



# Audit Committee

23 September 2013

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| <b>Report Title</b>                            | Internal Audit Charter                                    |  |
| <b>Classification</b>                          | Public  |  |
| <b>Cabinet Member with Lead Responsibility</b> | Councillor Andrew Johnson<br>Cabinet Member for Resources |  |
| <b>Accountable Strategic Director</b>          | Keith Ireland, Delivery                                   |  |
| <b>Originating service</b>                     | Delivery/Audit  |  |
| <b>Accountable officer(s)</b>                  | Peter Farrow<br>Tel<br>Email                              | Head of Audit<br>01902 55(4460)<br>peter.farrow@wolverhampton.gov.uk |

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## **Recommendation(s) for action or decision:**

The Committee is recommended to:

1. Review and approve the Internal Audit Charter. The Charter is based on the previous terms of reference, and has been updated to reflect the requirements of the new Public Sector Internal Audit Standards.

## **1.0 Purpose**

- 1.1 There is a statutory requirement for Internal Audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the new 'Public Sector Internal Audit Standards'. The Internal Audit Charter reflects this, and replaces the previous Internal Audit terms of reference. The Charter, which needs approving by the Committee, is a formal document that defines the activity, purpose, authority and responsibility of Internal Audit, and establishes its position within the Council.

## **2.0 Background**

- 2.1 The terms of reference for Internal audit, were originally prepared in line with the example originally given in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 and were approved by the Audit Committee in March 2012. From 1 April 2003 the CIPFA Code has been replaced by new Public Sector Internal Audit Standards. Therefore, the terms of reference have been updated to reflect these new standards, and brought into an Internal Audit Charter.

## **3.0 Progress, options, discussion, etc.**

- 3.1 Once approved the Internal Audit Charter will be subject to annual review by the Audit Committee.

## **4.0 Financial implications**

- 4.1 There are no financial implications arising from this report. (GE/05092013/D)

## **5.0 Legal implications**

- 5.1 There are no legal implications arising from this report. (JH/05092013/Z)

## **6.0 Equalities implications**

- 6.1 There are no equalities implications arising from this report.

## **7.0 Environmental implications**

- 7.1 There are no environmental implications arising from this report.

## **8.0 Human resources implications**

- 8.1 There are no human resources implications arising from this report.

## **9.0 Schedule of background papers**

- 9.1 Public Sector Internal Audit Standards

# Internal Audit Charter

## Definition of internal auditing

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.

## Authority and standards

There is a statutory requirement for Internal audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards' These Standards are mandatory and have been adopted by the Council's internal audit section.

Internal audit is a statutory service in the context of the Accounts and Audit Regulations (Amendment)(England) 2011, which states 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'.

In the Council's Financial Procedure Rules, the Section 151 Officer has the responsibility to ensure that an adequate and effective internal audit of all Council activities is carried out in accordance with the most recent CIPFA Statements on Internal Audit Practice and relevant legislation.

Internal audit have the right of access to all records, assets, personnel and premises, including those of partner organisations, and has the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.



Public Sector Internal  
Audit Standards

Applying the IA International Standards to  
the UK Public Sector

Throughout the Public Sector Internal Audit Standards, reference is made to the terms 'Chief Audit Executive', 'board' and 'senior management'. For the purposes of this Charter, the 'Chief Audit Executive' is defined as the Head of Audit the 'board' as the Audit Committee and 'senior management' as the Strategic Executive Board.

## Scope and objectives of internal audit activities

The scope of work of internal audit is to determine whether the Council's risk management, control, and governance processes are adequate and effective in order to ensure that:

- Key risks are identified and managed;
- Key financial, managerial, and operating information is accurate, reliable, and timely;
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the Council's control process; and
- Key legislative and regulatory issues impacting the Council are identified and addressed appropriately.

Internal audit's remit extends to the entire control environment of the Council and not just financial controls.

Where other internal or external assurance providers may have undertaken relevant assurance and audit work, internal audit will seek to rely on the work of these other assurance providers where professional standards would make it appropriate to do so.

### **Responsibilities**

Internal audit has a responsibility to:

- Provide a cost effective and value added full internal audit service;
- Develop a flexible annual audit plan using a risk-based methodology;
- Implement the annual audit plan;
- Track status of outstanding management actions;
- Provide regular updates on the work of internal audit to the Audit Committee and where appropriate, senior officers;
- Assist, as needed, in the investigation of significant suspected fraudulent activities within the organisation; and
- Work with the External Auditor and other review bodies to share assurance and minimise duplication.

### **Organisational independence**

Internal audit is involved in the determination of its priorities in consultation with those charged with governance. The Head of Audit has direct access and freedom to report in his own name to all officers and councillors and particularly to those charged with governance. If required the Head of Audit may request to meet privately with the Audit Committee.

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.

Objectivity is presumed to be impaired when individual auditors review any activity in which they have previously had operational responsibility. If individual auditors are extensively consulted during system, policy or procedure development, and independence could be seen as being compromised, or if they have had previous operational roles, they will be precluded from reviewing and making comments during routine or future audits, for the remainder of that financial year and for the following financial year after their involvement.

### **Accountability, reporting lines and relationships**

Internal audit forms part of the Delivery Directorate. The Head of Audit reports on an administrative basis to the Strategic Director of Delivery (who is also the Monitoring Officer) and reports functionally to the Audit Committee, the Chief Executive and other senior management, including the Section 151 Officer. An Annual report will also be produced and presented to the Audit Committee which will include an 'opinion' from the Head of Audit on the adequacy and effectiveness of internal control, risk management and governance within the Authority.

A written report will be prepared by Internal Audit for every internal audit review. The report will be subject to an internal quality review before being issued to the responsible officer and, where appropriate, will include an 'opinion' on the adequacy of controls in the area that has been audited. The responsible officer will be asked to respond to the report in writing. The written response must show what actions have been taken or are planned in relation to each

recommendation. Accountability for the response to the advice and recommendation of Internal Audit lies with management, who either accept and implement the advice or formally reject it. The full role and responsibilities of the Audit Committee are detailed in their terms of reference, which are based on the model provided by CIPFA in their “Audit Committees – Practical Guidance for Local Authorities”.

### **Internal audit resourcing**

Internal audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience. Internal auditors need to be properly trained to fulfill their responsibilities and should maintain their professional competence.

The Strategic Director of Delivery/Monitoring Officer is responsible for the appointment of the Head of Audit, who must be suitably qualified and experienced. The Head of Audit is responsible for appointing all of the other staff to internal audit and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.

The Head of Audit is responsible for ensuring that the resources of internal audit are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby it was concluded that resources were insufficient, this must be formally reported to the Strategic Director of Delivery, and, if the position is not resolved, to the Audit Committee.

### **Fraud**

Managing the risk of fraud is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal audit does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Internal audit may be requested by management to assist with fraud related work.

It is a requirement of the Council’s Anti-Fraud and Corruption Policy that any concerns over suspected fraud and corruption should be raised initially with the Head of Audit Services. Internal audit will then control any such investigations.

### **Advisory work**

The Public Sector Internal Audit Standards allow that internal audit effort may, where considered to have the right skills, experience and available resource, sometimes be more usefully focused towards providing advice rather than assurance over key controls. Any such internal audit involvement in consultancy and advisory work, would only take place where it would not constitute a conflict of interest in keeping an independent stance. Any significant additional consulting services will be approved by the Audit Committee beforehand.

### **Review of the internal audit charter**

This charter will be reviewed annually by the Head of Audit Services and the Audit Committee.