

ISLE OF ANGLESEY COUNTY COUNCIL

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| COMMITTEE: | AUDIT COMMITTEE |
| DATE: | 27 APRIL 2015 |
| TITLE OF REPORT: | INTERNAL AUDIT CHARTER – |
| PURPOSE OF REPORT: | REVIEW AND APPROVAL OF REVISED CHARTER |
| REPORT BY: | AUDIT MANAGER |
| ACTION: | FOR COMMITTEE APPROVAL |

1. INTRODUCTION

- 1.1 The Internal Audit Service is required under the Public Sector Internal Audit Standards to produce and have approved by the Audit and Governance Committee an Internal Audit Charter.
- 1.2 The purpose of the Charter is to define the Internal Audit Services activities, purpose, authority and responsibility. The Internal Audit Charter establishes the Internal Audit Services position within the organisation, including the nature of the Audit Manager's functional reporting relationship with the 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.
- 1.3 The Audit Manager is required to periodically review the Internal Audit Charter and present it to senior management and the Audit and Governance Committee for approval. The PSIAS require that final approval of the Internal Audit Charter resides with the 'board' (Audit and Governance Committee).

2. ACTION REQUIRED

- 2.1 Attached to this report is a reviewed and updated draft Internal Audit Charter for the Committee's consideration and formal approval.
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| Title: | ISLE OF ANGLEEY COUNTY COUNCIL INTERNAL AUDIT CHARTER |
| Last Reviewed: | AUDIT COMMITTEE – 27 APRIL 2015 |
| Next Review Due: | AUDIT COMMITTEE – APRIL 2018 |
| Author: | AUDIT MANAGER |

1 Introduction

- 1.1 Internal Audit is a statutory independent review function, covered by the Accounts and Audit Regulations (Wales) 2014. It is set up within **the Deputy Chief Executive's Department** as a service to the Council and all levels of management. The role of Internal Audit includes providing support to the Head of Function (Resources), the “responsible officer” (Section 151 officer under the Local Government Act 1972), in meeting their statutory responsibilities for the proper administration of financial affairs. Its role also includes providing assurance on risk management, governance and control to the senior management and Members of the Council.
- 1.2 The Account and Audit Regulations (Wales) 2014 require that a local government body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices.
- 1.3 The Council has adopted the Public Sector Internal Audit Standards (PSIAS) which include the need for an Internal Audit Charter and details the necessary contents of such a Charter for a Local Government Body. This Internal Audit Charter document is designed to meet that requirement.
- 1.4 The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.
- 1.5 The Standards assign responsibility for and ownership of the Internal Audit Charter with the organisation. PSIAS 1000 requires the Chief Audit Executive (in the case of Anglesey County Council – The Audit Manager) to review the charter periodically but final approval resides with the ‘board’ (in the case of the Anglesey County Council – the Audit Committee).

2 Purpose of the Internal Audit Charter

- 2.1 The Public Sector Internal Audit Standards set out the purpose of 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. Final approval of the internal audit charter resides with the board."

3 Definition of Internal Audit

3.1 The Public Sector Internal Audit Standards define Internal Audit as follows:

"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."

3.2 The PSIAS state that to provide optimum benefit to the organisation, internal audit should work in partnership with management to improve the control environment and assist the organisation in achieving its objectives. The Standards suggest that this partnership must operate in such a way as to ensure that legal requirements and those of the PSIAS are met.

3.3 The PSIAS also state that Internal Audit provides an independent and objective opinion to the organisation on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. It may also undertake consulting services at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources.

4 Roles and Responsibilities

4.1 The Standards include reference to various responsible officers and bodies with reference to roles and responsibility for Internal Audit. The main officers and bodies are detailed below along with the role and responsibilities assigned to them within the Standards and the corresponding officer or body assigned these responsibilities within Anglesey County Council.

4.2 **'Board' and 'Audit Committee'** – the board is defined as: *'The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. The term 'Board' may refer to an audit committee to which the governing body has delegated certain functions.'*

The Anglesey County Council has delegated to its Audit and Governance Committee in its terms of reference contained with the Council's Constitution responsibility for;

"ensuring; that the authority has a sound system of internal control which facilitates the effective exercise of functions and which includes arrangements for the management of risk and adequate and effective financial management." (IoACC Constitution – Audit and Governance Committee Terms of Reference)

4.3 **'Chief Audit Executive'** – The officer responsible for implementing overseeing and managing the Internal Audit function. The PSIAS (Standard 1210 Proficiency) require that the Chief Audit Executive must hold a professional qualification (CMIIA, CCAB or

equivalent) and be suitably experienced. Within the Anglesey County Council this role is undertaken by the Audit Manager.

