

AUDIT AND GOVERNANCE COMMITTEE

DATE	20/04/2023
REPORT OF	Head of Audit and Assurance
SUBJECT	Audit Charter and Audit Plan 2023/24
STATUS	OPEN

CONTRIBUTION TO OUR AIMS

An effective Internal Audit service contributes to the achievement of strategic objectives by assessing, providing comment, and where relevant, recommending improvement to the Council's assurance and control frameworks. In addition, the Internal Audit plan has been designed to provide assurances on strategic risks and is linked to the Council's key strategic outcomes and the code of corporate governance.

EXECUTIVE SUMMARY

This report provides an update to the Audit Charter and the outline Internal Audit Plan for 2023/24. It demonstrates to the Audit and Assurance Committee that they have both been compiled in line with Public Sector Auditing Standards (PSIAS)

RECOMMENDATIONS

It is recommended that the Audit and Governance Committee:

- considers whether the Internal Audit plan has been produced on a proper basis, and will provide sufficient assurance to form a reliable opinion on the Council's control environment;
- approves the Internal Audit Plan for 2023/24 subject to a further update being taken to the next meeting of the audit and governance committee; ; and
- approves the Internal Audit Charter

REASONS FOR DECISION

In line with the Council's constitution and governance arrangements, and in line with PSIAS, The Audit and Governance Committee, needs to receive assurance that:

- the Internal Audit plan has been produced in line with the requirements of the standards;
- the Internal Audit plan is aligned to the strategic objectives of the Council;
- the Internal Audit plan provides sufficient coverage and will allow the Head of Audit and Assurance to provide an assurance opinion on the Council's control environment as well as the risk management and governance arrangements; and
- there is an up-to-date Audit Charter in place, which defines the scope of Internal Audit activities, its purpose, its authority, and its responsibilities.

1. BACKGROUND AND ISSUES

- 1.1 The Accounts and Audit Regulations 2015 require the Council to ensure there are sound systems of internal control and to undertake effective

internal audit to evaluate the effectiveness of its risk management, control and governance processes. A requirement of the regulations is that Internal audit must consider Public Sector Internal Auditing Standards (PSIAS) and guidance when carrying out its work. Two key requirements of the PSIAS are:

- the production of an Audit Charter, which is subject to annual review; and
- an internal audit plan which is agreed with the Audit Committee.

1.2 The attached Audit Charter defines the scope of its activities, its purpose, its authority, and its responsibilities. It has been subject to review and has been updated to take account of the following:

- Further narrative on how the Head of Audit and Assurance discharges his responsibilities around risk management to avoid any perceived conflicts of interest (para 3.3 of the Charter);
- Reference to the Audit and Assurance Liaison meetings with North Lincolnshire Council (para 4.3 of the Charter)
- reference to the Audit Team's competency framework (para 7.2 of the Charter); and
- reference to the discussion of ethics at audit team meetings (para 8.2 of the Charter)

1.3 The attached Internal Audit Plan 2023/24, prepared by the Head of Audit and Assurance, provides Members with an outline of the audit priorities and activities for 2023/24, how it will be delivered and resourced, a commentary on the methodology for its compilation, and assurance on compliance with auditing standards. As required by the PSIAS the plan must be risk-based and consider the organisation's risk management framework and reflect changes in the organisation's business, risks, operations, programmes, systems and controls. The plan also confirms the resources available and required to support a reliable year-end Audit opinion.

1.4 As referred to in paragraph 2.7 of the Audit Plan, a number of emerging themes have been identified and these will be the basis of much of internal audit' work in 2023/24. Particularly in relation to the area covered by "strategic risk/ operational risk/ governance," audit in consultation with management is considering which of the potential audit work identified needs to be given priority for 2023/24, and so it is subject to further development, and some of the provisional allocations maybe subject to change. Once this work is completed, we will circulate an updated plan, including a breakdown of the planned audits to be covered under the "strategic risk/ operational risk/ governance". section

2. RISKS AND OPPORTUNITIES

The Audit plan is closely aligned to the Council's strategic risk register, strategic outcomes and emerging risks. Although it is currently forecast that sufficient resource is available to deliver it, there is an inherent risk of events such as staff turnover and sickness being greater than anticipated, unanticipated issues arising in relation to planned audit assignments, special investigations, or emerging risks requiring input and assurance from audit could impact on the delivery of the plan. As part of the completion of the planning process Internal Audit is reviewing its work programme to ensure that those areas of biggest risk to an effective control environment and the Council's strategic risk and outcomes are prioritised, and this process will continue throughout 2023/24.

As the Audit plan is focused on those areas where there are potentially the greatest risks to the control environment, and is cyclical in nature, Internal Audit therefore cannot provide assurance on the design and operation of all services and systems within the Council.

