

<b>Subject:</b>	Internal Audit Charter	<b>Status:</b>	For Publication
<b>Report to:</b>	Audit and Accounts Committee	<b>Date:</b>	26 November 2020
<b>Report of:</b>	Head of Internal Audit	<b>Portfolio Holder:</b>	Resources
<b>Key Decision:</b>	<input type="checkbox"/> Forward Plan <input type="checkbox"/>	<b>General Exception</b>	<input type="checkbox"/> <b>Special Urgency</b> <input type="checkbox"/>
<b>Equality Impact Assessment:</b>	Required:	No	Attached: No
<b>Biodiversity Impact Assessment</b>	Required:	No	Attached: No
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1.	<b>RECOMMENDATION(S)</b>
1.1	The committee should consider and approve the Internal Audit Charter.

## 2 PURPOSE OF REPORT

- 2.1 The Audit and Accounts Committee's terms of reference require it to advise the Council on planned internal audit activity and results including the standards within which the service operates.

## 3 BACKGROUND AND OPTIONS

- 3.1 The Internal Audit Service is a key element of the council's governance arrangements and is a statutory service in the context of the Accounts and Audit Regulations 2015. The standard setters responsible for defining proper practices in terms of the Accounts and Audit Regulations have issued Public Sector Internal Audit Standards (PSIAS) requiring Internal Audit to establish and periodically review a Charter, which is attached at Appendix A.

## 4 RISK

- 4.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:
- Failure to comply with the Public Sector Internal Audit Standards issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) would undermine the ability to provide the Council with the necessary level of assurance in relation to their governance, risk management and internal control arrangements;
  - The report supports the Leader and Chief Executive's report in the Annual Governance Statement.

## 5. FINANCE

- 5.1 Any financial implications are commented upon in the report.

## 6. LEGAL

- 6.1 Any legal implications are commented upon in the report.

## 7. POLICY AND EQUALITIES IMPLICATIONS

- 7.1 Any implications are commented upon in the report.

## 8. CONCLUSION

- 8.1 The Internal Audit Charter is appended for consideration and approval.

No background papers

# Rossendale Borough Council Internal Audit Service Charter

November 2020

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## 1 Introduction

- 1.1 This charter establishes the framework within which Lancashire County Council's Internal Audit Service operates to best serve the Rossendale Borough Council and to meet its professional obligations under applicable professional standards. It defines the purpose, authority and responsibility of internal audit activity, establishes the Internal Audit Service's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.
- 1.2 It will be subject to periodic review by the Head of Service – Internal Audit ('head of internal audit') and presented to the council's Corporate Management Team and Audit, Risk and Governance Committee for approval.
- 1.3 Where the Internal Audit Service provides the internal audit function for other organisations external to the county council, the purpose, authority and responsibility of internal audit activity for those organisations is set out in separate charters for those organisations. Where the Internal Audit Service provides either the internal audit function or ad hoc assurance to an external organisation, its work is also set out in an engagement letter agreed with that organisation.

## 2 Relevant regulations and interpretation

- 2.1 The requirement for an internal audit function in local government is set out in the Accounts and Audit Regulations 2015 ('the Regulations').
- "Internal audit: 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." *Regulation 5. (1)*  
*Accounts and Audit Regulations 2015*
- 2.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government in the United Kingdom. CIPFA has published Public Sector Internal Audit Standards ('PSIAS'), which encompass the Mission of Internal Audit and the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing). These documents are therefore mandatory for internal audit in local government in the United Kingdom, and they are supplemented within PSIAS by additional public sector interpretation and guidance. CIPFA has also published a Local Government Advisory Note setting out sector-specific requirements for local government within the United Kingdom.

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- 2.3 Lancashire County Council's Internal Audit Service therefore operates in accordance with this mandatory definition, code, standards and advice.
- 2.4 Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". In its Statement on the Role of the Chief Financial Officer in Local Government CIPFA has defined 'proper administration' as including compliance with the statutory requirements for accounting and internal audit. It also requires the chief executive and director of resources (S151) to ensure an effective internal audit function is resourced and maintained.

### **3 Definitions**

- 3.1 Both the Global Institute of Internal Auditors and PSIAS set out the following 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."

*Global Institute of Internal Auditors, and Public Sector Internal Audit Standards, 2017*

- 3.2 The Global Institute of Internal Auditors and PSIAS also refer to the 'board' and 'senior management' and PSIAS recognises that these terms need to be interpreted in the context of the council's own governance arrangements.

- 3.3 PSIAS defines the board as:

"The highest level of governing body charged with the responsibility to direct and/ or oversee the activities and management of the organisation. [...] 'Board' may refer to an audit committee to which the governing body has delegated certain functions."

*Public Sector Internal Audit Standards, 2017*

- 3.4 Within Lancashire County Council the board is defined as the Audit, Risk and Governance Committee.
- 3.5 Senior management is defined as the council's Corporate Management Team. This consists of the chief executive and director of resources (S151); executive director of growth, environment & transport; executive director of education & children's services, executive director of adult services and health & wellbeing, director of finance, director of strategy and performance, and director of corporate services.
- 3.6 PSIAS also refers to the 'chief audit executive' who, at Lancashire County Council, is deemed to be the head of internal audit.

