Appendix 1

Audit & Counter Fraud Charter

Medway Council &

Gravesham Borough Council

I. Introduction

The Audit & Counter Fraud Shared Service for Medway Council and Gravesham Borough Council was formed on 1 March 2016. This Charter establishes the purpose, authority, and responsibilities of the team to deliver audit work including rights of access. It also sets out the team's position in the organisations including functional and operational reporting lines.

The Chartered Institute of Internal Auditors (CIIA) defines internal auditing as: an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The Audit & Counter Fraud Shared Service combines this role with working alongside the councils to manage their fraud risk, including work to prevent, detect and investigate fraudulent activity committed against the councils.

For the purposes of the Public Sector Internal Audit Standards (PSIAS) the board is defined as the Audit Committee for Medway Council and the Finance & Audit Committee for Gravesham Borough Council. Senior Management is defined as the Corporate Management Team for Medway Council and the Management Team for Gravesham Borough Council.

This Charter will be reviewed and presented to the senior management and Boards of both councils on an annual basis for approval.

II. Authority

Internal audit is a statutory requirement for local government; the Accounts & Audit Regulations 2015 require local authorities to: 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. For local government these are the Public Sector Internal Audit Standards. The Section 151 Officer of a local authority is responsible for establishing the internal audit service. Gravesham Borough Council has delegated this responsibility to the Section 151 Officer of Medway Council to deliver internal audit services through the Shared Service to both authorities.

The Audit & Counter Fraud Shared Service is sponsored by the Section 151 Officers of both Medway Council and Gravesham Borough Council and is accountable to the Audit Committee of Medway Council and the Finance & Audit Committee of Gravesham Borough Council (the Audit Committees).

The Audit & Counter Fraud Shared Service recognises and will comply with the mandatory elements of the Public Sector Internal Audit Standards; the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics and the Standards themselves.

The Audit & Counter Fraud Shared Service, with strict accountability for confidentiality and safeguarding of records and information, and in compliance with the requirements of the General Data Protection Regulations (GDPR), is authorised full, free, and unrestricted access to any and all records, assets, premises and personnel of Medway Council and Gravesham Borough Council necessary to fulfill its responsibilities.

III. Responsibility, objectives & scope of work

The Audit & Counter Fraud Shared Service is responsible for the delivery of internal audit services in line with the Public Sector Internal Audit Standards (the Standards) and for the delivery of counter-fraud and investigation services in line with relevant legislation and best practice. The remit of the Audit & Counter Fraud Shared Service extends to the entire control environment of both Medway Council and Gravesham Borough Council. The objectives of the Audit & Counter Fraud Shared Service are set out within the Audit & Counter Fraud Strategy.

The work of the team can be categorised into three key areas;

Assurance services – an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organization. This work will primarily be delivered through planned reviews, though may also include responsive engagements requested by clients. Whether planned or responsive, significant engagements (taking more than one day) will result in a formal report with an opinion and if necessary, formal recommendations. Examples include financial, performance and compliance reviews, verification of data/claims, confirmation of procurement awards, project support.

Consultancy services – advisory and related client service activities, the nature and scope of which are set by the client, are intended to add value and improve an organisation's governance, risk management and control processes without assuming management responsibility. Examples include counsel, advice, facilitation, training.

Counter fraud services – proactive and reactive activities designed to improve the management of fraud risk. Whether planned or responsive, significant engagements (taking more than one day) will result in a formal report with an opinion and if necessary, formal recommendations. Examples include fraud-proofing reviews, investigations, training.

The key responsibilities of the team include:

- Developing a flexible risk-based Audit & Counter Fraud Plan in consultation with senior management and presented annually to the Audit Committees for approval,
- Delivering high quality assurance work focused on the effectiveness of governance arrangements, risk management and control to help the organisations to achieve their objectives,
- Monitoring the status of agreed recommendations and providing regular updates to senior management and the Audit Committees, including highlighting significant risks,
- Delivering an effective counter fraud service including proactive counter-fraud activity, the detection and investigation of cases of suspected fraud and irregularity,
- Providing responsive consultancy services, acting as a critical friend and the provision of advice & information on matters relating to governance, risk and control,
- Providing the single point of contact for external bodies investigating fraud including the Department for Work & Pensions Fraud & Error Service, Police and other Local Authorities,
- Liaison with external auditors and other assurance providers to seek optimal assurance coverage.

In line with the Public Sector Internal Audit Standards, the Head of Audit & Counter Fraud (as Chief Audit Executive) will report annually with an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control of each council, supporting the Annual Governance Statement and Statement of Accounts.

The Audit & Counter Fraud Team works to support Medway Council and Gravesham Borough Council in the maintenance and development of their anti-fraud and corruption policies. In both councils, the policy frameworks require all instances of suspected or detected fraud, corruption and impropriety to be reported to the Audit & Counter Fraud Team.

