

ISLE OF ANGLESEY COUNTY COUNCIL	
<b>Report to:</b>	Audit and Governance Committee
<b>Date:</b>	21 September 2017
<b>Subject:</b>	Internal Audit Charter
<b>Head of Service:</b>	Marc Jones, Head of Function (Resources) / S151 Officer 01248 752601 <a href="mailto:MarcJones@ynysmon.gov.uk">MarcJones@ynysmon.gov.uk</a>
<b>Report Author:</b>	Marion Pryor, Head of Audit and Risk 01248 752611 <a href="mailto:MarionPryor@ynysmon.gov.uk">MarionPryor@ynysmon.gov.uk</a>
<b>Nature and Reason for Reporting:</b> The Public Sector Internal Audit Standards require the chief audit executive to produce an Internal Audit Charter, which the Audit and Governance Committee must approve. Although not due for review until April 2018, changes to the role of the chief audit executive have necessitated an amendment to the charter.	

## 1. Introduction

- 1.1. The Public Sector Internal Audit Standards provides guidance on the content of the internal audit charter. The Standards recommend that it is a formal document that defines the internal audit activity's purpose, authority and responsibility. It establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's (Head of Audit and Risk) functional reporting relationship with the board (Audit and Governance Committee); authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.
- 1.2. The chief audit executive is responsible for periodic review of the charter, with final approval of the charter residing with the Audit and Governance Committee.
- 1.3. The charter was last reviewed and approved by the Audit and Governance Committee in April 2015 and was not due for review until April 2018. However, the role of the Head of Audit and Risk changed with effect from 1 April 2017, to include responsibility for risk management and insurance activities. The PSIAS requires that the charter describes the safeguards to limit impairments of independence or objectivity if internal audit or the chief audit executive undertakes non-audit activities. Therefore, the charter has been updated and amended to include these safeguards.

## **2. Recommendation**

- 2.1. That the Audit and Governance Committee approves the Internal Audit Charter, which includes the safeguards to limit impairments of independence or objectivity which may be caused by the chief audit executive undertaking non-audit activities, namely responsibility for risk management and insurance.

# Internal Audit Charter

September 2017

Author	Marion Pryor BA MA CMIIA CPFA, Head of Audit & Risk
Review date	September 2017
Approval date	
Approved by	Audit and Governance Committee
Next review date	September 2020

## Why do we need a Charter?

1. The Public Sector Internal Audit Standards<sup>1</sup> (PSIAS) define the nature and set out basic principles for internal auditing in the UK public sector.
2. The Standards require the chief audit executive to define the purpose, authority and responsibility of the internal audit activity in an internal audit charter. Chief audit executives are also required to report conformance with the PSIAS in their annual report. Final approval of the Internal Audit Charter rests with the Audit & Governance Committee.
3. The internal audit charter establishes:

Internal audit's purpose and position within the Council
Internal audit's authority
The nature of the chief audit executive's relationship with senior management and the board
Authorisation for internal audit to access records, personnel and physical properties relevant to the performance of its work
The scope of internal audit's work, including the nature of its assurance role and consultancy services
The role of internal audit in fraud-related work
Arrangements for resourcing the internal audit service
The safeguards to limit impairments of independence or objectivity

4. The PSIAS use generic terms that, in the Isle of Anglesey County Council's case, are translated as:

Public Sector Internal Audit Standards	Isle of Anglesey County Council
Chief audit executive	Head of Audit & Risk
Senior management	Head of Function (Resources) / Section 151 Officer and Strategic Leadership Team
The board	Audit & Governance Committee

<sup>1</sup> Public Sector Internal Audit Standards, Issued by the Relevant Internal Audit Standard Setters, March 2017

## What is Internal Audit's purpose and position?

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5. A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.
6. The provision of assurance services is the primary role for internal audit. Through our annual internal audit opinion and other reports, we give assurance to elected members and management, highlighting areas for improvement.
7. The PSIAS define internal audit as:

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*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.*

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8. Our role is unique; it provides effective challenge and acts as a catalyst for positive change and continual improvement in governance in all its aspects. Our role is particularly important when the Council is facing uncertain and challenging times.
9. To provide optimum benefit to the organisation, we work in partnership with management to assist the organisation in achieving its objectives.
10. Our main objectives are to:
  - Provide independent assurance and advice to management and elected members on risk management, governance and internal control
  - Develop and promote our role to make a significant contribution to the Council's priority to modernise and deliver efficiencies and improve services for our customers
  - Add value in all areas of our work, providing excellent service to our customers.

