



**WEST LANCASHIRE BOROUGH COUNCIL  
INTERNAL AUDIT SERVICE**

**INTERNAL AUDIT CHARTER**

JULY 2020

## **1. Introduction**

- 1.1 West Lancashire Borough Council's (WLBC) Internal Audit Section is provided by an in-house team.
- 1.2 The requirement for the internal audit function is set out in legislation under Statutory Instruments:
- Section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs"; and
  - *The Accounts and Audit Regulations 2015 (SI 2015/234), regulation 5.—(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 (PSIAS) or guidance."*
- 1.3 The Public Sector Internal Audit Standards (PSIAS), which took effect from the 1<sup>st</sup> April 2013, and were subsequently updated in April 2017 are based on the mandatory elements of the Institute of Internal Audits (IIA), International Professional Practices Framework (IPPF) and now provide a consolidated approach to promoting further improvements in the professionalism, quality, consistency, transparency and effectiveness of Internal Audit across the public sector.
- 1.4 The objectives of PSIAS are to:
- define the nature of internal auditing within the UK public sector;
  - set the basic principles for carrying out internal audit in the UK public sector;
  - establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations
  - establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 1.5 Compliance with PSIAS is mandatory and must be subject to both internal and external assessment. The Internal Audit Manager must undertake a self-assessment on an annual basis. An external assessment must also be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation. The results of the internal and external assessments are reported to the Audit and Governance Committee.

## **2. Purpose of the Internal Audit Charter**

- 2.1 This Internal Audit Charter is a formal document that defines the Internal Audit Services purpose, authority, responsibility and position within WLBC. It has been prepared in accordance with the Public Sector Internal Audit Standards (PSIAS). It establishes the Internal Audit Service's position within WLBC and defines the scope of internal audit activities.
- 2.2 The charter also covers the arrangements for the appointment of the Internal Audit Manager and internal audit staff, and identifies the nature of professionalism, skills and experience required.
- 2.3 This Charter will be updated following any changes to the PSIAS or internal audit's operating environment and, as a minimum be the subject of annual review by the Internal Audit Manager and will be formally presented to the Audit and Governance Committee for approval.

### **3. Definitions**

3.1 Institute of Internal Auditors (IIA) Standards define Internal Audit as

*'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'.*

### **4. Internal Audit Mission Statement**

4.1 The mission of West Lancashire Borough Council's Internal Audit Section is:

*To enhance and protect West Lancashire Borough Council's organisational value by providing risk-based and objective assurance, advice and insight.*

### **5. Authorisation**

5.1 The Internal Audit Service, with strict accountability for confidentiality and safeguarding records and information, is authorised to have full, free, and unrestricted access to any and all of the organisation's:

- Records, documents and correspondence (manual and electronic) relating to any financial and other transactions;
- Physical properties i.e. premises and land, plus cash, stores or any other Council property;
- Personnel – requiring and receiving such explanations as are necessary concerning any matter under examination and generally assisting the Internal Audit Service in fulfilling its roles and responsibilities.

5.2 Such access shall be granted on demand and shall not be subject to prior notice, although in principle, the provision of prior notice will be given where possible and appropriate, unless circumstances dictate otherwise.

### **6. Organisation and Relationships**

6.1 Within the PSIAS, the terms 'Chief Audit Executive', 'Board' and 'Senior Management' are used to describe key elements of the organisation's governance and the ways in which they interact with Internal Audit. The PSIAS require that the terms are defined in the context of the governance arrangements in each public sector organisation, in order to safeguard the independence and objectivity of Internal Audit. The following key terms are explained below:

#### **6.2 Chief Audit Executive**

The Internal Audit Manager fulfils the role of Chief Audit Executive for WLBC as defined by PSIAS. The Internal Audit Manager reports to the S151 officer (Head of Finance, Procurement and Commercial Services), and has access to the Chief Operating Officer should it be required.

#### **6.3 Board**

The 'board' oversees the work of Internal Audit and will be the relevant audit committee of the council. The 'Board' is known as the Audit and Governance Committee and was established as part of the governance arrangements for WLBC.