3. OTHER OPTIONS CONSIDERED

Not applicable - it is a requirement under the standards for the Audit and Governance Committee to be presented with an Audit Charter and Audit Plan, and for it to be provided with assurances on the methodology for compiling them.

4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS

An effective audit service, which is able to produce and deliver a plan in line with expected standards, enhances the reputation of the Council to its stakeholders by providing assurance and comment on the effectiveness of its control environment. The plan is subject to consultation with, and communicated to, Directors, Assistant Directors and managers to ensure they are aware of the content of the Audit Plan, and this accompanied by the "Audit Offer"/ "FAQs" (based upon the Audit Charter) which lays out the purpose of internal audit and the expectations on them in relation to the carrying out audit work.

5. FINANCIAL CONSIDERATIONS

A key role of Internal Audit is to provide assurance on the financial systems which support the production of the Statement of Accounts. Any significant issues arising from this work will be reported to the Audit and Governance Committee within the Head of Internal Audit Annual Report and Opinion. In addition, effective financial reporting and processes are a key component of the control environment and therefore are considered when producing the Audit plan and subsequently planning each assignment.

6. CHILDREN AND YOUNG PEOPLE IMPLICATIONS

As highlighted in paragraph 2.7 of the Audit Plan "supporting the development of, and providing assurance on, the control environment in relation to Children's services" has been identified as a key priority for Internal Audit in 2023/24.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

As highlighted in paragraph 2.7 of the Audit Plan, building on previous work, audit intends to provide assurance on the supporting processes to support the delivery of the Council's environmental and carbon reduction strategies, including **for** the approach to energy management.

8. FINANCIAL IMPLICATIONS

There are no financial implications arising as a direct result of this report. Based on the opinion provided within the body of the report by the Head of Audit and Assurance, the S151 Officer is satisfied that the 2023/24 Audit plan has been produced in line with required standards, is aligned to the key strategies of the Council and (subject to the risks identified in section 2) will allow sufficient coverage so as to allow the Head of Audit and Assurance to provide assurance on the control environment, risk and governance arrangements.

9. LEGAL IMPLICATIONS

There are no direct legal implications arising from the report.

10. HUMAN RESOURCES IMPLICATIONS

Any direct HR implications arising from this report will be supported by organisational policies and procedures and any relevant employment legislation.

