



Performance and Audit Scrutiny Committee 29 April 2013

West Suffolk Internal Audit Charter

1. Summary and reasons for recommendations

- 1.1 With effect from April 2013, the new United Kingdom Public Sector Internal Audit Standards apply across the whole of the public sector, and replace the Code of Practice for Internal Audit in Local Government in the United Kingdom. The new Standards are mandatory and are designed to be the foundation of effective internal audit.
- 1.2 The Standards require the Internal Audit Manager to formally define the purpose, authority and responsibility of Internal Audit in an Internal Audit Charter, and for the document to be subject to periodic review and presented to senior management and the 'board' for approval. In local government the 'board' is the audit committee and therefore this committee has responsibility for approving the Charter.
- 1.3 A review of the existing Internal Audit Charter has been undertaken which has resulted in a number of changes being made to ensure that it has taken full account of the new professional Standards. These changes do not significantly change Internal Audit's purpose, authority and principal responsibilities but instead represent a change in how these are expressed.
- 1.4 The revised Internal Audit Charter attached at Appendix A was approved with no amendments at Forest Heath DC's Performance and Audit Committee on 11 April 2013.

2. Recommendations

- 2.1 That Members approve the revised Internal Audit Charter.
- 2.2 That the Head of Resources and Performance be authorised, in consultation with the Portfolio Holder for Performance and Resources, to make any minor typographical, factual, spelling, grammatical and other minor changes to the Internal Audit Charter as set out at Appendix A, provided they do not materially affect the substance or meaning of the Charter.

Contact details

Name

Title

Telephone

E-mail

Portfolio holder

David Ray

Performance and Resources

01359 250912

david.ray@[stedsbc.gov.uk](mailto:david.ray@stedsbc.gov.uk)

Lead officer

Jon Snares

Internal Audit Manager

01284 757239

jon.snares@[stedsbc.gov.uk](mailto:jon.snares@stedsbc.gov.uk)

3. Corporate priorities

- 3.1 The recommendation meets the following, as contained within the Corporate Plan:

Corporate priority: *'working together for an efficient council'*.

4. Key issues

- 4.1 The Public Service Internal Audit Standards require the Internal Audit Manager to formally define the purpose, authority, and responsibility of Internal Audit in an Internal Audit Charter.
- 4.2 In addition, the Internal Audit Manager must periodically review the Charter and present it to senior management and the 'board' for approval. Within St Edmundsbury Borough Council the Performance and Audit Scrutiny Committee fulfils the functions of the 'board'.
- 4.3 Current Internal Audit provisions mirror those requirements as specified in the CIPFA Code of Practice for Internal Audit in Local Government and Statement and the Role of the Head of Internal Audit in Public Service Organisations (CIPFA). However, from April 2013 onwards, new mandatory Public Sector Internal Audit Standards came into force which superseded the CIPFA Code of Practice.
- 4.4 A review of the Internal Audit Charter was undertaken in March 2013 in readiness for the new Standards. This has resulted in changes being made to the existing Charter to ensure it conforms to the new professional Standards. These changes do not significantly change Internal Audit's purpose, authority and principal responsibilities but instead mainly represent a change in how these are expressed.
- 4.5 The main changes within the revised Charter are that all references to the CIPFA Code have been replaced with references to the new Standards and internal audit is now defined slightly differently, the definition contained within the new Standards being included at paragraph 2.1 of the revised Charter.

5. Other options considered

- 5.1 N/A

6. Community impact

- 6.1 **Crime and disorder impact** *(including Section 17 of the Crime and Disorder Act 1998)*

- 6.1.1 None arising directly from this report.

- 6.2 **Diversity and equality impact** *(including the findings of the Equality Impact Assessment)*

- 6.2.1 None arising directly from this report.

- 6.3 **Sustainability impact** *(including completing a Sustainability Impact Assessment)*

- 6.3.1 None arising directly from this report.

6.4 **Other impact** *(any other impacts affecting this report)*

6.4.1 None arising directly from this report.

7. **Consultation** *(what consultation has been undertaken, and what were the outcomes?)*

7.1 The Joint Leadership Team has been consulted on the content of this report.

8. **Financial and resource implications** *(including asset management implications)*

8.1 No direct implications arising from this report.

9. **Risk/opportunity assessment** *(potential hazards or opportunities affecting corporate, service or project objectives)*

Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
The purpose, authority and responsibility of Internal Audit may not be clearly and formally defined	Medium	Regular review and approval as necessary of an Internal Audit Charter which conforms to mandatory Standards	Low

10. **Legal and policy implications**

10.1 None arising directly from this report.

11. **Ward(s) affected**

11.1 All wards.

12. **Background papers**

12.1 Public Sector Internal Audit Standards.

13. **Documents attached**

13.1 Appendix A – Internal Audit Charter

Appendix A

CHARTER FOR INTERNAL AUDIT

1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIASSs) require that the purpose, authority and responsibility of internal audit must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.
- 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 is a formal document that defines the internal audit activity's purpose, authority and principal responsibilities. It establishes the internal audit activity's position within both councils, including the reporting lines of Internal Audit, access rights, and defines the scope of internal audit activities.