The Audit and Governance Committee assists the Chief Operating Officer, Corporate Directors and Heads of Service by fulfilling its oversight responsibilities for the financial reporting process, ensuring that there are adequate systems of internal

control, monitoring compliance with the constitution and financial regulations and promoting effective governance and risk management. To achieve this, reliance is placed on the work of internal and external audit.

Internal Audit will work closely with the committee to facilitate and support its activities.

#### 6.4 Senior Management

WLBC's Senior Management are known as the Corporate Management Team (CMT).

The Chief Operating Officer is WLBC's most senior manager and has overall responsibility for the risk management, control and governance processes of the Council. The Chief Operating Officer is ultimately responsible for the performance of the Council.

Corporate Directors and Heads of Service are responsible for ensuring that their Services' internal control arrangements are sufficient to address risks and prevent fraud in relation to the operations they are responsible for, paying due regard to any corporate arrangements in place.

#### 6.5 External Audit

The Council's appointed External Auditor is Grant Thornton UK LLB. Internal Audit aims to minimise any potential duplication of work and determine the assurance that can be placed on the respective work. The Internal Audit Plan is shared with the External Auditor.

#### 6.6 Other External Review and Inspection Bodies

Internal Audit will co-operate with all external review and inspection bodies that are authorised to access and evaluate the activities of the Council, to determine compliance with regulations, standards or targets. Internal Audit will, wherever possible, utilise third party assurances from this work.

### 7. Objectives and Scope

7.1 The provision of assurance services is the primary role of Internal Audit and there is a duty of care on the Internal Audit Manager to give an annual internal audit opinion based on an objective assessment of the framework of governance, risk management, and control.

7.2 The main functions of Internal Audit are to review, appraise and report on:

- the adequacy and effectiveness of financial, operational and management system controls and their practical application in relation to the business risks to be addressed;
- the extent of compliance with policies, standards, plans and procedures established by the Council and with law and regulation, including reporting requirements to regulatory bodies;
- the extent to which the assets and interests are acquired economically, used efficiently, accounted for and safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, poor value for money, fraud or other causes and that adequate business continuity plans exist;
- the suitability, accuracy, reliability and integrity of financial and other management information and the means used to identify, measure, classify and report such information;
- the integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud and loss of all kinds; and that processes align with the organisation's strategic goals;

- the suitability of the authority's departments for carrying out their functions, and to ensure that services are provided in a way which is economical, efficient and effective;
- confirmation that action has been undertaken to remedy weaknesses identified by Internal Audit, ensuring that good practice is communicated widely;
- the operation of the authority's corporate governance arrangements.

7.3 Managing the risk of fraud and corruption is the responsibility of management. However, as part of the scope of Internal Audit, it will be alert in all its work to the risks and exposures that could allow fraud or corruption to occur and will monitor the extent and adequacy of controls built into systems by management. Internal audit investigate fraud and irregularities in accordance with Council procedures.

7.4 Internal Audit may also provide, where resources and skills exist, an independent and objective consultancy service, related to governance, risk management and control as appropriate and which is advisory in nature and is generally performed at the request of senior management. Such work may include providing advice on new systems and emerging risks or attendance at working groups and boards.

7.5 Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to senior management and in summary to Audit and Governance Committee, including fraud risks, governance issues and other matters considered relevant by the Internal Audit Manager.

## **8. Independence**

8.1 Internal Audit operates within an organisational framework that preserves the independence and objectivity of the assurance function, and ensures that the Internal Audit Service is free from interference in determining the scope of internal auditing, performing work and communicating results. The framework allows for the Internal Audit Manager direct access to and the freedom to report unedited, as deemed appropriate, to the Audit and Governance Committee, the Chief Operating Officer, Section 151 Officer and Senior Management.

8.2 Internal Audit has operational responsibilities for an element of the Payroll System and the Management of the Authorisations Matrix. As a consequence the Internal Auditors involved in these functions do not undertake any internal audit work in these areas to ensure that objectivity is not impaired.

