

Report of the Assistant Director of Finance and Procurement to the meeting of the Governance and Audit Committee to be held on 24 January 2019.

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Subject:

INTERNAL AUDIT CHARTER

Summary statement:

This report issues the new Internal Audit Charter for its approval by the Governance and Audit Committee.

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Portfolio: Leader and Corporate

Overview and Scrutiny Area: Corporate

1. SUMMARY

- 1.1 In 2017 the Institute of Internal Auditors revised the Public Sector Internal Audit Standards which apply to local government. In order to be fully compliant with these standards a number of amendments need to be made to the Council's Internal Audit Charter. This report issues the new Internal Audit Charter for its approval by the Governance and Audit Committee.

2. INTERNAL AUDIT CHARTER

- 2.1 The changes to the Public Sector Internal Audit Standards in 2017 consolidated the requirements from the original standards. The Internal Audit Charter detailed in Appendix 1 incorporates these changes. The key differences are summarised below:

- A Mission Statement is now included in the Charter
- There is further clarification on how Audits are managed where operations are the responsibility of the Head of Internal Audit and the protections that are in place to maintain Internal Audit independence.
- There is a requirement to consider the views of the Governance and Audit Committee, if significant consultancy services are to be undertaken.
- The Annual Internal Audit Opinion will include a statement whether Internal Audit activity conforms with Public Sector Internal Audit Standards disclosing any areas of non compliance.
- The role of Council Management Team in determining Internal Audit priorities is defined in the Charter.

4. OVERVIEW AND SCRUTINY COMMITTEE CONSIDERATION

- 4.1 Not Applicable.

5. OTHER CONSIDERATIONS

- 5.1 There are no other considerations.

6. OPTIONS

- 6.1 Not applicable

7. FINANCIAL AND RESOURCE APPRAISAL

- 7.1 The work of Internal Audit adds value to the Council by providing management with an assessment on the effectiveness of internal control systems, making, where appropriate, recommendations that if implemented will reduce risk and deal with financial uncertainty.

8. RISK MANAGEMENT

- 8.1 The work undertaken by Internal Audit is primarily concerned with examining risks within various systems of the Council and making recommendations to mitigate those risks.

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9. LEGAL APPRAISAL

- 9.1 The Accounts and Audit Regulations for 2015 require the Council to 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 are detailed in the Public Sector Internal Audit Standards supported by CIPFA's Local Government Application Note.

10. OTHER IMPLICATIONS

10.1 Equality and Diversity

Internal Audit seeks assurance that the Council fulfils its responsibilities in accordance with its statutory responsibilities and its own internal guidelines. When carrying out its work, Internal Audit reviews the delivery of services to ensure that they are provided in accordance with the formal decision making process of the Council.

10.2 Sustainability Implications

When reviewing Council Business, Internal Audit examines the sustainability of the activity and ensures that mechanisms are in place so that services are provided within the resources available

10.3 Greenhouse Gas Emissions Impacts

There are no impacts on Gas Emissions.

10.4 Community Safety Implications

There are no direct community safety implications.

10.5 Human Rights Act

There are no direct Human Rights Act implications.

10.6 Trade Union

There are no implications for the Trade Unions arising from the report.

10.7 Ward Implications

There are no specific Ward implications.

10.8 Implications for Corporate Parenting

None

10.9 Issues Arising from Privacy Impact Assessment

None

11. NOT FOR PUBLICATION DOCUMENTS

11.1 None.

12. RECOMMENDATIONS

12.1 That the Governance and Audit Committee approves the new Internal Audit Charter.

12. APPENDICES

Appendix 1 – Internal Audit Charter

13. BACKGROUND DOCUMENTS

13.1 Accounts and Audit Regulations 2015.

13.2 Public Sector Internal Audit Standards 2017.

INTERNAL AUDIT CHARTER

JANUARY 2019

DEPARTMENT OF CORPORATE RESOURCES

1. PURPOSE, AUTHORITY AND RESPONSIBILITY

1.1 Mission

To enhance and protect organisational value and public funds by providing risk based and objective assurance advice and insight.

1.2 Purpose

1.2.1 Internal Audit is a statutory Council function which provides an independent, objective assurance service designed to add value and improve the Council's operations. It helps the Council to accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It also plays an important role in the financial management of the Council through its audit of financial systems and transactions.

1.1.2 Internal control comprises of the whole network of processes established within the Council to ensure that its objectives are achieved in the most economic, efficient and effective manner.