2. Purpose

- 2.1 Internal audit is an independent, objective assurance and consulting activity designed to add value and improve both councils' operations. It helps the councils accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 2.2 The internal control environment comprises the policies, procedures and operations established to ensure:
 - The achievement of priorities;
 - The appropriate assessment and management of risk;
 - The reliability of internal and external reporting and accountability processes;
 - Compliance with applicable regulations and laws;

- Compliance with the behavioural and ethical standards set for both councils;
 - Economic, effective and efficient use of resources;
 - Safeguarding of both councils' assets and interests; and
 - The prevention of fraud and corruption.
- 2.3 In practical terms, Internal Audit will undertake an examination of financial and non financial systems in order to advise management where internal control systems can be improved, and seek to promote compliance with corporate policies and procedures, and achievement of corporate priorities, through its systematic review of both councils' activities. This does not imply that all systems will be subject to review, but all will be considered as part of the annual risk assessment of auditable areas and hence for review, following the assessment of risk.
- 2.4 Internal Audit may undertake work for new customers by extending its services to third parties including other local authorities and other organisations. If assurances are to be provided to parties outside the organisation this will be agreed between the relevant parties, and may include providing an audit opinion on the area under review.

3. Responsibilities

- 3.1 Management are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their service, and that staff are aware of the processes and procedures required to operate the control systems.
- 3.2 The scope of internal audit applies to all functions and services for which each council is responsible. Internal Audit reviews, appraises and reports 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 a risk based Audit Plan which outlines assignments to be carried out and the resources and skills required to deliver the plan.
- 3.3 The Internal Audit Manager will share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts. Therefore, where services and other activities for which the councils are responsible or accountable are delivered through partnership or contract, an assessment will be made as to whether Internal Audit staff will undertake assurance work themselves, or may rely on the assurance provided by other auditors where this is already in existence.
- 3.4 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.

- 3.5 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 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.
- 3.6 The Internal Audit 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. The Internal Audit Manager will ensure that before any consultancy work is agreed, his staff have the appropriate skills and resource to undertake that work. The Internal Audit Manager will also ensure appropriate safeguards are in place to ensure objectivity in areas subject to future assurance activity. This may include assigning this work, as far as possible and for a reasonable period of time, to a different internal auditor to that carrying out the initial consultancy work, as appropriate.
- 3.7 In addition, Internal Audit may also undertake reviews and investigations into suspected irregularities or fraud, and carries out the financial appraisals of contractors.

4. Standards

- 4.1 There is a statutory requirement for Internal Audit to work in accordance with 'proper audit practices'. For this purpose Internal Audit will comply with the auditing standards as defined in the Public Sector Internal Audit Standards (PSIASs) which replace the Code of Practice for Internal Auditors in Local Government in the UK, the Accounts and Audit Regulations 2011 and any other relevant professional guidelines issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA).
- 4.2 The PSIASs encompass the mandatory elements of the IIA International Professional Practices Framework (IPPF) as follows:
- Definition of Internal Auditing
 - Code of Ethics, and
 - International Standards for the Professional Practice of Internal Auditing.

4.3 In addition, Internal Audit also complies with each council's rules and policies as well as external regulations and laws.

5. Relationships

5.1 Internal Audit is involved in a wide range of relationships and the quality of these relationships will impact on the quality of the internal audit function and the effective delivery of that function.

5.2 Internal Audit will maintain effective relationships with management. Regular meetings will be held with the Head of Resources and Performance (as the councils' S151 Officer) and senior management (Joint Leadership Team) also consulted in the annual audit planning process. Timing of audit work will be agreed in conjunction with management.

5.3 The Internal Audit Manager will also maintain an effective working relationship with members, in particular members of the audit committees (the 'board'). The annual Internal Audit Plan will be formulated in consultation with the audit committees, and approved by them around the start of the financial year. The Internal Audit Manager will have the opportunity to meet with the Chairs of the relevant audit committee if desired.

5.4 Internal Audit and External Audit will establish a relationship where they rely on each other's work, subject to the limits determined by their responsibilities (whereas Internal Audit's aim is to assist management the external auditors provide an independent opinion on the annual financial statements). The Internal Audit Manager will consult with the external auditors when drawing up the annual audit plan and will agree with them the overall audit approach to be adopted on fundamental systems audits where the external auditors will seek to place reliance on that work.

5.5 Internal Audit will also take account of the results and reports from any external inspections when planning and undertaking internal audit work.

5.6 Where it is necessary for Internal Audit to work with internal auditors of another local authority, the roles and responsibilities of each will be agreed with the necessary safeguards put in place to ensure they are clearly defined and understood.

