

READING BOROUGH COUNCIL

REPORT BY INTERIM DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	19 th April 2017	AGENDA ITEM:	6
TITLE:	INTERNAL AUDIT CHARTER 2017-18		
LEAD COUNCILLOR:	COUNCILLOR STEVENS	PORTFOLIO:	FINANCE
SERVICE:	FINANCE	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	79390695
JOB TITLE:	Chief Auditor	E-MAIL:	Paul.Harrington@reading.gov.uk

1. EXECUTIVE SUMMARY

- 1.1 In accordance with the requirements of the Public Sector Internal Audit Standards (PSIAS), the Internal Audit service is required to produce an annual Charter setting out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the PSIAS.
- 1.2 The following document is attached to this report:
 - Internal Audit Charter 2017/2018 (appendix 1)

2. RECOMMENDED ACTION

- 2.1 The Audit & Governance Committee is required to note the contents of the Internal Audit Charter.

3. BACKGROUND

- 3.1 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.
- 3.2 The Public Sector Internal Audit Standards (PSIAS) came into force on 1 April 2013. These are the first internal audit standards to apply across the whole public sector and are supported by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CMIIA).
- 3.3 The unified standards intend to ensure sound corporate governance and set out roles and responsibilities with regard to the delivery of internal audit services. The PSIAS require an Internal Audit Charter to be in place which will be reviewed periodically and presented to the Corporate Governance and Audit Committee for approval.

3.4 The main objective of Internal Audit is to provide, in terms of the PSIAS, a high quality, independent audit service to the Council which provides annual assurance in relation to internal control and overall governance arrangements.

3.5 The PSIAS recognises that Internal Audit's remit extends to the entire control environment of the organisation and not just financial controls.

4. CONTRIBUTION TO STRATEGIC AIMS

4.1 Audit Services aims to assist in the achievement of the strategic aims of the Council set out in the Corporate Plan by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In particular audit work is likely to contribute to the priority of remaining financially sustainable to deliver our service priorities.

5. COMMUNITY ENGAGEMENT AND INFORMATION

5.1 *N/A*

6. LEGAL IMPLICATIONS

6.1 Legislation dictates the objectives and purpose of the internal audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation.

6.2 Section 151 of the Local Government act 1972 requires every local authority to "make arrangements for the proper administration of its financial affairs" and to ensure that one of the officers has responsibility for the administration of those affairs.

6.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations in that authorities must "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices".

7. FINANCIAL IMPLICATIONS

7.1 *N/A*

8. BACKGROUND PAPERS

8.1 *N/A*

Internal Audit Charter (2017/2018)



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1. Background

- 1.1 The Public Sector Internal Audit Standards (PSIAS) requires that an Internal Audit Charter is in place for each local authority. The Charter must be consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards contained in the PSIAS.
- 1.2 This Charter establishes the purpose, authority and responsibilities for the internal audit service for Reading Borough Council (RBC) and has been drawn up in line with the PSIAS requirements and is further informed by the CIPFA Local Government Application Note (April 2013) published to assist in the implementation of the PSIAS.
- 1.3 This Internal Audit Charter is subject to approval by the Audit and Governance Committee of Reading Borough Council (RBC) on an annual basis, in line with PSIAS requirements.

2. Role

- 2.1 Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Reading Borough Council ("RBC" or "the Council"). It assists the Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.
- 2.2 The Internal Audit function's main purpose is to provide independent, objective assurance and advisory services designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The function provides independent and objective evaluation of, and opinion on, the overall adequacy and effectiveness of the framework of governance, risk management and control in.
- 2.3 This includes identification of risks and assessment of their management, and implementation of changes to strengthen the governance framework. The Chief Auditor's opinion is a key element of the framework of assurance that the Chief Executive and Leader of the Council needs to inform the completion of the Annual Governance Statement.