1.3 Core Principals

1.3.1 In order to deliver its service effectively Internal Audit will maintain and demonstrate the following principles in the delivery of its function

- Integrity
- Competence and professional care
- Objectivity and free from undue influence
- Alignment with the strategies, objectives and risks of the organisation
- Appropriately positioned and adequately resourced
- Quality and continuous improvement
- Effective communication
- Provision of risk based assurance
- Insightful, proactive and future focused
- Promotes organisational improvement

1.4 Authority

1.4.1 Internal Audit is located within the Department of Corporate Resources. The function is led by the Head of Internal Audit, Insurance, Information Governance and Risk (HoIA), managed by the Council's Section 151 Officer under the Local Government Act 1972, as the officer responsible for making proper arrangements, for the administration of the Council's financial affairs. The work of Internal Audit assists the S151 Officer to fulfil this role.

1.4.2 In accordance with the Council's Constitution, the Governance and Audit Committee has responsibility for Internal Audit and as such it approves the Annual Internal Audit Plan, receives the Audit Plan Monitoring Report and the Annual Report.

1.5 Responsibility of Internal Audit

1.5.1 In accordance with the Council's Financial Regulations Internal Audit, on behalf of the S151 Officer must monitor, review and report on:

- a) The soundness and adequacy of financial management control systems and how they are implemented.
- b) How far established policies, plans and procedures are complied with and the financial effect.
- c) How far assets, resources and interests are accounted for and safeguarded from losses due to fraudulent offences, waste, extravagance and inefficiency.

1.5.2 Internal Audit operates a follow-up procedure which requires the appropriate Strategic Director or Director to confirm that all accepted recommendations in their audit reports have been actioned.

1.6. Public Sector Internal Audit Standards

1.6.1 In March 2017 the Public Sector Internal Audit Standards (PSIAS) were updated and refreshed by the Internal Audit Standard setters for the UK, which included the Chartered Institute for Public Finance and Accountancy, in collaboration with the Institute of Internal Auditors. This Internal Audit Charter has been prepared to support the implementation of the revised standards.

1.6.2 Within the Standards there is reference to responsibilities of the Chief Audit Executive and the Board. Within Bradford Council these roles are performed by the HOIA and the Council's Governance and Audit Committee respectively.

2. CODE OF ETHICS

2.1 Integrity

2.1.1 Internal auditors will perform their work with honesty, diligence and responsibility, observe the law and make disclosures expected by the law and the profession and respect and contribute to the legitimate and ethical objectives of the Council. They will complete a 'Declaration of Interest' form annually and update it when appropriate. Work will not be undertaken by an auditor where there is a conflict of interest. They will not knowingly partake in any illegal activity nor engage in acts that are discreditable to the profession of internal auditing or to the Council. Internal Auditors are required to comply both with the Internal Audit Charter and Bradford Council's code of conduct for employees.

2.2 Objectivity

2.2.1 Internal Auditors will not take part in any activity or relationship that may impair or be presumed to impair their unbiased assessment nor will they accept anything that may impair or be presumed to impair their professional judgement

2.2.2 Internal auditors will disclose all material facts known to them.

2.3 Confidentiality

2.3.1 Internal Auditors will display confidentiality by acting prudently when using information acquired in the course of their duties and protecting that information in accordance with the Council's data protection and information security procedures. They will not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Council or the professional body / institute to which they belong.

2.4 Competency

2.4.1 Internal auditors will only carry out services for which they have the necessary knowledge, skills and experience and perform services in accordance with the PSIAS. Internal Auditors will look to continually improve their proficiency and effectiveness and quality of their services, for example through CPD schemes.

3 INDEPENDENCE AND OBJECTIVITY

3.1 Independence and Objectivity

3.1.1 Internal Audit is independent and should have no executive responsibilities or any responsibilities for the development, implementation or operation of systems.

3.1.2 Internal Audit determines its own work priorities in consultation with the Council's Management Team. These priorities are identified within the Annual Internal Audit Plan, which is approved by the Governance and Audit Committee.

3.1.3 The PSIAS specify that where the HOIA is required to take on roles and responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity. The HOIA's operational responsibility for Insurance, Risk Management and Information Governance are such responsibilities. Any internal audit activity for these services is conducted and managed without reference to the HOIA by an appropriately qualified Audit Manager who reports directly to the S151 Officer. The HOIA will regularly report to the Governance and Audit Committee on non audit duties obtaining their approval where required.

3.1.4 Internal Audit has access to all senior management including the Chief Executive within the Council. It follows that Internal Audit can report without fear or favour, to any Committee, Officer of the Council or School Governing Body.

