

Subject:	INTERNAL AUDIT CHARTER AND DRAFT INTERNAL AUDIT PLAN 2020-21
Meeting and Date:	Governance Committee – 19th March 2020
Report of:	Christine Parker – Head of Audit Partnership
Decision Type:	Non-key
Classification:	Unrestricted
Purpose of the report:	This report presents the Audit Charter for approval and sets out the proposed Internal Audit Plan for 2020/21 detailing a breakdown of audits and an analysis of available days.
Recommendations:	That Members approve to adopt the Internal Audit Charter for delivery of the internal audit service for the next three years. That Members approve the Council's Internal Audit Plan for 2020/21

Summary.

This report includes the Audit Charter for the East Kent Audit Partnership which sets out the overarching vision, aims and strategy for the Internal Audit Service together with the draft plan of work for the forthcoming 12 months for approval.

1. Introduction and Background.

- 1.1 The purpose of the Council's Governance Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 1.2 In accordance with current best practice, the Governance Committee should "review and assess the annual internal audit work plan". The purpose of this report is help the Committee assess whether the East Kent Audit Partnership has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with the professional standards for Internal Auditors.

2.0 Audit Mission & Charter.

- 2.1 The Audit Mission is a simple high-level statement setting out the objectives for the service, please see attached as Annex A.
- 2.2 The Audit Charter is an important document setting out the expectations of how the Internal Audit function will be delivered. Not only does having a Charter and keeping it up to date assist the Council in complying with best practice, but by considering the Audit Charter, the Governance Committee is also demonstrating its effectiveness by ensuring that these mechanisms are in place and are working effectively.
- 2.3 The Audit Charter establishes the purpose, authority, objectives and responsibility of the East Kent Audit Partnership, it goes on to set out the Terms of Reference, Organisational Relationships and Independence, Competence and Standards of

Auditors, the Audit Process and in providing an Internal Audit function to the partner councils; as well as the resources required across the four partnership sites and details how the resource requirements will be met.

2.4 The Audit Charter is attached as Annex B to this report. It is essentially the 'Why' and 'How' the East Kent Audit Partnership will provide the Internal Audit Service. It is a document that does not materially change from year to year and consequently it was suggested last year that this be approved for the next three years (to 31st March 2023) with the caveat that should any significant changes be required a revised Charter will be presented for consideration. Having undertaken a detailed self-assessment against the revised Public Sector Internal Audit Standards (PSIAS) minor aspects of the Charter were refreshed, consequently the attached version contains the tracked changes as showing, so that the areas updated can be easily identified. It is proposed again, that subject to there being any future changes to the standard having a knock on effect to the Charter, this document will next be brought back to this Committee in March 2023.

3.0 **2020/21 Risk Based Internal Audit Plan.**

3.1 The Audit Plan for the year 2020 to 2021 is attached as Annex C and has the main components to support the Audit Charter. The plan is produced in accordance with professional guidance, including the Public Sector Internal Audit Standards (PISAS). A draft risk based plan is produced from an audit software database (APACE) maintained by the EKAP which records our risk assessments on each service area based upon previous audit experience, criticality, financial risk, risk of fraud and corruption etc. Then amendments have been made following discussions with senior management, taking account of any changes within the Council over the last 12 months, and foreseen changes over the next.

3.2 The plan has then been further modified to reflect emerging risks and opportunities identified by the Chief Executive, Directors, and the links to the Council's Corporate Plan and Corporate Risk Register. This methodology ensures that audit resources are targeted to the areas where the work of Internal Audit will be most effective in improving internal controls, the efficiency of service delivery and to facilitate the effective management of identified risks.

3.3 Furthermore, wider risks are considered, by keeping abreast of national issues and advice from the auditing profession / firms. Over the last year, incidents of money laundering, sexual misconduct at the workplace, fraud, cyberattacks, and data privacy scandals grabbed news headlines, and provided a reminder of why effective governance, risk management, and compliance are so important. For this year we have considered the inclusion of the top ten Institute of Internal Audit identified risks;

- 1 **Data Management & Privacy Risk** – the data protection regulations that come in to being in May 2018 affect information governance, and audits have been built into the plan to provide assurance on these risks.
- 2 **Cyber Risk** – As new cyber-attacks develop, so too do cyber resilience efforts need to be stepped up. We have some ICT reviews built into the EKS audit plan to support the network and digital environment.
- 3 **Brexit** – with more negotiations to come post 31st January 2020 regarding the trade relationship between the UK and Europe; we have considered this risk and determined that it is too early for us to include anything specific relating to Brexit in the 20-21 audit plan, also taking into account all the collective work the Council has been undertaking with its partners to date.
- 4 **Third Party Risk** – the non-performance of contractors and suppliers is always a risk to the Council, just about everything we do today has some level of third-party

involvement, whether we are aware of it or not. Not only risks of third parties gaining access to sensitive data, we are consequently proposing reviews of Contract Management in the 21-22 plan (last audited in 17-18).

