

TITLE	Business Assurance Internal Audit Charter
FOR CONSIDERATION BY	Audit Committee on 25 September 2013
WARD	None Specific
STRATEGIC DIRECTOR	Julie Holland, Interim Head of Business Assurance & Democratic Services

OUTCOME / BENEFITS TO THE COMMUNITY

The Business Assurance Internal Audit Charter describes the purpose, authority, responsibilities and other relationships of the councils' Internal Audit Service. As such it is a key document in respect to the council's internal control, risk management and corporate governance framework.

RECOMMENDATION

The Audit Committee is asked to consider and approve the Business Assurance Internal Audit Charter.

SUMMARY OF REPORT

This is the annual review of the Business Assurance Internal Audit Charter. The changes from last year reflect the UK Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013.

The headline changes within the Charter are in regard to:

Section 1.3 – the Definition of Internal Auditing;

Section 6.2 – the explicit approval of Consultancy work;

Section 12.1 – the Internal Audit Strategy being linked to the organisational objectives and priorities;

Section 14.1 – Due Professional Care;

Section 15.1 – inclusion in the annual report stating conformance with the PSIAS and quality assurance process.

Background

The Business Assurance Internal Charter sets out to communicate key information around the following areas:

- Purpose
- Statutory Requirement / Responsibilities and Objectives
- Status of Internal Audit within the Council
- Rights of Access and Authority to Obtain Information
- Scope of Internal Audit
- Fraud & Corruption
- Standards
- Audit Committee
- Relationship with Management, Other Auditors and Other Review Bodies

- Staffing, Training and Development
- Internal Audit Strategy
- Management of Audit Assignments and Follow Up
- Due Professional Care
- Reporting
- Quality Assurance

The Business Assurance Internal Audit Charter shall be subject to annual review and approval by the Audit Committee.

Analysis of Issues

The Business Assurance Internal Audit Charter provides the authority for the practice of Internal Audit in the council and is a key governance document in this respect. The Audit Committee should consider whether the Charter provides Internal Audit with the necessary authority to enable it to fulfill its responsibilities in providing independent and objective assurance to the Audit Committee.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

	How much will it Cost / (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	N/A	Yes	N/A
Next Financial Year (Year 2)	N/A	Yes	N/A
Following Financial Year (Year 3)	N/A	Yes	N/A

Other financial information relevant to the Recommendation/Decision

N/A

Cross-Council Implications (how does this decision impact on other Council services and priorities?)

N/A

Reasons for considering the report in Part 2

N/A

List of Background Papers

Business Assurance Internal Audit Charter.

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Date 13 September 2013	Version No. 1



Business Assurance

Internal Audit Charter (September 2013)

1. Purpose

- 1.1 The Business Assurance Internal Audit Charter describes the purpose, authority and responsibilities of Wokingham Borough Council's Internal Audit Service. The Charter shall be reviewed annually and be approved by the Board (the Audit Committee) and senior management (the Corporate Management Team) (CLT). The Head of Internal Audit (HoIA) is responsible for applying this Charter and keeping it up to date.

2. Statutory Requirement

- 2.1 The Local Government Accounts and Audit Regulations 2011 requires every local authority to maintain an adequate and effective internal audit of its accounting records and its systems of internal control in accordance with proper practices in relation to internal control. Internal Audit's work will be performed with due professional care in accordance with the UK Public Sector Internal Audit Standards (PSIAS), the Accounts and Audit Regulations 2011, the Auditing Practices Board's guideline 'Guidance for Internal Auditors' and with any other statutory obligations and regulations.

3. Responsibilities and Objectives

- 3.1 The UK Public Sector Internal Audit Standards (2013) (PSIAS) defines Internal Auditing 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'.
- 3.2 Internal Audit is not responsible for control systems. Responsibility for effective internal control rests with the management of the council.

4. Status of Internal Audit within the Council

- 4.1 Internal Audit is independent of all activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Individual Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review.

