

Leicester  
City Council

**WARDS AFFECTED**  
**All**

## **FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:**

**Audit and Risk Committee**

**8 February 2017**

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### **Internal Audit Charter**

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#### **Report of the Director of Finance**

##### **1. Purpose of Report**

- 1.1. To seek the Committee's approval of minor updates to the Internal Audit Charter following the regular annual review.

##### **2. Recommendation**

- 2.1. The Committee is recommended to approve the updated Internal Audit Charter (Appendix 1) and agree that it accurately reflects the terms of reference of the Internal Audit service.

##### **3. Summary**

- 3.1.1. Partly as good practice and partly in fulfilment of regulatory requirements, the City Council has in place a formally approved Internal Audit Charter and professional standards for Internal Audit. The professional standards<sup>1</sup> require the preparation of an Internal Audit Charter and set out the essential requirements.
- 3.1.2. The Internal Audit Charter has been reviewed and minor updates made where necessary to comply with updated regulations. It now needs the approval of the Audit and Risk Committee.
- 3.1.3. The Committee is aware of the change in the delivery of Internal Audit to the City Council from April. This change will be reflected in the next revision by the County Council's Head of Internal Audit Service. The City Council will continue to have its own Charter as, in effect, the Charter is 'owned' by the Audit and Risk Committee which remains in place.

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<sup>1</sup> The *Public Sector Internal Audit Standards*, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA).

## **4. Report**

### **4.1. Revision of Internal Audit Charter**

4.1.1. For a number of years, the City Council has had in place a formally approved Internal Audit Charter. This sets out the terms of reference for the Council's Internal Audit service. The current version was approved by the Audit and Risk Committee at its meeting on 2 December 2015.

4.1.2. The purpose is to specify the responsibilities and objectives of Internal Audit, its position within the organisation, its scope, rights of access and reporting requirements and the prioritisation of audit work based on risk. In this way, the Council seeks to demonstrate its compliance with the requirement under Regulation 5(1) of the Accounts and Audit Regulations 2015, which requires that the Council:

*'...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.'*

4.1.3. The revised Internal Audit Charter is set out in full in Appendix 1 with the changes from the previous version highlighted in yellow. The changes, although there are quite a number, are minor in impact but reflect changes in the wording of the governing regulations, in particular the updated Public Sector Internal Audit standards revised in April 2016.

4.1.4. The Committee is asked to approve this updated Charter.

## **5. FINANCIAL, LEGAL AND OTHER IMPLICATIONS**

### **5.1. Financial Implications**

An adequate and effective system of internal audit is a central component in the processes intended to help ensure that the Council operates efficiently, cost effectively and with integrity. An effective internal audit function is a key means by which the Director of Finance discharges her responsibilities under s151 of the Local Government Finance Act 1972 (see below). Such arrangements are intended to help the Council as it faces the financially challenging times ahead.

*Colin Sharpe, Head of Finance, x37 4081*

### **5.2. Legal Implications**

Internal Audit's work promotes sound financial management and legal compliance in all areas subject to review. It is a significant component of the requirements placed upon the Council for 'the proper administration of its financial affairs' by s151 of the Local Government Act 1972 as well as the specific requirements for internal audit under the Accounts and Audit Regulations 2015.

*Kamal Adatia, City Barrister and Head of Standards, x37 1401*

**6. Other Implications**

OTHER IMPLICATIONS	YES/NO	Paragraph/References Within the Report
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Climate Change	No	
Crime and Disorder	No	
Human Rights Act	No	
Elderly/People on Low Income	No	
Corporate Parenting	No	
Health Inequalities Impact	No	
Risk Management	Yes	The whole report concerns the Council’s governance and assurance processes, a main purpose of which is to give assurance to Directors, the Council and this Committee that risks are being managed appropriately by the business. This includes the risks of fraud and financial irregularity.

**7. Background Papers – Local Government Act 1972**

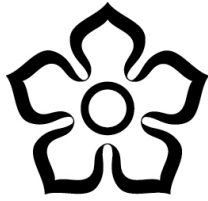
7.1. Files held by Internal Audit.