- 5 **Conduct & Culture Risks** – this risk is an emerging area for assurance, only 30% of bodies have audited this despite honesty and personal conduct being behind several big national (sector wide) headlines. Reviews that we have typically carried out in this area include Gifts and Hospitality, Anti-fraud & corruption, whistleblowing, Ethics and compliance with Codes of Conduct. We will keep a watching brief on developments for future consideration, noting that all of our work contributes to the assurances given in the Annual Governance Statement.
 - 6 **Climate Change Risk**- organisations are facing a broad range of risks, based in a rapidly changing and evolving area; new rules and legislation are to be anticipated, weaving climate change elements into relevant key risk areas is being considered for the 20/21 plan.
 - 7 **Digital Transformation Risk** – the Council is undertaking various development and digital projects, we have specifically considered this risk, it has been agreed that provision for EKAP to become involved at key stages of projects will be agreed on a case by case basis. Key areas to keep abreast of are 'big data', data mining and cloud computing.
 - 8 **Workforce Risk** – Hiring and retaining the talent needed has been considered and a review is not proposed for 20/21.
 - 9 **Regulatory Risk**– this is a constant risk as the external environment throws new laws at a council and it has to respond. New legislation is something we consider for each area within the audit plan, and thus a separate 'cross cutting' review has not been proposed for 20/21.
 - 10 **Fraud** – is an ongoing risk assessed in every area of activity that the Council undertakes. We have given due consideration in assessing the Counter Fraud Framework within which the Council operates.
- 3.4 There are insufficient audit resources to review all areas of activity each year. Consequently, the plan is based upon a formal risk assessment that seeks to ensure that all areas of the Council's operations are reviewed within a strategic cycle of audits. In order to provide Members with assurance that internal audit resources are sufficient to give effective coverage across all areas of the Authority's operations, a strategic plan has been included.
- 3.5 To comply with the best practice, the agreed audit plan should cover a fixed period of no more than 1 year. Members are therefore being asked to approve the 2020/21 plan at the present time, and the future years are shown as indicative plans only, to provide Members with assurance that internal audit resources are sufficient to provide effective coverage across all areas of the Authority's operations within a rolling cycle.
- 3.6 The plan has been prepared in consultation with the Directors and the Council's statutory s.151 Officer. The plan is also designed to meet the requirements expected by the External Auditors for ensuring key controls are in place for its fundamental systems. This Committee is also part of the consultation process, and its views on the plan of work for 2020/21 are sought to ensure that the Council has an effective internal audit of its activities and Members receive the level of assurance they require to be able to place assurance on the annual governance statement.
- 3.7 The risk assessment and consultation to date has resulted in;
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|-----|--|
| 78% | Core Assurance Projects- the main Audit Programme |
| 0% | Fraud Work – fraud awareness, reactive work and investigating potential irregularities |

- 0% Corporate Risk – testing the robustness of corporate risk mitigating action
 - 22% Other Productive Work – Corporate meetings, follow up, general advice, liaison
- Total number of audits 22.

For 2020/21 the days available for carrying out audit is 255 days. When compared to the resources available and working on the basis that the highest risk areas should be reviewed as a priority, the EKAP has sufficient resources to review all of the high risk areas and all of the medium risk areas this equates to 22 audits.

4.0 Benchmarking the level of Internal Audit Provision.

- 4.1 Members should have regard to how audit resources within the Council compare to other similar organisations when considering the adequacy and effectiveness of the internal audit plan. The results of benchmarking show that the average number of internal audit days provided by district councils within Kent is circa 400 days annum. The audit plan of Dover District Council of 255 days plus their share of the EKS and East Kent Housing audit plans totals 350. The Dover plan is therefore 12.5% less well-resourced than the Kent average.

5.0 Head of Internal Audit Opinion of the 2020/21 Internal Audit Plan.

- 5.1 This report is presented to Members by the Council's Strategic Director (Corporate Resources) whose s.151 responsibility it is to maintain an effective internal audit plan. In the interests of openness and transparency and in order to enable Members to make an informed decision on the internal audit plan presented for their approval consideration should also be given to the opinion of the Head of Internal Audit on the effectiveness of the plan.
- 5.2 It is the professional opinion of the Head of the East Kent Audit Partnership that the draft 2020/21 internal plan presented for Members consideration is less well-resourced than the Kent average and accordingly our overall audit opinion at the end of the year will be limited to commenting on the systems of internal control that have been examined. The current resources of the EKAP will allow for an opinion to be given on the Council's key risk areas and systems. This should be sufficient coverage to inform the Annual Governance Statement.
- 5.3 The Head of the East Kent Audit Partnership highlights that Members either approve the 2020/21 internal audit plan as drafted or they may recommend to Cabinet that additional resources should be allocated to bring the plan up to the Kent average. This would require an additional 50 days per annum, which at an estimated cost per audit day of £300 would cost £15,000 per annum.

6.0 Background Papers.

- Internal Audit Annual Plan 2019/20 - Previously presented to and approved at the April 2019 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.
- Former Audit Charter and Strategies - Previously presented to and approved at Governance and Audit Committee meetings.