## What is Internal Audit's authority?

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11. Internal audit is a statutory requirement for local authorities and obtains its authority and obligations from two pieces of legislation:

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Section 5 of the Accounts and Audit (Wales) Regulations 2015 states that *“a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”*

Section 151 of the Local Government Act 1972 requires every authority to make arrangements for the administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs. CIPFA has defined *‘proper administration’* in that it should include *‘compliance with the statutory requirements for accounting and internal audit’*.

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12. The Council's Financial Procedure Rules provide for the maintenance of a continuous internal audit under independent supervision, overseen by the Council's Audit & Governance Committee, and subject to professional audit standards (4.8.5.3.1).
13. In maintaining the continuous internal audit activity, the chief audit executive takes account of the mandatory elements of the PSIAS:
- Core Principles for the Professional Practice of Internal Auditing,
  - Code of Ethics,
  - Standards and
  - Definition of Internal Auditing.

## What is the nature of the chief audit executive's relationships?

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### Reporting, Accountability and Independence

14. The Standards require that the chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities; reporting to the board or its delegated equivalent is the generally accepted method of helping to ensure that organisational independence is attained.

15. The Head of Audit and Risk has direct access to the Audit and Governance Committee and is free to report directly to any member of the senior leadership team or head of service.
16. Although functionally reporting to the Head of Function (Resources) / Section 151 Officer, the Head of Audit and Risk has direct access to the CEO and Monitoring Officer, which is provided for in the Council's Financial Procedure Rules (4.8.5.3.5).
17. These extended reporting lines provide internal audit with sufficient independence of the activities that it reviews to enable its auditors to perform their duties objectively, allowing them to make impartial and effective professional judgements and raise issues for improvement.
18. The Head of Function (Resources) / Section 151 Officer annually appraises the Head of Audit and Risk's performance with input and feedback from the CEO and Chair of the Audit and Governance Committee. This ensures that the Head of Audit and Risk's opinion and scope of work cannot be limited or affected by her functional line management position within the Council.

### **Internal Audit Strategy**

19. The Head of Audit and Risk prepares the internal audit strategy and annual plan in consultation with the Head of Function (Resources) / Section 151 Officer and senior management.
20. The Head of Audit and Risk presents these annually to the Audit and Governance Committee for approval. In-year revisions are provided to the Audit and Governance Committee as part of the update report presented at each meeting.

### **Assignment Reporting**

21. The Internal Audit Service is fully committed to the Council's Welsh Language policy. Reporting is bilingual wherever possible and the Internal Audit Service includes a majority of bilingual staff who can undertake reviews in the language of choice of those assisting with reviews.
22. All audit reviews are the subject of formal reports. Debrief meetings are held with the managers responsible for the area under review to agree the factual accuracy of the issues and risks raised.
23. After agreement, draft reports are issued to the relevant manager who records the action that will be taken to address the issues / risks raised and the officers assigned responsibility to implement along with timescales for implementation. Once the action plan has been fully completed and agreed with the auditor, a final report is issued.
24. The Head of Audit and Risk provides a copy of every report to the Head of Function (Resources) / Section 151 Officer and presents a summary of each report to the Audit and Governance Committee at each meeting.

25. Members of the Audit and Governance Committee will also receive copies of any reports receiving a '*Limited*' or '*Minimal*' assurance rating.

