



Governance & Audit Committee – 18 April 2016

Welland Internal Audit Consortium – Internal Audit Charter

Purpose of report

To seek committee approval of the Internal Audit Charter.

Attachment:

Appendix A: Internal Audit Charter

1.0 Background

1.1 The Public Sector Internal Audit Standards define the internal audit charter as ‘a formal document that defines the internal audit activity’s purpose, authority and responsibility. The internal audit charter establishes the internal audit activity’s position within the organisation, 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’.

2.0 Review of the Internal Audit Charter

2.1 The Head of Internal Audit has undertaken an annual review of the Internal Audit Charter to confirm that this remains fit for purpose and compliant with good practice and the Public Sector Internal Audit Standards. No material changes have been made to the document or audit approach following this review and a copy of the revised Charter is provided in Appendix A. The only minor changes proposed are as follows:

- To include a mission statement for the Consortium – ‘to enhance and protect East Northamptonshire Council’s organisational value by providing risk-based and objective assurance, advice and insight’;
- To amend the reference to the Audit Manager discharging some of the key roles of the Audit Executive, to reflect that these will usually be undertaken by the Head of Internal Audit but can be discharged by an Audit Manager as required (e.g. responsibilities of the Chief Audit Executive ‘are discharged by the Audit Manager’ changed to ‘can be exercised by an Audit Manager, if required’). This is to reflect some minor changes to management responsibilities which have been introduced as a result of the current management agreement with LGSS which requires these key tasks to be delivered by LGSS management and provides consistency across the consortium; and
- To amend all references to the Scrutiny Committee exercising the role of the ‘Board’ to the Governance and Audit Committee.

3.0 Important issues to consider

3.1 The Internal Audit Charter is designed to clarify the role and authority of the Internal Audit team in delivering the Audit Plan and providing assurances to the Governance and Audit Committee and management.

4.0 Equality and Diversity Implications

4.1 There are no equality and diversity implications arising from the report.

5.0 Legal Implications

5.1 There are no legal implications arising from the report.

6.0 Risk Management

6.1 There are no significant risks arising from the proposed recommendations in this report. The role of Internal Audit is, however, to provide assurance over the Council's governance, risk and control environment and, as such, an effective and fit for purpose Audit Charter should assist in the effective management of risk.

7.0 Resource and Financial Implications

7.1 There are no resource or financial implications arising from the report.

8.0 Constitutional Implications

8.1 The report does not require any amendment to the Council's Constitution.

9.0 Customer Service Implications

9.1 There are no customer service implications arising from the report.

10.0 Corporate Outcomes

10.1 Effective Management - The Internal Audit Charter is designed to clarify the role and authority of the Internal Audit team in delivering the Audit Plan and providing assurances to the Governance and Audit Committee and management.

11.0 Recommendation

11.1 The Committee is recommended to

- (1) Review and approve the Internal Audit Charter.

(Reason: To approve the internal audit activity's purpose, authority and responsibility within the organisation in accordance with the Public Sector Internal Audit Standards)

Legal	Power: It is a statutory requirement for Councils to have an Internal Audit function in accordance with the Local Government Act 1972.				
	Other considerations: Internal audit and the "Audit Committee" should also conform to the relevant professional guidance – the Public Sector Internal Audit Standards.				
Background Papers: None					
Person Originating Report: Rachel Ashley-Caunt, Head of Internal Audit, ☎ 07824 537900 ✉ rashley-caunt@rutland.gov.uk					
Date: 30 th March 2016					
CFO		MO		CX	

Internal Audit Charter

Purpose

This Charter formally defines the purpose, [mission](#), authority and responsibility of the Welland Internal Audit Consortium (the Consortium) within East Northamptonshire Council and outlines the scope of the Consortium's internal audit work.

The Audit Charter complies with the mandatory requirements of the Public Sector Internal Audit Standards (The Standards).

Definitions

The Standards set out the requirements of a 'Board' and of 'senior management'. For the purposes of the internal audit activity within East Northamptonshire Council, the role of the Board within the Standards is taken by the Council's [Scrutiny Governance and Audit](#) Committee and "senior management" is the Council's Corporate Management Team

The Standards define the responsibilities of the Chief Audit Executive. Save for some strategic issues reserved to the Head of Consortium, and marked [#] the responsibilities of the Chief Audit Executive [are can be](#) discharged by [the an](#) Audit Manager [for East Northamptonshire Council, if required](#).

Role

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2011, which state:

6.—(1) 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.

Also, The Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In East Northamptonshire Council, the Chief Finance Officer is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an 'adequate and effective internal audit service'.

Internal Audit is defined by the Public Sector Internal Audit Standards 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.'

Mission

[The Welland Internal Audit Consortium's mission is to enhance and protect East Northamptonshire Council's organisational value by providing risk-based and objective assurance, advice and insight.](#)

Professionalism

The Consortium will govern itself by adherence to the mandatory guidance published by Chartered Institute of Public Finance Accountants (CIPFA) and the Chartered Institute of Internal Auditors' (IIA) including the Definition of Internal Auditing, the Code of Ethics, and the Public Sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing within the public sector and for evaluating the effectiveness of the Consortium's performance.

The IIA's Practice Advisories, Practice Guides, and Position Papers and any corresponding publications from CIPFA will also be adhered to as applicable to guide operations.

In addition, the Consortium will adhere to East Northamptonshire Council's relevant policies and procedures and the Internal Audit Manual.

Authority

The Consortium's Auditors, with strict accountability for confidentiality and safeguarding records and information, are authorised full, free, and unrestricted access to any and all of the Council's records, physical properties, and personnel pertinent to carrying out any assignment.