8.3 The Internal Audit Manager will confirm to the Audit and Governance Committee, annually in the Internal Audit Annual Report, the organisational independence of the Internal Audit Service.

## **9. Professional Standards**

9.1 Internal Auditors operate in accordance with the PSIAS and LGAN (2019). The Internal Auditors are also governed by the policies, procedures, rules and regulations established by WLBC. These include, but are not limited to, Financial Regulations, Contract Procedure Rules, Anti-Fraud, Bribery and Corruption Policy and the Code of Conduct. Similarly, the council's Internal Auditors will be aware of external bodies' requirements and all legislation affecting the Council's activities.

9.2 In addition, all members of the Internal Audit Service must comply with the Code of Ethics for Internal Auditors, as detailed in PSIAS and have due regard to the Committee on Standards in Public Life's '*Seven Principles of Public Life*'. Internal Audit must also comply with the following Core Principles for Internal Auditors in all aspects of their role:-

- 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
- Positioned appropriately and resourced adequately
- Demonstrate quality and continuous improvement
- Communicate effectively
- Provides risk-based assurance
- Be insightful, proactive, and future-focused
- Promote organisational improvement

9.3 By achieving these principles Internal Audit will promote improvement throughout the Council, it will add value, and provide assurance on the control and governance processes, highlighting any weaknesses that require attention.

## **10. Audit Resources**

10.1 The Internal Audit Manager must hold a professional qualification (CCAB, CMIIA or equivalent), have sufficient skill, experience and competencies to work with senior management and the Audit and Governance Committee to influence and inform the risk management, governance and internal control arrangements at WLBC.

10.2 The Council has a responsibility to ensure that the Internal Audit Service is adequately resourced. If it is considered that the resource is inadequate, the Internal Audit Manager will report this to the Head of Finance, Procurement and Commercial Services (Section 151 officer), who then has a responsibility to report this to Audit and Governance Committee.

10.3 Audit work must be performed with proficiency and due professional care. The Internal Auditors will be appropriately staffed with the skills, knowledge, experience and competencies to fulfil their responsibilities and objectives. If the in-house team do not have the skills to undertake a piece of work, the Internal Audit Manager may look to obtain appropriately skilled resources from an external provider. Audit assignments are rotated among staff to avoid over familiarity and complacency that could influence objectivity.

## **11. Audit Planning**

11.1 The Internal Audit Manager will develop an Internal Audit Strategy and Annual Audit Plan using a risk based audit methodology. This will take into account:-

- Service action plans,
- Risk registers,
- Consultation with key officers e.g. members of CMT, SIRO, Section 151 Officer,
- Committee reports and Forward plan,
- Information from other assurance processes,
- Horizon scanning to consider emerging risks and opportunities

11.2 The Annual Audit Plan will be presented to the Audit and Governance Committee for final endorsement in advance of the audit year.

11.3 The Annual Audit Plan will outline the reviews to be undertaken and the broad resources required to deliver the plan. It will provide sufficient information for the Audit and Governance Committee to understand the areas to be covered and for it to

be satisfied that sufficient resources and skills are available to deliver the plan. Areas included in the Annual Audit Plan are detailed in Table 1.

Table 1.: Audit Activities	
Assurance audits	Project Support
Core Financial Systems reviews	Follow up audit reviews
Cross Cutting reviews	Ad-hoc advice and consultancy

- 11.4 The Annual Audit Plan will be kept under review to identify any amendment needed to reflect changing priorities and emerging risks. It will be flexible, containing an element of contingency to accommodate audit reviews which could not have been readily foreseen. However, on occasions, specific audit requests take precedence over the original audit plan and will be required as additional work rather than as a replacement. Resources, such as specialists or additional auditors may be required to supplement this.

