



Appendix B

Leeds City Council Internal Audit Charter 2024-25

Corporate Governance and Audit Committee

18th March 2024

INTERNAL AUDIT CHARTER 2024/25

1 Introduction

- 1.1 This charter sets out the purpose, authority and responsibility of the internal audit activity at Leeds City Council.
- 1.2 The Mission of Internal Audit is "To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight". The main objective is to help the council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes. In terms of the Public Sector Internal Audit Standard (PSIAS) this means providing a high quality, independent audit service to the Council which provides annual assurance in relation to internal control and overall governance arrangements.
- 1.3 The Internal Audit Charter will be reviewed and reported to Senior Management and the Board for approval annually.

2 Purpose

- 2.1 Internal Audit is an independent appraisal function established within the authority with the following objectives¹:
 - To provide an effective Internal Audit Service, on behalf of the Chief Officer - Financial Services, in line with legislation and the appropriate audit standards;
 - To provide an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations;
 - To help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.
- 2.2 It is the responsibility of the Chief Audit Executive to provide an independent and objective opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 2.3 The Chief Audit Executive reports to the Corporate Governance and Audit Committee on a regular basis in line with the agreed work programme for the Committee. There are a number of standard items reported including the annual Internal Audit plan, an annual opinion on the control environment, governance and risk management and regular updates on reports

¹ Financial Regulations – Section 22 'Internal Audit'

issued. The Chief Audit Executive's annual report is presented to those charged with governance and should be used to support the Council's Annual Governance Statement.

- 2.4 Internal Audit employees will ensure that they conduct work with due professional care and in line with the requirements of the PSIAS and any other relevant professional standards.
- 2.5 Internal auditors will treat as confidential the information they receive in carrying out their duties. There must not be any authorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of an audit will not be used to effect personal gain.

3 Definitions

Definition of the Chief Audit Executive (CAE)

- 3.1 Chief Audit Executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the PSIAS Definition of Internal Auditing, the Code of Ethics and the Standards. Within Leeds City Council the Senior Head of Audit, Corporate Governance and Insurance is the designated 'Chief Audit Executive'.

Definition of the Board

- 3.2 The PSIAS lays out the role of a Board in relation to specific standards. In a local authority the role of the Board may be satisfied by an Audit Committee. In Leeds City Council the Corporate Governance and Audit Committee fulfils the role of an audit committee and, for the purposes of the key duties laid out in the PSIAS, is the Board.
- 3.3 The key duties of the Board as laid out in the PSIAS are as follows:
 - Approve the Internal Audit charter (Standard 1000);
 - Approve the risk based Internal Audit plan including the approval of the Internal Audit budget and resource plan (Standard 1110);
 - Receive an annual confirmation from the Chief Audit Executive with regard to the organisational independence of the internal audit activity (Standard 1110);
 - Make appropriate enquiries of the management and the Chief Audit Executive to determine whether there are inappropriate scope or resource limitations (Standard 1110);
 - Receive the results of the Quality Assurance and Improvement Programme from the Chief Audit Executive (Standard 1320);

- Receive communications from the Chief Audit Executive on internal audit's performance relative to its plan and other matters (Standard 2020).

Definition of Senior Management

- 3.4 Within Leeds City Council 'Senior Management' is defined as the Section 151 Officer (Chief Officer - Financial Services).
- 3.5 The PSIAS anticipates the role of Senior Management includes the following:
- Input to the risk based Internal Audit plan (Standard 2010);
 - Receive periodic reports from the Chief Audit Executive on internal audit activity (Standard 2060); that includes follow up reports (Standard 2500);
 - Receive the results of the Quality Assurance and Improvement Programme from the Chief Audit Executive (Standard 1320.)

Definition of Internal Audit

- 3.6 Leeds City Council has adopted the PSIAS definition of internal auditing as follows:

“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

Definition of Consulting Services

- 3.7 The PSIAS defines consulting services as follows: *“Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation’s governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.”*
- 3.8 The PSIAS requires that approval must be sought from the Board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement (Standard 1130.) Within Leeds City Council significant is defined as any single assignment equivalent to 5% of annual planned days; these will be brought to the Corporate Governance and Audit Committee for approval.

4 Authority

- 4.1 Internal Audit is a statutory requirement in local government. The Accounts and Audit (England) Regulations 2015 state that:
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 or guidance.
 - (2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—
 - (a) make available such documents and records; and
 - (b) supply such information and explanations;as are considered necessary by those conducting the internal audit.
 - (3) In this regulation “documents and records” includes information recorded in an electronic form.
- 4.2 The statutory role is recognised and endorsed within the Council’s Financial Regulations (Section 22 - Internal Audit), which provides the authority for access as follows:

Directors must ensure that Internal Audit is allowed to:

- (a) Enter any council premises or land at all reasonable times;
- (b) Access all records, documents, data held on computer media, and correspondence relating to all transactions of the council, or unofficial funds operated by an employee as part of their duties;
- (c) Receive such explanations as are necessary concerning any matter under examination.
- (d) Require any employee of the council to produce cash, stores or any other property under their control, belonging to the council or held as part of the employee’s duties.

