

Appendix E

CHARTER FOR INTERNAL AUDIT AND COUNTER FRAUD

1 Introduction

- 1.1 The purpose of this Charter is to define the purpose, authority and responsibilities of the shared Audit and Counter Fraud Service for Eastbourne Borough Council (EBC) and Lewes District Council (LDC).
- 1.2 The Charter establishes the position of the service within both councils, sets out the scope of internal audit and counter fraud activities, and outlines the key aspects of the professional practice of internal audit and counter fraud.
- 1.3 The standards governing the work of an Internal Audit service are laid down in the Public Sector Internal Audit Standards (PSIAS) which came into effect in in 2013. The PSIAS were updated in April 2017 to incorporate a mission statement for Internal Audit and the ten mandatory core principles for the professional practice of internal auditing.
- 1.4 In recent years, central and local government has sought to develop new initiatives to counter fraud and corruption. In recognition of these priorities the Chartered Institute of Public Finance and Accounting (CIPFA) published a Code of Practice on managing the risk of fraud and corruption. The Code emphasises that leaders of public services have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management.
- 1.5 The councils are committed to operating in accordance with the requirements of the PSIAS and the CIPFA Code of Practice. This Charter seeks to ensure full compliance with these standards.

2 Purpose

- 2.1 Internal Auditing is an independent and objective assurance and consulting activity designed to add value and improve the operations at both councils. Counter Fraud is an independent and objective activity designed to help prevent and detect fraud, and undertake appropriate investigations when necessary. Working together, these activities help the councils accomplish their objectives by bringing a systematic and disciplined approach to improving the effectiveness of risk management, control and governance processes.
- 2.2 The organisation of Internal Audit and Counter Fraud within a single service facilitates the sharing of information and resources between both activities, enables a greater understanding of the importance of internal controls in helping to prevent fraud across all services at the councils, and has created more opportunities to focus efforts on the areas of potential risk.
- 2.3 The existence of the Audit and Counter Fraud Service does not diminish the responsibility of line management to establish appropriate and adequate systems of internal control and risk management. The Audit and Counter Fraud Service 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 Requirement for Internal Audit and Counter Fraud

- 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 2011 specifically require that a “relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control.”
- 3.3 The councils have had in place for some years a framework of formal strategies and policies in order to maintain a strong anti-fraud and corruption culture. The councils remain alert to the risk of fraud and corruption, and have in place a network of systems, procedures and controls to protect their assets and services against these risks. Many of the controls are there specifically to prevent loss or fraud - they have been designed to help deter fraud and to give warning of possible fraudulent activity. Up until 2014, Internal Audit provided the main resource for the investigation of alleged cases of corporate fraud and corruption, but now the main counter fraud body at the councils is the Counter Fraud team.

4 Authorisation

- 4.1 The Audit and Counter Fraud Service is authorised to have full and complete access to any of the records (manual and electronic), cash, stores and other assets, and may enter property or land, that are relevant to the performance of engagements at both councils. 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.
- 4.2 Internal Audit and Counter Fraud access will also extend to partner bodies or external contractors working on behalf of the councils, but access will need to be arranged via the senior Council officer named in the contract or partnership agreement. In addition, Internal Audit and Counter Fraud is authorised to have unrestricted access to all elected Councillors, Chief Officers and Council employees as is necessary for the proper performance of their duties.

5 Organisation and Relationships

- 5.1 The PSIAS require that the terms ‘Chief Audit Executive,’ ‘Board’ and ‘Senior Management’ 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. Although not formally specified in the CIPFA Code of Practice, these governance arrangements will apply equally to Counter Fraud. At EBC and LDC, the following interpretations are applied so as to ensure the continuation of the current relationships between Audit and Counter Fraud and other key bodies at both councils.

Chief Audit Executive

For the shared Audit and Counter Fraud Service, the Chief Audit Executive is the Head of Audit and Counter Fraud (HACF). The Audit and Counter Fraud Service sits within Corporate Services, and the HACF reports operationally to the Deputy Chief Executive (DCE).