Attachments

- Annex A Audit Mission
- Annex B EKAP Internal Audit Charter
- Annex C Dover District Council draft 2020/21 Internal Audit Plan

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The officer to whom reference should be made concerning inspection of the background papers is the Head of Audit Partnership, White Cliffs Business Park, Dover, Kent CT16 3PJ. Telephone: (01304) 821199, Extension 2160.

East Kent Audit Partnership Mission

The four East Kent authorities Canterbury City Council (CCC), Dover District Council (DDC), Folkestone & Hythe District Council (F&HDC), and Thanet District Council (TDC) formed the East Kent Audit Partnership (EKAP) in order to deliver a professional, cost effective, efficient, internal audit function. A key aim for the EKAP, supported by an agreed Audit Charter, is to build a resilient service that provides opportunities to port best practice between the four councils, East Kent Services and East Kent Housing Ltd. acting as a catalyst for change and improvement to service delivery as well as providing assurance on the governance arrangements in place.

EKAP provides an independent, objective assurance and consulting activity designed to add value and improve the councils' operations. It helps the partners accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The mission for internal auditing (linked to the definition above) is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight reflecting each Councils' Corporate Objectives.



EAST KENT AUDIT PARTNERSHIP AUDIT CHARTER

1. Introduction & Vision
2. Terms of Reference
 - 2.1 Strategy & Purpose
 - 2.2 Responsibility & Scope
 - 2.3 Authority
 - 2.4 Avoiding Conflicts of Interest
3. Organisational Relationships and Independence
 - 3.1 Audit Partnership Management and Staffing
 - 3.2 Relationship with Service Managers
 - 3.3 Relationship with Line Management and Statutory Officers
 - 3.4 Relationship with the Partners
 - 3.5 Relationship with Audit Committees
 - 3.6 Relationship with External Audit
 - 3.7 Relationship with Other Regulators, Inspectors and Audit Bodies
 - 3.8 Relationship with the Public
4. Competence and Standards of Auditors
 - 4.1 Competence
 - 4.2 Standards
5. Audit Process
 - 5.1 Approach
 - 5.2 Planning
 - 5.3 Documentation
 - 5.4 Consultation
 - 5.5 Reporting
 - 5.6 Follow-up
6. Resources
 - 6.1 Staff Resources
 - 6.2 Budget
7. Quality Assurance
8. Additional Services

- 8.1 Special Investigations and Fraud Related Work
- 8.2 Ad Hoc / Consultancy Work / External Bodies
- 8.3 Value for Money Reviews

9. Amendment to Charter

1 Introduction

- 1.1 This Charter establishes the purpose, authority, objectives and responsibility of the Audit Partnership, in providing an Internal Audit function within the Partner Councils.
- 1.2 The EKAP is committed to the highest standards and prides itself on complying with the definition of Internal Auditing the ethical codes that the profession requires and adopting the International standards.
- 1.3 The Audit Partnership is hosted by Dover District Council. The four East Kent authorities Canterbury City Council (CCC), Dover District Council (DDC), Folkestone & Hythe District Council (F&HDC), and Thanet District Council (TDC) formed the East Kent Audit Partnership (EKAP) in order to deliver a professional, cost effective, efficient, internal audit function. A key aim for the EKAP is to build a resilient service that provides opportunities to port best practice between the four sites, acting as a catalyst for change and improvement to service delivery as well as providing assurance on the governance arrangements in place.
- 1.4 The Audit Partnership is sufficiently independent of the activities that it audits, and this enables the auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations.
- 1.5 The organisational status of the Audit Partnership is such that it is able to function effectively. The Head of Audit Partnership must be able to maintain their independence and report to members. The Head of Audit Partnership has sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with the senior management and audit committees of the individual partners.
- 1.6 Accountability for the response to the advice and recommendations of the Audit Partnership lies with each partner's own management.
- 1.7 The Audit Partnership reports to those committees charged with governance. The main objective is to independently contribute to the councils' overall process for ensuring that an effective internal control environment is maintained. The work of the Audit Partnership for each of the partner authorities is summarised into an individual annual report, which assists in meeting the requirements to make annual published statements on the internal control systems in operation as required by Section 6 of the Accounts and Audit Regulations 2015.

2 Terms of Reference

2.1 Strategy & Purpose

Internal Audit is a statutory requirement under the Local Government Act 1972 (Section 151). It is the strategy of the Audit Partnership to comply with best practice as far as possible. The East Kent Audit Partnership has therefore adopted the best practice principles set out in the Public Sector Internal Audit Standards (PSIAS). The definition of Internal Audit taken from their guidance is as follows:

Internal Audit 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.

This definition sets out the primary purpose of the Audit Partnership, but the guidance also recognises that other work may be undertaken which may include consultancy services and fraud-related work. Where relevant and applicable the Audit Partnership also follows the professional and ethical standards of the Institute of Internal Auditors, being that many of the staff are members of this Institute.

2.2 Responsibility & Scope

2.2.1 Internal Audit is responsible for appraising and reviewing:

- a) the completeness, reliability and integrity of information, both financial and operational,
- b) the systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by the management of the organisation, or externally,
- c) the means of safeguarding assets,
- d) the economy, efficiency and effectiveness with which resources are employed, and
- e) whether operations are being carried out as planned and objectives and goals are being met.

