



St Edmundsbury
BOROUGH COUNCIL

C450

Performance and Audit Scrutiny Committee 30 April 2012

Internal Audit Charter

SUMMARY

The CIPFA Code of Practice for Internal Audit in Local Government 2006 requires the Council to formally define the nature, role, responsibilities and reporting lines of Internal Audit in Terms of Reference (Internal Audit Charter) consistent with the Code.

In response to this, the Internal Audit Section operates an Internal Audit Charter which is reviewed annually, with any significant revisions presented to the Performance and Audit Scrutiny Committee for approval.

Amendments to the Internal Audit Charter are proposed to reflect the Internal Audit shared service arrangement between St Edmundsbury Borough Council and Forest Heath District Council.

PURPOSE OF THE REPORT

To advise Performance and Audit Scrutiny Committee of proposed amendments to the Internal Audit Charter to reflect the Internal Audit shared service between both St Edmundsbury Borough Council and Forest Heath District Council.

Members are also asked to recommend approval of the revised Internal Audit Charter.

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Performance and Audit Scrutiny Committee 30 April 2012

Internal Audit Charter

1. Recommendations

- 1.1 Cabinet be recommended to approve the revised Internal Audit Charter set out at Appendix A of this report.

2. Purpose of Report

- 2.1 To advise Performance and Audit Scrutiny Committee of proposed amendments to the Internal Audit Charter to reflect the Internal Audit shared service between St Edmundsbury Borough Council and Forest Heath District Council.

3. Background

- 3.1 The Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 requires the Head of Internal Audit to produce Terms of Reference (Audit Charter) setting out the nature, role, responsibilities and reporting lines of the Council's Internal Audit Section.

4. Update of the Internal Audit Charter

- 4.1 A recent review of the Internal Audit Charter has resulted in a small number of amendments being made to the document to ensure it remains accurate and in line with good practice.
- 4.2 The most significant amendment is inclusion of the Internal Audit shared service arrangement with Forest Heath District Council, although members should be advised that this amendment does not reflect any change to the Internal Audit service currently delivered to St Edmundsbury, but is intended to ensure that the Internal Audit Charter remains reflective of actual service provision arrangements.

Sources of Further Information

CIPFA Code of Practice for Internal Audit in Local Government 2006
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INTERNAL AUDIT CHARTER

1. Introduction

- 1.1 The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 ('the Code') requires that the purpose, authority and responsibility of Internal Audit must be formally defined by the organisation in terms of reference consistent with the Code.
- 1.2 St Edmundsbury Borough Council and Forest Heath District Council have been working to share services across their boundaries. Internal Audit is such an example and is provided in partnership between both Councils, through a shared service. Its vision to provide a cost effective, proactive, flexible, resilient and quality internal audit service to meet the needs of internal and external stakeholders.
- 1.3 This Charter describes the objective, statutory role, responsibilities and reporting lines of internal audit and describes arrangements in place to ensure the adequacy of the section's independence, access rights and resources.

2. Objective

- 2.1 The objective of the Internal Audit section is to provide a professional, independent and objective assurance and advisory service that assists the relevant S151 Officer at both authorities in his / her statutory duty to ensure that the finances of each Council are properly administered and which seeks to work with corporate management to improve the operation of the Council.

3. Statutory Role and Definition

- 3.1 Internal Audit is a statutory service in the context of the Accounts and Audit (England) Regulations 2011, which state in respect of Internal Audit that *"a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control"*.
- 3.2 This statutory requirement is recognised and endorsed within each Council's Constitution which state that the S151 Officer will establish and maintain a continuous, adequate and effective internal audit of the accounts, records, systems and officers of the Council.
- 3.3 The requirement to accord with *"proper audit practices"* is defined within the guidance to these regulations as being the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
- 3.4 The CIPFA Code defines audit as *"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."*
- 3.5 The Code also states that in addition to this assurance function Internal Audit *"may also undertake non-assurance work at the request of the organization, subject to their being no impact on the core assurance work, and the availability of skills and resources"*. This can

include consultancy work; indeed internal audit intrinsically delivers consultancy services when making recommendations for improvement arising from assurance work, and fraud related work."

4. Scope and Responsibilities

- 4.1 Management are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their service, and that their staff are aware of the processes and procedures required to operate the control systems.
- 4.2 The scope of Internal Audit applies to all functions and services for which each Council is responsible. It is the role of Internal Audit to review, appraise and report on the effectiveness and efficiency of financial and other management controls, including risk management, corporate governance, and arrangements for providing best value for money. This is achieved by undertaking audits across the full range of both Councils' functions in accordance with risk based audit plans which outline assignments to be carried out and the resources and skills required to deliver the plan.
- 4.3 At the end of the financial year the Internal Audit Manager is required to give an annual opinion to each Council on the effectiveness of the whole of its internal control system, and the extent to which the Council can rely on it.
- 4.4 The Accounts and Audit (England) Regulations 2011 require that Councils conduct an annual review of the effectiveness of their system of internal control and produce an Annual Governance Statement. The Audit Committee will consider the findings of the review and on whether an effective internal control system has been established and is being maintained. Internal Audit is one of the principal ways in which Audit Committees can gain assurance on the effectiveness of the control environment, which comprises of risk management, controls and governance.
- 4.5 The section also undertakes other consultancy style work at the request of management, ranging from general financial advice and assistance to involvement in major Council initiatives and projects.
- 4.6 Internal Audit may also undertake special projects and investigations, including investigations into suspected irregularities or fraud, and carries out the financial appraisals of contractors.