3. Purpose, Responsibilities and Objectives of Internal Audit

- 3.1 Internal Audit is an independent appraisal function established within the authority - as part of the Corporate Support Services Directorate - with the following objectives¹:
- To provide an effective Internal Audit Service, on behalf of the Director of Finance (sec 151 officer), in line with legislation and the appropriate audit standards;
 - To provide an independent, objective assurance and consulting activity designed to add value and improve the organisation's operations;
 - To help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 3.2 It is the responsibility of the Chief Auditor to provide an independent and objective opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 3.3 The Chief Auditor reports to the Audit and Governance Committee on a regular basis in line with the agreed work programme for the Committee. There are a number of standard items reported including the annual Internal Audit plan, an annual opinion on the control environment and regular updates on reports issued. The Chief Auditor's annual report is presented to those charged with governance and should be used to support the Council's Annual Governance Statement.
- 3.4 Internal Audit employees will ensure that they conduct work with due professional care and in line with the requirements of the PSIAS and any other relevant professional standards.
- 3.5 Internal auditors will treat as confidential the information they receive in carrying out their duties. There must not be any authorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of an audit will not be used to affect personal gain.

4. Scope of Internal Audit Activities

- 4.1 The scope for Internal Audit is the control environment comprising risk management, control and governance. This effectively includes all of the council's operations, resources, services and responsibilities in relation to other bodies. This description shows the wide potential scope of Internal Audit. In order to translate this description into individual audit reviews, a risk assessment methodology is applied that allows high-risk review areas to be prioritised (also see Section 8.)

¹ Financial Regulations -Section 2.8 'Internal Audit'

- 4.2 To enable Internal Audit to meet its objectives, it will undertake work within a scope of activities including:
- review of controls within existing systems and systems under development
 - compliance with policies and procedures including Financial Regulations
 - transactions testing to ensure accuracy of processing
 - contract audit
 - establishment reviews
 - computer audit including data analytics
 - anti-fraud work
 - investigation of suspected fraud and irregularities
 - value for money reviews and transactions testing
 - provision of advice to Directorates and services including consulting services
 - provision of audit services to external clients.

5. Definition of Consulting Services

- 5.1 The PSIAS defines consulting services as follows: *“Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation’s governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.”*
- 5.2 The PSIAS requires that approval must be sought from the Audit & Governance Committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement (Standard 1130.).

6. Arrangements for Appropriate Resourcing

- 6.1 As stated in the CIPFA Application Note, *“No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence-based opinion. Local factors within each organisation will determine this minimum level of coverage.”*
- 6.2 The annual audit plan lays out the planned audit resources for the year with the objective of giving an evidence-based opinion.
- 6.3 Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate on-going development programme.

- 6.4 In the event that the risk assessment, carried out to prepare the annual plan, identifies a need for more audit work than there are resources available, the Chief Auditor will identify the shortfall and advise the Director of Finance followed by the Audit & Governance Committee as required to assess the associated risks or to recommend additional resources are identified.
- 6.5 The audit plan will include a contingency allocation to address unplanned work including responding to specific control issues highlighted by senior management during the year.
- 6.6 Internal audit work is prioritised according to risk, through the judgement of the Chief Auditor, informed by the Council's risk registers and in consultation with senior management and External Audit.
- 6.7 Internal audit activity is subject to annual review by External Audit.
- 6.8 Progress on the annual plan is reported to the Audit & Governance Committee on a regular basis throughout the year. Should circumstances arise, during the year, that resources fall or appear to be falling below the minimum level required to provide an annual evidence based opinion the Chief Auditor will advise the Director and Head of Finance and the Audit & Governance Committee.

7. Organisational Independence of Internal Audit

- 7.1 The PSIAS requires that reporting and management arrangements must be put in place that preserve the Chief Auditor's independence and objectivity, in particular with regard to the principle that the Chief Auditor must be independent of the audited activities.
- 7.2 PSIAS Standard 1110 requires that the Chief Auditor reports to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. CIPFA and the Chartered Institute of Internal Auditors expect that the Chief Auditor should report to at least corporate management team level.
- 7.3 Within RBC, the Chief Auditor reports functionally to the Audit & Governance Committee and administratively to the Director of Finance (Sec 151 Officer) and has direct right of access to the Chief Executive.
- 7.4 The Internal Audit team will ensure that independence and objectivity are maintained in line with the PSIAS including where non-audit work is undertaken. To manage potential conflicts of interest, internal auditors have no operational responsibilities and any independence issues are highlighted at the planning stage for individual audit assignments.
- 7.5 If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed in the first instance to the Chief Auditor and reported to the Section 151 officer as appropriate.