- 4.2 Internal Audit is part of the Business Assurance Section and is led by the Interim Head of Business Assurance and Democratic Services. The Interim Head of Business Assurance and Democratic Services is also the council's HoIA and reports directly to the Chief Executive but also has unrestricted access to the Strategic Director of Resources (Chief Finance Officer), the Chair of the Audit Committee, External Audit (Ernst Young), the Leader of the Council and all other Members and staff.
- 4.3 Internal Audit may undertake work for new clients by extending its services to third parties including other Local Authorities, School's, Parishes and other organisations. All engagements will be performed in accordance with the conditions set out in this Charter. The primary responsibility remains the performance of Internal Audit at Wokingham Borough Council and no work will be undertaken that is detrimental to that responsibility.

5. Rights of Access and Authority to Obtain Information

- 5.1 In order for Internal Audit to discharge its responsibilities, it is granted full, free and unrestricted access to all council records, assets, personnel and premises including our wholly owned local government companies and those of our partner organisations. It has the authority to obtain such information and explanations as deemed necessary. This access should be granted on demand and is not subject to prior notice, and it extends to partner bodies or external contractors working on behalf of the council. This unrestricted access extends to any person carrying out an investigation on behalf of the Head of Internal Audit. Any documents and information given to Internal Audit will be handled in the same prudent and confidential manner as by those employees normally accountable for them.

6. Scope of Internal Audit

- 6.1 The HoIA is required to give an annual opinion to council (via Audit Committee) on the effectiveness of the whole of its internal control system, and the extent to which the council can rely on it. The HoIA also comments on other activities for which the council is responsible and to which Internal Audit has access. In support of this, Internal Audit undertakes risk-based reviews and evaluations of the control environment (including external bodies and partnerships). The work of Internal Audit is set out in Internal Audit plans, derived from the audit strategy. These plans are designed to support the Annual Internal Audit Opinion and the council's Annual Governance Statement.
- 6.2 Where Internal Audit provides consultancy advice to management on governance, risk and control issues, operational responsibility remains with management, although this work can contribute to the Annual Internal Audit Opinion. The HoIA will ensure that before any consultancy work is agreed, Internal Audit has the appropriate skills, resource and approval to undertake it. The HoIA will also ensure that appropriate safeguards are in place to preserve objectivity in areas subject to future audit activity. This may include assigning this work to a different auditor.
- 6.3 Where Internal Audit has provided their services to a third party, Internal Audit will liaise (where applicable) with the HoIA of that organisation to agree a schedule of planned audit days. The work performed by Internal Audit will be in accordance with this Charter.

7. Fraud & Corruption

- 7.1 Managing the risk of fraud and corruption is the responsibility of management. Internal 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. The council's Investigations Team forms part of Business Assurance and provides expertise in investigating fraud, corruption and malpractice. There is active joined-up working between Internal Audit and Investigations.
- 7.2 Management has a responsibility to promptly inform the HoIA of all suspected or detected fraud, corruption or improprieties. This allows consideration to be given to the adequacy of the relevant controls, and to evaluate the implication of fraud and corruption in informing the opinion on the council's internal control environment.

8. Standards

- 8.1 In undertaking its work, Internal Audit adopts the professional standards set out in the Public Sector Internal Audit Standards (PSIAS). These have been set in collaboration with the Chartered Institute of Internal Auditors' (CIIA) and The Chartered Institute of Public Finance & Accountancy (CIPFA).

9. Audit Committee

- 9.1 The HoIA will bring to the attention of the Audit Committee all issues relating to the control environment of the authority and the mechanisms by which Internal Audit provides assurance.

10. Relationship with Management, Other Auditors and Other Review Bodies

- 10.1 The HoIA will seek to co-ordinate Internal Audit plans and activities with managers, other internal auditors, external audit, inspection bodies and other review agencies, to ensure that the most effective audit coverage is achieved and that duplication of resources is minimised. Managers are required to ensure that key staff are available to Internal Audit during the agreed period of an Internal Audit review and for ensuring that information requested by Internal Audit is accurate, timely and reliable.