## 12. **Audit Reporting**

- 12.1 The process for completing an audit review is set out in Table 2.
- 12.2 Upon completion of each audit review, an Internal Audit report will be prepared and issued that:
- Provides an opinion on the risks and controls of the area reviewed, and this will contribute to the Internal Audit Managers overall annual opinion on the internal control environment, recorded in the Internal Audit Annual Report, which, informs the Annual Governance Statement, and
  - Provides a formal record of points arising from the audit, management responses to issues raised and agreed implementation timescales.
- 12.3 Exit meetings are accommodated enabling management to discuss audit review findings and recommendations. Accountability for responses to Internal Audit recommendations lies with CMT and Heads of Service as appropriate, who can either, accept and implement guidance given or formally reject it. However, if audit recommendations to strengthen the internal control environment are disregarded and there are no compensating controls justifying the course of action, an audit comment will be made in the Final Audit Report, reiterating the nature of the of the risk that remains and recognising that management has chosen to accept the risk. Furthermore, depending on the severity of the risk, the matter may be escalated upwards to the Chief Operating Officer or drawn to the attention to the Audit and Governance Committee.

Table 2. : Working Arrangements During Audits	
Stage	Commentary
Audit Brief	Prepared and agreed with manager(s).
Fieldwork	Audit review undertaken including interviews with subject matter experts and fieldwork to obtain an understanding of inherent risks and controls to allow an analysis to be undertaken of any residual risks.
Exit Meeting	At the conclusion of the fieldwork, findings and recommendations to be included in the audit report will be discussed with manager(s).

Draft Report	<p>Produced following completion of the fieldwork and exit meeting.</p> <p>The Internal Audit Manager will undertake a quality assurance review prior to the issue of the draft report.</p> <p>Auditee is required to check the report for accuracy and formally respond by full completion of the action plan including timescales for implementation of recommendations.</p>
Final Report	<p>Internal Audit incorporates all management comments within the report. A final quality assurance check is undertaken by the Internal Audit Manager.</p> <p>The report is then issued as a final and includes an opinion on the risks and controls of the area under review.</p>
Follow Up review (where required)	<p>No more than six months after the issue of the final report, a follow up review will be undertaken and progress on implementation of recommendations will reported to manager(s) in a follow up audit report.</p>

- 12.4 It is important that following production of each audit report, there is prompt dialogue between managers and Internal Audit so that findings can be discussed, actions identified to remedy any weaknesses and finally an agreed timescale to rectify them. Internal Audit will monitor implementation of recommendations and report any gaps to senior management.
- 12.5 Actions are rated and an overall assurance opinion on the area subject to the audit review given. Final Audit Reports will be issued in line with agreed working protocols to the relevant nominated officers and subject to follow up work as necessary.
- 12.6 All internal audit reports will normally be treated as confidential unless alternative arrangements have been expressly made with the management concerned except as follows: The Internal Audit Manager reserves the right to copy reports to the Chief Operating Officer, the Section 151 Officer, the Monitoring Officer, the Chair of Audit & Governance Committee, the Authority's External Auditors or other appropriate external agencies as deemed appropriate. All reports and associated working papers will be retained in accordance with the prescribed retention and disposal timelines which is currently 6 years plus the current financial year.
- 12.7 Audit Assurance and Recommendation Priority levels will be subject to regular review to ensure that they remain relevant and robust for the Internal Audit Service and WLBC.
- 12.8 Following the end of the year, an annual report will be produced setting out Internal Audits opinion on the state of the internal controls and governance across the Council. This will comment on:
- The scope including the time period covered;
  - Any scope limitations;
  - Consideration of all related projects including the reliance of other assurance providers;
  - The risk or control framework or other criteria used as a basis for the overall opinion;
  - The overall opinion, providing reasons where an unfavourable overall opinion is given; and

- A statement on conformance with the PSIAS and the results of the quality assurance improvement programme (QIAP).

12.9 Any significant issues identified will be referred to the s151 Officer (Head of Finance, Procurement and Commercial Services) and CMT.

