

# Internal Audit Services

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## Internal Audit Charter 2019/20

## **BACKGROUND**

The purpose of this Internal Audit Charter is to define Internal Audit's purpose, authority and responsibility. It establishes Internal Audit's position within the Council and reporting lines; authorises access to records, personnel and physical property relevant to the performance of audit work; and defines the scope of internal audit activities.

This Charter also covers the arrangements for the appointment of the Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) and Internal Audit Staff, and identifies the nature of professionalism, skills and experience required.

The internal Audit function is required to comply with the Public Sector Internal Audit Standards (PSIAS). The Relevant Internal Audit Standard Setters, which includes the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA) in respect of local government, have adopted the common set of standards. The initial PSIAS were introduced with effect from 1 April 2013, they were updated in 2017, and recently CIPFA published a Local Government Application Note for the UK PSIAS (February 2019). The PSIAS encompass all of the mandatory elements of the Chartered Institute of Internal Auditors International Professional Practices Framework (IPPF). Compliance with the Standards is subject to an ongoing quality assurance and improvement programme (QAIP) developed and introduced by Internal Audit to ensure continuous compliance with the Standards.

The mission and definition for Internal Audit are defined by the Public Sector Internal Audit Standards and detailed below:

## **MISSION**

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

## **DEFINITION**

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.

## **STANDARDS**

The Public Sector Internal Audit Standards require that the Internal Audit Charter defines the terms 'board' and 'senior management' in relation to the work of Internal Audit. For the purposes of internal Audit work, the 'board' refers to the Council's Audit Panel/Greater Manchester Pension Fund Local Board which have delegated responsibility for overseeing the work of Internal Audit. Senior management is defined as the Chief Executive and members of the Council's Single Leadership Team.

## **RESPONSIBILITY AND OBJECTIVES OF INTERNAL AUDIT**

Internal Audit is responsible for establishing procedures and applying the required resources to ensure that the service conforms with the Definition of Internal Auditing and the Standards. The members of the Internal Audit Team must demonstrate conformance with the Code of Ethics and the Standards.

The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) must deliver an annual audit opinion and report that can be used by the organisation to inform its Annual Governance Statement. The Annual Audit Opinion must conclude on the overall adequacy and

effectiveness of the organisation's framework of governance, risk management and control. This is the 'assurance role' for internal Audit.

Internal Audit may also provide an independent and objective consultancy service, which is advisory in nature and generally performed at the specific request of the organisation. The aim of the consultancy service is to help line management improve the Council's risk management, governance and internal control. This is the 'Consultancy' role for Internal Audit and contributes towards the overall opinion.

## **RESPONSIBILITIES OF THE COUNCIL**

The Council is responsible for ensuring that Internal Audit is provided with all necessary assistance and support to ensure that it meets the required standards.

The Section 151 Officer will make appropriate arrangements for the provision of an Internal Audit Service. This will include the formal adoption of this Charter by the Audit Panel and the adoption of corresponding elements in the Financial Regulations.

The Council will ensure it has taken all necessary steps to provide Internal Audit with information on its objectives, risks, and controls to allow the proper execution of the Audit Strategy and adherence to internal audit standards. This will include notifying internal audit of any significant changes in key control systems which may affect the Internal Audit Plan.

The Council, through the Chief Executive, Section 151 Officer and other relevant managers, will respond promptly to audit plans, reports and recommendations.

Responsibility for monitoring and ensuring the implementation of agreed recommendations rests with the managers within the Council.

## **INDEPENDENCE OF INTERNAL AUDIT**

The internal Audit activity must be independent and Internal Auditors must be objective in performing their work. The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) must confirm, at least annually, the organisational independence of the internal audit activity. Internal Audit should have no operational responsibilities within the line management structure.

## **HEAD OF RISK MANAGEMENT AND (CHIEF AUDIT EXECUTIVE/HEAD OF AUDIT)**

The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) will be appointed in accordance with the Council's Recruitment and Selection Policy and will have sufficient skills, experience and competencies to work with the Single Leadership Team, the Audit Panel and the Greater Manchester Pension Fund Local Board to influence the risk management, governance and internal control of the Council. The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) is responsible for ensuring that there is access to the full range of knowledge, skills, qualifications and experience to deliver the Audit Plan and meet the requirements of the PSIAS. In addition to internal audit skills, the Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) will specify any other professional skills that may be needed by the Internal Audit Team. The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) will hold a full, professional qualification, defined as CCAB, CMIIA or equivalent professional membership and adhere to professional values and the Code of Ethics.

## **RELATIONSHIPS**

The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) reports directly to the Director of Finance (Section 151 Officer). The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit), or an appropriate representative of the Internal Audit Team, shall attend meetings of the Audit Panel and the Greater Manchester Pension Fund Local Board

unless, exceptionally, the Panel/Board decides that they should be excluded from either the whole meeting or for particular agenda items.

The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) shall have an independent right of access to the Chair of the Audit Panel and Greater Manchester Pension Fund Local Board. In exceptional circumstances, where normal reporting channels may be seen to impinge on the objectivity of the audit, the Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) may report directly to the Chair of the Audit Panel or Greater Manchester pension Fund Local Board.

Internal Audit and External Audit will agree a protocol for co-operation which will make optimum use of the available audit resources.