**8. Consultations**

8.1. None.

**9. Report Author**

Tony Edeson, Head of Internal Audit and Risk Management - 37 1621



Leicester  
City Council

# Internal Audit Charter

Internal Audit is an independent appraisal function established for the review of the internal control system as a service to the City Council. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.

The Council has determined that the Director of Finance shall be the officer nominated under Section 151 of the Local Government Act 1972 to have responsibility for the proper administration of its (the Council's) financial affairs.

Provision of an effective Internal Audit is the responsibility of the Council under Regulation 5(1) of the Accounts and Audit Regulations 2015. This function has been delegated to the Director of Finance, who shall provide an Internal Audit service to the City Council in accordance with statutory requirements and professional standards. This latter requirement is met by virtue of compliance with the *Public Sector Internal Audit Standards*, issued jointly by CIPFA<sup>1</sup> and the IIA<sup>2</sup> in 2013. These incorporate a definition of internal auditing and a code of ethics as well as performance standards.

## Definition of Internal Audit

Leicester City Council has adopted the definition of Internal Audit as given in the *Public Sector Internal Audit Standards (PSIAS)*:

*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*

Within those PSIAS are 10 core principles which, taken as a whole, articulate internal audit effectiveness. For an Internal Audit function to be considered effective, all principles should be present and operating properly. The core principles are:

- Demonstrates Integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence
- Aligns with the strategies, objectives and risks of the organisation
- Is appropriately positioned and adequately resourced

<sup>1</sup> Chartered Institute of Public Finance and Accountancy

<sup>2</sup> Chartered Institute of Internal Auditors

- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk based assurance
- Is insightful, proactive and future focussed
- Promotes organisational improvement.

### Responsibilities of Internal Audit

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Internal Audit's responsibility is to report to the Council on its assessment of the adequacy of the entire control environment, through the Audit and Risk Committee and the Executive.

It does this by:

- Providing assurance to the Council and its management on the quality of the Council's operations, whether delivered internally or externally, with particular emphasis on systems of risk management, resource control and governance;
- Providing equivalent assurances where necessary to relevant interested parties external to the Council, including the external auditor and funding agencies;
- Providing consultancy and advice on the setting up and monitoring of internal controls throughout the City Council and external organisations providing services on behalf of the City Council with the aim of improving economy, efficiency and effectiveness, managing risk and reducing the potential for fraud; and,
- Providing advice to the Council on those of its activities where there is felt to be exposure to significant financial, strategic, reputational and operational risk to the achievement of its (the Council's) objectives.

In addition:

- Through Internal Audit, although primarily through the Corporate Investigations Team, the prevention, detection and investigation of fraud are addressed.

Internal Audit will do this in accordance with:

- Relevant codes of ethics, standards and guidelines issued by the professional institutes and the Relevant Internal Audit Standard Setters (RIASS)<sup>3</sup>; this refers to the *Public Sector Internal Audit Standards*
- The City Council's Constitution and other relevant corporate standards and policies
- Its own Audit Manual and other internal standards, which will be adhered to by all its staff, partners and agents. These include requirements for recording of audit work and evidence to support audit conclusions.
- The *Internal and External Audit Joint Protocol*, or equivalent, as agreed from time to time with the Council's external auditor.

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<sup>3</sup> The RIASS include HM Treasury, the Department of Health, CIPFA and agencies of the Northern Ireland, Scottish and Welsh governments.

Internal Audit will consult with the Council's external auditor and with other relevant inspectorates and review bodies in order to coordinate effort and avoid duplication.

In addition, Internal Audit procedures are designed to ensure that all statutory and professional standards governing confidentiality of information are observed at all times.

