

AUDIT COMMITTEE – 6TH JUNE 2017

Report of the Head of Strategic Support

Part A

ITEM 13 INTERNAL AUDIT CHARTER

Purpose of Report

To present the proposed Internal Audit Charter to the Committee for approval.

Recommendation

The Committee is recommended to approve the proposed Internal Audit Charter.

Reason

To conform with the requirements of the Public Sector Internal Audit Standards (PSIAS).

Policy Justification and Previous Decisions

The PSIAS came into effect on 1st April 2013, they apply to all internal audit service providers, whether in-house, shared services or outsourced. The PSIAS (Attribute Standard 1000) requires organisations to have an Internal Audit Charter that formally defines the purpose, authority and responsibility of the internal audit activity, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Charter is required to be approved by senior management and the board (Audit Committee).

Implementation Timetable including Future Decisions

The Charter will be reviewed annually and presented to both Senior Management and the Audit Committee for approval.

Report Implications

The following implications have been identified for this report.

Financial Implications

None.

Risk Management

The risks associated with the decision the Committee is asked to make and proposed actions to mitigate those risks are set out in the table below.

Risk Identified	Likelihood	Impact	Risk Management Actions Planned
Failure to have an appropriately approved Internal Audit Charter will result in non - conformance with the PSIAS which is required to be reported in the annual internal audit report.	Unlikely (2)	Minor (2)	The Charter has been drafted to include those elements required by the PSIAS. The charter was reviewed and approved by SMT on the 10th May 2017 for presentation to the Audit Committee for approval.

Background Papers:

Public Sector Internal Audit Standards

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Part B

Background

1. The Public Sector Internal Audit Standards (PSIAS) came into effect on the 1st April 2013. The standards are the result of collaboration between CIPFA and the Institute of Internal Auditors (IIA) to develop a set of internal audit standards applicable to all areas of the UK public sector. The Standards apply to all internal audit service providers, whether in-house, shared services or outsourced.
2. CIPFA has also produced an Application Note as the sector –specific requirements for local government organisations. The PSIAS and the Local Government Application Note together supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the UK.
3. Although the PSIAS do not fundamentally differ to the Code, one additional requirement of the PSIAS is for the organisation to have an Internal Audit Charter.

The Charter is defined in the PSIAS as: ‘a formal document that defines the purpose, authority and responsibility of the internal audit activity’.

4. In the public sector, the internal audit charter must also:
 - a. define the terms ‘board’ and ‘senior management’ for the purposes of internal audit activity;
 - b. cover the arrangements for appropriate resourcing;
 - c. define the role of internal audit in any fraud-related work; and
 - d. include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.
5. The ‘board’ is described as:

“the governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting”.

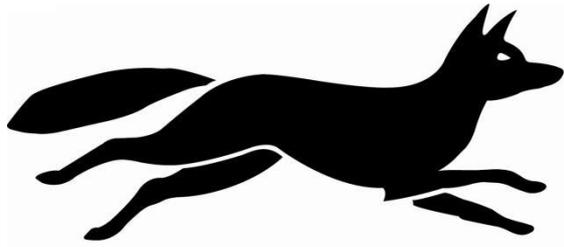
In a local authority it is the responsibility of the Chief Audit Executive (CAE) and the organisation to decide which group fulfils this definition and document this in the Charter. At their meeting of 30th April 2014, the Senior Management Team approved the CAE’s proposal for the fulfillment of this role to be undertaken by the Audit Committee.

6. As recommended following the External Quality Assessment of Internal Audit undertaken in June 2016, amendments to the Charter in respect of the PSIAS (April 2016) requirement to include the ‘Mission of Internal Audit’ and definitions of assurance and consulting engagements were made following approval of proposed wording to be inserted to the Charter by the Audit Committee in September 2016.