11. Staffing, Training and Development

- 11.1 Internal Audit will be appropriately staffed in terms of numbers, professional qualifications and experience, having regard to its objectives and to the standards set out in the Public Sector Internal Audit Standards (PSIAS). The staffing of Internal Audit will be kept under review by the HoIA and the Audit Committee. Those members of Internal Audit performing Internal Audit functions will be properly trained to fulfil their responsibilities and will maintain their professional competence through an appropriate on-going development programme and Continuing Professional Development (CPD).
- 11.2 When necessary, in-house audit resources will be supplemented by appropriately qualified and experienced external resources selected on the basis of value for

money in accordance with the council's Financial and Procurement Regulations. Performance indicators will be agreed with the external provider against which performance will be measured.

12. Internal Audit Strategy

- 12.1 The HoIA will develop and maintain a strategy for delivering the Internal Audit service, linked to the organisational objectives and priorities. This will be risk-based and include how the service will be provided and resourced, and how the assurance for the Annual Internal Audit Opinion will be demonstrated.
- 12.2 The IA plans are designed to achieve the audit strategy and these are approved by the Audit Committee on behalf of the council. Any difference between the plans and the resources available will be identified and reported appropriately.

13. Management of Audit Assignments and Follow-up

- 13.1 For each audit assignment, a detailed brief (Terms of Reference) will be prepared and discussed with the relevant managers. The brief will establish the assignment's objectives, and its resource and reporting requirements. Each assignment will be sponsored by a member of the Corporate Leadership Team (CLT) and assignments intended to provide an audit opinion will be undertaken using a risk-based approach. Internal Audit will review its findings with management, proposing recommendations to address any weaknesses. The HoIA will inform the council (via the Audit Committee) of any remaining material weaknesses.
- 13.2 The HoIA will have systems in place to ensure that auditors obtain and record sufficient evidence to support their conclusions and that they can demonstrate the adequacy of evidence obtained to support professional judgements. Internal Audit will follow-up all but Low Priority recommendations to establish if management has taken action to address any weaknesses identified. Escalation procedures are in place for any management responses that are judged to be inadequate in relation to the identified risk. These procedures will ensure that the risks of not taking action have been understood and accepted at a sufficiently senior management level.

14. Due Professional Care

- 14.1 Internal Audit will abide by the Code of Ethics set out in the Public Sector Internal Audit Standards (PSIAS).
- 14.2 Members of Internal Audit are bound by the two essential components of the Code of Ethics: 1) *Principles*; and 2) *Rules of Conduct*, applicable to the four elements of a) Integrity; b) Objectivity; c) Confidentiality; and d) Competency.
- 14.3 Internal Audit will apply the four *Attribute Standards* and the seven *Performance Standards* set out in the Public Sector Internal Audit Standards (PSIAS).
- 14.4 Any instances of non-conformance with the Code of Ethics or the Standards that impact the scope or operation of internal audit activity will be reported to the Audit Committee.
- 14.5 Internal auditors will also abide by the Committee on Standards of Public Life's *Seven Principles of Public Life*.

15. Reporting

- 15.1 In agreement with those charged with governance (Audit Committee and the Chief Executive), the HoIA will determine the way in which findings will be reported. Standards will be set for reporting and will include arrangements for the review and approval of reports by audit management before issue. Reports will be clear, concise and constructive. They will be issued promptly and within laid-down timescales. The HoIA will provide a written annual report to those charged with governance (Audit Committee and the Chief Executive) timed to support the Annual Governance Statement. The annual report will provide an opinion on the overall adequacy and effectiveness of the council's system of internal control together with comment on governance (including IT governance) and risk management. The report will also include a summary of the work that supports the opinion, a statement on conformance with the Public Sector Internal Audit Standards and results of the quality assurance process detailed below.

16. Quality Assurance

- 16.1 The work of Internal Audit will be controlled at each level of operation to ensure that a continuously effective level of performance, compliant with the Public Sector Internal Audit Standards (PSIAS) is being maintained. The HoIA has developed a quality assurance programme designed to gain assurance that the work of Internal Audit is compliant with the Standards and achieves its objectives. Such procedures include, but are not limited to, the work of external providers of internal audit services to the council.

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Definitions:

The 'Board' refers to the Audit Committee

'Senior Management' refers to the Corporate Leadership Team (CLT)

'Management' includes the Corporate Leadership Team (CLT), Extended CLT, Heads of Service and operational managers.