### Objectives of Internal Audit

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As part of the City Council's system of corporate governance and in support of the Council's monitoring officer, Internal Audit's purpose is to support the Council in its activities designed to meet its declared objectives and to do so:

- As a contribution to the Council's management of risk;
- As a contribution to the development and implementation of the Council's policies and procedures;
- In compliance with the Council's values;
- As an aid to ensuring that the Council and its members, managers and officers are operating within the law and prevailing relevant regulations;
- As a contribution towards ensuring that financial statements and other published information are accurate and reliable;
- In support of the Council in its management of human, financial and other resources in an efficient and effective manner;
- In support of the Council in meeting its social, environmental and community priorities; and,
- As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.

### Position of Internal Audit within the Organisation

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#### Senior management

Internal Audit reports to the Director of Finance. However, the Head of Internal Audit and Risk Management has the right to unfettered access to Directors, the Chief Operating Officer, the Monitoring Officer, the City Mayor or to Council (through the Audit and Risk Committee or the Executive) if, in the opinion of the Head of Internal Audit and Risk Management there are matters of concern that could place the Council in a position where the risks it faces are unacceptable.

#### 'The Board'

The *Public Sector Internal Audit Standards* identify that Internal Audit has a responsibility to the organisation's 'board'. This is defined in the Standards as:

*The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically, this includes an independent group of directors (e.g. a board of directors, a supervisory board or a board of governors or*

trustees). If such a group does not exist, the 'board' may refer to the head of the organisation. 'Board' may refer to an audit committee to which the governing body has delegated certain functions.

The Council has delegated this function to the Audit and Risk Committee for the purposes of overseeing the Council's arrangements for audit, risk and the corporate governance assurance framework. The terms of reference for the Audit and Risk Committee include their responsibilities under the audit framework, including internal audit.

### Status of Internal Audit

Internal Audit is an independent review activity. It is **neither** an extension of, **nor** a substitute for, the functions of line management and must remain free from any undue influence or other pressure affecting its actions and reporting.

At all times, management's responsibilities include:

- Maintaining proper internal controls in all processes for which they have responsibility;
- Co-operating fully with Internal Audit and ensuring that Internal Audit can properly fulfil their role. To that end, there is an agreed protocol for escalating unresolved disputes;
- The prevention, detection and resolution of fraud and irregularities;
- Considering and acting upon Internal Audit findings and recommendations or accepting responsibility for any resultant risk from not doing so.

In addition, Internal Audit:

- **Must have** no executive responsibility, thus protecting its independence of reporting;
- Reserves to itself the right to determine its own work plans and priorities, which it will do in full compliance with recognised professional standards. Whilst Internal Audit will respond to requests for specially commissioned assistance, this is always subject to its existing commitments and the respective levels of identified risk; and,
- Will prepare annually, for the endorsement and agreement of the Audit and Risk Committee, an operational plan of the activities and areas that are to be covered by its work. This in turn will be based on a strategic prioritisation of key business, operational, management and financial risks.

### Scope of Internal Audit activity

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Internal Audit shall review, appraise and report upon:

- The effectiveness of all controls and other arrangements put in place to manage risk;
- The completeness, reliability and integrity of information, both financial and operational;
- The systems established to ensure compliance with policies, plans, procedures, laws and regulations whether established by the Council or externally;
- The effectiveness of arrangements for safeguarding the Council's assets and interests;
- The economy, efficiency and effectiveness with which resources are deployed; and,

- The extent to which operations are being carried out as planned and objectives and goals are met.

Internal Audit's work covers:

- All City Council activities, systems, processes, controls, policies, and protocols;
- All City Council departments, cost centres and other business units and establishments; and,
- All services and other activities for which the City Council is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

In addition:

- Where Internal Audit provides advice on the setting up of controls, it will do so as a consultant and the provision of such advice does not prejudice the right of Internal Audit subsequently to review, comment on and make recommendations on the relevant systems or controls in appropriate circumstances; and,
- The provision of an investigations service to support management in fulfilling its responsibilities to prevent, detect and resolve fraud, bribery, corruption and other irregularities is the responsibility of the Corporate Investigations Team – **who are also part of** Financial Services.