11. WARD IMPLICATIONS

Applicable to all wards

12. BACKGROUND PAPERS

None

13. CONTACT OFFICER(S)

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SHARON WROOT
EXECUTIVE DIRECTOR RESOURCES AND PLACE



North East Lincolnshire Council

Internal Audit Plan 2023/24

Version 1 30 March 2023

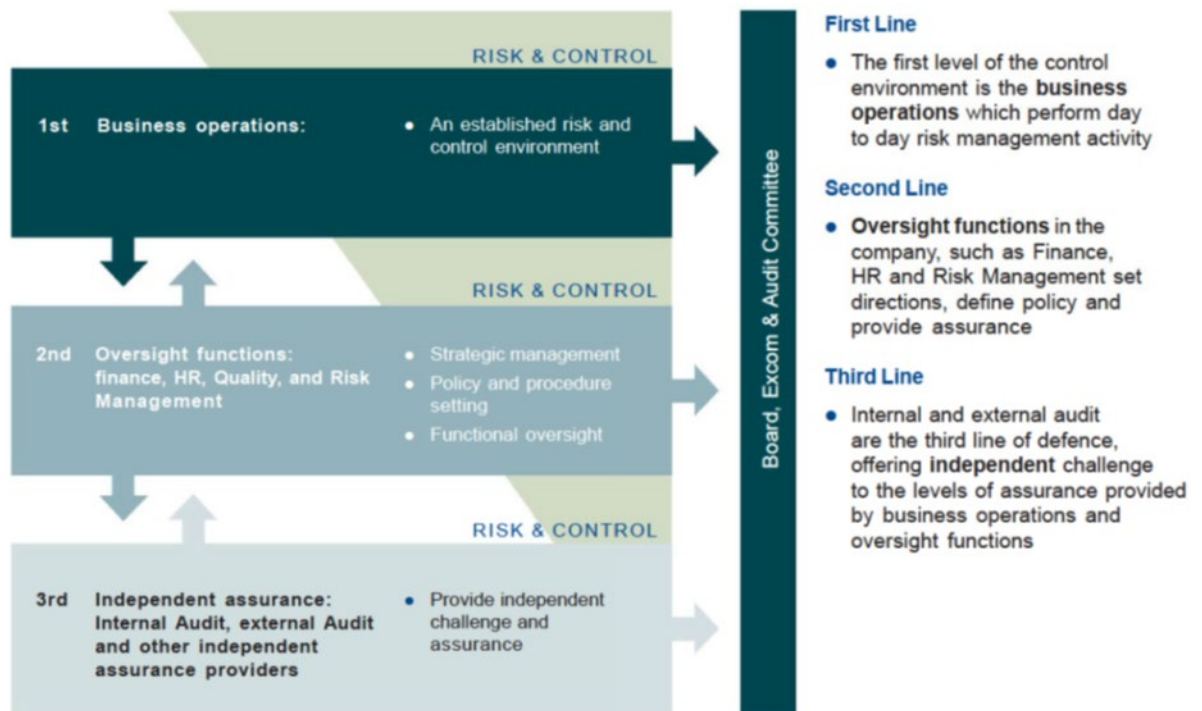
1. INTRODUCTION

- 1.1 As recognised in the Accounts and Audit Regulations 2015 Internal Audit is a key part of the Council's control environment. Its primary objective is to provide an independent and objective opinion and advice on the Council's control environment, which comprise the systems of risk management, internal control, and governance.
- 1.2 The Audit Charter sets out the purpose, authority, and responsibility of Internal Audit in accordance with the Public Sector Internal Audit Standards (PSIAS). It was updated in April 2023 and should be read in conjunction with this Plan. It defines the mission of internal audit *"To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight"*.
- 1.3 As laid out in paragraph 6.1 of the Charter, the Head of Audit and Assurance is responsible for *"developing audit plans based on an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes, and adjust the plan in response to the organisation's business, risk, operations, programmes, systems and controls"*.
- 1.3 The audit plan lays out Internal Audit's priorities and work programme for 2023/24. It has been compiled to ensure that:
- it meets the requirements of the PSIAS (summarised in Appendix 1);
 - provides sufficient evidence to support a reliable year-end Audit opinion on the Council's control;
 - adds value to the Council by providing assurance on the underlying processes and governance arrangements to support the achievement of its strategic priorities as laid out in the Council Plan i.e:
 - Reach their full potential through skills and learning;
 - Benefit from a green economy and a high-quality environment; Enjoy good health and wellbeing;
 - Benefit from a strong local economy;
 - Live in a safe environment, can have their say about things that are important to them and participate fully in their communities.

2. COMPILATION OF THE AUDIT PLAN

- 2.1 As required by the standards, the plan is developed on a risk-based approach. We have prioritised resources to where the need is greatest, and where potentially Audit could provide most value. In compiling the plan, we have ensured that the requirements laid down in the standards have been met.
- 2.2 At the heart of the approach to Internal Audit is the "3 lines of assurance" model where:
- the first line of assurance is the control environment operated by managers in individual services;

- the second line of assurance includes the oversight functions such as Finance, HR, Procurement, Legal Services, who provide advice, direction, and support to individual services; and
- the third line of assurance, such as Internal Audit, External Audit and other external assurance providers which offer independent challenge to business functions.



The more developed the first and second lines of assurance are then the greater the reliance that can be placed on the assurances obtained by services rather than directly from Internal Audit work.

- 2.3 The plan is made up of a number of key components designed to provide assurance on the effectiveness of the Council's control environment, i.e.
- the achievement of strategic priorities;
 - those specific areas identified in the Council's code of governance;
 - effective procedures and processes;
 - reliable financial and performance information;
 - compliance with laws and regulations; and
 - the protection of council assets, including physical assets, financial resources, people, information – this includes a review the controls in place to minimise the risk of fraud and financial irregularity in those areas of highest risk.

Depending on the nature of their scope, audit assignments may provide assurance on more than one of these areas of the control environment. In addition, Internal Audit follows up the implementation of agreed actions from previous audit work with relevant managers.

- 2.4 In addition, Internal Audit provides support to the Council in the following areas:
- providing assurance in relation to the control environment within maintained schools;
 - providing advice and support to management on the design of the control environment; and
 - the mandatory certification of external grant claims.
- 2.5 Internal Audit takes a cyclical risk based approach in determining the content of the audit plan with those areas having the biggest potential risk to an effective control environment. It first identifies those areas which potentially have a significant impact on the control environment. The key sources of information are:
- the Council's key strategic outcomes as contained in the Council Plan and performance reports relating to their delivery;
 - the strategic risk register;
 - those areas in the operational risk registers where a high inherent risk has been identified;
 - when an audit was last carried out in a specific area, and whether there have been any known changes to the design or operation of that area since then;
 - areas which represent key components of the code of governance;
 - issues identified in Director assurance statements prepared as part of the preparation of the Annual Governance Statement (AGS);
 - activities in receipt of significant external grant funding;
 - the Council's statutory responsibilities
 - cabinet and scrutiny reports to help identify areas of emerging risk;
 - other sources of assurance such as OFSTED, Care Quality Commission (CQC), peer reviews , Local Government Ombudsman reports etc; and
 - emerging national issues, including areas subject to changes in legislation and regulation.

