006 state that a relevant body "must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control." The guidance accompanying the 2003 legislation advised that, for principal local authorities, proper internal audit practices are those contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK.
- 3.3 CIPFA has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that will apply from 1 April 2013. The Council had been committed to operating in accordance with the earlier versions of the Code, and will work in accordance with the requirements of the PSIAS. This Charter has been amended, where appropriate, to ensure full compliance with the new standards.
- 3.4 The Internal Audit Section is authorised to have full and complete access to any of the Council's records (manual and electronic), cash, stores and other assets, and may enter Council property or land, that are relevant to the performance of engagements. Such access shall be granted on demand and shall not be

subject to prior notice, although in practice the provision of prior notice is reasonable and the normal approach except when circumstances indicate otherwise. Internal Audit access will also extend to partner bodies or external contractors working on behalf of the Council, but access will need to be arranged via the senior Council officer named in the contract or partnership agreement. In addition, Internal Audit is authorised to have unrestricted access to all elected Councillors, Chief Officers and Council employees as is necessary for the proper performance of internal audit duties.

4 Organisation and Relationships

- 4.1 Within the PSIAS the terms 'Chief Audit Executive,' 'Board' and 'Senior Management' are used to describe key elements of the organisation's governance, and the ways in which they interact with Internal Audit. The PSIAS require that the terms are defined in the context of the governance arrangements in each public sector organisation in order to safeguard the independence and objectivity of Internal Audit. At Lewes, the following interpretations are applied so as to ensure the continuation of the current relationships between Internal Audit and other key bodies at the Council.

Chief Audit Executive

At Lewes, the Chief Audit Executive is the Head of Audit and Performance (HAP). The Internal Audit Section forms part of the Audit and Performance Division within the Finance Directorate, and the HAP reports operationally to the Director of Finance (DoF).

Board

In the context of overseeing the work of Internal Audit at Lewes the 'Board' will be the Audit and Standards Committee of the Council, which has been established as part of the Corporate Governance arrangements at the Council. The Committee is responsible for, amongst other things, agreeing the Charter for Internal Audit, agreeing the Annual Audit Plan and the three year Strategic Audit Plan, monitoring the work of Internal Audit, and keeping the progress of the plans under review. Internal Audit works closely with the Chair of the Audit and Standards Committee to facilitate and support the activities of the Committee.

Senior Management

At Lewes DC, the Annual Governance Statement is signed by the Chief Executive and the Leader of the Council in recognition of their overall responsibility for corporate governance. The PSIAS do not change these key responsibilities.

In the context of ensuring effective liaison between Internal Audit and senior officers responsible for specific aspects of internal control and governance, in a way that ensures the independence of Internal Audit, and provides for a critical challenge to the way that Internal Audit activities are carried out, the 'Senior Management' will be the Section 151 Officer (Director of Finance) and the Monitoring Officer (Corporate Head – Legal and Democratic Services). The revised Charter will apply these functional titles in place of 'Senior Management' as appropriate. This approach reflects the way in which these aspects of governance are managed at present.

The ways in which Internal Audit consults with the Corporate Management Team (CMT) in formulating the Strategic Audit Plan and in agreeing the scope of internal audits are not affected by the above definition, and will continue to operate as now.

- 4.2 The Internal Audit Section and the Council's external auditors, Pannell Kerr Foster (PKF), operate in accordance with an agreed protocol that sets out the relationship between internal and external audit. The protocol supports regular liaison between the two bodies in order to minimise any duplication of work and determine the assurance that can be placed on the respective work of the two parties
- 4.3 The Internal Audit Section co-operates with all external review and inspection bodies that are authorised to assess, inspect or review the activities of the Council to determine compliance with regulations, standards or targets. Internal Audit may determine the level of assurance that can be obtained from this work, and may rely on this assurance as part of the work to provide an opinion on the control environment.
- 4.4 The Internal Audit Section co-operates with the internal audit services from local authorities and other public bodies in Sussex that are members of the Sussex Audit Group (SAG) for the purpose of sharing best practice and benchmarking.