2.2.2 The scope of the Audit Partnership includes the review of all activities of the partner councils, without restriction. In doing this, the purpose of Internal Audit is to:

- a) Advise the Chief Executive, Directors, Senior Managers and Audit Committee on appropriate internal controls and the management of risk,
- b) Assist the Chief Executive, Directors, Senior Manager and Audit Committee with the way that organisational objectives are achieved at operational levels,
- c) Assure the Chief Executive, Directors, Senior Managers and Audit Committee of the reliability and integrity of systems, and that they are adequately and effectively controlled,
- d) Alert the Chief Executive, Directors, Senior Managers and Audit Committee to any system weaknesses or irregularities.

2.2.3 In addition, the Audit Partnership may carry out special investigations as necessary, and agreed with the s.151 Officer or Monitoring Officer as appropriate, in respect of cases of fraud, malpractice or other irregularity, or carry out individual ad hoc projects as requested by management and agreed by the Head of Audit Partnership and the partners' client officer.

2.2.4 Assurance to third parties may be agreed, by the Head of Audit Partnership with the relevant s.151 Officer on a case by case basis; such as acting as the First Level Controller for Inter Reg Grant Claims. The rate charged to a third party for assurance work is set by the Joint s.151 Client Officer Group at £375 per audit day. The decision to provide such a service is informed by the required timing of the work, whether the skills and resources are available and if it is in the best interest of the EKAP and the Partners to do so, the nature of this work may include, for example the verification of claims or returns.

2.2.5 The decision to undertake consultancy services will be made in conjunction with the relevant partner's s.151 Officer and other management as necessary. The EKAP is able to avoid conflicts of interest if carrying out consultancy work due to the flexibility of the arrangements, as auditors may be rotated accordingly. The decision to provide such a service is informed by the required timing of the work, whether the skills and resources are available and if it is in the best interest of the EKAP and the Partners to do so, the nature of this work may include for example, being involved on project teams for new

systems development. There are no contingency provisions within the agreed audit plans, therefore if work has not been included in the plan from the outset, a variation will need to be agreed for any consultancy work, to re-allocate time within the relevant partner's own plan, or through buying in additional resource to back-fill whilst partnership staff carry out the assignment.

2.3 Authority

2.3.1 The procedures for auditing the Council are included within each of the councils' Constitutions. This typically includes words to the effect that the Authority shall:

- a) Make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has the responsibility for the administration of those affairs, and
- b) Shall maintain an adequate and effective system of Internal Audit of their accounting records and control systems.

Additionally, there may be delegated authority to the Chief Executive and Directors to establish sound arrangements for the planning, appraisal, authorisation and control of the use of resources, and to ensure that they are working properly. Maintaining adequate and effective controls is necessary to:

- a) carry out activities in an orderly, efficient and effective manner,
- b) ensure that policies and directives are adhered to,
- c) ensure compliance with statutory requirements,
- d) safeguard assets & to prevent fraud,
- e) maintain complete and reliable records and information, and
- f) prevent waste & promote best value for money.

2.3.2 The Audit Partnership is authorised to complete a programme of audit reviews within the Partner Councils through the delegation of powers to Dover District Council, as the Lead body for the Audit Partnership.

2.3.3 The Head of Audit Partnership works principally with a nominated officer, the s.151 Officer, for each of the Partner councils, to ensure that a continuous internal audit review of the accounting, financial and other operations of the Council is performed. Progress on the work undertaken shall be submitted regularly to the appropriate committee with responsibility for Internal Audit.

2.3.4 All employees and Councillors shall comply with the requirements of the Council's internal and external auditors who have authority to:-

- a) enter at all reasonable times on any Council premises or land,
- b) have access to all Council assets such as records, documents, contracts and correspondence, including computer hardware, software and data,
- c) require and receive such explanations as are necessary concerning any matters under examination, and
- d) require any employee of the Council to produce cash, stores or any other Council property under his/her control.

2.3.5 Employees and Councillors of any of the Partners may report any financial irregularity or suspected irregularities to the Head of Audit Partnership, who shall then ensure that the matter is dealt with in accordance with the individual council's Anti-Fraud and Corruption Strategy.

2.4 Avoiding Conflicts of Interest

- 2.4.1 An additional benefit of four councils working in partnership to provide an internal audit service, is providing sufficient staff to give flexibility and the opportunity for the rotation of Auditors. Where consultancy projects are requested and agreed, conflicts of interest will be avoided by preventing the Auditor undertaking that project from reviewing that area of operation for a period of time equivalent to current year plus one (see also paragraph 3.2 below). The EKAP provides a pure audit arrangement and does not have any “non audit” or operational responsibilities that would otherwise have the potential to cause a conflict of interest.

3 Organisational Relationships and Independence

3.1 Audit Partnership Management and Staffing

The audit service is managed by the Head of Audit Partnership, who is responsible for providing a continuous internal audit service under the direction of the Section 151 Officers. The auditor assigned to each individual review is selected by the Head of Audit Partnership, based on their knowledge, skills, experience and discipline to ensure that the audit is conducted properly and in accordance with professional standards.

