

# STRONGER together



Lewes District Council



Working in partnership with Eastbourne Homes

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## **1. Introduction**

- 1.1 The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

## **2. Definition of Internal Audit**

- 2.1 The definition of Internal Audit specified by the Chartered Institute of Internal Auditors (IIA) and adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) reads as follows:

*“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.”*

## **3. Requirement for Internal Audit**

- 3.1 There is a statutory requirement for Lewes District and Eastbourne Borough Councils to provide an Internal Audit Service. This is stated in Regulation 5 (1) of the Accounts and Audit Regulations 2015 which requires that “a relevant authority must undertake an effective Internal Audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

## **4. Public Sector Internal Audit Standards**

- 4.1 The Relevant Internal Audit Standard Setters (including HM Treasury and the Chartered Institute of Public Finance and Accountancy) have adopted a common set of Public Sector Internal Audit Standards (the standards) from 1 April 2017. The standards cover the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). It also includes additional requirements and interpretations for the UK public sector.
- 4.2 It is a mandatory requirement that Internal Audit fully complies with the standards.

## **5. The Mission of Internal Audit**

- 5.1 The standards include the following wording for the mission of Internal Audit:
- To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”*

## **6. Core Principles for the Professional Practice of Internal Auditing**

- 6.1 The Standards state that all the following Core Principles should be present and operating effectively for an Internal Audit function to be considered effective:

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- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focused
- Promotes organisational improvement.

### **7. Code of Ethics**

- 7.1 The standards also require that internal auditors must conform to the code of ethics set out in the standards. These have been put into another document (Code of Ethics for Internal Auditors) that internal auditors within the team for Lewes District and Eastbourne Borough Councils must read and abide by, alongside the councils' code of conduct for all employees.
- 7.2 The councils' Code of Ethics for Internal Auditors covers: the IIA's Code of Ethics, rules of conduct, due professional care, working relationships and the Seven Principles of Public Life.

### **8. Definition of Chief Audit Executive (CAE), Board and Senior Management**

- 8.1 The standards refer to these terms throughout and it is expected that the Audit Charter will define these for the councils.
- 8.2 Chief Audit Executive: this is the position held by the Chief Internal Auditor.
- 8.3 Board: this is filled by the Audit and Governance Committees of both councils.
- 8.4 Senior Management: this is covered by the councils' Corporate Management Team.

### **9. Role and Mandate**

- 9.1 Internal Audit is an independent and objective, assurance and consulting activity forming part of the system of governance and internal control.
- 9.2 The primary role of Internal Audit is to help the Corporate Management Team (CMT) and the committees to protect the assets, reputation and sustainability of the councils. Internal Audit will achieve this through assessing whether all significant risks are identified and appropriately reported to CMT and the committees, assessing whether they are adequately controlled and by assisting senior management to improve the effectiveness of governance, risk management and internal controls.

- 9.3 It assists the councils in accomplishing their objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of their risk management, control and governance processes.

## 10. Scope and Objectives of Internal Audit

8.5 The main objectives of the Internal Audit Service are to:

- independently review and appraise the effectiveness of the councils' risk management, control and governance processes
- recommend improvements in controls etc to aid the achievement of corporate objectives
- contribute to, and support, the objectives of the Section 151 Officer by promoting the need for sound financial systems and systems of controls
- support the Monitoring Officer in the discharge of their responsibilities for maintaining high standards of governance, conduct and ethical behaviour
- advise on risk, control and governance issues in respect of new activities, major system changes and other areas of concern, and to facilitate good practice in managing risks
- work in partnership with the External Auditors
- investigate allegations of internal fraud or irregularity, identify fraud as a consequence of its work, and act as a visible deterrent to potential wrongdoers
- carry out sufficient breadth of work on which the Chief Internal Auditor can base their opinion of the effectiveness of the control environment, as set out in the Accounts and Audit (England) Regulations 2011.