## Assurance Rating

26. We provide an opinion on the overall level of assurance for each individual internal audit assignment. In reaching a conclusion, we use the following definitions:

Level of Assurance	Definition	Management Intervention
<b>Substantial Assurance</b>	Arrangements for governance, risk management and internal control are <b>good</b> . No significant or material errors were found.	No or only low impact management action is required. Findings, which are easily addressed by line management.
<b>Reasonable Assurance</b>	Arrangements for governance, risk management and/or internal control are <b>reasonable</b> . Some inconsistency in application and opportunities still exist to mitigate against further risks.	Management action of moderate to low impact is required. Findings are containable at service level.
<b>Limited Assurance</b>	Arrangements for governance, risk management and internal control are <b>limited</b> . There are gaps in the process that leave the service exposed to risks. Objectives are not being met or met without achieving value for money.	Management action of high to moderate impact is required. Findings that need to be resolved by heads of service and SLT may need to be informed.
<b>Minimal Assurance</b>	Arrangements for governance, risk management and internal control are <b>significantly flawed</b> . Key controls are considered insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls and errors and omissions have been detected.	High impact management action is required in a number of areas. Weaknesses in control that require the immediate attention of SLT, with possible Executive intervention.

## Follow Up

27. Internal audit maintains an electronic recommendation tracking system for all recommendations and, more recently, issues / risks raised. The Head of Audit and Risk regularly reports management performance in addressing the risks to the Head of Function (Resources) / Section 151 Officer and the Audit and Governance Committee.



## Annual Internal Audit Opinion

28. The Head of Audit and Risk presents an annual internal audit opinion and report to the Audit and Governance Committee that can be used by the Council to inform its governance statement.
29. The annual internal audit opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
30. The annual report also includes a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

## External Audit

31. The Standards recognise that whilst the appointed external auditors have different statutory obligations, there are clear benefits to the Council in ensuring that internal and external audit maintain a good working relationship. The most obvious benefit is reducing duplication of work and to this end, the Head of Audit and Risk maintains regular communication with the external auditors.

## What are internal audit's rights of access?

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32. The Council's Financial Procedure Rules (4.8.5.3.2) provide for internal audit's rights of access, providing the service with authority to:
  - enter at all reasonable times Council premises, land or contract sites;
  - have access to all records, documents or correspondence relating to any financial and other transactions of the Council;
  - require and receive such explanations as are necessary from employees of the Council;
  - require employees of the Council to produce cash, stores or any other property of the Council under their control for examination.

## What is the scope of internal audit's work?

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33. The internal audit service is proactive and innovative, constantly aiming to improve. We have a customer-focused approach to audit planning, project scoping and service delivery, involving elected members, senior management and operational staff.
34. Our strategy takes account of the corporate risk register and other assurances that the Council may receive, internal or external, to prevent duplication and co-ordinate regulatory work. It also takes account of discussions with senior management.

35. Our work provides a risk-based approach that allows the Head of Audit and Risk to form and evidence her opinion on the control environment to support the Council's Annual Governance Statement.
36. Internal Audit may occasionally provide guidance and advice, e.g. on new systems or may help to develop new processes using our specific skills. Services may also occasionally ask us to carry out specific projects on a consultancy basis. On these occasions, we make it clear from the outset that we are working on a consultancy basis rather than internal audit basis and are not giving audit assurance on these occasions.