4.4 **'Senior Management'** – the Standards require that 'senior management' must be interpreted in the context of the governance arrangements within each individual organisation. Within the Anglesey County Council senior management is considered to be the members of the **Senior Leadership Team and the Heads of Service**. In terms of direct reporting of the results of internal audit work these will be reported to the relevant operational line manager and Head of Service where appropriate. Copies of all Internal Audit reports are copied to the Section 151 Officer. The Chief Audit Executive also **meets regularly with the Deputy Chief Executive** to discuss risk, governance and control issues. The Chief Audit Executive is also free to report directly to any member of the Senior Leadership Team or Heads of Service including the Chief Executive and the Monitoring Officer.

4.5 **Internal Audit Plans** - The production of the Internal Audit Operational and Strategic Plans is the responsibility of the Chief Audit Executive but is in practice undertaken in liaison with, and with the invited input from senior management.

The Internal Audit Operational Plan and Strategic Plan are presented annually to the Audit Committee to be adopted. Updates against the Operational Plan are provided to each meeting of the Audit Committee as part of the Internal Audit Progress Report written and presented by the Audit Manager.

5 Purpose of Internal Audit

5.1 The role of Internal Audit is to understand and to provide assurances that the key risks of Council are being adequately mitigated and to examine and evaluate the adequacy and effectiveness of the system of internal control, governance and risk management as operated in all areas of the Council. The Internal Audit Service reviews, appraises and reports on:

- the adequacy and effectiveness of the systems of financial, operational and management control and their operation in practice in relation to the business risks to be addressed;
- The extent of compliance with and relevance of, policies, standards, plans and procedures established by the Council and the extent of compliance with external laws and regulations, including reporting requirements of regulatory bodies;
- The extent to which the assets and interests are acquired economically, used efficiently, accounted for and safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, poor value for money, fraud or other cause, and that adequate business continuity plans exist;
- The suitability, accuracy, reliability and integrity of financial and other management information and the means used to identify, measure, clarify and report such information;
- The integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud and loss of all kinds; and that the process aligns with the Council's strategic goals;

- The follow-up action taken to remedy weaknesses identified by Internal Audit review, ensuring that good practice is identified and communicated widely;
- The operation of the Council's corporate governance arrangements;
- The potential within the Council for fraud and other violations through the analysis of systems of control in high-risk operations.

The department also investigates fraud and irregularity in terms of:

- The undertaking of investigations into reports of violations of the Council's regulations or criminal activities i.e. fraud against the Council;
- The undertaking of investigations of reports from staff, other persons engaged in activities on behalf of the Council and members of the public, reporting perceived cases of possible violations of rules or regulations, mismanagement, misconduct, or fraudulent abuse of authority.

5.2 Where it is thought necessary, External Audit may conduct investigations, either in liaison with Internal Audit or independently.

6 Independence

6.1 The Standards require that Reporting and management arrangements must be put in place that preserve the Chief Audit Executive's independence and objectivity, in particular with regard to the principle that the Chief Audit Executive must be independent of the audited activities. The Standards also require that organisations must ensure that the Chief Audit Executive's independence is protected so that conflicts of interest, real or perceived, are avoided.

6.2 Therefore within the Anglesey County Council Internal Audit is independent of the activities that it audits to ensure the unbiased judgements essential to its proper conduct and the provision of impartial advice to senior management.

6.3 To ensure independence, Internal Audit operates within a framework that allows:

- unrestricted access to all activities undertaken in the Council.
- unrestricted access to all functions, records, assets, personnel, and premises with authority to obtain such information and explanations as it considers necessary to fulfil its role. (In very exceptional circumstances if the "responsible officer" (Section 151 Officer) and Monitoring Officer believe this would constitute a breach of the laws of confidentiality, or the provisions of the Human Rights Act or the Data Protection Act the matter will be referred to the Audit and Governance Committee for consideration.)
- full and free access to the Audit and Governance Committee via the Audit Manager;
- unrestricted access to senior management, Members and all employees;
- the issue of audit reports in its own name;

- segregation from line operations.