10.2 The Internal Audit remit extends to the entire control environment of the councils.

## 11. Rights of Access

11.1 The rights of access for the Internal Audit Service are provided for by the Accounts and Audit Regulations 2015. Regulation 5 (2) states that:

- (1) *A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.*
- (2) *Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—*
  - (a) *make available such documents and records; and*
  - (b) *supply such information and explanations;*  
*as are considered necessary by those conducting the internal audit.*
- (3) *In this regulation “documents and records” includes information recorded in an electronic form*

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11.2 The Public Sector Internal Audit Standards make clear that restrictions of access to records, personnel and properties would constitute an impairment to independence and objectivity. Any such perceived impairment will be reported to the Audit and Governance committees.

### **12. Position Within the Organisation**

12.1 The Chief Internal Auditor reports functionally to the Director of Finance and Performance (Chief Finance Officer and Section 151 Officer).

12.2 The Chief Internal Auditor also has right of access directly to the Chief Executive, the Chairs of the Audit Committees, the Head of Legal Services and the Monitoring Officer should this be deemed necessary.

12.3 Meetings are held with the Chairs and Deputy Chairs of the Audit Committees ahead of the quarterly meetings.

12.4 The Chief Internal Auditor will communicate with, and report quarterly to, the audit committees.

### **13. Independence and Objectivity**

13.1 The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessarily independent and objective service.

13.2 Internal auditors will have no direct operational responsibility or authority over any of the activities audited. They will therefore not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair an internal auditor's judgement.

13.3 Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors must not allow themselves to be unduly influenced, by their own interests or by others, in forming judgements.

13.4 The Chief Internal Auditor will confirm to the audit committees, at least annually, the organisational independence of the internal audit activity.

### **14. Avoidance of Conflicts of Interest**

14.1 The Code of Ethics set out in the Public Sector Internal Audit Standards lay down that internal auditors: *“shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment.”*

14.2 Internal Auditors are not permitted to assess specific operations for which they were previously responsible, for a period of at least 12 months.

14.3 In exceptional circumstances (e.g. during the Covid 19 pandemic) Internal Auditors may be required to undertake non audit duties. Where this occurs, the work carried out will be subject to Audit reviews as usual but the Auditor carrying out, or who had carried out, the work, will not carry out the Audit review.

14.4 Where the Chief Internal Auditor or Audit Manager are expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards

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must be put in place. Currently, the Chief Internal Auditor manages the Counter Fraud team and administers the Strategic Risk Register. To safeguard independence, any audit review of Counter Fraud and Risk Management is not overseen or reviewed by the Chief Internal Auditor, but passed directly to the Director of Finance and Performance/s. 151 officer.

14.5 If any Internal Auditor considers that there is, or is perceived to be, a conflict of interest, this must be reported to the Audit Manager. This will be recorded and, if considered appropriate, an alternative auditor will be allocated to the work being undertaken.

14.6 If the Audit Manager considers that there is, or is perceived to be, a conflict of interest, then they must inform the Chief Internal Auditor so appropriate action can be taken.

14.7 If the Chief Internal Auditor considers that there is, or is perceived to be, a conflict of interest, this must be reported directly to the Director of Finance and Performance Management (Chief Finance Officer and s.151 Officer).

14.8 The Chief Internal Auditor will report any instances of perceived impairment in the quarterly reports which are seen by both the Corporate Management Team and the Audit and Governance Committees. The committees should approve and periodically review any safeguards put in place to limit impairments to independence and objectivity.

### **15. Chief Internal Auditor – Other Responsibilities**

15.1 The Chief Internal Auditor has other responsibilities beyond managing the Internal Audit function. These are:

- Counter-Fraud – the Chief Internal Auditor is also responsible for managing the Counter-Fraud team. There are clear cross-overs of work between the two teams as Internal Audit look to see if controls are in place and working and Counter-Fraud may identify fraud or error that shows that controls are not in place or working.
- Strategic Risk Register – the Chief Internal Auditor administers the Strategic Risk Register and takes it to the Corporate Management Team quarterly for review/update.
- Companies – the Internal Audit team provide a service for some council companies. The Chief Internal Auditor attends relevant meetings of these companies. This is dealt with further at paragraph 21.

### **16. Areas of Work**

16.1 The main areas of work for Internal Audit are covered by the following:

- Assurance work
- Consultancy/Real-time assurance
- Special investigations (Fraud)

Assurance Work

16.2 The main purpose of Internal Audit is to independently review and appraise the councils' key risk management, control and governance processes and to provide assurance on their effectiveness.

