North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

26 July 2018

Internal Audit Charter

Report of the Internal Audit Consortium Manager

This report is public

Purpose of the Report

- To report to Members for information and approval the results of a review of the Internal Audit Charter. The Public Sector Internal Audit Standards (PSIAS) state that the Head of Internal Audit must periodically review the Internal Audit Charter and present it to the relevant Committee for approval.

1 Report Details

1.1 The Public Sector Internal Audit Standards (PSIAS) which took effect from the 1 April 2013 require that the purpose, authority and responsibility of internal audit must be formally defined in an Internal Audit Charter (Appendix 1).

1.2 The Internal Audit Charter was last formally approved by this Committee in June 2016. It was agreed that the Charter would be reviewed every 2 years to ensure that this is kept up to date.

1.3 The PSIAS were updated in April 2017 with some fairly minor wording changes. There were no changes recommended in respect of the content of Internal Audit Charters. The current Internal Audit Charter has been reviewed and it is felt that it is still fit for purpose and that no updates are required.

1.4 The Internal Audit Charter is attached as Appendix 1.

2 Conclusions and Reasons for Recommendation

2.1 To comply with the requirements of the Public Sector Internal Audit Standards.

3 Consultation and Equality Impact

3.1 None.

4 Alternative Options and Reasons for Rejection

4.1 None.

5 Implications

5.1 Finance and Risk Implications

5.1.1 The re – adoption of the Internal Audit Charter will help to ensure that the Internal Audit Consortium continues to provide a quality service in line with the PSIAS.

5.2 Legal Implications including Data Protection

5.2.1 None

5.3 Human Resources Implications

5.3.1 None

6 Recommendations

6.1 That Members note the outcome of the review of the Internal Audit Charter.

6.2 That subject to any comments Members may wish to make, that the Internal Audit Charter be agreed.

6.3 That the agreed Internal Audit Charter be reviewed in 2 years' time or sooner in the event of any significant changes being made to the Public Sector Internal Audit Standards.

7 Decision Information

Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: *BDC: Revenue - £75,000* ☐ *Capital - £150,000* ☐ *NEDDC: Revenue - £100,000* ☐ *Capital - £250,000* ☐ ☑ *Please indicate which threshold applies*	No
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	No
District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	All

8 Document Information

Appendix No	Title
1	Internal Audit Charter
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Public Sector Internal Audit Standards	
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AGIN5(0726)2018 – Audit Charter

Appendix 1

BOLSOVER, CHESTERFIELD AND NORTH EAST DERBYSHIRE DISTRICT COUNCILS'

INTERNAL AUDIT CHARTER

INTRODUCTION

1. The Public Sector Internal Audit Standards (PSIAS) which took effect from 1 April 2013 require the adoption of an Internal Audit Charter. The Internal Audit Charter describes the purpose, authority and principal responsibilities of the Internal Audit Consortium that have been established to provide the internal audit service to the three Councils'.

PSIAS/REGULATORY BASIS OF OPERATION

2. The adoption of the PSIAS is mandatory and includes a
   - Definition of Internal Auditing
   - Code of ethics
   - International Standards for the Professional Practice of Internal Auditing

3. The Mission of Internal Audit is:-

   To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

4. The Internal Audit Consortium adopts the PSIAS and the purpose and definition of Internal Audit as specified by 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

5. The Internal Audit Consortium also adopts the Core Principles for the Professional Practice of Internal Auditing. These are that the Consortium:-

   - Demonstrates integrity.
   - Demonstrates competence and due professional care
   - Is objective and free from undue influence (independent)
   - Aligns with the strategies, objectives, and risks of the organisation,
   - Is appropriately positioned and adequately resourced

- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk – based assurance
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

The requirement for an internal audit function in local government is specified within the Accounts and Audit (England) Regulations 2015, which state:

A relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking in to account public sector internal auditing standards or guidance.

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6. The Consortium agreement details how the Consortium will operate in terms of finance, staffing, reporting and independence.

7. Internal Audit is also governed by policies, procedures, rules and regulations established by the host Council. These include Financial Regulations, Conditions of Service, Codes of Conduct and Anti-Fraud and Corruption strategies.

8. Where key services are to be provided to one of the partner Councils' by other contractors or through a partnership, in order for internal audit to form an opinion on the controls operating, a right of access to relevant information and documents should be included in contracts or agreements concerned.

DEFINITIONS

9. The PSIAS require that the Charter must define the terms "Board" and "Senior Management" for the purposes of internal audit activity.

10. The PSIAS glossary defines the board as:

The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically this includes an independent group of directors (e.g. a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the "board" may refer to the head of the organisation, "Board" may refer to an audit committee to which the governing body has delegated certain functions.

11. At Chesterfield Borough Council the "Board" will be the Standards and Audit Committee.

At Bolsover District Council the "Board" will be the Audit Committee

At North East Derbyshire District Council the “Board” will be the Audit and Corporate Governance Committee.