7. The Charter is required to be approved by 'senior management' and the 'board', and thereafter reviewed annually by the Chief Audit Executive and presented for approval to both 'senior management' and the 'board'. The Charter was reviewed by the CAE during April 2017 and no further amendments were required to be made. The Charter was approved by the Senior Management Team at their meeting of the 10th May 2017.

Appendices:

Appendix A – Internal Audit Charter (April 2017)



Charnwood



**CHARNWOOD BOROUGH
COUNCIL**

INTERNAL AUDIT CHARTER

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1. Introduction

The Public Sector Internal Audit Standards (PSIAS), Attribute Standard 1000, require that the purpose, authority and responsibility of the internal audit activity are formally defined in an internal audit charter (hereafter referred to as the Charter), consistent with the *Mission of Internal Audit* and the mandatory elements of the International Professional Practices Framework (the *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics*, the *Standards* and the *Definition of Internal Auditing*). The chief audit executive is required to periodically review the Charter and present it to senior management and the 'board' for approval. Final approval of the Charter resides with the 'board'.

The Charter establishes the internal audit activity's position within the Council, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

2. Mission of Internal Audit

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

3. Definitions

For the purposes of this charter the following definitions will apply:

3.1 Internal Audit

The definition of Internal Audit as set out in the PSIAS:

'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.'

3.2 Assurance

The PSIAS defines assurance engagements as:

'An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.'

3.3 Consultancy

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.'

3.4 The 'Board'

The Board is defined as:

'the governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting'.

Within this Council the role of the 'Board' will be fulfilled by the Audit Committee.

3.5 Senior Management

Senior Management is defined as:

'those responsible for the leadership and direction of the Council'.

Within this Council the role of 'Senior Management' will be fulfilled by the Senior Management Team (SMT).

3.6 Chief Audit Executive

The Chief Audit Executive is described as:

'a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Audit Executive or others reporting to the Chief Audit Executive will have appropriate professional certifications and qualifications'.

Within this Council the role of the Chief Audit Executive will be fulfilled by the Audit and Risk Manager.

4. Purpose of Internal Audit

The Accounts and Audit Regulations 2015 (Regulation 5 (1)) require that local authorities to which this regulation applies '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'.

As an independent appraisal function, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of processes and controls across the entire Council.

5. Professionalism

The internal audit activity will govern itself by adherence to the Public sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The service, and individual staff, will be governed by the Code of Ethics of the relevant professional bodies of which they are a member, and all codes and policies operated by the Council including the standard operating procedures set out in the Internal Audit Manual.

6. Authority of Internal Audit

The authority of Internal Audit is as set out in the Council's Financial Regulations that form part of the Constitution.

The Head of Strategic Support has nominated a head of internal audit (the Audit & Risk Manager) who has the right to direct access to the Head of Paid Service, the Cabinet and the Audit Committee where necessary.

Internal audit staff have access to all Council property and assets at any reasonable time and have the authority to apply any test or check they deem necessary to the accounts, cash, securities or other properties or records which relate in any way to the operations of the Council and can require and receive such explanations from any Officer or Member as deemed necessary.

All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities.

7. Organisation

The Internal Audit function sits within the Audit and Risk Team of the Strategic Support service that forms part of the Corporate Services Directorate.

The Head of Strategic Support, who also fulfils the role of the Council's Monitoring Officer, reports directly to the Strategic Director of Corporate Resources, who fulfils the role of the Council's Section 151 Officer, and also reports functionally to the Audit Committee (Board).

Under the Council's Constitution, the Head of Strategic Support is responsible for maintaining an adequate and effective internal audit function and the nomination of an officer to act as the head of internal audit (Chief Audit Executive). The Audit and Risk Manager is the nominated head of internal audit and is responsible for the day to day management of the Internal Audit function.

The Chief Audit Executive has free and unfettered access to the Chief Executive, Section 151 Officer, Monitoring Officer and the Chair of the Audit Committee. The Chief Audit Executive will communicate and interact directly with the Board, including in and between Board meetings as appropriate.

