

## REPORT TO AUDIT AND RISK ASSURANCE COMMITTEE

08 November 2018

<b>Subject:</b>	Internal Audit Charter
<b>Director:</b>	Executive Director – Resources – Darren Carter
<b>Contribution towards Vision 2030:</b>	
<b>Contact Officer(s):</b>	Peter Farrow Audit Services and Risk Management Manager <a href="mailto:peter_farrow@sandwell.gov.uk">peter_farrow@sandwell.gov.uk</a>

### DECISION RECOMMENDATIONS

**That Audit and Risk Assurance Committee:**

1. Review and approve the Internal Audit Charter.

#### 1 PURPOSE OF THE REPORT

- 1.1 For the Audit and Risk Assurance Committee to undertake the annual review of, and approve the council's Internal Audit Charter.

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## **2 IMPLICATIONS FOR SANDWELL'S VISION**

- 2.1 Internal Audit contributes to the achievement of Sandwell's vision by examining and reporting on the state of the council's governance, risk management and internal control environment and the implementation of the recommendations made by Internal Audit should increase the efficiency and effectiveness of the council.

## **3 BACKGROUND AND MAIN CONSIDERATIONS**

- 3.1 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 'Public Sector Internal Audit Standards' and the council's Internal Audit Charter reflects this. The Charter was approved by the Audit and Risk Assurance Committee in September 2013 and is now due for its annual review. There have been no changes since its last review.

## **4 THE CURRENT POSITION**

- 4.1 The report does not require a decision and therefore, no position analysis is necessary.

## **5 CONSULTATION (CUSTOMERS AND OTHER STAKEHOLDERS)**

- 5.1 The review of the Internal Audit Charter has been reported to the respective Director.

## **6 ALTERNATIVE OPTIONS**

- 6.1 The report does not require a decision and therefore, alternative options do not need to be considered.

## **7 STRATEGIC RESOURCE IMPLICATIONS**

- 7.1 There are no direct financial and resource implications arising from this report.

## **8 LEGAL AND GOVERNANCE CONSIDERATIONS**

- 8.1 Internal audit is a statutory service in the context of the Local Government Accounts and Audit Regulations (Amendment)(England) 2015. The Act 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”*. These Standards have been adopted by the council’s internal audit section.

## **9 EQUALITY IMPACT ASSESSMENT**

- 9.1 It was not necessary to undertake an Equality Impact Assessment.

## **10 DATA PROTECTION IMPACT ASSESSMENT**

- 10.1 It was not necessary to undertake a Data Protection Impact Assessment. Data gathered during audit reviews is used and retained in accordance with current legislative requirements.

## **11 CRIME AND DISORDER AND RISK ASSESSMENT**

- 11.1 There are no direct crime and disorder and risk implications arising from this report.

## **12 SUSTAINABILITY OF PROPOSALS**

- 12.1 There are no direct sustainability issues arising from this report.

## **13 HEALTH AND WELLBEING IMPLICATIONS (INCLUDING SOCIAL VALUE)**

- 13.1 There are no direct health and wellbeing implications from this report.

## **14 IMPACT ON ANY COUNCIL MANAGED PROPERTY OR LAND**

- 14.1 There is no direct impact on any council managed property or land from this report.

## **15 CONCLUSIONS AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS**

The purpose of the report is for the Audit and Risk Assurance Committee to perform an annual review of, and approve the Internal Audit Charter. As such, no decision is required.

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**16 BACKGROUND PAPERS**

16.1 The Public Sector Internal Audit Standards

**17 APPENDICES:**

None.

**Darren Carter**  
**Executive Director – Resources**

## 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.

## Mission of internal audit

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

## Core Principles for the Professional Practice of Internal Auditing

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement

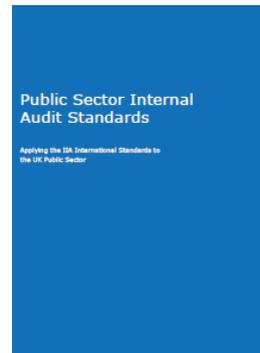
## Authority and standards

Internal audit is a statutory service in the context of the Accounts and Audit Regulations (Amendment)(England) 2015. Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Financial Officer to have responsibility for those arrangements

The regulations state 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”*. These Standards have been adopted by the council's internal audit section.

The responsibility for ensuring that the council has an effective internal audit has been delegated to the Chief Financial Officer/Section 151 Officer.

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.



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 Audit Services Manager (Head of Audit) the 'board' as the Audit and Risk Assurance Committee and 'senior management' as the Senior Management 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 and Risk Assurance 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 Audit Services Manager 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 Audit Services Manager may request to meet privately with the Audit and Risk Assurance 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

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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.