5 Objectives and Scope

- 5.1 The primary role of Internal Audit is to be an assurance function that provides an annual internal audit opinion based upon an objective assessment of the framework of governance, risk management and control. This responsibility to evaluate the framework of governance covers the whole system of risk management, internal controls and governance processes established by management, not just the financial control system.
- 5.2 An additional role is the provision of consulting services that are advisory in nature and generally performed at the request of the Council, with the aim of improving governance, risk management and control, and contributing to the overall opinion.
- 5.3 The Internal Audit Section has the following service objectives:
 - To provide an efficient and effective Internal Audit function which achieves its service standards, and improves performance where possible.
 - To deliver the Council's Annual Audit Plan and Strategic Audit Plan.
- 5.4 The desired outcome is for the Council to be able to demonstrate an effective control environment with no significant control issues, and to provide a satisfactory and unqualified audit opinion in its Annual Governance Statement (AGS).
- 5.5 In carrying out this role and meeting these objectives, the Internal Audit Section will evaluate, and contribute to the improvement of:
 - the completeness, reliability and integrity of information both financial and operational;

- the design, implementation and effectiveness of the Council's ethics related objectives, programmes and activities;
- the effectiveness of the Council's processes for performance management and accountability
- the governance of the Council's IT activities and their support for the Council's strategies and objectives;
- the Council's risk management processes, including the identification and assessment of significant risks, the selection of appropriate risk responses, and the reporting of relevant risk information;
- the design, implementation and effectiveness of internal controls;
- the systems established to ensure compliance with policies, plans, procedures, contracts, laws and regulations, including those set by the Council and those established externally;
- the means of safeguarding Council assets and employees;
- the economy, efficiency and effectiveness with which resources are used in operations and programmes, and
- the processes that help to ensure that Council activities are being carried out as planned, and objectives and goals are being met.

5.6 In addition, the Internal Audit Section will:

- support Director of Finance in the discharge of the duties of the Section 151 Officer with responsibility for the probity and effectiveness of the Authority's financial arrangements and internal control systems;
- support the Finance Division in ensuring the provision of, and promoting the need for, sound financial systems;
- support the corporate drive for economy and efficiency by conducting Value For Money (VFM) studies.
- support the corporate governance arrangements by providing advice on governance, risk management and internal controls;
- support the Council's Performance Management Framework by carrying out reviews of performance management processes and the data quality achieved by the Council's key systems;
- support the Council's management assurance framework by monitoring the adequacy and effectiveness of internal controls, and helping in the preparation of the Annual Governance Statement (AGS);
- support the Council's accreditation with the Eco-Management and Audit Scheme (EMAS) by performing audits of compliance with EMAS objectives and targets;

- support the Council's development of new environmental management schemes by providing advice and guidance on environmental audit processes and related matters; and
- support the Council's Anti-Fraud and Corruption Strategy by evaluating the potential for the occurrence of fraud, providing advice on managing fraud risks and providing a quality service for the investigation of allegations of fraud, corruption and irregularity.

6 Independence

- 6.1 The Internal Audit Section operates within an organisational framework that preserves the independence and objectivity of the assurance function, and ensures that Internal Audit activity is free from interference in determining the scope of internal auditing, performing work and communicating results.
- 6.2 The framework allows the HAP direct access to, and the freedom to report to, the Audit and Standards Committee, the Chief Executive, Director of Finance (Section 151 Officer), the Corporate Head – Legal and Democratic Services (Monitoring Officer) and the Corporate Management Team (CMT).
- 6.3 Internal auditors have no direct responsibilities or authority over any of the activities that they review. They shall not develop or install systems or procedures, prepare records or engage in any other activity that they would normally review. Internal Auditors will not assess specific operations for which they were previously responsible, and objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year. Internal Auditors may provide consulting services relating to operations for which they had previous responsibility.
- 6.4 Every effort will be made to ensure that all members of the Internal Audit staff are free from conflicts of interest and do not undertake non-audit duties, with the exception of high priority duties required because of the demands placed upon the Council. If any such non-audit work is required it will be authorised by DoF and approved by the Audit and Standards Committee, with the understanding that the auditor will not then be functioning as an internal auditor.