- 7.6 Internal Audit will have no executive responsibilities. It is not an extension of, or a substitute for, the function of management. Responsibility for internal control rests fully with managers, who should ensure that arrangements are appropriate and adequate. It is for management to accept and implement audit recommendations or to accept the risk resulting from not taking any action.
- 7.7 The Chief Auditor will confirm to the Audit and Governance Committee on an annual basis, within the Annual Report, the organisational independence of the Internal Audit Service.
- 7.8 The Chief Auditor will report audit findings to the Council's Corporate Management Team and Audit & Governance Committee.

8. Planning

- 8.1 The annual audit plan will be submitted to the Audit and Governance Committee at the beginning of the financial year for approval. The plan will be compiled following consultation with the Chief Executive, the Director of Finance, individual Directors and other senior officers as appropriate.
- 8.2 The risk-based plan will outline the audit assignments to be carried out.
- 8.3 The audit plan is dynamic in nature and will be reviewed and realigned on a regular basis to take account of new, emerging and changing risks and priorities. It will be based on a risk assessment covering the impact and likelihood of the inherent risk for each auditable area. It will be responsive, containing an element of contingency to accommodate assignments which could not have been reasonably foreseen.
- 8.4 Internal Audit will consult with the Council's external auditor and with other relevant inspection and review bodies, as required, in order to co-ordinate effort and avoid duplication.
- 8.5 As part of the planning process, the Chief Auditor will identify other potential sources of assurance and will include in the risk based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- 8.6 For each audit assignment, Internal Auditors will develop and document a plan including the objectives of the review, the scope, timing and resource allocations. In planning the assignment, auditors will consider, in conjunction with the auditees, the objectives of the activity being reviewed, significant risks to the activity and the adequacy and effectiveness of the activity's governance, risk management, including risk of fraud and control processes.

9. Reporting and Follow Up

- 9.1 A written report will be prepared by the appropriate auditor for every audit review and distributed in line with established and agreed reporting protocols. This will include an opinion on the adequacy of controls in the area that has been audited.
- 9.2 The draft report will be discussed with the auditees and a response obtained for each recommendation stating their response to each recommendation along with a timescale for implementation. The final report will include the management responses and will be issued to the relevant Director and other officers in line with directorate protocols.
- 9.3 Any reports where limited or no assurance has been provided for the control environment and/or compliance with the control environment will be subject to a follow up review to determine whether the recommendations made have been implemented.
- 9.4 Regular update reports to Audit and Governance Committee will show the activity of the Internal Audit Section, progress achieved against plan and a summary of significant audit findings.
- 9.5 The annual report will incorporate the annual opinion, a summary of the audit work that supports the opinion and a statement on conformance with the PSIAS and the results of the Quality Assessment and Improvement Programme (QAIP.)
- 9.6 The PSIAS also requires the Chief Auditor to establish a follow up process to monitor and ensure actions have been effectively implemented. This is an established process within RBC, with a follow up review being undertaken on any assignments with limited assurance/no assurance, to ensure recommendations have been adopted and suggested controls are working well in practice.

10. Assurance to external organisations

- 10.1 The format and scope of any assurances provided to external organisations will be agreed in advance with the recipient organisation and will be documented in contract terms/service level agreement or equivalent. The work carried out to provide such assurances will be conducted in accordance with Internal Audit's quality procedures and service standards. These will be included in the annual audit plan.