All employees are requested and required to assist the Consortium in fulfilling its roles and responsibilities. This is enforced in the Accounts and Audit (England) Regulations 2011 section 6(2) which state that:

- 'Any officer or member of a relevant body must, if the body requires:*
- (a) make available such documents and records as appear to that body to be necessary for the purposes of the audit; and*
 - (b) supply the body with such information and explanation as that body considers necessary for that purpose'.*

For the purposes of internal audit activity, the Consortium's Audit Managers will also have free and unrestricted access to the Council's [Scrutiny Governance and Audit](#) Committee.

Organisation

The Head of Consortium reports functionally to the [Scrutiny Governance and Audit](#) Committee on items such as:

- Approving the Internal Audit Charter;
- Approving the risk-based Internal Audit Annual Plan;
- The Consortium's performance against the Plan and other matters;
- Approving the Head of Consortium's Annual Report;
- Approving the review of the effectiveness of the system of Internal Audit.

The Head of Consortium has direct access to the Chair of the [Scrutiny Governance and Audit](#) Committee and has the opportunity to meet with the [Scrutiny Governance and Audit](#) Committee in private.

The Council's Section 151 Officer will be Client Officer for the Consortium with responsibility for monitoring performance; ensuring adequacy of Internal Audit resources; and ensuring the Head of

Consortium's independence. Responsibility for line management of the Head of Consortium is vested in the Section 151 Officer of the Consortium's employing organisation – Rutland County Council.

The Welland Internal Audit Board – comprising the clients' Section 151 Officers - is responsible for oversight of the Consortium's performance in delivering the agreed level and quality of service commissioned by individual clients.

Independence, [integrity](#) and objectivity

In respect of its internal audit activities, the Consortium will remain free from interference by any element in the Council, including matters of audit selection, scope, procedures, frequency, timing, or report content, to permit maintenance of a necessary independent and objective mental attitude.

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 an 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. To achieve that outcome, the Head of Consortium[#] will ensure that, where an Auditor is recruited from a client local authority, they will not audit the area that they moved from for at least a period of one year. Auditors will also be required to state any possible conflicts of interest at the start of each audit assignment to their manager to ensure a completely independent and unbiased audit is carried out.

The Head of Consortium will confirm to the [Scrutiny Governance and Audit](#) Committee, at least annually, the organisational independence of the Consortium in respect of all internal audit activity.

Responsibility

The scope of internal audit encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council's governance, risk management, and internal control processes in relation to the Council's defined goals and objectives.

The Consortium is responsible for evaluating all processes (not just financial) of the Council including governance and risk management processes. It also assists the [Scrutiny Governance and Audit](#) Committee in evaluating the quality of performance of external auditors and ensures that there is a proper degree of co-ordination between the Consortium and the Council's External Auditors.

The Consortium may perform consulting and advisory services related to governance, risk management and control as appropriate for the Council. Approval must be sought from the [Scrutiny Governance and Audit](#) Committee for any significant additional consulting services not already included in the Annual Internal Audit Plan. The Consortium may also evaluate specific operations at the request of the [Scrutiny Governance and Audit](#) Committee or management, as appropriate: where requests from management have the potential to impact on the delivery of planned work, approval of the [Scrutiny Governance and Audit](#) Committee will be required.

Based on its activity, the Consortium is responsible for reporting significant risk exposures and control issues identified to the [Scrutiny Governance and Audit](#) Committee and to senior

management, including fraud risks, governance issues, and other matters requested by the [Scrutiny Governance and Audit](#) Committee.

Internal audit plan and resources

The Head of Consortium will submit to the [Scrutiny Governance and Audit](#) Committee, annually, a risk-based Internal Audit Annual Plan for review and approval. The report to Committee will include budget and resource requirements for the next financial year necessary for the delivery of the Plan. The Head of Consortium will communicate the impact of resource limitations and of significant interim changes to senior management and the [Scrutiny Governance and Audit](#) Committee.

The Internal Audit Annual Plan will be developed using a risk-based process that has been approved by the [Scrutiny Governance and Audit](#) Committee. The process will include input of senior management and the [Scrutiny Governance and Audit](#) Committee. Any significant deviation from the approved Internal Audit Annual Plan will be communicated through the periodic activity reporting process.

The Head of Consortium[#] will carry out a continuous review of the development and training needs of all of the Consortium's personnel as part of the Consortium's Quality Assurance and Improvement Programme, and will arrange appropriate training.

[Effective communication, reporting and monitoring](#)

A written report will be prepared and issued by the Head of Consortium or designee following the conclusion of each audit assignment and will be distributed in line with the Council's reporting processes. The outcome of each assignment will also be communicated to the [Scrutiny Governance and Audit](#) Committee in the manner determined by the Committee.

The Internal Audit reports will include management's response and a record of corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response will include a timetable for anticipated completion of agreed action to be taken and an explanation for decision not to take action to address a control weakness identified in the report.

The Consortium will be responsible for monitoring the timely implementation of agreed audit recommendations and will report to the Council's Senior Management Team and the [Scrutiny Governance and Audit](#) Committee on progress achieved.

The Head of Consortium will produce an annual Internal Audit Opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control. The Head of Consortium Opinion will contribute to the Council's review of the effectiveness of its control environment as required under the Accounts and Audit (England) Regulations 2011.

Periodic assessment

The Head of Consortium[#] is responsible also for providing a periodic 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 Head of Consortium[#] will communicate to senior management and the [Scrutiny Governance and Audit](#) Committee on the Consortium's Quality Assurance and Improvement

Program, including results of on-going internal assessments and external assessments conducted at least every five years as required by the Standards.

Approval

The Head of Consortium[#] will be responsible for the annual review of the Charter for subsequent approval by the Council's [Scrutiny Governance and Audit](#) Committee.