4. PROFICIENCY AND DUE PROFESSIONAL CARE

4.1 Proficiency

4.1.1 Internal Audit is adequately resourced by a rich mix of professionally qualified and experienced staff. All staff will be assessed annually through the Council's managing performance programme which will identify any professional training needs. They are also encouraged to identify their own personal development needs, which are met wherever possible. The training resources available to Internal Audit are kept under review through the annual planning and monitoring process.

4.2 Professional Care

4.2.1 Internal Audit will exercise due professional care by considering the:

- a) Extent of work needed to achieve an engagement's objectives
- b) Relative complexity, materiality or significance of matters to which assurance procedures are applied
- c) Adequacy and effectiveness of governance, risk management and control processes
- d) Probability of significant errors, fraud, or non-compliance
- e) The cost of assurance in relation to potential benefits
- f) Current activities, trends and emerging issues, to enable relevant advice and recommendations

5. MANAGING THE INTERNAL AUDIT ACTIVITY

5.1 Planning

5.1.1 Internal Audit prepares an Annual Risk Based Plan of assignments to be undertaken within the current financial year. The delivery of the Annual Plan allows Internal Audit to reach their opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control, and to provide an assurance to management of the adequacy of the control environment.

5.1.2 The Annual Plan is based on a risk assessment which takes into account such factors as financial materiality, the control environment, the value of assets, corporate governance requirements, corporate risks, service priorities and date of the last audit. Senior Management and the Governance and Audit Committee are consulted on the contents of the plan to ensure that it prioritises corporate objectives and risks. The Governance and Audit Committee approves the Internal Audit Plan each year.

5.2 Internal Audit Activity

5.2.1 Internal Audit's role is to independently review, evaluate and report upon the internal control procedures that management have established, both in financial and non financial systems and make appropriate recommendations whenever controls are found to be missing, excessive or not operating effectively.

5.2.2 Internal Audit will assess and make appropriate recommendations to improve the organisation's governance processes for:

- making strategic and operational decisions
- overseeing risk management and control
- 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
- coordinating the activities of and communicating information among the board, external and internal auditors, other assurance providers and management

5.2.3 Internal audit activity will evaluate risk exposures and the effectiveness of control relating to 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
- effectiveness and efficiency of operations and programmes
- safeguarding of assets, and
- compliance with laws, regulations, policies, procedures and contracts
- occurrence and management of fraud risk

5.2.4 Overall Internal Audit undertakes the following functions:-

- a) The continuous, systematic and structured review of the soundness, adequacy and application of the Council's internal control systems in accordance with the audit plan.
- b) Receiving notifications of all suspected or known losses or irregularities concerning cash, property, stores or other financial matters.
- c) Undertaking management reviews and reporting the findings to management for them to take the appropriate course of action.
- d) Reviewing and advising upon developing systems.
- e) Providing advice on financial systems, procedures, regulations, corporate governance issues and risk management.
- f) Contributing to the Council's objectives and best value whenever possible.

5.3 Internal Audit Authority

5.3.1 In order to carry out its responsibilities Internal Audit has the authority to:

- a) Visit all Council premises to see cash, stores and other property.
- b) Have rights of access to records of partner organisations.
- c) Access any documents and all other data sources it thinks necessary.
- d) Ask any officer for any information and explanations it thinks necessary.
- e) Produce a report to the officer concerned who has to respond detailing the intended action to be taken on the report's recommendations.

5.4 Policies and Procedures

5.4.1 The Internal Audit section has a detailed risk based audit approach which is the template for the completion of audit work. Procedures are regularly reviewed for all types of audits to ensure that they remain current and relevant such as changes to the risk based audit approach.

6. RESOURCES AND ENGAGEMENT PLANNING

6.1 Resource Management

- 6.1.1 The resources available to Internal Audit are determined by the Council's budgetary process. The HOIA has to determine whether the resources available are sufficient to support an effective Internal Audit function.
- 6.1.2 There is a full resource appraisal within the Internal Audit Annual plan as well as an analysis of any changes from the previous year's resource position. The annual plan is converted to individual six monthly plans for each auditor. This timetables audits to ensure that they are evenly spread across departments throughout the year and that any specific work with timetable requirements is accommodated.
- 6.1.3 Each audit is allocated a time budget and a time recording system is used by all auditors to manage their time against the budget.