Board

In the context of overseeing the work of Internal Audit and Counter Fraud, the 'Board' at EBC is the Audit and Governance Committee. At LDC the 'Board' is the Audit and Standards Committee. The two committees are responsible for, amongst other things, agreeing the Charter for Audit and Counter Fraud, agreeing the Audit Plan (see Section 10 below), monitoring the work of Internal Audit and Counter Fraud, and keeping the progress of the plans under review. Audit and Counter Fraud works closely with the Chairs of both committees to facilitate and support their activities.

Senior Management

'Senior Management' are the Chief Executive (CE), Deputy Chief Executive (DCE), Directors and Assistant Directors who are members of the Corporate Management Team (CMT). In practical terms, Audit and Counter Fraud engages most frequently with the senior officers with responsibility for specific aspects of corporate governance - the Section 151 Officer (DCE) and the Monitoring Officer (Assistant Director Legal and Democratic Services (ADLD)).

Relationships

- 5.2 The Audit and Counter Fraud Service will establish and maintain good working relationships and effective channels of communication with elected members, not just those members who may comprise the respective Boards.
- 5.3 The Audit and Counter Fraud Service will establish and maintain good working relationships and effective channels of communication with managers and staff at all levels of the organisations to build confidence in the integrity, independence and capability of the service. These relationships will not detract from the duty to report control issues where necessary.
- 5.4 The Audit and Counter Fraud Service and the councils' external auditors 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.
- 5.5 The Audit and Counter Fraud Service co-operates with all external review and inspection bodies that are authorised to assess, inspect or review the activities of the councils 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.
- 5.6 The Audit and Counter Fraud Service co-operates with the corresponding services from local authorities and other public bodies in Sussex that are members of bodies such as the Sussex Audit Group (SAG), the East Sussex Counter Fraud HUB (ESCFH) and the East Sussex Fraud Officers Group (ESFOG) for the purpose of sharing best practice and benchmarking.

6 Role and Scope

- 6.1 The primary role of Audit and Counter Fraud is to be an assurance function that provides an objective assessment of the whole framework of governance, risk management and control – not just the financial systems.
- 6.2 The main aspects of this role are to review and evaluate, and contribute to the improvement of, the:
- completeness, reliability and integrity of financial, management and performance information;
 - design and effectiveness of internal controls;
 - means of safeguarding the assets, employees and interests;
 - processes for identifying, reporting and managing risks;
 - systems established to ensure compliance with policies, plans, contracts, laws, and regulations including those set by the councils and those established externally;
 - economy, efficiency and effectiveness in the use of resources;
- 6.3 In addition, Audit and Counter Fraud may undertake consulting services that are advisory in nature and generally performed at the request of senior management. Audit and Counter Fraud will give advice on any aspect of governance, internal control and fraud prevention on request.
- 6.4 Internal Audit will support DCE in the discharge of the duties of the Section 151 Officer with responsibility for the probity and effectiveness of the councils' financial arrangements and internal control systems;

7 Mission Statement and Service Objectives

- 7.1 The Audit and Counter Fraud Service has the following mission statement and service objectives:

Mission Statement

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Service Objectives

To provide an efficient and effective Internal Audit function which achieves its service standards, and improves performance where possible.

To deliver the Councils' Audit Plans.

To provide an efficient and effective Counter Fraud Team that supports the councils' Anti-Fraud and Corruption Strategy by carrying out a planned programme of work to help prevent and detect fraud, and provide resources to investigate suspected fraud cases.