3.2 Relationship with Service Managers

- 3.2.1 It is the responsibility of management, not auditors, to maintain systems of internal control.
- 3.2.2 To preserve its independence and objectivity, staff involved in the Audit Partnership shall not have direct responsibility for, or authority over, any of the activities subject to audit review. Staff transferring to EKAP may not review an area they were previously operationally responsible for, for a period of two years (current year plus one).
- 3.2.3 The involvement of an auditor through conducting an audit review, or providing advice, does not in any way diminish the responsibility of line management for the proper execution and control of their activities.
- 3.2.4 Co-operative relationships will be fostered with management to enhance the ability of the Audit Partnership to achieve its objectives effectively.
- 3.2.5 All employees should have complete confidence in the integrity, independence and capability of the Audit Partnership. We recognise that the relationship between auditors and service managers is a privileged one, and information gained in the course of audit work will be treated confidentially, and only reported appropriately.

3.3 Reporting Relationship with Line Management and Statutory Officers

- 3.3.1 The Head of Audit Partnership will have regular meetings with each of the Partner’s s.151 Officer / nominated client officer. Any events that may have an adverse affect on the audit plan, or a significant impact on the Council will be reported immediately.
- 3.3.2 Any high-risk matters of concern, which have not been adequately dealt with after an appropriate period of time and after follow up, will be escalated to the s.151 Officer / nominated client officer, who will be asked to decide for each high risk matter whether:
- Resources should be allocated to enable the risk to be reduced in the agreed way, or
 - To approve that the risk will be accepted and tolerated, or

- To determine some other action to treat the risk.

The outcome of which will be report to the Audit Committee, whose attention will be drawn to critical or high risk matters outstanding after follow up.

3.3.3 The Head of Audit Partnership has unrestricted access to the s.151 Officer, the Monitoring Officer and the Head of Paid Service as appropriate. Engagement with the statutory officers is not prescribed, however regular attendance at CMT with IA updates is desirable.

3.4 Reporting Relationship with the Partners

3.4.1 The Head of Audit Partnership has a line reporting relationship directly to the Dover District Council's Director of Finance, Housing and Communities the Council's s.151 Officer. Together under the Collaboration Agreement for the provision of one shared Internal Audit Service, the four s.151 Officers form the "Client Officer Group" which is the key governance reporting line for the EKAP. The s.151 Client Officer Group meets collectively with the Head of Audit Partnership to consider the strategic direction and development of the partnership and any performance matters.

3.4.2 The East Kent Audit Partnership overall performance is reported to all the partner authorities annually. Key performance measures and indicators have been agreed and these are also reported quarterly. As well as individual assurance reports, and the quarterly Audit Committee reports, EKAP will present an Annual Audit Report that is used to inform the councils' governance statement to:

- Provide an individual summary of the work completed for each Partner,
- Compare actual audit activity with that planned,
- Provide an opinion on the adequacy and effectiveness of the councils framework of governance, risk management and control,
- Summarise the performance of the East Kent Audit Partnership against its performance criteria, and provide a statement of conformance with professional standards, with details of the quality assurance and improvement programme,
- Include the cost of the service for the partner.

The Accounts and Audit Regulations section 5 requires that a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Charter sets out how the EKAP will meet this requirement.

3.5 Relationship with Audit Committees

Please note the PSIAS refer to the 'board', and it is expected that the audit committee will fulfil the role of the board in the majority of instances.

The East Kent Audit Partnership has a direct relationship with those charged with the responsibility for governance. Consequently, the Head of Audit Partnership issues a report summarising the results of its reviews to each meeting. The Annual Report is the foundation for the opinion given through the Governance Assurance Statement, which is published annually The Accounts and Audit Regulations section 3 requires that a relevant authority has a sound system of internal control which

3.5.1 facilitates the effective exercise of its functions and the achievement of its aims and objectives,

3.5.2 ensures that the financial and operational management of the authority is effective, and

3.5.3 includes effective arrangements for the management of risk.

This Charter establishes how the EKAP contributes to complying with the regulations and creates the link to the Annual Governance Statement. The Committee will also approve the annual work plan for their Council.

The Head of Audit Partnership will escalate any critical or high-risk matters of concern that have not been adequately actioned by management at the progress report stage to the committee via the quarterly update report, drawing attention to significant matters in the annual report. The Head of Audit Partnership may meet privately with the chair of the audit committee and has direct access to the committee should this be required.

The Audit Committee will note decisions relating to the appointment and removal of the Head of Audit Partnership.

3.6 Relationship with External Audit

3.6.1 The Head of Audit Partnership will liaise with the External Auditors to:

- Foster a co-operative and professional working relationship,
- Reduce the incidence of duplication of effort,
- Ensure appropriate sharing of information, and
- Co-ordinate the overall audit effort.