6.4 Every effort is made to preserve objectivity by ensuring that all members of the Internal Audit Service are free from any conflicts of interest and do not undertake any non-audit duties. All Internal Audit activity is carried out in accordance with the PSIAS and the Council's Financial Regulations.

7 Counter Fraud Role

- 7.1 The Audit Manager is required to manage the provision of a complete audit service to the Council that includes risk based, systems, regularity, computer and contract audit in addition to the investigation of fraud and irregularity:
- 7.2 Counter fraud work involves in the first instance ensuring that whilst reviewing systems adequate controls are present to prevent, detect and report fraud at a Service level.
- 7.3 When allegations of irregularity and / or fraud are reported Internal Audit is responsible for investigating those irregularities and frauds alleged to have been perpetrated by employees of the Council or by others against the Council.
- 7.4 The Audit Manager ensures that adequate arrangements are in place to investigate allegations received and that the knowledge and expertise within the section specifically for the investigation of fraud and irregularity is maintained.
- 7.5 Summaries of the results of investigations are presented to the Audit and Governance Committee in the form of quarterly progress reports. An Annual Counter Fraud Report is also presented to the Audit and Governance Committee setting out the counter fraud activity undertaken in each financial year.

8 Relationship with the External Auditor

- 8.1 The PSIAS recognise that whilst the appointed external auditors have different statutory obligations, there are clear benefits to the Authority in ensuring that a good working relationship is maintained between Internal and External Audit. The most obvious benefit is reducing duplication of work and to this end, regular meetings are held between Audit Manager, and the External Auditors.

9. Audit Resources

- 9.1 The staffing structure of the section will comprise a mix of qualified and non qualified staff and aim for a mix of professional specialisms to reflect the varied functions of the Internal Audit Service.
- 9.2 The resources of the Internal Audit Service are reviewed annually by the Audit and Governance Committee through acceptance of the Audit Manager's update to the Internal Audit Strategic and Operational Plans.
- 9.3 Where particular specialisms are not present in the Internal Audit Service the Audit Manager will, where resources are available to do so, source these from outside the Council as necessary.

- 9.4 Internal Audit will not participate in the day-to-day operation of any systems of internal financial control.

10. Audit Training

- 10.1 The Audit Manager carries out a regular review of the development and training needs of all audit personnel through annual appraisals and will arrange, within budget provision, in-service training covering both internal and external courses.
- 10.2 The PSIAS (1230 - Continuing Professional Development) require that Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.

11. Audit Reporting

- 11.1 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 and reporting to the board is the generally accepted method of helping to ensure that organisational independence is attained.
- 11.2 All audit assignments are the subject of formal reports. Debrief meetings are held with the managers responsible for the area under review for agreement to the factual accuracy of findings. After agreement, draft reports are issued to the relevant manager and / or Head of Service of the function under review. Draft reports include for management response in terms of confirming acceptance of the recommendations made, the action to be taken to implement the recommendations and the officers assigned responsibility to implement along with timescales for implementation to be achieved. Once the action plan has been fully completed and returned to the Internal Audit team a final report will be produced and issued.
- 11.3 Copies of all Internal Audit reports are forwarded to the Section 151 Officer for information. A summary of all operational Internal Audit reports is presented to the Audit and Governance Committee in quarterly progress reports.
- 11.4 Any Internal Audit reports receiving a 'Red' assurance opinion via Internal Audit's RAG system for assurance are reported to the Audit and Governance Committee in quarterly progress reports.
- 11.5 **Recommendation Tracking** – Under the PSIAS (2500.A1 – Monitoring Progress) the chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.
- 11.6 The Internal Audit Service maintains an electronic recommendation tracking system for all Internal Audit recommendations made. Management performance in implementing these recommendations is reported regularly to the Audit and Governance Committee through the Progress reports presented by the Audit Manager.

12. Annual Report of the Audit Manager

12.1 The Audit Manager produces an annual report of Internal Audit activity in the year just ended and such report is presented to the next Audit and Governance Committee after period end. The report includes an annual audit opinion based on the results of the audit work undertaken in the relevant period.

13. Welsh Language

13.1 The Internal Audit Service is fully committed to the Authority'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.