8 Independence

- 8.1 The Audit and Counter Fraud Service operates within an organisational framework that preserves the independence and objectivity of the functions, and ensures that Internal Audit and Counter Fraud activity is free from interference in determining the scope of internal auditing, performing work and communicating results.
- 8.2 The framework allows the HACF (and Audit Managers when appropriate) direct access to, and the freedom to report to, the Audit and Standards Committee/Audit and Governance Committee, the Chief Executive, Deputy Chief Executive (DCE/Section 151 Officer), the Assistant Director of Legal and Democratic Services (ADLP/Monitoring Officer) and the Corporate Management Team (CMT).
- 8.3 Staff within Audit and Counter Fraud have no direct responsibilities or authority over any of the activities that they review or examine. They shall not develop or install systems or procedures, prepare records or engage in any other activity that they would normally review. They 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 he/she auditor had responsibility within the previous year. The only exception will be where resource issues do not enable this degree of separation, and then HACF will apply strict oversight of the work to ensure objectivity. HACF acknowledges that staff changes arising from the joint transformation programme could create more frequent instances where objectivity may be placed at risk.
- 8.4 Staff within Audit and Counter Fraud may provide consulting services or give advice relating to operations for which they had previous responsibility. They may provide assurance for operations where they had previously performed consulting services, provided the nature of the consulting did not impair objectivity and the issue of individual objectivity is managed when assigning resources to assurance assignments.
- 8.5 Every effort will be made to ensure that all members of the Audit and Counter Fraud Service 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 councils. If any such non-audit work is required it will be authorised by DCE and approved by the Audit and Governance Committee/Audit and Standards Committee, with the understanding that the member of staff will not then be functioning as an internal auditor/fraud investigator.

9 Professional Standards

- 9.1 The shared Audit and Counter Fraud Service operates in accordance with the PSIAS 2017 and the CIPFA Code of Practice on managing the risk of fraud and corruption.. A copy of the PSIAS and the Code is held in both of the Audit and Counter Fraud offices for reference. The PSIAS include the following mandatory Core Principles, which will apply equally to Counter Fraud. .

Core Principles for the Professional Practice of Internal Auditing

- 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 focussed.
 - Promotes organisational improvement.
- 9.2 The Audit and Counter Fraud Service is governed, however, by the policies, procedures, rules and regulations established by the councils. 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 Audit and Counter Fraud Service takes due cognisance of external bodies, including CIPFA, and all legislation affecting the Council.
- 9.3 Audit and Counter Fraud staff shall govern themselves by adherence to the Code of Ethics for the service that is consistent with the Code of Ethics within the PSIAS. The Code of Ethics for the Audit and Counter Fraud Service is included in this Charter (Section 13).
- 9.4 The detailed working arrangements and methodology for the Audit and Counter Fraud Service are set out in the Audit and Counter Fraud Manual as maintained by HACF.

10 Audit Strategy and Resources

- 10.1 It is standard practice for HACF to prepare a Strategic Audit Plan that sets out the scope and timing of internal audit and counter fraud 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 HACF to produce an annual Internal Audit opinion.
- 10.2 Exceptionally, and in recognition of the significant changes in services, structure and organisation that are underway as a result of the merger of the two councils, the planning process is currently restricted to a single year. The Annual Audit Plan is subject to the same planning, consultation and risk assessment processes as the Strategic Audit Plan.
- 10.3 The Audit Plan (Strategic or Annual) is reviewed each year so that it can reflect the changing risks and priorities of the councils. The Audit Plan is agreed by the March meeting of the Audit and Governance Committee and the Audit and Standards Committee.
- 10.4 The Audit Plan includes provisions for consulting engagements and giving advice, together with an element of contingency to cover assignments that could not have

reasonably been foreseen and to meet management requests for investigations. The Audit Plan also includes the approach to using other sources of assurance (eg the external auditors).

10.5 The staffing of the Audit and Counter Fraud Service will comprise a mix of qualified and technician posts, with appropriate functional specialisms to reflect the key areas of work. The HACF will carry out a continuous review of the development and training needs of all 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 to keep abreast of current developments.

11 Reporting

11.1 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 service under review, and other senior officers as appropriate.