3.6.2 In particular the Head of Audit Partnership will:

- Discuss the annual Audit Plan with the External Auditors to facilitate External Audit planning,
- Hold meetings to discuss performance and exchange thoughts and ideas,
- Make all Internal Audit working papers and reports available to the External Auditors,
- Receive copies of all relevant External Auditors reports to Management, and
- Gain knowledge of the External Auditors' programme and methodology.

3.7 Other Regulators, Inspectors and Audit Bodies

The Head of Audit Partnership will foster good relations with all other audit bodies, regulators and inspectors. In particular protocols regarding joint working, access to working papers, confidentiality and setting out the respective roles will be agreed where applicable. The EKAP will only become involved with external regulators and inspectors if expressly required by the partner authority as part of the agreed audit plan.

3.8 Relationship with the Public

The councils' Anti-Fraud, Corruption, Bribery and Whistleblowing policies encourage staff, members, contractors and members of the public to raise their concerns in several ways, one of which includes making contact with Internal Audit. This Charter therefore considers the responsibility EKAP has with investigating complaints made from contractors, staff or the general public about their concerns. It is concluded that each case must be assessed on its own merits and agreement with the s.151 Officer reached before EKAP resources are directed towards an investigation.

4 Competence and Standards of Auditors

4.1 Competence

The Head of Audit Partnership will ensure that those engaged in conducting audit reviews, possess the appropriate knowledge, qualifications, experience and discipline to carry them out with due professional care and skill.

4.2 Standards

Regardless of membership, all auditors will be expected to work in accordance with the Public Sector Internal Audit Standard and practice statements issued by the Institute of Internal Auditors and CiPFA. The East Kent Audit Partnership strives to meet best practice as highlighted in paragraph 2.1. The auditors must also observe the Codes of Ethics of the Institute of Internal Auditors and CiPFA, which call for high standards of honesty, objectivity, diligence and loyalty in the performance of their duties and responsibilities. In addition to professional codes of ethics, the EKAP staff are bound to the DDC Code of Conduct through their employment contract.

5 Audit Process

5.1 The EKAP seeks to deliver effective outcomes by;

- Understanding the four partner councils, EKS and EKH their needs and objectives,
- Understanding its position with respect to other sources of assurance and to plan our work accordingly,
- Embracing change and working with the four councils to ensure our work supports management,
- Adding value and assisting the partners in achieving their objectives,
- Being forward looking, knowing where the partners wish to be and being aware of the local and national agenda, and their impact,
- Being innovative and challenging,
- Helping to shape the ethics and standards of the four councils, and
- Sharing best practice and assisting with the joint working agenda.

5.2 Planning

5.2.1 The internal audit process is to follow a planned approach based upon risk assessments. The planning framework comprises the following:

- A Strategic Plan, which ensures that coverage of each of the partner councils as a whole, over a time frame of three to five years, is maintained and reviewed annually, to take into account the new priorities and risks of each authority. This focuses internal audit effort on the risks of the four partner's objectives and priorities. It also seeks to add value to the partners by reviewing areas that most support management in meeting their objectives. The Head of Audit Partnership works together with the two Deputy Heads of Audit to consult relevant service managers and heads of service at each site to assist in formulating the strategic audit plans. Each council's corporate aims and objectives, individual service plans, risk registers, time spent on previous audits, any problems encountered, and level and skill of service staff involved are taken into account and information is entered into the audit software. All areas as identified in the strategic plan are then subject to a risk assessment to identify their risk level and whether or not they are to be included in the proposed annual plan. The audit plans are generated from the audit software based on the risk scores of each area of activity identified through the consultation process

- An Annual Plan for each partner, specifying the planned audits to be performed each year, their priority and the resource requirements for each planned audit review.

5.2.2 For each audit review undertaken, the planning framework comprises the following:

- An Audit Brief, specifying the objectives, scope and resources for the audit.
- Where appropriate either a detailed Audit Programme of tests to be conducted, or a CiPFA Audit Matrix of testing to follow.

The Audit Brief is prepared by the Head of Audit Partnership or Deputy Heads of Audit and reviewed and agreed with the client manager prior to the commencement of the audit review (except where an unannounced visit is necessary).

5.3 Documentation

The EKAP is committed to continuous improvement and has standardised all the working practices across the partnership. The Internal Audit team has access to a common Audit Manual to ensure that the same processes are operational across all the partner sites. The Audit Manual is subject to (at least) annual review. Audit working papers contain the principal evidence to support the report and they provide the basis for review of work. The Auditors employ an audit methodology that requires the production of working papers, which document the following:

- The samples of transactions collected when examining the adequacy, effectiveness and application of internal controls within the system.
- The results of the testing undertaken.
- Other information obtained from these examinations.
- Any e-mails, memos or other correspondence with the client concerning or clarifying the findings.
- A report summarising significant findings and recommendations for the reduction of risk or further control improvement.
- The Service Manager's response to the draft report and then agreed recommendations made in the final audit report.

5.4 Consultation

5.4.1 Prior to the commencement of an audit, the Head of Audit Partnership or Deputy Heads of Audit will communicate by phone, e-mail or face to face meeting with the relevant Manager to discuss the terms of reference. Having agreed the proposed brief with the Manager, the Head of Audit Partnership or Deputy Heads of Audit will:

- issue a copy of the proposed Audit Brief by e-mail, and
- where appropriate arrange a pre-audit meeting between the Service Manager and the Auditor to discuss the purpose, scope and expected timing of the work.

