



EAST KENT AUDIT PARTNERSHIP AUDIT CHARTER

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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 Audit Partnership is hosted by Dover District Council.
- 1.3 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.
- 1.4 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 of the individual partners.
- 1.5 Accountability for the response to the advice and recommendations of the Audit Partnership lies with partner's own management.
- 1.6 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.

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 Audit Partnership has therefore adopted the best practice principles promoted by CiPFA. The definition of Internal Audit taken from their guidance is as follows:

Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

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 Scope

2.2.1 Audit shall appraise and review:

- 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 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 S151 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.

2.3 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 Section 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.

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

- 3.3.1 The Head of Audit Partnership will have regular monthly meetings with each of the Partner's Section 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 Section 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.

3.4 Reporting Relationship with the Partners

- 3.4.1 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, an Annual Audit Report will:
 - Provide an individual summary of the work completed for each Partner,
 - Compare actual audit activity with that planned, and summarise the performance of the East Kent Audit Partnership against its performance criteria, and
 - Include the cost of the service for the partner.

3.5 Relationship with Audit Committees

- 3.5.1 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 both the opinions given through the Governance Assurance Statement, which is published annually.

The Committee will also approve the Audit Partnership annual work plan for their Council.

- 3.5.2 The Head of Audit Partnership may escalate any high-risk matters of concern (that in his opinion have not been adequately actioned by management) directly to committee, should this ever become necessary.

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 regular meetings to discuss performance and exchange thoughts and ideas,
- Make all Audit working papers and reports available to the External Auditors,
- Receive copies of all relevant External Audit 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.

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 standards 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.

4.3 **Quality Assurance**

The Head of Audit Partnership will maintain a process of review of the Internal Audit function to provide reasonable assurance that its work conforms to the relevant standards, and with the requirements of this Charter. The review process is to be ongoing and will include adequate supervision of the audit staff and of the audit work performed.

The Head of Audit Partnership will provide evidence as required to assist the Partners' reviews of the Effectiveness of Internal Audit to inform the Annual Governance Statement.

5 **Audit Process**

5.1 **Planning**

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

5.1.2 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 Audit Managers and reviewed and agreed with the client manager prior to the commencement of the audit review (except where an unannounced visit is necessary).

5.2 **Documentation**

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.

5.3 Consultation

5.3.1 Prior to the commencement of an audit, the Head of Audit Partnership or Audit Manager 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 Audit Manager will:

- issue a copy of the proposed Audit Brief by e-mail, and
- where appropriate arranging 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, Section 151 Officer or Monitoring Officer will be obtained.

5.3.2 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.

5.4 Reporting

5.4.1 A written discussion document is prepared and issued by the responsible Auditor at the conclusion of each audit. Prior to its issue, the appropriate Audit Manager reviews the discussion document together with the supporting working papers. The purpose of this document is to allow the service manager the opportunity to challenge any of the findings of the review.

5.4.2 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 control them.

5.4.3 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.

5.4.4 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.

5.4.5 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.

5.4.6 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.

5.5 Follow Up

5.5.1 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.

5.5.2 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).

5.5.3 Further testing will be carried out where necessary to independently confirm that effective action has in fact taken place.

5.5.4 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 members.

5.5.5 Any areas of concern after follow up, where it is thought that management has not taken appropriate action, will be escalated to senior management as described in paragraph 3.3.2 of this Charter.

6 Amendment to Charter

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

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