12. In addition to this the Joint Board will approve and monitor the annual business plan and financial position of the Consortium.

13. “Senior Management” – those responsible for the leadership and direction of the Council. This will be each Council’s Senior Management Team.

14. The PSIAS adopt the term “Chief Audit Executive”, this role is met by the Internal Audit Consortium Manager.

SCOPE AND OBJECTIVES OF INTERNAL AUDIT

15. The scope of the Internal Audit Consortium encompasses the examination and evaluation of the adequacy and effectiveness of each organisation’s governance, risk management and internal control processes in relation to each organisation’s defined goals and objectives.

16. The Audit Consortium’s remit covers all functions and services for which the Councils are responsible and this extends to the entire control environment of the organisations and not just financial controls.

17. The Consortium will objectively examine, evaluate and report on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

18. The internal audit service will be delivered on the basis of a risk assessment of auditable areas at each of the partner authorities. A predominantly systems based approach to most audits will be adopted.

19. The internal control system comprises the whole network of systems established within each partner authority to provide reasonable assurance that corporate objectives will be achieved, with particular reference to:

- Consistency of operations with established objectives and goals,
- The reliability and integrity of financial and operational information,
- The effectiveness and efficiency of operations and programmes,
- Safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity and corruption,
- Compliance with laws, regulations, policies, procedures and contracts,
- The economic and efficient use of resources (value for money) and effective monitoring systems and optimum use of performance management information.

20. With the introduction of the PSIAS, internal audit may also provide “consultancy” services. This work could take any form, provided that the independence of the service is not compromised, but will typically

include special reviews or assignments where requested by management, which fall outside the approved plan and for which a contingency is included in the audit plan. There will be no significant consultancy work undertaken without the approval of the relevant Audit Committee.

RESPONSIBILITIES AND REPORTING

21. The PSIAS requires that the Internal Audit Charter should establish the responsibilities and reporting arrangements of internal audit.

22. The Internal Audit Consortium Manager reports directly to each Council's Audit Committee and to each Chief Financial Officer. The Internal Audit Consortium Manager also has direct access to each Council's Chief Executive, Monitoring Officer and where necessary elected Members

23. The Internal Audit Consortium Manager will manage the provision of the Internal Audit service to each Council by: -

- Preparing each year in advance a risk based audit plan for discussion and agreement by each council's Client Officer and approval by the Audit Committee. Any in-year significant changes to the audit plan shall be agreed by the respective Client Officers and Audit Committees,
- Preparing the internal audit budget and resource plan for approval by the Joint Board,
- Presenting an annual report to each Council's Audit Committee that meets the requirements of the PSIAS and includes:-
    - An overall opinion on the adequacy and effectiveness of the organisation's control environment (including any qualifications to that opinion),
    - Presents a summary of the audit work from which the opinion is derived, including reliance placed on the work by other assurance bodies,
    - Draws attention to any issues the Internal Audit Consortium Manager judges particularly relevant to the preparation of the Annual Governance Statement,
    - Compares work actually undertaken with work that was planned and to report relevant performance measures and targets.
- Presenting periodic reports to each Audit Committee summarising all internal audit reports issued and if considered necessary providing copies of the reports,
- Formally report the findings and recommendations of audit work to senior management and the respective Audit Committee throughout the year. Audit reports will:-
    - Include an audit opinion on the reliability of the internal controls in the system or area audited,
    - Identify inadequately addressed risks and non-effective control processes,
    - Detail management's response and timescale for corrective action,
    - Identify issues of good practice.
- Ensuring audit work is supervised, reviewed, recorded and reported,

- Implementing a follow up process for ensuring the effective implementation of audit recommendations or ensuring senior management are aware of the consequences of not implementing a recommendation and are prepared to accept the risk,
- Liaising as needed with the External Auditor for each Council and with other regulators,
- Maintaining and managing a risk assessment in relation to the functions of the Consortium,
- Ensuring that there is an up to date Audit Manual in place setting out expected standards for the service, and monitoring compliance with these standards, including in relation to the planning, conduct, quality assurance and reporting of audit assignments.

24. Senior managers should assist audit to discharge their duties by:

- The prompt provision of information and explanations,
- Providing input to the audit plan to ensure attention is focused on areas of greatest risk,
- Informing the Audit Consortium of any plans for change, including new systems,
- Responding to the draft internal audit report, including provision of management responses to recommendations, within the timescale requested by the audit team,
- Implementing agreed management actions in accordance with agreed timescales,

25. The respective Audit Committees must:

- Approve the Internal Audit Charter,
- Approve the risk based internal audit plan,
- Receive progress reports and an annual report from the Internal Audit Consortium Manager in respect of the audit plan,
- Approve any large variances or consulting services not already included in the audit plan.

26. The Joint Board will:

- Approve the internal audit budget and outturn.