IV. Reporting lines

The Head of Audit & Counter Fraud reports functionally to the Audit Committees, reports in their name to these Committees, and has direct rights of access to the Chairs of these Committees. The Audit Committees will:

- Approve the Audit & Counter Fraud Charter,
- Approve the risk based Audit & Counter Fraud Plan,
- Approve the Audit & Counter Fraud resource budget,
- Receive reports from the Head of Audit & Counter Fraud on the Service's performance relative to its plan and other matters,
- Receive the annual opinion on the overall control environment of each council.

The Head of Audit & Counter Fraud reports administratively to the Chief Finance Officer (and S151 Officer) of Medway Council and the Director – Corporate Services (and S151 Officer) of Gravesham Borough Council.

V. Independence & objectivity

The Audit & Counter Fraud Shared Service will remain free from interference by any element in the organisation, including matters of the selection, scope, procedures, frequency, timing, or report content of work to permit maintenance of a necessary independent and objective mental attitude. Officers within the Audit & Counter Fraud Shared Service will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment.

Officers within the Audit & Counter Fraud Shared Service will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Officers will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments. Officers are required to notify the Audit & Counter Fraud Management Team of any potential impairments to their independence when work is allocated to them. All officers are required to submit annual declarations of interest or no interest, the results of which assist the allocation of work to the team.

The allocation of work to individual officers and allocation of supervisory duties will take account of any potential impairments (real or perceived) to the independence and objectivity of those officers, including but not limited to;

- Where officers have previously held operational responsibilities within services, they will not be allocated any assurance work until three years after they gave up those responsibilities.

- Where officers provide consultancy services, they will not be allocated any assurance work over the specific functions they provided consultancy services to until at least one year after the consultancy engagement was completed.

Given its responsibilities for counter-fraud activities, the Audit & Counter Fraud Shared Service cannot provide independent assurance over the counter-fraud activities of either council. Instead independent assurance over the effectiveness of these arrangements will be sought from an external supplier of audit services on a periodic basis.

In addition to the role of Chief Audit Executive, the Head of Audit & Counter Fraud as a senior officer of the councils, may undertake some roles outside of the functions of the Audit & Counter Fraud Shared Service as set out in this Charter. Any assurance work planned or requested where the Head of Audit & Counter Fraud has carried out any operational activities will be assessed for the risk of impairment to independence by the Audit & Counter Fraud Management Team, and where necessary the Head of Audit & Counter Fraud will have no operational involvement in the delivery of this assurance work with all quality management and reporting carried out by other members of the Audit & Counter Fraud Management Team.

The Head of Audit & Counter Fraud will confirm to the Audit Committees of each authority, at least annually, the organisational independence of the Audit & Counter Fraud Shared Service through the annual review of this Charter.

VI. Audit & Counter Fraud Plan

At least annually, the Head of Audit & Counter Fraud will prepare and submit to senior management and the Audit Committees an Audit & Counter Fraud Plan for review and approval. The Chief Audit Executive is responsible for ensuring the team has sufficient and appropriate resources to deliver a plan containing sufficient assurance and consultancy work to deliver an opinion on the overall control environment of each council, supporting the Annual Governance Statement and Statement of Accounts. The plan will consist of a work schedule and a resource budget for the period, and will note the impact of any resource limitations.

The Audit & Counter Fraud Plan will be prepared following an assessment of the authorities' objectives, identified risks and a risk assessment of functions and services, including input of senior management. The Head of Audit & Counter Fraud will review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved Plan will be communicated through periodic activity reports.

VII. Reporting & monitoring

A written report will be prepared and issued by the Head of Audit & Counter Fraud or designee following the conclusion of each significant engagement, with the specific distribution of each report agreed in the Terms of Reference issued before the work commences. All final reports are issued to the relevant Service Manager/Head of Service, Assistant Director/Chief Officer, Director and the Chief Executive; all reports with financial elements are also issued to the Section 151 Officers and all reports with legal elements are also issued to the Monitoring Officers. The results of all audit work will be reported to senior management and the Audit Committees through routine activity reports and an Annual Report.

In line with the Public Sector Internal Audit Standards, the Head of Audit & Counter Fraud (as Chief Audit Executive) will report annually with an opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control of each council, supporting the Annual Governance Statement and Statement of Accounts. This opinion will take into account the strategies, objectives and risks, and the expectations of senior management and the Audit Committees of both councils. The opinion will be supported by the content of the annual report, setting out a summary of the work carried out, a summary of the performance of the team in line with the Quality Assurance & Improvement Programme, and will identify any limitations in scope and disclose any qualifications.

The Audit & Counter Fraud Shared Service will ensure findings and recommendations made are followed up, will report to senior management and the Audit Committees on the outcomes of this work and will follow an escalation process to address any significant findings that remain open. The Audit & Counter Fraud Shared Service will not revise the assurance opinions given in final reports based on the results of follow up work.

VIII. Quality Assurance & Improvement Programme

The Audit & Counter Fraud Shared Service will maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of the activity. The program will include an evaluation of the conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether Officers apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the activity and identifies opportunities for improvement. The Head of Audit & Counter Fraud will communicate to senior management and the Audit Committees on the QAIP.