7 Professional Standards

- 7.1 LDC Internal Audit Section operates in accordance with the Public Sector Internal Audit Standards (PSIAS) 2013. A copy of the PSIAS is held in the Internal Audit Section for reference.
- 7.2 The Internal Audit Section is governed, however, by the policies, procedures, rules and regulations established by the Council. These include the Constitution (including Contract and Financial Procedure Rules) Conditions of Service, the Anti-Fraud and Corruption Strategy, and the Code of Conduct, among others. Similarly, the Internal Audit Section takes due cognisance of external bodies, including CIPFA, and all legislation affecting the Council.
- 7.3 Internal Audit staff shall govern themselves by adherence to the Internal Audit Code of Ethics that is consistent with the Code of Ethics within the PSIAS. The Internal Audit Code of Ethics is included in this Charter.

7.4 The detailed working arrangements and methodology for the Internal Audit Section are set out in the LDC Internal Audit Manual as maintained by the HAP.

8 Audit Strategy and Resources

8.1 Every March, the HAP prepares a Strategic Audit Plan that sets out the scope and timing of internal audit work for the next three years. The plan is based upon a documented risk assessment that is undertaken annually, takes account of the results of consultation with the Corporate Management Team (CMT), and reflects the need to undertake sufficient work to enable the Head of Audit and Performance to produce an annual Internal Audit opinion.

8.2 The Strategic Audit Plan is reviewed each year so that it can reflect the changing risks and priorities of the Council. The Strategic Audit Plan is agreed by the March meeting of the Audit and Standards Committee. The main focus of the planning process is the first year of the Strategic Audit Plan, which provides the Annual Audit Plan for the year ahead.

8.3 The Strategic Audit Plan includes provisions for consulting engagements, and an element of contingency to cover assignments that could not have reasonably been foreseen and to meet management requests for investigations. The Strategic Audit Plan also includes the approach to using other sources of assurance (eg the external auditors, PKF).

8.4 The Strategic Audit Plan sets out how the internal audit service will be provided, and the resources that are to be assigned to the service. The internal audit function is provided internally, and the staffing of the Internal Audit Section is as agreed by the Council on 23 February 2000. The staffing is assessed at the level necessary to ensure adequate audit coverage of the key areas of Council activity within the three-year cycle based on a detailed risk assessment. The current (2013) Strategic Audit Plan assumes that full staffing of 3.8 FTE will be maintained for the three-year period of the plan.

8.5 The staffing of the Internal Audit Section will comprise a mix of qualified and technician posts, with appropriate functional specialisms to reflect the key areas audited. The current functional specialisms are computer audit, contracts and procurement, and environmental audit.

8.6 The HAP will carry out a continuous review of the development and training needs of all the Internal Audit personnel and will arrange in-service training via both internal and external courses as appropriate. Specific resources will be devoted to training in the specialist functions, particularly computer audit and procurement, to keep abreast of current developments.

9 Reporting

9.1 All Internal Audit assignments will be the subject of formal reports. Draft reports will be prepared in accordance with the standards set out in the Internal Audit Manual, and sent to the managers responsible for the area under review to agree the factual accuracy of findings. After agreement of the findings and recommendations, the reports will be finally issued to the Director or Head of the department under review, and other senior officers as appropriate.