6.2 Engagement Planning

- 6.2.1 All Internal Audits are managed and documented on MK Insight Audit Management software, which details the objectives and scope of the audit. MK Insight considers the organisation's strategies, objectives and risks relevant to the engagement. This will include an assessment of risk and the resources available to complete the Audit. The objectives and scope will be agreed with the relevant management.
- 6.2.2 For each audit a work programme is developed that links identified audit risks with relevant controls and audit tests. The completed audit programme forms the basis of the auditor's evaluation of the effectiveness of the control environment and the impact of any control weaknesses.
- 6.2.3 All Audits will be fully documented with sufficient, reliable and relevant information that support the conclusions reached, with the results including any recommendations for improvement, reported and discussed with relevant management.

7. RISK MANAGEMENT

7.1 Internal Control

- 7.1.1 The responsibility for internal control rests fully with managers, who should ensure that appropriate and adequate arrangements exist without reliance on the internal audit function. It is for managers to accept and implement audit recommendations in the appropriate timeframe or to accept the risk resulting from not taking any action.

7.2 Risk Management

- 7.2.1 Internal Audit will evaluate the effectiveness of the Council's risk management processes by determining that:
- a) Organisational objectives support and align with Council priorities.
 - b) Significant risks are identified and assessed.
 - c) Appropriate risk responses are selected that align risks with the Council's risk appetite.

- d) Relevant risk information is captured and communicated in a timely manner across the Council, thus enabling staff, management and the Council Executive to carry out their responsibilities.

8 GOVERNANCE

8.1 Internal Audit will:

- a) Promote appropriate ethics and values within the Council
- b) Support effective organisational performance management and accountability
- c) Communicate risk and control information to the Council
- d) Support the activities of and communicate information between the Governance and Audit Committee, external and internal auditors and management
- e) Make appropriate recommendations for improving the governance process
- f) Evaluate the design, implementation, and effectiveness of the Council's ethics-related objectives, programmes and activities
- g) Assess whether the organisation's information technology governance supports the organisation's strategies and objectives

9. REPORTING LINES AND RELATIONSHIPS

9.1 Reporting

9.1.1 The HOIA is required to deliver an annual audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion must be supported by sufficient, reliable and relevant information. The opinion will include a statement whether internal audit activity conforms with Public Sector Internal Audit Standards and disclosing any areas of non compliance.

9.1.2 Any significant findings or control weaknesses are detailed in the reports to the Governance and Audit committee. The findings of all individual audit assignments are always reported to the relevant Strategic Director, Director or the City Solicitor.

9.1.3 The HOIA should regularly attend meetings of the Governance and Audit Committee and can report to the Committee on any matter that affects their responsibilities or those of Internal Audit. The HOIA can if the need arises meet the Chair and / or the members of the Governance and Audit Committee in private to discuss matters of concern.

9.2 Relationships

9.2.1 Internal Audit will maintain a good and effective working relationship with the External Auditor, and other inspection regimes in order to prevent duplication of coverage and enhance the level of service provided.

9.2.2 The Council's employees and members shall render every assistance to the internal auditors carrying out their audit responsibilities.

9.2.3 The Corporate Fraud Unit is responsible for undertaking investigations and providing advice on fraud and irregularity matters. A Service Level Agreement details the division of roles between the Corporate Fraud Unit and Internal Audit. Internal Audit has retained responsibility to ensure that, where an irregularity or fraud has occurred, the appropriate controls are in place and that weaknesses are identified and recommendations made to improve the control environment.

10. CONSULTANCY WORK

10.1 Consultancy Work

10.1.1 Consultancy work will only be undertaken if it does not compromise Internal Audit's independence and objectivity. Internal Audit will consider the needs and expectations of clients, including the nature, timing and communication of the engagement. This will take account of the relative complexity and extent of work needed to achieve the engagement's objectives. Cost of the consulting engagement will be assessed against the potential benefits. Each consultancy piece of work is supported by a job sheet which requires all of the factors identified to be considered. Approval will be sought from the Governance and Audit Committee for any significant consulting service not already included in the audit plan, prior to accepting the engagement.

11. QUALITY ASSESSMENT OF INTERNAL AUDIT

11.1 Internal Assessment

11.1.1 An internal assessment of Internal Audit will be completed by the HOIA each year. This will include a sample of the quality of internal audit activity along with any changes to the overall internal audit process and also include an evaluation of client feedback. The results of this and any external assessment will be reported to the Governance and Audit Committee.

11.2 External Assessment

11.2.1 PSIAS require an external assessment of the Internal Audit Service every five years by a qualified independent assessor from outside the organisation. The HOIA will agree with Governance and Audit Committee the form of external assessment and the qualifications and independence of the external assessor including any potential conflict of interest.

11.3 Quality Assurance Improvement Programme

11.3.1 The results of any internal or external assessment process will be incorporated into the quality assurance improvement plan which will be included in the Annual Report to the Governance and Audit Committee.