Those areas considered to have the highest risk are prioritised for inclusion in the plan based on the likelihood of a control failure and its impact to the organisation should it occur. Discussions are held with the Leadership Team, Directors, and Assistant Directors to determine the prioritisation of work.

- 2.6 The level of estimated audit resource allocated to each assignment is dependent upon;

- previous knowledge of the function or system and the risks associated with it;
- if there have been significant changes to the design or operation of the system or function since it was last audited;
- the complexity of the function or system;
- the level of assurance which can be obtained from internal assurance mechanisms (second line of assurance) or by external sources of

assurance such as the external audit and the outcome of inspections (third line of assurance); and

- the nature of the testing required to obtain assurance - for example the use of control testing and observation compared to substantive testing, and the testing methodology required. Increasingly the audit team has been using analytical techniques to obtain assurance based on wider populations compared to sample testing.

2.7 The draft plan, based on Internal Audit's risk assessment, is then subject to consultation with the strategic leadership team and with Assistant Directors. Where appropriate amendments are made to the plan to reflect its feedback on the areas where it is felt that audit resource is needed to be prioritised. The emerging themes which have been identified as part of the 2023/24 audit planning process include:

- supporting the development of, and providing assurance on, the control environment in relation to Children's services;
- in the context of the developing partnership arrangements and decision-making processes with the Integrated Care Board, providing assurance on the impact of ongoing national changes to the funding and delivery of Adult Social Care (including preparations for the revised inspection arrangements) ;
- building on previous audit work, providing assurance on the supporting processes to support the delivery of the Council's environmental and carbon reduction strategies, including for example the approach to energy management ;
- the governance arrangements relating to the delivery of significant regeneration projects;
- linked to the above, providing assurance on the development of the Council's arrangements for project management;
- reviewing the Council's approach to asset management, and the governance arrangements related to the asset rationalisation programme;
- continuing assurance on the design and operation of the Council's key financial systems;
- assurance on the governance arrangements relating to Freshney Place, including arrangements with the respective Asset Managers and Property Managers;
- assurance on the governance arrangements relating to the Council's role as the Accountable Body for the Humber Freeport'
- assurance on the arrangements relating to Public Health
- building on previous work, assurance on the continued development of underpinning support arrangements such organisational development and the "New Operating Model" ; and
- the increased requirement for Internal Audit to certify grant income from central government departments.

2.8 The proposed audit plan is summarised in the table below. It shows the resources provisionally allocated to each of the main areas of the internal

audit activity. As of 30 March 2023, particularly in relation to the area covered by “strategic risk/ operational risk/ governance” audit, in consultation with management, is considering which of the potential audit work identified needs to be given priority for 2023/24, and so it is subject to further development, and some of the provisional allocations maybe subject to change. Once this work is completed, we will circulate an updated plan, including a breakdown of the planned audits to be covered under the “strategic risk/ operational risk/ governance”.

Area	Planned days	
Strategic risk/ operational risk/ governance	415	A risk-based programme of audit reviews to provide assurance on the Council’s governance framework, as well as the arrangements in place to deliver key strategic and service outcomes efficiently and effectively and ensure compliance with laws and regulations
Financial systems	115	Providing assurance on the design and operation of the fundamental financial systems (e.g., payroll, local taxation and benefits, treasury management, creditors and debtors etc), including on a cyclical basis those systems which feed into them.
ICT	50	Providing assurance on the effectiveness of the Council's approach to ICT and Information Governance, and key ICT systems.
Procurement and contract management	20	Providing assurance on the Council's procurement and contract management processes, including reviews of a sample of key procurement exercises.
Schools	10	Provide assurance on the control environment within maintained schools via a cyclical programme of school audits
Grant Certification	40	Mandatory certification of grant claims. The time required for this element of audit activity has increased in recent years due to a greater number of certifications requested by central government departments
Advisory	60	Providing advice and support on governance and internal control matters
Follow up	40	Follow up of previous actions
Probity and Counter Fraud	60	Proactive and reactive work to support the Council’s approach to anti-fraud and corruption, to provide assurance on the controls in place designed to prevent fraud in areas of high risk. This also includes co-ordinating the Council’s response to the National Fraud Initiative (NFI) and working with services to investigate data matches

Management time	75	Includes audit planning, monitoring the delivery of audit work, and meetings with the Audit Committee and senior management
Contingency	15	
Total	900	

2.9 Throughout the year the audit plan will be subject to regular review to reflect the changes in the risks to the Council's control environment, and to reflect changes in the assumptions made when the plan was first completed. For example:

- an area in which internal audit intended to work may subsequently be subject to an external inspection, in which case less audit work may be required as audit will look to seek reliance on the outcome of the inspection;
- where applicable any issues arising from Local Government Association (LGA) Peer Review of the Council carried out in February 2023 and due to report in May 2023;
- where a new process or system has not been implemented as quickly as anticipated and therefore the audit of it would be delayed;
- a risk may emerge during the year which may require to be included in the audit plan so that work can be carried out to obtain sufficient assurance;
- where issues arise during a planned audit then extra resource may be required to obtain sufficient assurance and /or obtain an understanding of the underlying control issues; and
- potential reprioritisation of the plan due to a greater level of uncompleted audit work carried forward from the previous year than anticipated, or changes in staffing levels during the year due to leavers or long-term sickness absence.