## **What is internal audit's role in fraud-related work?**

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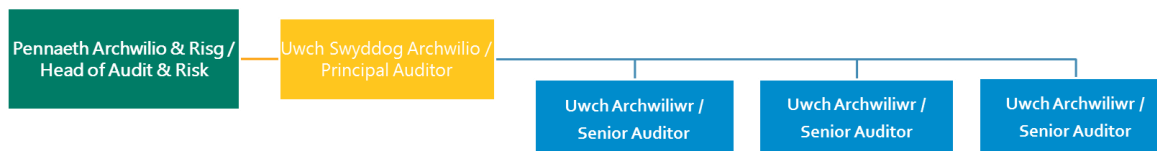
37. Internal audit is not responsible for managing the risk of fraud – this lies with the Council's senior management.
38. The Council's policy for the Prevention of Fraud and Corruption requires managers to inform the Head of Audit and Risk of all suspected or detected fraud, corruption or impropriety, to inform her opinion on the internal control environment and internal audit's work programme, as well as to allow her to ensure the Council takes appropriate action.
39. Although internal audit carries out proactive projects to identify potential fraud and/or corruption and can carry out special investigations into alleged irregularities, the Head of Audit and Risk retains the right to decide on an appropriate course of action, which may mean a joint investigation or investigation by the service. However, management should send the outcome of all investigation activities to the Head of Audit and Risk for inclusion in a report on fraud investigations to be made within the Internal Audit Annual Report.
40. Where it is thought necessary, the external auditor may conduct investigations, either in liaison with internal audit or independently.

## **What resources does internal audit have?**

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41. The service structure below has all posts currently filled, which equates to 1,250 days, after allowing for the Head of Audit and Risk's non-audit duties (risk management and insurance).
42. We have a well-qualified and experienced team, with a mix of relevant qualifications to reflect the varied functions of the internal audit service.

## Internal Audit (September 2017)



43. The Audit and Governance Committee annually reviews the resources of the internal audit service through the acceptance of the internal audit strategic and operational plans.
44. Where particular specialisms are not present, the Head of Audit and Risk will source these from outside the Council where resources are available.
45. The Standards require that internal auditors must enhance their knowledge, skills and other competencies through continuing professional development. The Head of Audit and Risk carries out a regular review of the development and training needs of all auditors through ongoing one-to-one supervision and annual appraisals.

### What are the safeguards to limit impairments of independence or objectivity?

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46. To be effective, internal audit must be independent and be seen to be independent. To ensure this, internal audit will operate within a framework that allows:
- unrestricted access to senior management and the chair of the Audit and Governance Committee
  - reporting in its own name
  - segregation from line operations.
47. Every effort will be made to preserve objectivity by controlling the involvement of audit staff in non-audit duties in order to avoid potential conflicts of interest, specific exceptions are however acceptable in respect of participation in service improvement projects, where a '*critical friend*' role will be held.
48. In addition, appropriate arrangements have been put in place to limit the impairment of independence and objectivity due to the Head of Audit and Risk's line management of the Risk Management and Insurance service. The

Head of Audit and Risk will not scope or review internal audit activity relating to this service area. The Head of Function (Resources) / Section 151 Officer will sign off reports.

49. All members of the internal audit service are required to comply with the PSIAS, including its Code of Ethics. In addition, all auditors sign an annual declaration stating that we will respect the confidentiality of information we access during our work, declare any interests we may have in any services that we review, and have read the PSIAS, Code of Ethics and Council's Code of Conduct for Officers.

50. All internal auditors must:

- Work with others to promote and demonstrate the benefits of good governance throughout the Council
- Promote the highest standards and ethics across the Council based on integrity, objectivity, competence and confidentiality
- Exercise sound judgement in identifying weaknesses in the Council's control environment and provide a balanced view on how significant these are
- Be committed to continuous improvement
- Demonstrate integrity
- Report on what is found, without fear or favour
- Give clear, professional and objective advice
- Hold an appropriate qualification and have an active programme for personal professional development.

51. In addition, the Head of Audit and Risk must:

- Be a senior manager with regular and open engagement across the Council, particularly with senior management and the Audit and Governance Committee
- Be suitably qualified and experienced
- Give assurance on the control environment, including risk and information management and internal controls across the Council
- Produce an evidence-based annual internal audit opinion on the Council's control environment, reflecting the work done during the year and summarising the main outcomes and conclusions, highlighting any specific concerns
- Liaise closely with the Council's external regulators to share knowledge and use audit resources most effectively
- Determine the resources, expertise, qualifications and systems for the internal audit service that are required to meet its objectives and provide an annual audit opinion.