9.2 The PSIAS 2013 specify the requirements for the reporting to the Audit and

Standards Committee and senior management by the HAP. These requirements are met via a series of reports prepared by HAP, presented to the Audit and Standards Committee by DoF and copied to the Monitoring Officer. These reports include:

- An annual report on the performance and effectiveness of the Internal Audit service. The report includes a review of the work undertaken by Internal Audit compared to the annual programme, and a review of the service against its aims, strategy and objectives.
- An annual report on the Council's Systems of Internal Control, including an Internal Audit opinion of the HAP on the internal control, risk management and governance environment at the Council for the preceding year, significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the Audit and Standards Committee.
- Interim reports to each meeting of the Audit and Standards Committee that cover the areas outlined above in the period since the beginning of the financial year. Each interim report will contain an appendix that includes an outline of each of the final audit reports issued since the previous meeting of the Committee, and an appendix that outlines any significant recommendations that have not yet been implemented.

9.3 To facilitate the monitoring and review work of the Audit Committee, the HAP shall make final audit reports and associated working papers available for inspection by members of the Audit and Standards Committee. The inspection will be by appointment in the Internal Audit office, and will be on a confidential basis. Access to audit reports on sensitive issues will be subject to agreement between the HAP and the Chair of the Audit and Standards Committee.

10 Quality Assurance and Improvement

10.1 The PSIAS 2013 require the HAP to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The quality assurance and improvement programme must include both internal and external assessments.

Internal Assessments

10.2 Internal assessments must include ongoing monitoring of the performance of the internal audit activity, and this will be carried out as an integral part of the day to day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine practices used to manage internal audit activity at LDC, and uses processes and information necessary to evaluate compliance with the standards set out in the LDC Charter for Internal Audit.

10.3 Ongoing monitoring will incorporate the following:

- A comprehensive set of targets to measure performance, developed in consultation with the Audit and Standards Committee. The HAP will report appropriately on the progress against these targets, normally at the first opportunity after the end of a financial year;

- Appropriate arrangements for stakeholder feedback; and
- An action plan to implement improvements.

10.4 Internal assessments must also include periodic self assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices. At LDC the self assessments will be carried out by the Principal Audit Manager under the direction of the HAP, and will form part of the annual review of the effectiveness of Internal Audit that already forms part of the assessment regime.

External Assessments

10.5 External assessments must be conducted at least every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self assessment with independent external verification. The HAP will agree with the Audit and Standards Committee and the Director of Finance:

- The form of the external assessments;
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

10.6 The HAP will use professional judgement when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified. An independent assessor or assessment team means not having any real or apparent conflict of interest and not being part of, or under the control of LDC.

10.7 The HAP will determine an optimum approach to external assessment, which may involve peer reviews conducted by neighbouring authorities under the auspices of the regional audit group, the Sussex Audit Group (SAG).

Reviewing the Charter

10.8 The Charter is periodically reviewed by the Head of Audit and Performance, and the results presented to the Section 151 Officer, the Monitoring Officer and the Audit and Standards Committee.

11 Internal Audit Code of Ethics

Introduction

- 11.1 A distinguishing mark of a profession is acceptance by its members of responsibility to the interests of those it serves. This Code of Ethics is a comprehensive statement of the values and principles that should guide the daily work of the LDC Internal Audit Section.
- 11.2 This Code of Ethics applies to all staff responsible for delivering the Internal Audit service but does not supersede or replace the requirements on individuals to comply with the ethical codes issued by their own professional bodies (eg The Chartered Institute of Public Finance and Accountancy (CIPFA) or The Institute of Internal Auditors or the Council's Code of Conduct for Officers.
- 11.3 The Council is committed to meeting its statutory equality responsibilities, especially in relation to race, disability, gender, age, sexual orientation, and religion or belief. All Council officers are required to work in accordance with the Council's Equality Policy. Accordingly, the Council's internal auditors will treat all colleagues with dignity and respect, and will ensure that our working practices eliminate discrimination and promote equality and good relations between different groups.