### **4 Responsibilities**

- 4.1 The Regulations set out that the county council must ensure that it has a sound system of internal control which facilitates the effective

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exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk.

- 4.2 The Council has taken the decision to outsource its internal audit provision to Lancashire County Council's Internal Audit Service. However responsibility for maintaining an adequate and effective system of internal audit remains with Rossendale Borough Council.
- 4.3 It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. PSIAS makes clear that the provision of this assurance is internal audit's primary role and that this requires the head of internal audit to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control.
- 4.4 This assessment will be supported by the identification, analysis, evaluation and documentation of sufficient information on each individual audit assignment, and the completion of sufficient assignments to support an overall opinion for the organisation as a whole. The scope of internal audit's work therefore encompasses all of the council's functions and services and all of its activities.
- 4.5 The requirement to be independent and objective means that the Internal Audit Service cannot assume management responsibility for risk management, control or governance processes. However the Internal Audit Service may support management by providing consultancy services. These are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control. They will also contribute to the overall assurance opinion.
- 4.6 Accountability for responses to the Internal Audit Service's advice and recommendations for action lies with the council's managers, who either accept and implement the advice or accept the risks associated with not taking action. Advice, including where the Internal Audit Service has been consulted about significant changes to internal control systems, is given without prejudice to the right of the Internal Audit Service to review and recommend further action on the relevant policies, procedures, controls and operations at a later date.
- 4.7 The head of internal audit will provide an annual report incorporating an overall opinion, a summary of the work that supports that opinion, and a statement of conformity with PSIAS and the results of the quality assurance and improvement programme.
- 4.8 A note of the responsibilities of the Corporate Management Team ('senior management') and the Audit, Risk and Governance Committee ('the board') in relation to the internal audit function are set out in the appendix to this charter. The Internal Audit Service's responsibilities are set out in PSIAS, and these are supported by detailed operational policies and procedures that are regularly reviewed and updated as necessary.

## **5 Independence, objectivity and integrity**

- 5.1 The Internal Audit Service remains independent of the council's other functions and, with the exception of its support to management in relation to counter fraud and investigatory work, no member of the Internal Audit Service has any executive or operational responsibilities. Auditors are expected to deploy impartial and objective professional judgement in all their work, whether on audit work or investigations.
- 5.2 The Internal Audit Service's work programme and priorities are determined in consultation with the Corporate Management Team and the Audit, Risk and Governance Committee, but remain a decision for the head of internal audit. The head of internal audit has direct access to and freedom to report in her own name and without fear or favour to all officers and members, and specifically the Audit, Risk and Governance Committee. She has the formal opportunity prior to each committee meeting to meet with the chair and deputy chair of the Audit, Risk and Governance Committee.
- 5.3 The independence of the head of internal audit is further safeguarded by ensuring that her remuneration and performance assessment are not inappropriately influenced by those subject to audit.
- 5.4 All auditors make an annual declaration of their interests and update this during the year as necessary, and where any auditor has a real or perceived conflict of interest this is managed to maintain the operational independence of the service as a whole. If independence or objectivity are impaired in fact or appearance, then the nature of the impairment is disclosed as appropriate. The head of internal audit makes an annual declaration that the internal audit function is operationally independent.
- 5.5 All auditors also make an annual declaration that they have read and am aware of the obligations placed on them by the Public Sector Internal Audit Standards and, specifically the Code of Ethics. They each acknowledge that they must adhere to the Code of Ethics and demonstrate integrity, objectivity, competence and confidentiality in the discharge of all their duties.

## **6 Reporting lines and relationships**

- 6.1 The head of internal audit reports functionally to the Audit, Risk and Governance Committee and organisationally to the director of finance. She has direct access to the chief executive and director of resources, who is also council's finance officer under s.151 of the Local Government Act, 1972.
- 6.2 The head of internal audit has, in addition, regular access to the chair of the Audit, Risk and Governance Committee which normally meets at least four times each year, and the head of internal audit reports to each meeting of that committee under its terms of reference. The Audit, Risk and Governance Committee is responsible for approving the annual audit plan.
- 6.3 The head of internal audit, the Internal Audit Service as a whole, and the county council adhere to the requirements of CIPFA's Statement on the Role of the Head of Internal Audit.

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- 6.4 The Internal Audit Service and the council's external auditor operate to a protocol which sets out the relationship between internal and external audit, and supports regular liaison between the two services, leading to the effective performance of both and avoiding duplication of work.

### **7 Access to information**

- 7.1 The Internal Audit Service has the right of unrestricted and direct access to the county council's records however held, assets, premises and officers. In entering into partnership arrangements with external organisations the council ensures that the same rights of audit access apply to partners' records, assets, premises and officers. The Internal Audit Service has the authority to obtain all such information and explanations as it considers necessary to fulfil its responsibilities.
- 7.2 Internal auditors respect the value and ownership of information they receive and the reports they produce, and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. They are prudent in the use and protection of information acquired in the course of their duties and shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the council's legitimate and ethical objectives.