16.3 Internal Audit uses a risk-based approach to evaluate a broad range of activities including an annual review of the key financial systems. These reviews seek to provide reasonable assurance that corporate objectives will be achieved, with particular reference to:

- the reliability and integrity of financial and operational information
- the effectiveness and efficiency of systems and processes
- safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity and corruption
- compliance with laws, regulations, policies, procedures and contracts
- the economic and efficient use of resources (value for money)
- effective monitoring systems and optimum use of performance management information.

16.4 Reasonable assurance is a caveat to the work of Internal Audit. It is rarely possible to test 100% of an area under review. Therefore the assurance that Internal Audit can give must be caveated by the fact that it is given only on the work that has been tested. For this reason, the following paragraph is added to all audit reports:

*In giving this assessment, it should be noted that assurance cannot be absolute. The most that an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control. The performance of internal audit work is not, and should not be taken as, a substitute for management's responsibilities for the application of sound management practices. It should be emphasised that the responsibility for a sound system of internal controls, and the prevention and detection of fraud and other irregularities, rests with management. The work of Internal Audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity.*

Consultancy/Real-Time Assurance

16.5 Internal Audit give advice on risk, control and governance issues in areas of concern, new activities or system changes. This work can take many forms, from just giving a piece of advice in response to a specific question to undertaking a review. However, when undertaking a review, consideration must be given to whether this piece of work actually now constitutes an audit review.

16.6 Where an Internal Auditor is asked to sit on a project group put in place for implementing a new process or system, this will be dealt with as "real-time assurance". If the Auditor feels that they need to comment or make recommendations, they can do so at the meeting. However, a form should also be completed and passed to the project leaders. This records the



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reasons why the comment/recommendation was made and the details of the comment/recommendation. A copy of the form is also kept on the Audit files and these will be referred to at the end of the project.

### Special Investigations

- 16.7 Internal Audit will sometimes be asked to undertake work that is outside of the audit plan and is not consultancy work. This can be a piece of work to investigate issues in an area, or to carry out an investigation that will be used in a disciplinary investigation, or to investigate what may be possible fraudulent activity, which may also lead to a disciplinary investigation. These will be carried out in consultation with the Chief Internal Auditor, or Audit Manager in the absence of the Chief Internal Auditor.
- 16.8 The Anti-Fraud and Corruption Strategy covers the role of Internal Audit and Counter-Fraud within the councils. The strategy states that Internal Audit must be informed of all suspected incidences of fraud.

### **17. Internal Audit Plan**

- 17.1 Annually, the Chief Internal Auditor and Audit Manager will calculate the level of resource in the Internal Audit team which will be available for carrying out audit reviews.
- 17.2 Annually, a draft indicative audit plan will be produced for the year. This plan will be produced by considering areas of high risk, other areas of concern and aligning to the councils' objectives.
- 17.3 The plan is called "indicative" as this is the work that will be carried out if no other work is requested of the Internal Audit team. This approach means that the team can be flexible in addressing the dynamic environment.
- 17.4 The draft indicative audit plan is taken to both the Corporate Management Team and the Audit and Governance Committees for consultation/agreement.

### **18. Audit Work**

- 18.1 All work carried out on audit reviews is supervised and a quality assessment is carried out of each to ensure that the work meets the Public Sector Internal Audit Standards.
- 18.2 The results of audit reviews will be formally reported to relevant managers, senior managers, Corporate Management Team and the Audit and Governance Committees.
- 18.3 Follow up reviews will be carried out to ensure that recommendations are addressed.

### **19. Reporting and Monitoring**

- 19.1 The last quarterly report of the financial year will also contain elements that summarise the work of the whole year.
- 19.2 The Chief Internal Auditor will provide their opinion on the control environment based on the work of Internal Audit during the financial year. The statement will also be used in the Annual Governance Statement.

19.3 As part of the Quality and Improvement Programme, an annual self-assessment against the Public Sector Internal Audit Standards will be carried out and reported to the Corporate Management Team and the Audit and Governance Committees in the last reports of the year.