AUDIT RESOURCES

27. The Chief Financial Officer at each Council will ensure that the Audit Consortium has the necessary resource to enable the Internal Audit Consortium Manager to be able to give an annual evidence-based opinion.

28. The staffing and budget of the Internal Audit Consortium will be kept under review by the Internal Audit Consortium Manager, bearing in mind the resource requirements identified in the audit plan process. Where resources available do not match the resource requirements identified by the annual audit plans, the Internal Audit Consortium Manager will report to the Joint Board.

29. The Internal Audit Consortium Manager will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience. The Internal Audit Consortium Manager will ensure that the internal audit service is appropriately skilled in terms of qualifications, knowledge and experience.

QUALITY AND ASSURANCE PROGRAMME

30. The PSIAS state that a quality assurance and improvement programme must include both internal and external assessments. Internal assessments should be ongoing and periodical and external assessments must be undertaken at least once every 5 years.

31. All internal audits are subject to a management quality review. Policies and procedures to guide staff in performing their duties have been established within the audit manual.

32. The internal periodic self - assessment of internal audit will be undertaken by completing the checklist for assessing conformance with the PSIAS included within the PSIAS Application Note.

33. External assessment can be satisfied by either arranging a full external assessment or by undertaking a self - assessment with independent validation. External assessments must be by a qualified, independent assessor from outside the organisations. The Internal Audit Consortium Manager must discuss the format of the external assessments and the qualifications and independence of the assessor with the Audit Committee.

34. An external assessment of the internal audit function will take place at least once every 5 years and the results reported back to the Audit Committee of each Council.

35. The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

INDEPENDENCE, AUTHORITY AND ETHICS

36. In order to achieve its objectives effectively, Internal Audit must be seen to be independent. Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that no quality compromises are made.

37. The scope of internal audit allows for unrestricted access at each partner authority to all records, personnel, premises and assets deemed necessary to obtain information and explanations as it considers necessary to fulfil its responsibilities in the course of the audit. Such access shall be granted on demand and not subject to prior notice.

38. This right of access is included in the agreement signed by the three authorities establishing the Internal Audit Consortium and in each authority's Financial Regulations. In addition, where necessary, the

Internal Audit Consortium Manager will have unrestricted access at each authority to:

- The Chief / Deputy Chief Executive
- The Chief Financial Officer
- Members
- The Monitoring Officer
- The Chair and Members of the Audit Committee
- Individual Directors / Heads of Service
- All Other Employees
- The External Auditor

39. The Internal Audit Consortium Manager will confirm to the Audit Committees' at least annually, the organisational independence of the internal audit activity.

40. Independence is further achieved by:

- Reporting to the Audit Committee and senior management at each authority,
- Not being part of system and procedures being audited,
- Rotating responsibility for audit assignments within the audit team,
- Completing declaration of interest forms on an annual basis,
- Internal Audit staff not undertaking an audit in an area where they have had operational roles for at least two years.

41. If any member of the Internal Audit Consortium considers there is or could be a conflict of interest, this must be declared to the Internal Audit Consortium Manager who will direct alternative and independent resources to the audit.

42. Where internal audit staff are required to undertake non-audit duties, the Internal Audit Consortium Manager will make it clear that those audit staff are not fulfilling those duties as internal auditors. The Internal Audit Consortium Manager will ensure that within the service there remains sufficient impartiality to enable the actions and activities of those internal audit staff to be subject to audit by those independent from the activity.

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43. Internal auditors must conform to the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Ethics in addition to those of other professional bodies of which they hold membership.

44. The Code of Ethics promotes an ethical, professional culture to ensure fairness, objectivity and freedom from conflicts of interest. The key principles are;

- Integrity – to establish trust thus providing reliance on their judgement;
- Objectivity – in gathering, evaluating and communicating information about the activity or process being examined in order to make a balanced assessment of all relevant circumstances without influence;
- Confidentiality – to respect the value and ownership of information received which should not be disclosed without appropriate authority

or a legal or professional obligation to do so, nor be used for personal gain; and

- Competence – to apply knowledge, skills and experience appropriately.

FRAUD AND CORRUPTION

45. Managing the risk of fraud and corruption is the responsibility of management. Each Council has an Anti – Fraud and Corruption strategy and a zero tolerance towards fraud.

46. The Internal Audit Consortium Manager should be notified of all suspected or detected fraud, corruption or impropriety in accordance with each Council's Financial Regulations and Anti - Fraud and Corruption strategies, in order to inform their opinion of the internal control environment.

47. Subject to availability of resources with the internal audit plan, internal audit may assist management in the investigation of suspected fraud and corruption.

48. The Internal Audit Consortium Manager will report any instances of fraud detected as a result of audits undertaken to the Audit Committee.

REVIEW OF THE INTERNAL AUDIT CHARTER

49. The Internal Audit Charter will be reviewed every 2 years by the Internal Audit Consortium Manager and will be reported to each Council's Audit Committee for approval.