6. Reporting

- 6.1 Internal Audit is part of the Resources and Performance Service. The Internal Audit Manager reports to the Head of Resources and Performance (as the councils' S151 Officer) but has direct access to the Joint Chief Executive, Directors, and the Chairs of the relevant audit committee and reports in his own name.
- 6.2 All audit activity is intended to assist management to fulfill 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.
- 6.3 Formal reports will communicate the findings of each audit review and encourage management to take prompt action where control weaknesses have been identified.
- 6.4 Recommendations made within audit reports will be 'tracked and followed up' in order to ascertain whether agreed actions have been implemented.
- 6.5 Progress reports of work undertaken, including a summary of key audit findings, will be provided regularly to each council's audit committee. The end of year report will provide a summary of the work of Internal Audit during the whole year, information on the performance of the section, and an opinion from the Internal Audit Manager on the standard of internal control and probity within each authority.
- 6.6 The Internal Audit Manager will also ensure that the Joint Chief Executive 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 Joint Chief Executive.

7. Independence, Objectivity and Accountability

- 7.1 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.
- 7.2 With the exception of the financial appraisal of contractors and suppliers wishing to undertake work for the councils, internal auditors have no operational responsibilities. Wherever possible, and necessary to ensure that independence is not compromised, operational duties will be avoided.
- 7.3 The Internal Audit Manager has direct, unrestricted access and freedom to report in his own name and without fear or favour to

senior management and members of the relevant audit committees.

- 7.4 Internal Audit must be free from interference in determining the scope of internal auditing, performing work and communicating results. There must be no compromise on the ability of Internal Audit to provide an independent assurance on the internal control framework.
- 7.5 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.

8. Proficiency and Due Professional Care

- 8.1 Internal Audit staff are bound by the four main principles of the CIPFA and CIIA Code of Ethics; (1) Integrity; (2) Objectivity; (3) Competence; and (4) Confidentiality.
- 8.2 Internal Audit staff must possess the knowledge, skills and other competencies needed to perform their individual responsibilities.
- 8.3 Internal audit staff must also ensure that they conduct work with due professional care applying the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care will be appropriate to the objectives, complexity, nature and materiality of the audit being performed.

9. Authority

- 9.1 Internal Audit's statutory authority is derived from Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2011.
- 9.2 Internal Audit's role applies to all functions and services for which both St Edmundsbury and Forest Heath are responsible. This allows them full, free and unrestricted access to such records, assets, personnel and premises, as necessary for the proper fulfilment of their responsibilities. For those council services provided under contracts and partnership arrangements, rights of access shall be incorporated within all relevant contract or service agreement documents involving council services as appropriate.
- 9.3 Internal Audit's rights of access are stipulated within each council's Constitution.
- 9.4 All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities.

10. Allocation of Resources and Skills Required

- 10.1 The Internal Audit service is provided in-house in partnership between St Edmundsbury Borough Council and Forest Heath District Council, through a shared service. It also works in partnership with other Suffolk councils, both County and districts, with the aim of reducing costs and maximising quality by for example sharing best practice and joint provision of training courses.
- 10.2 Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives, professional standards and the requirements of external audit. If a situation arises whereby the Internal Audit Manager concludes that resources are insufficient he must formally report this to the S151 Officer, Joint Chief Executive, and, if the position is not resolved, to the audit committee(s) as appropriate.
- 10.3 Internal auditors need to be properly trained to fulfill their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.
- 10.4 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.
- 10.5 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.

11. Quality of Service

- 11.1 Internal Audit operates in accordance with standards of good practice applicable to internal audit to ensure that a continuously effective level of performance is maintained. The Internal Audit Manager is responsible for developing and maintaining a quality assurance and improvement programme that covers all aspects of the internal audit activity, designed to gain assurance that the work of Internal Audit conforms with the Definition of Internal Auditing and the Standards and evaluate whether internal auditors apply the Code of Ethics. The programme should also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.
- 11.2 Internal review of work standards will be undertaken through a system of managerial review involving the Internal Audit Manager. This will incorporate a review of audit working papers and reports prior to issue and agreement of such reports to relevant management.

- 11.3 Opinions will be canvassed from management responsible for activities under review to obtain their satisfaction with the Internal Audit service provided.
- 11.4 Performance indicators will be developed and agreed with senior management and the relevant audit committees to monitor and evaluate the quality of the service provided.
- 11.5 External audit assesses the work of the section annually and determines whether reliance can be placed on its work.
- 11.6 The Internal Audit Manager will communicate to senior management and the audit committees at least annually on the internal audit activity's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments.

12. Fraud, Corruption and Bribery

- 12.1 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.
- 12.2 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.
- 12.3 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 evaluated for the annual opinion on the control environment.
- 12.4 Any evidence or reasonable suspicions that an irregularity to funds, stores, property or records has occurred should be reported immediately. All cases will be dealt with in accordance with each council's Constitution, Anti-Fraud and Anti-Corruption Strategy and the Joint Whistleblowing Policy.

13. Conclusion

- 13.1 This Charter describes the purpose, authority and principal responsibilities of the Internal Audit Service shared across West Suffolk. It is important that it is publicised and that the role of Internal Audit is understood.

13.2 Internal Audit needs to be able to react and adapt to the changes which are taking place locally and nationally. It is therefore important that the Charter is reviewed regularly to ensure that it is relevant to the demands and responsibilities of the service and to the corporate priorities of both councils.

13.3 The Internal Audit Charter will be reviewed each year to confirm it remains accurate and up to date; any significant and necessary changes will be reported to the audit committees.

Key Contact

Jon Snares (Internal Audit Manager)