19.4 The Public Sector Internal Audit Standards also require an external assessment to be carried out at least once every five years. This will be commissioned by the Chief Internal Auditor and the results will be reported to the Corporate Management Team and the Audit and Governance Committees.

## **20. Resourcing**

20.1 The Public Sector Internal Audit Standards state that the Chief Audit Executive (Chief Internal Auditor) must ensure that the internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

### **20.2 Appropriate**

The Chief Internal Auditor is a Chartered Member of the Institute of Internal Auditors (CMIIA) and has over 30 years' experience of working for the councils, 20 of which are in Internal Audit.

The Audit Manager has undertaken the Internal Audit Practitioner Apprenticeship, achieving the IIA Certificate in Internal Audit and Business Risk (IACert). The Audit Manager has worked in the councils' Internal Audit team for over nine years.

The remainder of the Internal Audit team is made up of staff with varying experience in both the public and private sectors. Each were appointed based on transferrable skills. All new auditors are given full training and support to carry out audit reviews in line with the standards. Training plans are in place for the team as it is the ambition to ensure that all the team are trained to a consistent level, with staff encouraged to study for professional qualifications.

### **20.3 Sufficient**

The Chief Internal Auditor believes that the number of posts in Internal Audit is sufficient to enable a breadth of work to be carried out upon which the opinion of the control environment can be based.

However, absences or leavers will affect the resource levels. Where this has an impact on work, this will be reported to the Chief Finance Officer, Corporate Management Team and Audit and Governance Committees. Where resource issues affect the work of the team during the year, this will also be reported in the Annual Governance Statement as a caveat to the opinion on the control environment.

### **20.4 Effectively Deployed**

Every effort is made to allocate audits to an Auditor with the relevant knowledge and experience. However, this has to be weighed against the standard that assurance engagements and other audit responsibilities should

be rotated periodically within the Internal Audit team. Where there may be a lack of knowledge or experience, the Auditor will be fully supported.

**21. Assurances to Parties Outside of the Councils**

21.1 The Internal Audit team has been commissioned to provide an internal audit service for two companies set up by Eastbourne Borough Council: Eastbourne Homes Limited and South East Environmental Services Limited.

21.2 Eastbourne Homes Limited

Internal Audit provide 36 days of audit time. The audits to be undertaken during the year are agreed by the Audit and Risk Committee. When reviews are completed the reports are shared with the relevant manager and Director, and are sent to the Audit and Risk Committee of Eastbourne Homes Limited. The Chief Internal Auditor reports quarterly to the Audit and Risk Committee.

21.3 South East Environmental Services Limited

Internal Audit carry out one audit review a year. The audit to be undertaken during the year is agreed by the Board of South East Environmental Services Limited. When the review is completed the report is shared with the relevant manager and Director, and sent to the Board. The Chief Internal Auditor reports quarterly to the Board.

**22. Responsibilities of Managers and Internal Audit**

22.1 Managers have the responsibility to establish systems of internal control to ensure that activities are carried out appropriately. Internal Audit is part of the control environment and will test controls, but this does not relieve managers of their responsibility for maintaining effective risk management, controls and governance processes.

**23. Relationships with Elected Members**

23.1 The Chief Internal Auditor must establish and maintain good working relationships with Members by regularly attending the Audit and Governance Committees of both councils and responding to any issues raised.

23.2 The Chief Internal Auditor will report to the Corporate Management Team and the Audit and Governance Committees of each council. The programme of reports is listed below.

<b>Month</b>	<b>Corporate Management Team</b>	<b>Committees</b>
March	Third quarter report Draft Audit Plan Consideration of the Strategic Risk Register	Third quarter report Draft Audit Plan Strategic Risk Register (if changes agreed by CMT)
June	Annual report/fourth quarter	Annual report/fourth quarter

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	Annual Governance Statement Consideration of the Strategic Risk Register	Annual Governance Statement Strategic Risk Register (if changes agreed by CMT)
September	First quarter report Consideration of the Strategic Risk Register	First quarter report Strategic Risk Register (if changes agreed by CMT)
December	Second quarter report Consideration of the Strategic Risk Register	Second quarter report Strategic Risk Register (if changes agreed by CMT)

### 24. Review of the Charter

24.1 The charter will be reviewed annually and will be presented to the committees when changes are made.