Principles

- 11.4 The Code of Ethics in the PSIAS 2013 is underpinned by four principles that are relevant to the profession and practice of internal auditing. These principles are:
- Integrity – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
 - Objectivity – Internal auditors exhibit the highest levels of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined, and make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
 - Confidentiality – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
 - Competency – Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

- 11.5 The rules of conduct set out below provide the ethical framework for the practice of internal auditing at LDC, and describe behaviour norms expected of internal auditors. The rules are an aid to interpreting the principles into practical applications, and are intended to guide the conduct of internal auditors.
- Internal auditors shall perform their work with honesty, diligence and responsibility;

- Internal auditors shall work in a manner that promotes co-operation and good relations with other officers and parties within LDC and externally;
- Internal auditors shall establish an environment of diligence, trust and confidence that provides the basis for reliance on all activities carried out by individual auditors and the Internal Audit section;
- Internal auditors shall observe the law, and make disclosures expected by the law and the profession of internal auditing;
- Internal auditors shall not knowingly be a party to any illegal or improper activity, or engage in acts or activities that are discreditable to their profession of internal auditing or LDC;
- Internal auditors shall respect and contribute to the legitimate and ethical objectives of LDC;
- Internal auditors shall maintain both actual and perceived political neutrality when dealing with activities involving elected Councillors, including members of the Audit and Standards Committee.
- Internal auditors shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with those of LDC.
- Internal auditors shall not accept anything that may impair or be presumed to impair their professional judgement;
- Internal auditors shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review;
- Internal auditors shall engage only in those services for which they have the necessary knowledge, skills and experience;
- Internal auditors shall perform internal audit services in accordance with the PSIAS;
- Internal auditors shall continually improve their proficiency, effectiveness and quality of their services;
- Internal auditors shall use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions.
- Internal auditors shall remain alert to the possibility of intentional fraud or corruption, errors or omissions, poor value for money, failure to comply with management policy or conflict of interest.
- Internal auditors shall be prudent in the use and protection of information acquired in the course of their duties. They shall not use information for any personal gain nor in any manner that would be contrary to law or detrimental to the ethical objectives of LDC.

- Internal auditors shall remain independent within LDC and maintain an attitude of mind characterised by integrity and an objective approach to work. They shall not normally become part of any line management function to a degree where if they are not present the function becomes affected.
- Internal auditors will advise the Head of Audit and Performance (HAP) of any situation where a conflict of interest has arisen or could arise in performing their duties and responsibilities, or of any instance of non compliance with the standards set out in the LDC Charter for Internal Audit.
- The HAP will advise the Director of Finance and the Audit and Standards Committee of any situation where a conflict of interest has arisen or could arise in performing his duties and responsibilities, or of any instance of non compliance with the standards set out in the LDC Charter for Internal Audit.
- The HAP will ensure that the work of Internal Audit is planned, controlled and recorded in order to determine priorities, establish and achieve objectives and ensure the effective use of audit resources.

Appendix 2

Guide to Internal Audit

Introduction

This guide sets out the purpose and responsibilities of the Internal Audit Section of the Council, and answers the most frequently asked questions about the work of Internal Audit.

What is Internal Audit?

Internal Audit is an independent, objective assurance function established for the review of the control environment (risk management, internal controls and governance) within an organisation. At Lewes District Council, the Internal Audit Section reviews and reports on the adequacy of the control environment as a service to managers, to help them ensure that Council activities are conducted in a secure, efficient and well ordered manner.

Internal Audit is also a consulting service that can give advice on request to help improve governance, risk management and internal controls.

Who does Internal Audit work for?

Internal Audit Section is part of, and works solely for, Lewes District Council. At times we work closely with the external auditors (currently PKF), but the emphasis of our work is always on helping the Council achieve its aims and objectives.

The Head of Audit and Performance (HAP) reports operationally to the Director of Finance (DoF). In addition, the Council has an Audit and Standards Committee that is responsible for, amongst other things, monitoring the work of Internal Audit.

Why does the Council need Internal Audit?

The requirement for an Internal Audit function within Local Authorities has been established and developed over a period via a series of legislative Acts and government regulations, the most recent being the Accounts and Audit Regulations 2011.

Internal Audit also provides managers with assurance that the systems and procedures within their area of responsibility are operating properly with effective internal controls and governance arrangements, and that there are adequate safeguards against risks.