To reflect that the plan will be subject to regular change and adjustment, and to provide flexibility to manage emerging risks, the plan includes an allocation for contingency. In addition, regular meetings will be held with Directors and Assistant Directors throughout the year to review the progress of work, and to re-prioritise audit resource where appropriate Any significant changes to the allocations will be reported to future Audit Committees.

2.10 The Audit Charter describes how the Audit Team will conduct itself when delivering the plan, and the quality assurance processes which underpin the quality of its work. A number of enhancements have been put in place to further enhance efficiency and effectiveness of the delivery of audit work, including:

- the ongoing development of the team's competency framework, and development programmes;
- enhanced stakeholder engagement;
- further enhancements to reporting templates;
- the ongoing development of the team's audit manual to incorporate changes to audit good practice;

- enhancements to the team's audit software, including action tracking; and
- delivery of the data analytics strategy action plan.

3 RESOURCES TO DELIVER THE AUDIT PLAN

- 3.1 The standards require the Head of Audit and Assurance to be satisfied that he or she has sufficient resources available to deliver the plan and be able to provide an opinion on the control environment and discharge their other responsibilities. In addition, under the CIPFA statement "The Role of the Head of Internal Audit" the Head of Internal Audit must "lead and direct an Internal Audit service that is resourced to be fit for purpose".
- 3.2 Based on the risks identified from the audit planning processes which have been carried out as of 24 March 2023, we can confirm that there are sufficient resources available to deliver the Audit Plan and to provide a reliable year-end audit opinion subject to the comments made in paragraph 3.3. This conclusion is due an assessment of resources available to the team as of 24 March 2023 considering annual leave, training, non-audit time, the availability of additional ICT audit specialist support. This includes being prudent on the potential impact of long-term sickness and unfilled vacancies that may arise given the relatively small size of the team.
- 3.3 It is recognised, however, that resourcing is a risk, and in response we will monitor the delivery of the plan monthly and will reprioritise the audit programme on a risk basis should issues arise regarding the level of resources available. Furthermore, given the risks and challenges currently faced by the Council we will need to continuously work with management to re-prioritise audit work so that it covers those areas of the control environment which have the potentially greatest impact and risk and where it can add most value.

4 REPORTING AND MONITORING ARRANGEMENTS

- 4.1 For most assignments, excluding advisory work and grant certification, we will provide a report with an overall opinion on the control environment ("substantial", "satisfactory", "limited", "none") and the residual risk. There will be some areas, due to particular circumstances, where it may not be appropriate to issue a full report and/or an opinion. In such cases a short commentary will be provided in the Annual Head of Internal Audit Report and Opinion.
- 4.2 A summary of completed audit work will be included in the Annual report, and this will feed into the overall opinion on the control environment. The opinion will also take account of other sources of intelligence, as appropriate, such as the outcome of inspections or other relevant forms of third-party assurance. Interim reports will also be presented to the Audit and

Governance Committee during the year. These will include progress in achieving the annual plan, including any significant amendments to it.

4.2 As part of its Quality Assurance and Improvement Programme (QAIP) Internal audit has a number of performance indicators based on the three principles of Outcome Based Accountability:

- “what did we do?”;
- how well did we do it?; and
- how did we add value?

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Appendix 1: Confirmation of compliance with Public Sector Internal Auditing Standards (PSIAS) requirements

PSIAS Requirement	How we demonstrate compliance
<p>The Head of Internal Audit (HOIA) must establish risk-based plans to determine the priorities of the Internal Audit activity, consistent with the organisation’s goals. (PSIAS 2010)</p>	<p>The plan is based on the Council’s strategic objectives and its Code of Corporate Governance. Those activities with the greatest impact on the achievement of strategic objectives are given greatest priority. The Head of Audit and Assurance carries out a detailed risk assessment to prioritise audit work based on the “audit universe”</p>
<p>The risk-based plan must consider the requirement to produce an annual Internal Audit opinion and the assurance framework. (PSIAS 2010 public sector requirement)</p>	<p>The Audit Plan has been designed to ensure that there is sufficient evidence to provide a reliable year end opinion in relation to risk, governance and internal control.</p>
<p>The plan must incorporate or be linked to a high-level statement of how the Internal Audit service will be delivered, developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities. (PSIAS 2010 public sector requirement)</p>	<p>The audit plan demonstrates the extent to which it links in with organisational objectives and priorities, including reference to the Audit Charter, which was updated in April 2023, whilst paragraphs 2.9 and 2.10 reflects how the plan will be delivered</p>
<p>The risk-based plan must explain how Internal Audit’s resource requirements have been assessed. (PSIAS 2030 public sector requirement)</p>	<p>Considered in Section 3 of this report. This identifies the risks in relation to the delivery of the plan, how they will be mitigated, and the importance of regular prioritisation to ensure that resources continue to focus on areas of highest risk.</p>
<p>The internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.</p>	<p>The Audit Team carries out a detailed risk assessment, based on the “Audit Universe”, to prioritise the work to be included in the audit plan. In determining priorities discussions are held with the Senior Leadership Team, Assistant Directors, and other stakeholders.</p>



