

Audit and Corporate Governance Committee Report



Report of Audit Manager

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AGENDA ITEM 6

Internal Audit Charter

Purpose of Report

1. The purpose of this report is present the internal audit charter which sets out the definition and purpose of the internal audit function, where the internal audit function derives its authority from, its rights of access and the responsibilities of the function.
2. The Committee is asked to review the report and approve the internal audit charter.

Background

3. The CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 states that the purpose, authority and responsibility of internal audit must be formally defined by the organisation in terms of reference consistent with the Code.
4. The terms of reference should:
 - establish the responsibilities and objectives of Internal Audit;

- establish the organisational independence of Internal Audit;
- establish the accountability, reporting lines and relationships between the Head of Internal Audit and those charged with governance, and those to whom the Head of Internal Audit may report;
- recognise that Internal Audit's remit extends to the entire control environment of the organisation;
- identify Internal Audit's contribution to the review of the effectiveness of the control environment;
- require and enable the Head of Internal Audit to deliver an annual audit opinion;
- define the role of Internal Audit in any fraud-related or consultancy work;
- explain how Internal Audit's resource requirements will be assessed;
- establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

Internal Audit Charter

5. Attached as **Appendix A** is the proposed internal audit charter which has been drafted by the Audit Manager. The internal audit charter aims to bring together in a single document the arrangements that have been made to ensure that the internal audit function complies with the CIPFA Code of Practice and can exercise effectively its responsibilities under Section 151 of the Local Government Act 1972.
6. The internal audit charter will apply to the provision of services at both this Council and Vale of White Horse District Council, and will be reviewed at least annually with any revisions being submitted to the Audit and Corporate Governance Committee for approval.
7. Members are asked to consider and approve the internal audit charter.

APPENDIX A

INTERNAL AUDIT CHARTER

INTERNAL AUDIT PROVISION

Internal Audit is delivered through a shared service partnership between South Oxfordshire District Council and the Vale of White Horse District Council. The Internal Audit Section comprises an Audit Manager, Senior Auditor and four Auditors who all work across both sites.

PURPOSE

Internal Audit is an independent assurance function that primarily provides an objective opinion on the degree to which the internal control environment supports and promotes the achievements of the Councils' objectives. It assists the Councils by evaluating the adequacy of governance, risk management, controls and use of resources through its planned audit work, and recommending improvements where necessary.

It is Management's responsibility to define and establish a control environment and a system of internal control to ensure that:

- business activities are conducted in a controlled and efficient manner;
- legal and professional requirements and management instruction and implied intentions are complied with;
- decisions are made, by those authorised, based on adequate and sound information;
- transactions, income, expenditure, liabilities and assets are completely and accurately recorded;
- assets are safeguarded;
- the risk of fraud and corruption is minimised; and
- economy, efficiency, effectiveness and quality of all operations are promoted.

Internal Audit may also undertake non-assurance work, at the request of the Councils, subject to there being no impact on the core assurance work and the availability of skills and resources and the independence of the section is not impaired.

Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. However, Internal Audit should make arrangements within the Councils' anti-fraud and corruption policies, to be notified of all suspected or detected

fraud, corruption and impropriety, to inform their opinion on the internal control environment and Internal Audit's work programme. In addition, Internal Audit should be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud or corruption may have been occurring. Through its planned audit work, Internal Audit will also assess whether Management's control processes are adequate to identify instances of fraud and corruption.

AUTHORITY

The Councils have a statutory duty to maintain an adequate and effective internal audit function under the Accounts and Audit Regulations 2003 (as amended). Internal Audit officers have the authority to:

- enter at all reasonable times any of the Councils' premises or land; and
- access, examine and obtain all records, assets and personnel and require such information and explanations as it considers necessary to fulfil its responsibilities, including those of partner organisations.

In addition, the Audit Manager can directly and independently report to the Chief Executives and the Audit and Governance Committees.

SCOPE

The scope of Internal Audit is unrestricted and extends to all operations within the Councils.

REPORTING

Each year Internal Audit prepares a risk-based annual plan in consultation with the Senior Management Teams. The plan is approved by the Audit and Governance Committees, and progress against the plan as well as other performance measures are regularly reported to the Committees.

Internal Audit is responsible for reporting to the Audit and Governance Committees the outcomes of internal audit work and presenting an annual internal audit report, providing an overall opinion on the control environment, the extent to which the audit plan has been achieved and a summary of the unresolved issues.

After each audit assignment, Internal Audit has a duty to report to Management its findings on the control environment and risk exposure, and recommend changes for improvements where applicable. Managers are responsible for considering audit reports and taking the appropriate action to address control weaknesses. Managers can be required to attend the Audit and Governance Committees to report on the action proposed.

Whenever Internal Audit is informed of a suspected fraud or financial malpractice, it has a duty to report the matter to the Section 151 Officers and recommend how best to pursue the matter.

INDEPENDENCE

Internal Audit should be independent of the activities that it reviews to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal Auditors should not have any operational responsibilities.

Audit advice and recommendations, including where Internal Audit has been consulted about significant changes to the internal control systems, are given without prejudice to the right of Internal Audit to review and make further recommendations on the relevant policies, procedures, controls and operations at a later date.

STANDARDS AND RESPONSIBILITY

The Councils require Internal Audit to provide an effective service in accordance with professional standards. Internal Audit must comply with:

- CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006; and
- Relevant guidelines laid down by other audit, accountancy or government bodies such as the Institute of Internal Auditors (IIA).

Internal Audit officers abide by the IIA Code of Ethics, receive suitable training and development to maintain the appropriate skills, experience and competence, and are led by an Audit Manager who must hold the IIA's professional qualification.

QUALITY ASSURANCE

Internal Audit has a performance management and quality assurance framework in place to demonstrate that the Internal Audit service is:

- meeting its aims and objectives;
- compliant with the relevant standards;
- meeting internal quality standards;
- effective, efficient, continuously improving; and
- adding value and assisting the Councils in achieving its objectives.

The performance management and quality assurance framework includes:

- a set of performance measures, against which progress is monitored by the Audit and Governance Committees;
- seeking feedback from auditees, in order to measure the service provision and provide a focused approach to quality improvements;
- internal management quality reviews undertaken periodically to ensure compliance with the relevant standards and internal policies and procedures;
- a review process for planned audit work; and
- an action plan to implement improvements.

Approved by:

South Oxfordshire District Council Audit and Governance Committee

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Vale of White Horse District Council Audit and Governance Committee

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