What are internal controls?

Internal controls are the means by which managers ensure that systems and services work properly. Controls can include policies, procedures, plans, instructions, standards, supervision, checks and reconciliations, performance monitoring, budgets and a sound organisational structure in which systems can operate as they should.

What does Internal Audit do?

The evaluation of the control environment is carried out against an assessment of the risks facing the Council, so that we can determine whether the control and governance arrangements in any particular area are adequate and effective.

In carrying out this role Internal Audit will:

- examine the main financial systems every year, including annual testing of key controls on behalf of PKF.
- examine the main departmental systems and functions at least once in a three year cycle based upon a detailed risk assessment, with high risk areas being reviewed every year.
- undertake annual testing of the Benefits and Non Domestic Rates (NDR) returns on behalf of PKF.
- review the completeness, accuracy and reliability of financial and operational information.
- determine whether the Council complies with policies, plans, laws and regulations, including those set by the Council and those established externally.
- review the means of safeguarding the Council's assets and employees.
- assess the economy, efficiency and effectiveness of the Council's use of resources in meeting its objectives.
- provide advice and support to Council managers on maintaining sound systems and controls.
- provide advice on corporate management activities such as governance and risk management.
- support the Council's EMAS registration via a programme of environmental audits.
- carry out a programme of specialist computer audits.
- provide advice and support to Council managers on issues related to procurement.
- undertake Value for Money (VFM) studies and carry out independent scrutiny of corporate management processes.
- undertake follow up work to determine whether agreed recommendations have been implemented.
- assist managers in operating the Council's Anti-Fraud and Corruption Strategy (in the Council's Staff Guide) by providing a quality service for the investigation of allegations of fraud, corruption and irregularity.

How are audits carried out?

Our audits conform to a standard approach, in which we:

- contact departmental managers to discuss and agree the approach and objectives for the audit.
- obtain via interview an overview of the systems, procedures and controls.

- prepare and carry out a programme of audit tests to confirm that the procedures and controls operate as intended.
- discuss the results of the audit with managers.
- prepare a written report on the outcome of the audit that contains the findings and, if appropriate, any recommendations for improvement.
- follow up the report at a later date to confirm that all issues have been addressed.

What are the powers of Internal Audit?

Internal Audit is authorised to have complete access to any of the Council's records (manual and electronic), cash, stores and other assets, and may enter any Council land or premises, that are relevant to the performance of internal audit activities. In addition, Internal Audit has unrestricted access to all elected Councillors, Chief Officers and Council employees as is necessary for the proper performance of our duties.

What Internal Audit does not do

The Internal Audit Section operates in accordance with the Public Sector Internal Audit Standards (PSIAS) 2013. The PSIAS define the professional standards that are applied to the Internal Audit function. In complying with these standards and the Council's Internal Audit Code of Ethics we:

- will not be looking to catch you out. Internal Audit relies on the co-operation and assistance of all colleagues in the Council. Often, the best ideas for improvements or additional safeguards come from the staff and managers involved in the day to day running of systems.
- will not be concentrating solely on the past. Our focus is on the future. Although we need to look at how things have been done in the past and are being done now, we use this information to help make improvements for the time ahead.
- will not only be looking for fraud or irregularity. This area represents a relatively small part of our work although such investigations can require an urgent response.

What are Value for Money (VFM) studies?

VFM studies concentrate on the efficiency, economy and effectiveness of existing services. The emphasis is not on internal controls but on whether the service is producing the results that you might expect from the resources put into it. In simple terms, the studies ask if we can achieve a better service for the same money or the same service for less money.

It is not always possible to identify significant savings, additional income or ways of improving the service. Where departments provide an economic, efficient and effective service only minor improvements may be needed.

Who decides which audits need to be done?

The Head of Audit and Performance prepares, and the Audit and Standards Committee approves, a three year Strategic Audit Plan that sets out all the audits that need to be done over the period, based upon an assessment of the risks facing the