In the case of special investigations, such prior notification may not be given where doing so may jeopardise the success of the investigation. In such an event, the prior approval of the Chief Executive, s.151 Officer or Monitoring Officer will be obtained.

5.4.2 During the conduct of reviews, Auditors are to consult orally and / or in writing with relevant staff to:

- ensure that information gathered is accurate and properly interpreted,

- allow Management to present adequate/reliable evidence to ensure a balanced judgment is formed,
- ensure recommendations add value, are cost effective and practicable, and
- keep Management informed of the progress of the audit.

5.5 Reporting

- 5.5.1 A written discussion document (draft report) is prepared and issued by the responsible Auditor at the conclusion of each audit. Prior to its issue, the appropriate Deputy Head of Audit reviews the draft together with the supporting working papers. The purpose of this document is to allow the service manager the opportunity to confirm factual accuracy and challenge any of the findings of the review.
- 5.5.2 The draft document will contain an outline action plan listing proposed individual recommendations for internal control improvement. These recommendations are categorised to indicate whether there is a high, medium or low risk of the control objectives failing. It is at this stage that the Service Manager accepts or negotiates that the risks are in fact present, that they accept responsibility for the risks and discuss how they proposed to mitigate or control them.
- 5.5.3 The document is then updated, and if changes are required following the discussion, is presented to the Service Manager as a Draft Report. On completion of the Action Plan, a final version of the report containing "Agreed Actions" is issued to the Service Manager with a copy to the relevant Director. Additional copies are circulated as agreed with each Partner Authority.
- 5.5.4 The agreed actions will be followed up, and high priority recommendations will be tested to ensure they have been effective after their due date has passed.
- 5.5.5 Audit reports are to be clear, objective, balanced and timely. They are to be constructed in a standardised format which will include:
- The objectives of the audit,
 - The scope of the audit, and where appropriate anything omitted from the review,
 - An overall conclusion and opinion on the subject area,
 - Proposed actions for improvement,
 - Service Manager's comments (where appropriate), and
 - A table summarising all the Proposed/Agreed Actions, risk category, a due date and any management responses.
- 5.5.6 Each Final Report carries one of four possible levels of Assurance. This is assessed as a snapshot in time, the purpose of which is for all stakeholders to be able to place reliance on that system of internal controls to operate as intended; completely, consistently, efficiently and effectively. Assurance given by Internal Audit at the year end is based on an overall assessment of the assurance opinions it has given during that year, and can only apply to the areas tested. There are insufficient resources to audit every aspect of every area every year.
- 5.5.7 In addition to individual audit reports for each topic, the performance of the East Kent Audit Partnership is analysed and reviewed as described in section 3.4 of this Charter.

5.6 Follow Up

- 5.6.1 The Audit Partnership will follow up on management action arising from its assignments. Each individual recommendation is recorded on the specialist auditing software used.

Each recommendation is classified as to whether it is high, medium or low risk. The due date for implementation and the responsible person are also recorded.

- 5.6.2 Following the last due date within the Action Plan, the auditors follow up whether or not action has been taken to reduce the identified risk. They ask the responsible officer for each individual recommendation whether:
- a. The control improvement has successfully been implemented
 - b. Progress is being made towards implementing the control improvement
 - c. No action has yet occurred due to insufficient time or resources
 - d. That after agreeing the action, the risk is now being tolerated
 - e. That the control improvement is no longer relevant due to a system change
 - f. Other reason (please specify).
- 5.6.3 Further testing will be carried out where necessary (e.g. critical and high risk recommendations) to independently confirm that effective action has in fact taken place.
- 5.6.4 A written summary of the results of the follow up action is issued to the relevant Service Manager and Director, and where appropriate a revised assurance level is issued. The results of follow-up reviews and the revised assurance opinions issued are also reported to the audit committee.
- 5.6.5 Any areas of concern after follow up, where it is thought that management has not taken appropriate action, will be escalated to senior management and ultimately the Audit Committee as described in paragraph 3.3.2 of this Charter.

6 Resources

6.1 Staff Resources

- 6.1.1 Dover District Council is the host authority for the shared internal audit service therefore it employs or contracts with all the staff engaged to deliver the service. The current team is made up of full or part time staff all providing a range of skills and abilities within the Internal Audit profession. Those staff accredited to a professional body are required to record their Continued Professional Development (CPD) in order to evidence that they maintain their skills and keep up to date. Additionally, the staff are bound by the professional standards and code of ethics for their professional body, either CIPFA, the ACCA or the CIIA.
- 6.1.2 A mix of permanent staff and external contractors will provide the resources required to fill the required number of chargeable audit days. Internal Audit staff will be appropriately qualified and have suitable, relevant experience. Appropriate professional qualifications are ACCA, IIA or AAT. The DDC appraisal scheme including an assessment of personal development and training needs will be utilised to identify technical, professional, interpersonal and organisational competencies. Having assessed current skills a personal development plan will be agreed for all EKAP staff intended to fill any skill gaps.
- 6.1.3 The Dover District Council's Personal Performance Review process will be the key driver to identifying any skill gaps, and training, where appropriate, will be investigated at an individual level, as well as across the team, and on a Kent wide basis (through collaborative arrangements at Kent Audit Group). In the short-term, the specialised computer audit skills gap may be addressed through the engagement of contractors for specialist work, and where possible, a team member will shadow the "expert" to gain additional skills.