INTERNAL AUDIT CHARTER- NORTH EAST LINCOLNSHIRE COUNCIL

1. Introduction

- 1.1 Under the Accounts and Audit Regulations (2015) the Council is required to ensure there are sound systems of internal control and to undertake effective internal audit to evaluate the effectiveness of its risk management, control and governance processes. Internal audit must consider Public Sector Internal Auditing Standards (PSIAS) and guidance.
- 1.2 This document sets out the purpose, authority and responsibility of Internal Audit in accordance with the Standards.

2. Definitions

- 2.1 Internal Audit is provided at North East Lincolnshire Council (NELC) through a joint Audit and Assurance service between NELC and North Lincolnshire Council. It is governed by the UK Public Sector Internal Audit Standards. They are mandatory for all internal auditors working in the UK public sector. The main components are:
 - articulating the mission of internal audit;
 - providing a definition of internal audit;
 - laying out the key principles of effective internal auditing;
 - the code of ethics for internal auditors; and
 - the standards themselves.
- 2.2 The mission of internal audit as laid out in the standards is *“To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight”*.

The ‘Core Principles’ that underpin delivery of the mission require internal audit to:

- Demonstrate integrity;
- Demonstrate competence and due professional care;

- Be objective and free from undue influence (independent);
- Align with the strategies, objectives and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive, and future-focused; and
- Promote organisational improvement.

2.3 The standards define internal auditing as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”*.

2.4 As defined in the standards internal audit adds value to the organisation and its stakeholders when it considers strategies, operations and risk; strives to offer ways to enhance risk, governance and control processes; and objectively provides relevant assurance.

2.5 Internal Audit supports the Executive Director of Resources and Place to discharge her responsibilities for maintaining an adequate and effective system of internal audit as required under section 151 of the Local Government Act 1972 and by the Accounts and Audit Regulations 2015.

2.6 Internal Audit supports the Monitoring Officer in discharging his responsibilities for providing advice on vires issues, maladministration, financial impropriety, probity, Code of Conduct, policy framework and investigating cases reported under the confidential reporting policy as appropriate.

2.7 The Head of Audit and Assurance is responsible for the effective review of all aspects of governance, risk and internal control throughout the full range of the Council’s activities.

2.8 The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

2.9 The Public Sector Internal Audit Standards require that the internal audit charter defines the terms ‘board’ and ‘senior management’ in relation to the work of internal audit. For the purposes of internal audit work, the ‘board’ refers to the Council’s Audit and Governance Committee which has delegated responsibility for overseeing the work of internal audit. The term senior management in this context is defined as the Strategic Leadership Team (SLT).

3. Independence

3.1 Internal Audit is independent of all the activities of the Council to ensure it can appraise the Council's governance, risks and internal control systems in the impartial and unbiased manner essential to the proper conduct of audits. Independence is secured by a number of means, in particular:

- unfettered access to all Council officers, senior management and Elected Members;
- direct access to the Chair of the Audit and Governance Committee;
- the right to all documentation held by the council and to seek explanations as they see necessary to effectively discharge their duties, from all officers and Elected Members of the Council;
- the Head of Audit and Assurance reports in his / her own name to officers and Elected Members, particularly those charged with governance; and
- where internal audit staff have a perceived or real conflict of interest in undertaking a particular piece of work, this will be managed through the internal audit management and supervisory process. Staff are required to declare any potential conflict of interest when they are assigned a particular audit review and if necessary, the work will then be reassigned to another auditor. All staff are required to complete a yearly declaration of interests form.

3.2 The responsibilities of the Head of Audit and Assurance include risk management, insurance and counter fraud. To maintain this independence in these areas, the Head of Audit and Assurance is not actively involved in the audit of those areas where he has some managerial responsibility, and usually a third-party provider will be asked to carry out an audit on the team's behalf.

3.3 In addition, although the Audit and Assurance team (primarily through the Strategic Lead - Risk and Governance) provides support and advice for the maintenance of the risk registers and the development of the Council's risk framework, the definition of risk appetites and the management of individual risks lies purely with management.). Furthermore, the Head of Audit and Assurance is not directly involved in management discussions relating to the determination of risk appetite.