### Rights of Access

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For the purposes of carrying out Internal Audit's responsibilities, internal auditors shall:

- Have access at all times to any City Council premises and property;
- Have access to all data, records, documents and correspondence relating to any financial or any other activity of the City Council;
- Have access to any assets of the City Council; and,
- Be able to require from any member, employee, agent, partner, contractor or other person engaged on City Council business, any information and explanation considered necessary to allow it to properly fulfil its responsibilities.

These rights of access include access to relevant records (whether electronic or otherwise) held by service providers. They apply to Council services provided under contracts and partnership arrangements of all kinds including joint, shared and pooled arrangements. This right of access shall be incorporated within all relevant contract or service agreement documents involving City Council services provided other than internally. It applies to all internal auditors legitimately engaged on Leicester City Council Internal Audit business, whether they are employees of Internal Audit or are provided under an authorised agency or other contract or partnership.

Where services subject to audit are provided to the Council through partnership arrangements, the Head of Internal Audit and Risk Management shall decide, in consultation with all parties, the extent to which reliance shall be placed on assurances provided on behalf of partner organisations or their internal auditors. Where appropriate, adequate access rights



will be agreed if it is determined that Internal Audit should conduct its own work to derive relevant assurances rather than rely on other parties.

Internal Audit will safeguard all information obtained in the carrying out of its duties and will only use it for the purposes of an audit or investigation. Internal Audit will make no disclosure of any information held unless this is authorised or there is a legal or professional requirement to do so.

### Reporting

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Internal Audit:

- Reports on its work and makes recommendations addressed to the relevant Director and such other levels of management as need to know and are capable of ensuring that appropriate action is taken;
- Will report as required on the results of its work (including progress made in delivering the agreed Audit Plan) to the Director of Finance and the Audit and Risk Committee. This will include an annual report, which will contain the annual audit opinion on the adequacy and effectiveness of the City Council's framework of governance, risk management and control. This annual report and opinion will be a significant component of the annual review of the effectiveness of the system of internal control as required of the Council by the Accounts and Audit Regulations;
- Accepts that its responsibility does not cease at the point where a report is issued and will take reasonable action to ensure that recommendations are implemented, having due regard to the duty of the Director of Finance to ensure the Council has efficient arrangements for managing its financial systems;
- Will agree suitable performance measures from time to time with the Director of Finance to evaluate its performance and will maintain and publish information accordingly; and,
- Will make available, as requested, to members of the Audit and Risk Committee its final reports on audits and investigations (except where these make specific reference to disciplinary or legal matters concerning named individuals). The Director of Finance may stipulate that reports are to be treated in confidence.

The work of Internal Audit (including its opinion on the control environment) shall contribute to the Council's annual review of its system of internal control as required by the Accounts and Audit Regulations 2015.

### Audit Resources and Work Prioritisation

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The annual audit plan as agreed by the Audit and Risk Committee shall be the main determinant of the relative priority to be placed on each part of the work of Internal Audit. The Head of Internal Audit and Risk Management shall determine the actual deployment of available resources and shall do so within the framework of risk prioritisation used to draw up the **audit plan**.

The plan will have within it provision of resources to address unplanned work. This contingency shall be directed towards unplanned work including consultancy engagements

and covering other unforeseen variations in the level of resources available to Internal Audit, such as staff vacancies.

The Head of Internal Audit and Risk Management shall determine the resources needed, including the skills required, to deliver the audit plan. In the event that the audit risk assessment identifies a need for a greater degree of audit work than there are resources available, the Head of Internal Audit and Risk Management will identify the shortfall in the annual Internal Audit Plan and initially advise the Director of Finance, followed by the Audit and Risk Committee as needed. It shall be for the Audit and Risk Committee to decide whether to accept the risks associated with the non-delivery of such audit work or to recommend to the Council that it requires the Director of Finance to identify additional resources.

### Approval

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The Charter was reported to and approved by the Audit and Risk Committee at its meeting on 8 February 2017 and shall be subject to regular review by the Director of Finance and the Audit and Risk Committee.