### **8 Internal audit resources**

- 8.1 Lancashire County Council has taken the strategic decision to provide its internal audit service largely in-house and is committed to providing a service that meets the best quality standards. However the council has decided that, to meet the requirement that assignments are performed with proficiency and due professional care, it will obtain additional support where specialist knowledge is required. This is obtained specifically in respect of assurance over the information technology management and control systems provided for the council both internally and by BT Lancashire Services Ltd.
- 8.2 The chief executive and director of resources ensures that internal audit resources are sufficient to meet its responsibilities and achieve its objectives. If the head of internal audit or the Audit, Risk and Governance Committee considers that the level of audit resources in any way limits the scope of internal audit, or prejudices the ability of the Internal Audit Service to deliver a service consistent with its statutory and related requirements, they will advise the Council accordingly.
- 8.3 Nonetheless, the Internal Audit Service has finite resources and its workforce is therefore deployed to meet an annual audit plan that pays regard to the relative risks accepted, and levels of assurance required, by Rossendale Borough Council.

### **9 Competency**

- 9.1 The head of internal audit and audit managers are required to hold appropriate professional audit qualifications. These are defined as full membership of one of the institutes of the Consultative Committee of Accountancy Bodies or professional membership of the Chartered Institute of Internal Auditors. It is expected that senior auditors will either hold, or be close to and actively working towards full professional

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qualification but, exceptionally, they may be qualified by experience at a demonstrably professional level.

- 9.2 The county council's performance and development opportunities are applicable to all staff within the Internal Audit Service, which supports continuous staff performance appraisal and development.

### **10 Quality assurance and improvement**

- 10.1 The head of internal audit operates a quality assurance and improvement programme that both monitors the on-going performance of internal audit activity and periodically assesses the Internal Audit Service's compliance with PSIAS. This includes both internal and external assessments and is set out in a separate Quality Assurance and Improvement Programme.
- 10.2 The results of the quality assurance and improvement programme including any areas of non-conformance with PSIAS are reported annually to the Management Team and the Audit, Risk and Governance Committee. This report will include information regarding:
- The scope and frequency of both the internal and external assessments.
  - The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
  - Conclusions of assessors.
  - Corrective action plans.

### **11 Non-audit work: investigations and counter-fraud services**

- 11.1 PSIAS recognises that the Internal Audit Service may go beyond the work needed to meet its assurance responsibilities and provide services to support management, including consultancy services or assistance with the investigation of suspected fraud or corruption. Such services apply the professional skills of internal audit and contribute to the overall assurance opinion.
- 11.2 The Internal Audit Service operates the council's whistle-blowing helpline and, where appropriate investigates instances of suspected or actual fraud, corruption or impropriety. It also facilitates Rossendale Borough Council's participation in the National Fraud Initiative, which matches data from the council's information systems with information held by other bodies to identify potentially fraudulent activity.
- 11.3 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is management's responsibility. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.
- 11.4 The head of internal audit should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for her opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.

## Appendix: responsibilities

### Responsibilities in relation to the internal audit function

#### Rossendale Borough Council's Corporate Management Team ('senior management')

The Corporate Management Team will:

- Consider the Internal Audit Charter, including the internal audit function's purpose and authority, the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework;
- Consider, and contribute to the development of the risk-based internal audit plan, supporting its completion within the organisation;
- Make appropriate enquiries to determine whether there are inappropriate scope and/ or resource limitations to the internal audit function;
- Receive reports from the head of internal audit on the Internal Audit Service's performance and audit findings, including the head of internal audit's annual report and overall opinion for the year;
- Receive and consider the results of the quality assurance and improvement programme, including areas of non-conformance with PSIAS.

#### The Audit, Risk and Governance Committee ('the board')

The Audit, Risk and Governance Committee will:

- 1 Approve the internal audit charter.
- 2 Approve the risk-based internal audit plan, including the Internal Audit Service's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 3 Approve significant interim changes to the risk-based internal audit plan and resource requirements.
- 4 Make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- 5 Consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
  - a. Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
  - b. Regular reports on the results of the quality assurance and improvement programme.
  - c. Reports on instances where the Internal Audit Service does not conform to the Public Sector Internal Audit Standards and Local



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Government Application Note, considering whether the non-conformance is significant enough that it must be included in the annual governance statement.

- 6 Consider the head of internal audit's annual report:
  - a. The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the quality assurance and improvement programme that supports the statement.
  - b. The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion, which will assist the committee in reviewing the annual governance statement.
- 7 Consider summaries of specific internal audit reports as requested.
- 8 Receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the Council or there are concerns about progress with the implementation of agreed actions.
- 9 Contribute to the quality assurance and improvement programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- 10 Support the development of effective communication with the head of internal audit.
- 11 Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.