8. Responsibility of Internal Audit

The key responsibilities of Internal Audit are as laid out in the Council's Financial Regulations:

- The Head of Strategic Support is responsible for maintaining an adequate and effective internal audit function.
- The internal audit function will operate in accordance with the Public Sector Internal Audit Standards
- The internal audit function is responsible for providing assurance on the Council's system of internal control. It examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.
- In fulfilling their responsibilities Internal audit staff will undertake effective reviews of systems and procedures on a regular basis.

9. Scope of Internal Audit

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit include:

- Consistency of operations or programs with established objectives and goals and effective performance.
- Effectiveness and efficiency of operations and employment of resources.
- Compliance with significant policies, plans, procedures, laws, and regulations.
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets.

Internal Audit is responsible for evaluating all processes ('audit universe') of the entity including governance processes and risk management processes. It also assists the Audit Committee in evaluating the quality of performance of external auditors and maintains proper degree of coordination with internal audit.

Internal audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It

may also evaluate specific operations at the request of the Board or management, as appropriate.

Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Board and to Senior Management, including fraud risks, governance issues, and other matters needed or requested by the Board.

10. Independence and Objectivity

The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors 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 internal auditor's judgment.

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 judgments.

The Chief Audit Executive will confirm to the board, at least annually, the organisational independence of the internal audit activity.

The independence of the Chief Audit Executive is safeguarded by the Chief Executive reviewing and countersigning the performance reviews of the Chief Audit Executive and feedback is also sought from the Chair of the Audit Committee.

11. Internal Audit Plan

At least annually, the Chief Audit Executive will submit to the Board an internal audit plan for review and approval, including risk assessment criteria. The internal audit plan will include timing as well as budget and resource requirements for the next fiscal year. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to senior management and the Board.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the board. Prior to submission to the Board for approval, the plan will be discussed with senior management. Any significant deviation from the approved

internal audit plan will be communicated through the periodic activity reporting process.

12. Internal Audit Resources

The Chief Audit Executive will hold an appropriate professional qualification (CMIIA, CCAB or equivalent) and have extensive internal audit experience.

The Head of Strategic Support is responsible for providing the Chief Audit Executive with the appropriate resources to maintain an adequate and effective internal audit service.

The Chief Audit Executive will ensure that the Internal Audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit plan.

13. Reporting and Monitoring

A written report will be prepared and issued by the Chief Audit Executive following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Board.

The final version of the internal audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response is required to include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on audit findings and recommendations. All significant findings will remain on the outstanding recommendations record until cleared.

14. The Role of Internal Audit in Fraud Related Work

The role of Internal Audit in fraud related work is set out in the following Council documents:

- Financial Regulations
- Anti – Fraud, Corruption, and Bribery Strategy
- Whistleblowing Policy
- Fraud Response Plan.

The primary responsibility for maintaining sound systems of internal control including arrangements to prevent and detect fraud and corruption lies with management. Completion of planned audit work assists this process by

highlighting areas where controls are inadequate or are not operating as intended.

15. Performance of Non – Audit Activities

The Chief Audit Executive has line management responsibility for the Council's health and safety, insurance and risk management functions which form part of the Audit and Risk Team. To maintain independence and avoid conflict of interest any internal audits of these functions will be undertaken by an externally procured resource.

Where individual internal auditors undertake non – audit activities, for example in participating in corporate projects in a non – audit role, the auditor involved will not participate in future audits of the service/project area until at least one year has elapsed from completion of the activity.

16. Periodic Assessment

The Chief Audit Executive is responsible for periodically providing a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

In addition, the Chief Audit Executive will communicate to senior management and the Board on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

The Chief Audit Executive will agree the scope of external assessments with the Head of Strategic Support and the Chair of the Audit Committee.

17. Review

The Chief Audit Executive will review this Charter annually and present it to senior management and the Board for approval.