4. Reporting Lines of the Head of Audit and Assurance

4.1 Arrangements are in place to ensure that the Head of Audit and Assurance has suitable status within the Authority. The Head of Audit and Assurance is line managed by the Assistant Director of Law, Governance and Assets (Monitoring Officer), who is a member of the Council's Strategic Leadership Team. The Head of Audit and Assurance is also a member of the Assistant Director's senior management team.

4.2 The status of the Head of Audit and Assurance within the Council's management structure is further highlighted by:

- regular meetings with the Executive Director of Resources and Place and attending her management team on a periodic basis;
- being a member of the Council's Assurance Board, which is made up of the Council's Strategic Leadership Team - this Board meets monthly to discuss governance and control matters relating to the Council;
- quarterly meetings with the Chief Executive;
- attendance (at least quarterly) at the Assistant Directors Team meeting.
- member of the Council's Corporate Governance Group; and
- regular attendance at management teams throughout the Council to promote the importance of good governance and internal control.

4.3 In addition, monthly liaison meetings are held between the Head of Audit and Assurance, the Assistant Director of Law and Governance, and Assistant Director of Governance and Partnerships (NLC) to discuss matters concerning the operation of the Audit and Assurance Shared Service.

5. Scope of Internal Audit Work and Access to Information

- 5.1 The main purpose of Internal Audit is to provide assurance on the Council's governance, risk management and internal control arrangements. This involves providing an annual report and opinion summarising the work carried out during the year, and providing an opinion on the Council's arrangements based on this work, and where appropriate, other sources of intelligence.
- 5.2 The scope of Internal Audit allows for unrestricted coverage of all the Council's activities and unfettered access to all records, assets, personnel and premises deemed necessary in the course of its work. It also has unrestricted access to all Authority employees and Elected Members and the authority to obtain such information and explanations, as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.
- 5.3 Internal auditors respect the value and ownership of information they receive and the reports they produce, and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. They are prudent in the use and protection of information acquired in the course of their duties and shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the Council's legitimate and ethical objectives.
- 5.4 The Head of Audit and Assurance has direct access to, and freedom to report to, all senior management including Directors, the Chief Executive, and the Audit and Governance Committee.
- 5.5 Where the Council works in partnership with other organisations (other than NELC), the role of Internal Audit will be defined on an individual basis. Where Internal Audit undertakes work on behalf of any other organisations, this will be determined in conjunction with the Section 151 officer to ensure that

appropriate audit resources are available to provide assurance over the Council's activities.

- 5.6 The standards recognise that the Internal Audit Service may go beyond the work needed to meet its assurance responsibilities and provide services to support management, including consultancy services or assistance with the investigation of suspected fraud or corruption. Consultancy services are advisory in nature and are generally performed at the specific request of the organisation. The nature and scope of the consulting engagement should aim to improve governance, risk management and control and should contribute to the overall opinion.
- 5.7 The scope of any consultancy work will be agreed with management and will only be undertaken where resources permit without impacting on the annual assurance process, and where the Head of Audit and Assurance is satisfied that the team has sufficient expertise to carry out the work. When attending project boards or steering groups, auditors will agree their role and act as "critical friend" or advisor and not have any decision-making responsibility. Internal Audit may provide assurance to services where it has previously performed a consulting service, provided the nature of the consulting did not impair objectivity.
- 5.8 Internal Audit is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit's work in relation to fraud includes carrying out an annual programme of audits to review the design and operation of controls in areas of the Council where there is an inherent higher risk of fraud, where appropriate reviewing counter fraud controls when carrying out assignments, providing advice on counter fraud controls built into systems, manage the Council's response to the National Fraud Initiative, and where appropriate lead or support investigations for suspected fraud. However, internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.
- 5.9 The Head of Audit and Assurance should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for his opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.

6. Responsibility

- 6.1 The Head of Audit and Assurance is responsible for:
- developing an annual audit plan based on an understanding of the organisations strategies, key business objectives, associated risks and risk management processes, and adjust the plan in response to the

organisations business, risk, operations, programmes, systems and controls;

- determining the strategic direction of the Audit and Assurance Service; and ensures that it aligns to the Council's strategic priorities
- the management of the Audit and Assurance Service that is compliant with the Public Sector Internal Audit Standards, including a Quality and Assurance Improvement Plan;
- the monitoring and reporting of the performance of the Audit and Assurance service;
- the production and reporting of an annual audit opinion based on the outcomes of internal audit work conducted throughout the year;
- providing advice and guidance on risks and the application and development of internal controls;
- the fostering of good working relationships with External Audit with an aim to achieving mutual recognition and respect, leading to a joint improvement in performance and the avoidance of unnecessary overlapping of work; and
- assessing all matters of potential fraud or irregularity brought to his attention in line with the requirement of the Council's Counter Fraud Strategy and arranging for team members to lead or support the investigations into such matters.