12.10 All reports produced are set out in Table 3:

Report Produced	For	Reason
Audit Report	Relevant Director / Head of Service	To report on the findings and recommendations of each audit review undertaken.
Internal Audit Activities – Quarterly Update	Audit and Governance Committee	To provide the Audit and Governance Committee with progress on the delivery of the internal audit plan, provide key assurance and governance issues.
Internal Audit Annual Report	Audit and Governance Committee	End of year report in accordance with PSIAS. An evaluation of the work undertaken and the level of assurance established.
Internal Audit Strategy and Annual Audit Plan	Audit and Governance Committee	The Strategy details how Internal Audit will support the overall aims and objectives of the Council and the Annual Audit Plan details the future plans to provide assurance across the Council in accordance with PSIAS.

### 13. **Counter-Fraud, Bribery and Corruption**

13.1 Managing the risk of fraud, corruption and bribery is the responsibility of all management and members. Internal Audit can assist management in the effective discharge of this responsibility, including the investigation of suspected fraud, corruption or bribery.

13.2 Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud, bribery or corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud, corruption or bribery. Internal Audit does, however, commit resources to proactive fraud work, which includes raising the awareness of fraud issues, and will also be alert in all audit work, of whatever type, to risks and exposures that could allow fraud, corruption or bribery.

13.3 The Internal Audit Manager must be informed of all suspected or detected fraud, corruption or improprieties so that they may be considered in terms of adequacy of the relevant internal controls and be evaluated for the annual opinion on the control environment.

- 13.4 All cases will be dealt with in accordance with WLBC's relevant policies and procedures (e.g. Whistleblowing Policy, Anti-Fraud, Corruption and Bribery Policy, Anti-money Laundering Policy).

#### **14. Risk Management**

- 14.1 Internal Audit is not responsible for managing WLBC's risks, which is the responsibility of management. However, Internal Audit evaluates the effectiveness of, and contributes to, the improvement of risk management processes by ensuring significant risks are identified and addressed, and ensuring that internal audit recommendations are appropriate to address key risks areas identified.

#### **15. External Work**

- 15.1 Internal Audit may provide assurances to parties outside of the Council. Such assurances fall under the following categories:

- Work under contract;
- Government grant sign off;
- Other grant sign off (e.g. European funding)

- 15.2 Approval is sought from the S151 Officer (Head of Finance, Procurement and Commercial Services) before entering into any significant engagement. The level and extent of external work is also reported to the Audit and Governance Committee for approval.

#### **16. Quality Assurance and Improvement**

- 16.1 The Internal Audit Service will maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the Internal Audit Service as required by PSIAS. The programme will include an evaluation of the Internal Audit Service's conformance with the Definition of Internal Auditing and PSIAS along with an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the Internal Audit Service and identifies opportunities for improvement.
- 16.2 Information in the QAIP will be reported to the Audit and Governance Committee to enable members to be assured that the Internal Audit Service is operating in a satisfactory manner such that reliance can be placed on the subsequent annual audit opinion provided by the Internal Audit Manager

## **Internal Audit Code of Ethics**

A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control, and governance.

The Code of Ethics provides principles and rules of conduct under four headings:

- Integrity
- Objectivity
- Confidentiality
- Competency

The Rules of Conduct describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors. Below they are set out together with the principle they interpret.

The Code of Ethics provides guidance to internal auditors serving others. 'Internal auditors' refers to those who provide internal auditing services within the definition of internal auditing.

### **Applicability and Enforcement**

This Code of Ethics applies to both individuals and entities that provide internal auditing services. Disciplinary procedures of professional bodies and employing organisations may apply to breaches of this code of ethics.

### **The Code of Ethics**

#### **1. Integrity Principle**

*The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.*

#### **Rules of Conduct**

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

#### **2. Objectivity Principle**

*Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.*

*Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.*

#### **Rules of Conduct**

Internal auditors:

- 2.1 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 the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

### **3. Confidentiality Principle**

*Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.*

#### **Rules of Conduct**

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

### **4. Competency Principle**

*Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.*

#### **Rules of Conduct**

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency and the effectiveness and quality of their services.

*Internal Auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life (the 'Nolan Principles') [The 7 principles of public life - GOV.UK](#)*