5 Independence / Objectivity

- 5.1 Internal Audit is independent of the Council’s other functions and, officers have no executive or operational responsibilities for the development, implementation, or operation of systems outside of the team. Where internal audit is part of a programme or project, this will be in the capacity of a ‘critical friend’ with no responsibility for operational decisions or ownership of actions.
- 5.2 The PSIAS specify that where the CAE is required to take on roles and responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity. The CAE is responsible for the leadership and management of the Council’s Corporate Governance and Insurance and Claims services. To avoid actual, potential or perceived conflicts of interest, planned audit activity in these areas is led by the Head of Finance – Internal Audit and reported to the Director of Strategy and Resources, senior management and Corporate Governance and Audit Committee without any oversight or influence by the CAE.

- 5.3 Independence is considered when allocating work to individual internal auditors and at the planning stage for individual audit assignments.
- 5.4 If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed in the first instance to the CAE and reported to Corporate Governance and Audit Committee and/or Section 151 officer as appropriate.
- 5.5 Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.
- 5.6 The CAE reports to the Chief Officer – Financial Services who in turn reports to the Director of Strategy and Resources. In addition, the CAE is able to report without fear or favour in their own name to the Chief Executive, the Executive Board, the Corporate Governance and Audit Committee, and the Scrutiny Function². Reports can also be made to the Corporate Leadership Team.
- 5.7 The CAE will confirm to the Corporate Governance and Audit Committee on an annual basis, within the Annual Report, the organisational independence of the Internal Audit Service.

6 Code of Ethics

- 6.1 All our Internal Auditors must conform to the Code of Ethics (see Appendix 1). The code promotes an ethical culture in a profession founded on the trust placed in its objective assurance about risk management, control and governance.
- 6.2 The Code of Ethics includes 2 essential components – the Principles and Rules of Conduct (which are an aid to interpreting the Principles into practical applications).
- 6.3 Internal Auditors will adhere to LCC relevant policies and procedures (including the Employee Code of Conduct) and the LCC Internal Audit Quality Procedures Manual.
- 6.4 All Internal Auditors will hold a professional qualification or be training towards a professional qualification.

² Financial Regulations – Section 22 'Internal Audit'

6.5 In addition, all internal auditors have a personal responsibility to undertake a programme of continuing professional development (CPD) to maintain and develop their competence. This is fulfilled through the requirements set by professional bodies and through the Council's appraisal and development programme.

7 Scope

7.1 The scope for Internal Audit is the control environment comprising risk management, control and governance. This effectively includes all of the council's operations, resources, services and responsibilities in relation to partnerships and other bodies. It covers all financial and non-financial related activities, systems and resources of the Council at all levels of its structure.

7.2 To enable Internal Audit to meet its objectives, it will undertake work within a scope of activities including but not limited to any of the following:

- review of controls within existing systems and systems under development
- compliance with policies and procedures including Financial Regulations
- transactions testing to ensure accuracy of processing
- contract audit
- establishment reviews
- computer audit including data analytics
- counter fraud work
- investigation of suspected fraud and irregularities
- value for money reviews and transactions testing
- provision of advice to Directorates and establishments including consensual IT services
- provision of audit services to external clients.

7.3 All Internal Audit work is undertaken in accordance with internal quality assurance procedures incorporated in its quality management system, which has now been ISO accredited since 1998. Independent reviews are undertaken on Internal Audit on a yearly basis by an external organisation to ensure compliance with the ISO (9001) standard.

8 Internal Audit Plan

8.1 At least annually the CAE will submit to the Corporate Governance and Audit Committee a risk based internal audit plan for review and approval.

8.2 The risk based plan comprises initially the core elements of audit work that are mandated each year. This includes audits of the Council's key financial systems, grant certification, reactive fraud work and participation in the national Fraud Initiative

(NFI). Once these core elements of the plan and follow up reviews are accounted for, the remaining audit resource is directed at undertaking audit work in the most high risk areas, informed by our documented, ongoing risk assessment. These areas of work are determined and continually reassessed throughout the year based on the changing risk profile of the Council. Any significant deviation from the approved internal audit plan will be communicated through the regular update reports.

- 8.3 For each audit assignment, Internal Auditors will develop and document a plan including the objectives of the review, the scope, timing and resource allocations. In planning the assignment, auditors will consider, in conjunction with the auditees, the objectives of the activity being reviewed, significant risks to the activity and the adequacy and effectiveness of the activity's governance, risk management and control processes.