11. Fraud and Corruption

- 11.1 Managing the risk of fraud and corruption is the responsibility of management; Internal Audit will assist management in the effective discharge of this responsibility.
- 11.2 Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have the responsibility for the prevention or detection of fraud and corruption. Internal Audit will, however, be alert in all their work to risks and exposures that could allow fraud and corruption.
- 11.3 In line with Financial Regulations (Section 6.5 - Preventing Fraud and Corruption), whenever any matter arises that involves, or is thought to involve irregularities concerning cash, stores or other property of the council or any suspected irregularity in the exercise of the functions of the council, including bequests, trust and client monies, it must be immediately brought to the attention of the respective Director. Where the irregularity is thought to involve fraud, corruption or impropriety the Director must ensure that the matter is reported to the Chief Auditor. If the irregularity or suspected irregularity involves theft or suspected theft of assets, it must also be referred to the Police. In addition where a break-in is suspected, the Police must be informed immediately.

12. Authority of Internal Audit

- 12.1 Internal Audit is a statutory requirement in local government. The Accounts and Audit (England) Regulations 2015 which came into force on the 1st April 2015 state that:
 - (i) *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.*
 - (ii) *Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—*
 - (a) *make available such documents and records; and*
 - (b) *supply such information and explanations; as are considered necessary by those conducting the internal audit.*
 - (iii) *In this regulation “documents and records” includes information recorded in an electronic form.*

- 12.2 The statutory role is recognised and endorsed within the Council's Financial Regulations², which provides the authority for access as follows:

Directors must ensure that Internal Audit is allowed to:

- (i) Enter any council premises or land at all reasonable times;*
- (ii) Access all records, documents, data held on computer media, and correspondence relating to all transactions of the council, or unofficial funds operated by an employee as part of their duties;*
- (iii) Receive such explanations as are necessary concerning any matter under examination.*
- (iv) Require any employee of the council to produce cash, stores or any other property under their control, belonging to the council or held as part of the employee's duties.*

13. Code of Ethics

- 13.1 All our Internal Auditors must conform to the Chartered Institute of Internal Auditors Code of Ethics. The code promotes an ethical culture in a profession founded on the trust placed in its objective assurance about risk management, control and governance.
- 13.2 The Code of Ethics includes 2 essential components - the Principles and Rules of Conduct (which are an aid to interpreting the Principles into practical applications.)
- 13.3 Internal Auditors will adhere to RBC relevant policies and procedures (including the Employee Code of Conduct) and local Internal Audit procedures.
- 13.4 All Internal Auditors will be qualified by experience, hold a professional qualification, or be training towards a professional qualification.
- 13.5 In addition, all internal auditors have a personal responsibility to undertake a programme of continuing professional development (CPD) to maintain and develop their competence. This is fulfilled through the requirements set by professional bodies and through the Council's appraisal and development programme.

² Financial Regulations - Section 2.8 'Internal Audit'

14. Review of the Effectiveness of Internal Audit

- 14.1 The Accounts and Audit (England) Regulations 2011 required councils to conduct, at least once a year, a review of the effectiveness of its internal audit. Within RBC, the internal audit annual report and opinion provides an overview of the work and performance of Internal Audit throughout each year. The annual report, along with independent reviews by the external auditors, provides an assurance of the effectiveness of the Internal Audit service during the year.
- 14.2 These 2011 regulations have now been superseded by the Accounts and Audit Regulations 2015 which maintain the requirement for an effective internal audit function and state that:

A relevant authority must, each financial year—

(a) conduct a review of the effectiveness of the system of internal control

- 14.3 Internal Audit will continue to provide assurance on the effectiveness of the function through the annual reporting process.

15. Quality Assurance and Improvement Programme (QAIP)

- 15.1 The PSIAS requires that a quality assurance framework be established, which will include both internal and external assessment of the work of Internal Audit.
- 15.2 The Chief Auditor is responsible for providing periodically an internal quality assessment (IQA) on the internal audit activity as regards its consistency with the requirements of the PSIAS. This will be carried out through annual self-assessment using the checklist in the CIPFA Application Note. Results of these IQAs will be communicated to the Director of Finance and the Audit and Governance Committee.
- 15.3 Internal Audit issues a customer satisfaction questionnaire following each audit assignment. The results are used to determine areas for improvement and inform the continuing personal development training programme for Internal Audit staff. The results are also benchmarked with other core cities who have adopted the same questionnaire.