## **SCOPE OF INTERNAL AUDIT**

The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) should develop and maintain a strategy for providing the Chief Executive and the Section 151 Officer economically and efficiently, with objective evaluation of, and opinions on, the effectiveness of the Council's risk management, governance and internal control arrangements. The Audit Plan will be risk based, prepared in consultation with Directorate Management Teams and Executive Members and be presented to the Audit Panel and Greater Manchester Pension Fund Local Board for approval. The Head of Risk Management and Audit's (Chief Audit Executive/Head of Audit) Annual Opinion is a key element in the framework of assurance that the Chief Executive and the Executive Leader of the Council need to inform the completion of the Annual Governance Statement (AGS).

## **OPINION WORK**

The internal Audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach that is aligned with all of the strategies, objectives and risks to the Council.

## **GOVERNANCE**

Internal Audit must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:-

- promoting appropriate ethics and values within the organisation;
- ensuring effective organisational performance management and accountability;
- communicating risk and control information to appropriate areas of the organisation; and
- co-ordinating the activities of and communicating information among the Audit Panel and Greater Manchester Pension Fund Local Board, External and Internal Auditors and management.

## **RISK MANAGEMENT**

Internal Audit must evaluate the effectiveness and contribute to the improvement of risk management processes by assessing that:-

- organisational objectives support and align with the organisation's vision;
- significant risks are identified and assessed;
- appropriate risk responses are selected that align risks with the organisation's risk appetite; and
- relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

## **INTERNAL CONTROL**

Internal Audit must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. The Internal Audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- achievement of the organisation's strategic objectives;
- reliability and integrity of financial and operational information;
- economical, effective and efficient use of resources;
- effectiveness and efficiency of operations and programmes;
- safeguarding the Council's assets and interests from losses of all kinds, including those arising from fraud, irregularity corruption or bribery; and
- compliance with laws, regulations, policies, procedures and contracts.

Internal Audit utilise a dynamic risk based planning system designed to proactively identify audits to address any emerging and developing risks on an ongoing and 'future focussed' basis.

Internal Audit will promote and contribute to continuous ongoing improvements in systems across the Council by identifying and recommending best practice actions following audit work completed.

Where key systems are being operated on behalf of the Council or where key partnerships are in place the Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) must ensure arrangements are in place to form an opinion on their effectiveness.

Where the Council operates systems on behalf of other bodies, the Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) must be consulted on the audit arrangements proposed or in place.

It is management's responsibility to ensure the provision for relevant audit rights of access in any contract or Service Level Agreement the Council enters into, either as provider or commissioner of the service.

## **NON – OPINION WORK**

Internal Audit may provide, at the request of management, a consultancy service which evaluates the policies, procedures and operations put in place by management. A specific contingency should be made in the Internal Audit Plan to allow for management requests and consultancy work. The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) must consider the effect on the opinion work before accepting consultancy work or management requests over and above the contingency allowed for in the Internal Audit Plan. In the event that the proposed work may jeopardise the delivery of the Audit Opinion, the Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) must advise the Section 151 Officer before commencing the work. The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) must consider how the consultancy work contributes towards the overall opinion.

## **FRAUD**

Managing the risk of fraud is the responsibility of line management; however the Section 151 Officer retains specific responsibilities in relation to the detection and investigation of fraud. The Internal Audit Service provides a counter fraud function that includes undertaking work of a proactive nature, conducting substantive audits in key risk areas as well undertaking some reactive work of an investigatory nature involving suspected fraud. In addition, the service is responsible for maintaining effective counter fraud policies and procedures for the Council including the Counter Fraud, Money Laundering and Bribery and Corruption policies. Internal Audit should be notified of

all suspected or detected fraud, corruption or impropriety, to inform their opinion on the control environment and their audit plan.

## **REPORTING**

The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) will agree reporting arrangements with the Chief Executive and the Section 151 Officer which will include procedures for the:-

- distribution and timing of draft audit reports;
- Council's responsibilities in respect of responding to draft audit reports;
- distribution of finalised audit reports;
- follow up by Internal Audit of agreed recommendations; and
- escalation of recommendations where management responses are judged inadequate in relation to the identified risks.

The Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) will present a formal report annually to the Chief Executive, Section 151 Officer and the Audit Panel and Greater Manchester Pension Fund Local Board giving an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management, and internal control. This report will conform to the PSIAS for the Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) and will be timed to support the production of the Council's Annual Governance Statement. Reports of progress against the planned work will be presented to the Audit Panel and Greater Manchester Pension Fund Local Board on a regular basis during the year.

## **INTERNAL AUDIT ACCESS RIGHTS**

Designated auditors are entitled, without necessarily giving prior notice, to require and receive from the Council and any associated or contracted bodies including any shared service providers or trading companies:-

- access to all records, documents and correspondence relating to any financial or other relevant transactions, including documents of a confidential nature;
- access at all reasonable times to any land, premises, officer and member of the Council;
- the production of any cash, stores or other property of the Council under an officer's and member's control; and
- explanations concerning any matter under investigation.

## **Internal Audit Resources**

If the Head of Risk Management and Audit (Chief Audit Executive/Head of Audit) or the Audit Panel and Greater Manchester Pension Fund Local Board consider that the level of audit resources or the terms of reference in any way limit the scope of Internal Audit, or prejudice the ability of Internal Audit to deliver a service consistent with the Definition of Internal Auditing and the Standards, they should advise the Chief Executive and the Section 151 Officer accordingly.