9 Resourcing

- 9.1 The audit plan lays out the planned audit resources for the year with the objective of giving an evidence-based opinion.
- 9.2 Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate on-going development programme.
- 9.3 If the CAE considers the level of audit resources in any way limits the scope of internal audit or the ability of Internal audit to deliver a service consistent with its statutory and related requirements, he will advise the Chief Officer -Financial Services, and the Corporate Governance and Audit Committee.
- 9.4 The audit plan will include a contingency allocation to enable us to plan and complete work over the course of the year in direct correlation with the changing risks and priorities of the organisation.

10 Reporting

- 10.1 An audit output will be prepared and issued by the Internal Audit following the conclusion of each internal audit engagement and will be distributed as appropriate. The audit output may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit output or provided thereafter by management of the audited area will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

- 10.2 All high and medium priority recommendations raised will be added to the appropriate recommendation tracker. This enables the tracking of the implementation of these recommendations and is key to help understand where controls have been strengthened following an audit and also highlight areas to re-visit to ensure actions are being progressed appropriately.
- 10.3 Where the audit output includes a limited or no assurance opinion for the control environment and /or compliance with the control environment either overall or for a particular objective, the report will be shared with the Executive Member for the relevant portfolio and the Chair of the relevant Scrutiny Committee. In addition, the work will be subject to a follow up review to ensure recommendations have been adopted and suggested controls are working well in practice.
- 10.4 As part of our regular update reports to Corporate Governance and Audit Committee we will:
- report on the activity of the Internal Audit for the period;
 - provide a summary of significant audit findings, including reports where limited or no assurance has been provided for the control environment and/or compliance with the control environment and follow up reviews;
 - report on the implementation of previously agreed recommendations.
- 10.5 The annual report will incorporate the annual opinion, a summary of the audit work that supports the opinion and a statement on conformance with the PSIAS and the results of the Quality Assessment and Improvement Programme (QAIP).

11 Quality Assessment

- 11.1 The CAE operates a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity and periodically assesses conformance with PSIAS. This includes both internal and external assessments. The external assessment will be conducted at least once every five years.
- 11.2 The outcomes of all internal and external assessments, including any areas of non-conformance with PSIAS, will be included in the QAIP and reported annually to senior management and the Corporate Governance and Audit Committee.
- 11.3 Ongoing performance is also reported to Corporate Governance and Audit Committee through the update reports.
- 11.4 There are regular reviews of working practices including benchmarking against other Internal Audit services through the Core Cities and Yorkshire and Humber Heads of Audit groups. In addition we actively seek feedback from internal and external clients through our customer satisfaction questionnaire.

12 Non audit work – investigations and counter-fraud services

- 12.1 PSIAS recognise that Internal Audit 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. Such services apply the professional skills of internal audit and contribute to the overall assurance opinion.
- 12.2 Internal Audit has oversight of the council's counter fraud and corruption framework, including the whistle-blowing arrangements, including receiving and risk assessing concerns via the whistleblowing reporting channels (phone, email, online referral form) or other routes such as the Freedom to Speak Up Guardian, external bodies and where appropriate investigates instances of suspected or actual fraud, corruption or impropriety. It also facilitates participation in the NFI, which matches data from Council information systems with information held by other participating bodies to identify potentially fraudulent activity.
- 12.3 Managing the risk of fraud and corruption is the responsibility of management; Internal Audit will assist management in the effective discharge of this responsibility by having up to date Counter fraud and corruption policies, Fraud Awareness training and awareness raising and liaison with those undertaking counter fraud activities across the council e.g. Tenancy Fraud Officers
- 12.4 In line with Financial Regulations (Section 21 – Fraud and Corruption), whenever any matter arises that involves, or is thought to involve irregularities concerning cash, stores or other property of the council or any suspected irregularity in the exercise of the functions of the council, including bequests, trust and client monies, it must be immediately brought to the attention of the respective Director. Where the irregularity is thought to involve fraud, corruption or impropriety the Director must ensure that the matter is reported to the Senior Head of Audit, Corporate Governance and Insurance. If the irregularity or suspected irregularity involves theft or suspected theft of assets, it must also be referred to the Police. In addition where a break-in is suspected, the Police must be informed immediately.
- 12.5 The Senior Head of Audit, Corporate Governance and Insurance will consider the implications for his opinion on the adequacy and effectiveness of the relevant controls and the overall internal control environment.

APPENDIX 1 – CODE OF ETHICS

A Code of Ethics is necessary for the profession of internal auditing as trust is placed on its objective assurance about governance, risk management and control.

The PSIAS sets out a Code of Ethics around 4 principles which Internal Audit will adhere to. The 4 principles are: **Integrity, Objectivity, Confidentiality** and **Competency**.

1 Integrity

The principle – The integrity of internal auditors establishes trust and this provides the basis for reliance on their judgement.

Rules of Conduct – Internal auditors:

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

2 Objectivity

The 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:

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

3 Confidentiality

The 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:

- Shall be prudent in the use and protection of information acquired in the course of their duties;
- 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

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

Rules of Conduct – Internal auditors:

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