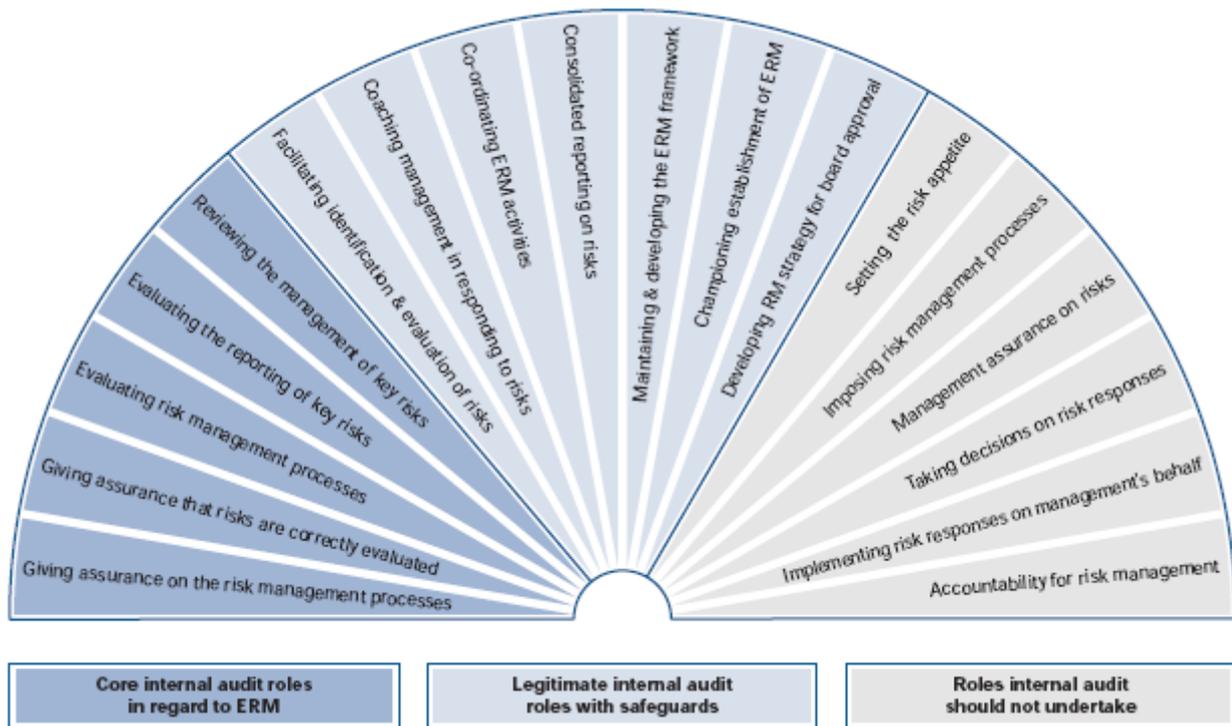
### **Accountability, reporting lines and relationships**

The Audit Services Manager reports on an administrative basis to the Chief Finance Officer and reports functionally to the Audit and Risk Assurance Committee, the Chief Executive and other senior management. The Audit Services Manager also, where appropriate, works closely with the Monitoring Officer. An Annual report will also be produced and presented to the Audit and Risk Assurance Committee which will include an 'opinion' from the Audit Services Manager 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 strategic element of risk management sits under the responsibility of the Audit Services Manager. There is a current post within the service area that leads on this. It should be noted that management remains responsible for risk management and Audit Services do not manage any of the risks on behalf of management.

In order to provide guidance on the roles that are permissible and the safeguards needed to protect internal audit's independence and objectivity, the council adopted the Chartered Institute of Internal Auditors (UK) position statement on the role of internal audit in risk management. Based on this position statement, the table below presents the range of risk management activities and indicates which roles Audit Services do and, equally importantly, do not undertake:



The full role and responsibilities of the Audit and Risk Assurance Committee are detailed in their terms of reference, which are based on the model provided by CIPFA in their “Audit and Risk Assurance 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 Chief Finance Officer is responsible for the appointment of the Audit Services Manager, who must be suitably qualified and experienced. The Audit Services Manager 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 Audit Services Manager 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 Chief Finance Officer, and if the position is not resolved, to the Audit and Risk Assurance 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.

The council's Financial Regulations require that all suspected irregularities are reported to the Audit Services Manager, and the council's Anti-Fraud and Corruption Policy states that all frauds have to be reported to the S151 Officer, or their nominated officer (generally the Audit Services Manager) and that it is the responsibility of Audit Services to investigate any instances of fraud and corruption being perpetrated by any employee of the council.

## **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 and Risk Assurance Committee beforehand.

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

This charter will be reviewed annually by the Audit Services Manager and the Audit and Risk Assurance Committee.