7. Resourcing and Staffing Matters

7.1 Internal audit is staffed to meet the needs of both Councils. The structure is designed to ensure that there is a suitable mix of experienced and qualified staff. In line with the standards, the Head of Audit and Assurance will annually confirm whether there are sufficient resources available to deliver a reliable annual audit opinion and comply with the standards.

7.2 Individual training needs are established and agreed through the respective performance management systems of both Councils, involving regular 1-2-1 meetings, and the development of a locally produced competency framework for audit staff. A training and development plan is produced for each team member, and the team has access to both Councils' training budgets.

8. Ethics

8.1 The Public Sector Internal Audit Standards contain a Code of Ethics which is mandatory for all internal auditors in the public sector. In addition, individual staff are also required to adhere to the Codes of Ethics of their professional bodies where appropriate.

8.2 Team members are reminded of the need to comply with the Code on an annual basis including the requirement to complete a Code of Ethics Declaration Form to confirm they have read and understood them. In addition, they are expected to be aware of the seven standards of public life. Discussions on ethics, using ethical scenarios, are held periodically at audit team meetings.

9. Limitations of Internal Audit Responsibilities

9.1 In seeking to discharge the responsibilities detailed above, and in line with the responsibilities of Internal Audit it should be noted that the Internal Audit Service is not responsible for:

- controlling the risks of the Council.
- establishing and maintaining systems of internal control;
- determining operational policies or procedures; and
- ensuring the prevention or detection of fraud and irregularity.

10. Reporting

10.1 The exact form of reporting for internal audit assignments may vary depending on the nature of the assignment, but in many cases will be the subject of formal reports. Draft reports will be sent to the manager(s) responsible for the area under review for agreement of the factual accuracy of findings and the implementation of agreed actions made to address weaknesses in internal controls. Once agreed, final reports will be copied to all relevant stakeholders, with a summary of the outcomes reported to the Audit and Governance Committee and Senior Management

10.2 Internal Audit will provide regular reports to the Audit and Governance Committee and the Senior Leadership Team (in its role as the Assurance Group), including:

- The annual review of the Audit Charter (including confirmation of the independence of audit activity);
- The audit plan (including confirmation of resource requirements) and progress against the plan; and
- The Annual Head of Internal Audit Report and Opinion (supported by Interim reports throughout the year) summarising the outcome of audit activities; providing an overall opinion on the Council's governance, risk and internal control arrangements; and confirmation of compliance with quality and ethical standards, including the identification of improvement actions where appropriate.

11. Management Responsibilities

11.1 For internal audit to be fully effective, it needs the full commitment and cooperation from management across the Council. In approving this charter, senior management and the Audit and Governance Committee are mandating management to cooperate with internal audit in the delivery of the service by:

- attending audit planning and scoping meetings and agreeing the terms of reference for individual audit assignments on a timely basis as agreed at the commencement of each piece of internal audit work;
- sponsoring each audit assignment at a senior level.;

- providing internal audit with full support and cooperation, including complete access to all records, data, property and personal relevant to the audit assignment on a timely basis;
- responding to internal audit reports and making themselves available for audit closure meetings to agree draft audit reports;
- implementing audit recommendations within agreed timescales.

11.2 Instances of non-cooperation with reasonable audit requests will be subject to Internal Audit's escalation policy, which sets out the timescales and steps for raising such issues with senior management if required.

11.3 While internal audit is responsible for providing independent assurance to the Council and its Audit and Governance Committee, it is the responsibility of the organisations' management to develop and maintain appropriately controlled systems and operations. Internal audit does not remove the responsibility from management to continually review the systems and processes for which they are responsible and to provide their own assurances to senior management and elected members that they are maintaining appropriately controlled systems.

12. Quality Assurance

12.1 The Public Sector Internal Audit Standards require that the internal audit function is subject to a quality assurance and improvement programme that must include both internal and external assessments. Internal audit will report the outcomes of quality assessments to the Audit and Governance Committee through its regular progress reports.

12.2 All internal audit assignments are subject to a management quality review to ensure that the work meets the standards expected for audit staff. Such management reviews will include:

- ensure the work complies with the PSIAS;
- work is planned and undertaken in accordance with the level of assessed risk; and
- appropriate testing is undertaken to support the conclusions drawn.

12.3 An external assessment must be conducted at least every five years by a qualified, independent assessor from outside the organisation. The next assessment is due in 2023. The Head of Audit and Assurance will discuss options for the assessment with Senior Management and the Audit and Governance Committee at the appropriate time.

13 Review of the audit charter

13.1 This charter will be reviewed annually by the Head of Audit and Assurance and presented to the Leadership Team and the Audit and Governance Committee for approval.

March 2022