11.2 Not all Counter Fraud assignments will be the subject of formal reports, although all completed counter fraud cases will be closed with a written summary of the case results. The extent of other formal reports will depend on the origins, circumstances and outcomes of individual cases.

11.3 The PSIAS specify the requirements for the reporting to the Board and senior management by HACF. These requirements are met via a series of reports presented to the respective Boards. These reports include:

- A report to obtain approval of the Audit Plan, and a report at the nine month stage to advise of, and seek approval for, variations to the plan.
- 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 plan, a review of the service against its aims, strategy and objectives, a review of the independence of the internal audit activity, and an assessment of compliance with the PSIAS and the Code of Ethics.
- An annual report on the work to combat fraud and corruption. The report includes a review of the work undertaken by Counter Fraud compared to the annual plan, a review of the service against its aims, strategy and objectives, a review of the independence of the counter fraud activity, and an assessment of compliance with the CIPFA Code and the Code of Ethics.
- An annual report on the respective council's Systems of Internal Control, including an audit opinion of the HACF on the internal control, risk management and governance environment at the Council for the preceding year. The report will highlight significant risk exposures, control issues and governance matters, plus any other items requested by senior management and/or the Board.
- An Annual Governance Statement (AGS) that includes an assessment of the effectiveness of the key elements of the governance framework, an action plan for dealing with significant governance issues, and an opinion on the assurance

that the governance arrangements can provide.

- Interim reports to each meeting of the Board 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, and an appendix that outlines any significant recommendations that have not yet been implemented.

11.4 To facilitate the monitoring and review work of the Board, HACF shall make final audit reports and associated working papers available for inspection by members of the Board. 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 HACF and the respective Chair of the Board.

12 Quality Assurance and Improvement

12.1 The PSIAS require the HACF 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. The quality assurance and improvement programme for counter fraud activity will include internal assessments only. The results of the quality assurance and improvement programme will be reported annually to senior management and the Board, including any non-conformance with the PSIAS, the CIPFA Code of Practice and the joint Code of Ethics.

Internal Assessments

12.2 Internal assessments must include ongoing monitoring of the performance of the audit and counter fraud 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 audit and counter fraud activity at both councils and uses processes and information necessary to evaluate compliance with the standards set out in the Charter for Internal Audit and Counter Fraud, including the Code of Ethics.

12.3 Ongoing monitoring will incorporate the following:

- A comprehensive set of targets for internal audit to measure performance, developed in consultation with the Board. The HACF 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.

12.4 Internal assessments must also include periodic self assessments or assessments by persons within the organisation with sufficient knowledge of internal audit practices. The self-assessments will be carried out by the Audit Managers at Eastbourne and Lewes under the direction of HACF, and the results will form part of the annual reviews of internal audit and counter fraud activity.

External Assessments

12.5 External assessments of internal audit 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 HACF will agree with the Board and DCE:

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

12.6 The HACF 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 either of the councils.

12.7 The HACF 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 SAG.

Reviewing the Charter

12.8 The Charter is periodically reviewed by HACF, and the results presented to the Section 151 Officer, the Monitoring Officer, CMT and the respective Boards.

13 Code of Ethics for Internal Audit and Counter Fraud

Introduction

- 13.1 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 Audit and Counter Fraud Service.
- 13.2 This Code of Ethics applies to all staff responsible for delivering the Audit and Counter Fraud Service but does not supersede or replace the requirements on individuals to comply with the ethical codes issued by their own professional bodies (eg CIPFA or The Chartered Institute of Internal Auditors (CIIA) or the Council's Code of Conduct for Officers.
- 13.3 The two councils are committed to meeting their statutory equality responsibilities, especially in relation to race, disability, gender, age, sexual orientation, and religion or belief. All officers are required to work in accordance with the councils' Equality Policy. Accordingly, Audit and Counter Fraud personnel 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

- 13.4 The revised PSIAS incorporate ten core principles that govern the professional practice of internal auditing (see Section 9 above), and these apply equally to the professional practice of counter fraud. These principles can be summarised into four key values that underpin the work of Audit and Counter Fraud. These values are:
- Integrity – The integrity of internal auditors and counter fraud staff establishes trust and thus provides the basis for reliance on their judgement.
 - Objectivity – Internal audit and counter fraud staff 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 audit and counter fraud staff 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 audit and counter fraud staff apply the knowledge, skills and experience needed in the performance of their roles and responsibilities.