6.2 **Budget**

The EKAP budget is hosted by DDC and apportioned between the partners based on the agreed number of audit days. The cost per audit day is a metric reported annually in the Annual Report. The budget includes direct and indirect costs to the partnership. The individual salaries paid to the staff, including the Head of the Audit Partnership are standard grades as assessed by the DDC Job Evaluation system.

7. **Quality assurance**

The quality assurance arrangements for the EKAP include all files being subject to review by either the Deputy Head of Audit for the site and/or by the Head of Audit Partnership (particularly if the review has 'no' or 'limited' assurance). The review process is ongoing and includes adequate supervision of the audit staff and of the audit work performed. This review ensures that the work undertaken complies with the standards defined in the Public Sector Internal Audit Standards and with the requirements of this Charter. In addition to the ongoing review of the quality of individual working papers and reports and performance against the balanced scorecard of performance indicators; an annual assessment of the effectiveness of Internal Audit is undertaken separately by each of the partner authorities. To comply fully with the PSIAS the EKAP has presented the options for an external quality assessment to be undertaken before October 2017. However, the s.151 Client Officer Group at its meeting held 16.11.16 has decided to not spend resources on an External Quality Assessment. This decision was confirmed again at the annual meeting on 05.12.19.

8. **Additional Services**

8.1 **Special Investigations and Fraud Related Work**

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. The prevention and detection of fraud and corruption is ultimately the responsibility of management within the four partner authorities. However, EKAP is aware of its role in this area and will be alert to the risk of fraud and corruption when undertaking its work. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or the discovery of any areas where such risks exist.

Consequently, a provision for additional time in the event of fraud related work being required has not been included in any of the annual audit plans. Any special investigations which the EKAP is requested to undertake may be accommodated from re-allocating time within the relevant partner's own plan, or through buying in additional resource to either investigate the case, or to back-fill whilst partnership staff carry out the investigation. The provision of resources decision will be made on a case-by-case basis in conjunction with the relevant partner's s.151 Officer and other management as necessary.

An added advantage due to the flexibility of the arrangements within the EKAP means that we are able to use auditors who are not necessarily known at an authority to complete special investigations as this strengthens independence.

The s.151 Officer will keep the Head of Audit Partnership apprised via the regular meetings of any disciplinary action taken by the council that may be relevant to internal audit planning and risk assessments, if staff have been found to act deceitfully or circumvent controls etc.

8.2 **Ad Hoc / Consultancy Work/ External Bodies**

A contingency has not been included in any of the partners' plans. Therefore if work has not been included in the plan from the outset, a variation will need to be agreed for any subsequently requested work, to re-allocate time within the relevant partner's own plan, or through buying in additional resource, to back-fill whilst partnership staff carry out the

assignment. The decision will be made in conjunction with the relevant partner's s.151 Officer and other management as necessary. Conflicts of interest may be avoided if carrying out consultancy work due to the flexibility of the arrangements within the EKAP, as we are able to rotate auditors accordingly. Approval of requests from Management for additional projects are subject to certain criteria, to include whether the EKAP has the relevant skills and capacity to undertake the assignment.

Requests for assurance work from external bodies are not anticipated, nor does the EKAP have capacity or spare resource to deliver such requests. However, in the event that a request is received, the s.151 Client Officer Group would consider and authorise such an undertaking and a separate legal agreement confirming the engagement would be drawn up with DDC as the host authority (EKAP not being a separate legal entity). The Head of Audit Partnership would give the same consideration to conflicts of interest, capacity, skills and competency when assessing the scope of the work, as it if were an internal assignment, before agreeing to undertake the engagement

8.3 Value for Money (VFM) Reviews

VFM relates to internal audit work that assesses the economy, efficiency and effectiveness of an activity. The work of EKAP is planned to take account of VFM generally, indeed this is supported by the objective to port best practice between sites where appropriate. Audit plans may have a specific provision for VFM reviews (or a review of VFM arrangements). Where possible VFM reviews will be run concurrently with other sites within East Kent where this is deemed to be most beneficial to participating authorities. The EKAP staff are alert to the importance of VFM in their work, and to report to management any examples of actual or possible poor VFM that they encounter in the course of their duties.

9. Amendment to Audit Charter

Amendment of this Charter is subject to the approval of the Partners' Audit Committees, Chief Executives, s.151 Officers and the Head of Audit Partnership.

February 2020

References:

Former Audit Strategy

Audit Manual

Public Sector Internal Audit Standards (PSIAS)

CIPFA Local Government Application Note to PSIAS