5. Reporting lines and relationships

- 5.1 The Internal Audit Manager reports to the appropriate S151 Officer at both authorities, although in exceptional circumstances, at his / her discretion has direct access to, and freedom to report in his / her name to the Chief Executive Officer and the relevant Audit Committee.
- 5.2 The annual audit plan is formulated in consultation with senior management, external audit and the Audit Committee, and is approved by the Management Team and Audit Committee around the start of the financial year.
- 5.3 All audit activity is intended to assist management to fulfil their objectives of delivering services and contributing to the overall objectives of both St Edmundsbury and Forest Heath. Outputs from audit work can range from informal advice to formal written reports.

- 5.4 Audit reviews will result in formal reports in order to communicate the findings of the audit review and encourage management to take prompt action where control weaknesses and risks have been identified.
- 5.5 Recommendations made within audit reports will be 'tracked and followed up' in order to ascertain whether actions have been implemented.
- 5.6 Progress reports of work undertaken including a summary of key audit findings are provided regularly to each Council's Audit Committee. The end of year report provides a summary of the work of Internal Audit during the whole year, information on the performance of the section, and includes an opinion from the Internal Audit Manager on the standard of internal control and probity within each authority.
- 5.7 The Internal Audit Manager shall also ensure that the Chief Executive Officer is advised in circumstances where internal audit investigations, reviews and reports reveal fundamental weaknesses within the organisation or are relevant in any way to the duty of the Chief Executive Officer.
- 5.8 Whereas Internal Audit is part of an organisation with the aim to assist management, the external auditors fulfil a statutory duty of providing an independent opinion on the annual financial statements. Whilst objectives differ in practice much of the evidence each collects, as the basis for audit judgements will be common to both purposes. Effective liaison between Internal Audit and external audit is necessary to avoid duplication of work and the 'clashing' of timetables. The Internal Audit Manager will consult with the external auditors when drawing up the annual audit plan and will agree with them those systems and key controls which will be reviewed annually.
- 6. Independence and accountability**
- 6.1 Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.
- 6.2 With the exceptions of the financial appraisal of contractors and suppliers wishing to undertake work for St Edmundsbury, and data protection responsibilities at Forest Heath, internal auditors have no operational responsibilities. Wherever possible, and necessary to ensure that independence is not compromised, operational duties will be avoided.
- 6.3 Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Internal Audit Manager has direct access and freedom to report in his own name and without fear or favour to all officers and members and particularly to those charged with governance.
- 6.4 Accountability for the response to the advice and recommendations made by Internal Audit lies with management, who either accepts and implements the advice or formally rejects it.

7. Access

- 7.1 Internal Audit's rights of access are stipulated within each Council's Constitution.
- 7.2 Internal Audit's role applies to all functions and services for which both St Edmundsbury and Forest Heath are responsible. This allows them unrestricted access to such records, assets, personnel and premises, including those of partner organisations, as necessary for the proper fulfilment of their responsibilities.

8. Quality of Service

- 8.1 Internal Audit operates in accordance with standards of best practice applicable to Internal Audit.
- 8.2 Internal review of work standards is undertaken through a system of managerial review involving the Internal Audit Manager. This incorporates a review of audit working papers and reports prior to issue and agreement of report to relevant management.
- 8.3 Opinions are canvassed from management responsible for activities under review to obtain their satisfaction with the Internal Audit service provided.
- 8.4 Performance indicators have been developed to monitor the quality of the service provided.
- 8.5 External audit assesses the work of the section annually and determines whether reliance can be placed on its work.
- 8.6 The Accounts and Audit Regulations 2006 introduced a requirement for authorities to 'conduct a review of the effectiveness of internal audit'. This is achieved through an annual review reported to Management Team and Audit Committee.

9. Internal Audit Resources

- 9.1 Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives, the CIPFA Code of Practice and the requirement of external audit. If a situation arises whereby the Internal Audit Manager concludes that resources are insufficient he / she must formally report this to the S151 Officer, Chief Executive Officer, and, if the position is not resolved, to the Audit Committee.
- 9.2 Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.
- 9.3 The Internal Audit Manager is responsible for appointing the staff of the Internal Audit Section and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.
- 9.4 The training and personal development needs of internal audit staff are identified through a review process and it is the responsibility of the Internal Audit Manager to ensure that staff receive the appropriate professional, technical and personal development training.

10. Fraud, Corruption and Bribery

- 10.1 Managing the risk of fraud, corruption and bribery is the responsibility of management. Internal Audit will assist management in the effective discharge of this responsibility, including investigating suspected frauds and irregularities where appropriate.
- 10.2 Audit procedures alone, even when performed with due professional care cannot guarantee that fraud, corruption and bribery will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud, corruption or bribery. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud, corruption or bribery.
- 10.3 The Internal Audit Manager must be informed of all suspected or detected fraud, corruption or improprieties so they may be considered in terms of the adequacy of the relevant internal controls, and be evaluated for the annual opinion on the control environment.
- 10.4 Any evidence or reasonable suspicions that an irregularity to funds, stores, property or records should be reported immediately. All cases will be dealt with in accordance with each Council's Constitution, Anti-Fraud and Anti-Corruption Strategy and Whistle Blowing Policy.

The Internal Audit Charter:

- will be reviewed each year to confirm it remains accurate and up to date; and
- any significant and necessary changes will be reported to the Audit Committees.

Jon Snares

Internal Audit Manager

March 2012