Rules of Conduct

- 13.5 The rules of conduct set out below provide the ethical framework for the practice of internal audit and counter fraud, and describe behaviour norms expected of staff working in the Audit and Counter Fraud Service. The rules are an aid to interpreting the principles and values into practical applications, and are intended to guide the conduct of all those working in the service.
- Internal audit and counter fraud staff shall perform their work with honesty,

diligence and responsibility.

- Internal audit and counter fraud staff shall work in a manner that promotes co-operation and good relations with other officers and parties within both councils and externally.
- Internal audit and counter fraud staff 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 Service.
- Internal audit and counter fraud staff shall observe the law, and make disclosures expected by the law and the profession of internal auditing and counter fraud.
- Internal audit and counter fraud staff shall not knowingly be a party to any illegal or improper activity, or engage in acts or activities that are discreditable to their profession or the councils.
- Internal audit and counter fraud staff shall respect and contribute to the legitimate and ethical objectives of the councils.
- Internal audit and counter fraud staff shall maintain both actual and perceived political neutrality when dealing with activities involving elected Councillors, including members of the Board.
- Internal audit and counter fraud staff 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 the councils.
- Internal audit and counter fraud staff shall not accept any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties that may impair or be presumed to impair their professional judgement.
- Internal audit and counter fraud staff shall disclose all material facts known to them that, if not disclosed, may distort the reporting of matters under review or investigation.
- Internal audit and counter fraud staff shall engage only in those services for which they have the necessary knowledge, skills and experience.
- Internal audit and counter fraud staff shall perform internal audit services in accordance with the PSIAS and Code of Practice.
- Internal audit and counter fraud staff shall continually improve their proficiency, effectiveness and quality of their services.
- Internal audit and counter fraud staff shall use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions.
- Internal audit and counter fraud staff 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 audit and counter fraud staff 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 the councils.
- Internal audit and counter fraud staff shall remain independent within the councils 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 audit and counter fraud staff will advise the HACF 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 Charter for Internal Audit and Counter Fraud.
- The HACF will advise the DCE and the respective Board 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 Charter for Internal Audit and Counter Fraud.
- The HACF will ensure that the work of the Audit and Counter Fraud Service is planned, controlled and recorded in order to determine priorities, establish and achieve objectives and ensure the effective use of audit resources.

Appendix B

Table of abbreviations

AGS – Annual Governance Statement
BCP – Business Continuity Planning
BDO – BDO, the Council’s external auditors. Formerly BDO Stoy Hayward
CIIA – Chartered Institute of Internal Auditors
CIPFA – Chartered institute of Public Finance and Accounting
CMT – Corporate Management Team
CTRS – Council Tax Reduction Scheme
DCLG – Department for Communities and Local Government
DFGs – Disabled Facilities Grants
DWP – Department of Work and Pensions
EBC – Eastbourne Borough Council
ESFOG – East Sussex Fraud Officers Group
HACF – Head of Audit and Counter Fraud
HB – Housing Benefit
HRA – Housing Revenue Account. Refers to Council owned housing
ISO – International Organisation for Standardisation
IT – Information Technology
JTP – Joint Transformation Project
LDC – Lewes District Council
NFI – National Fraud Initiative
PIs – Performance Indicators
PSIAS – Public Sector Internal Audit Standards
QAIP – Quality Assurance and Improvement Programme
RO – Returning Officer
RTB – Right to Buy
SAG - Sussex Audit Group
SFIS – Single Fraud Investigation Service
WGA – Whole of Government Accounts