

# Exeter City Council

## Internal Audit Charter

### 1. Introduction

1.1 The purpose of this charter is to define what Internal Audit is and explain its purpose, authority and responsibility

1.2 For the purposes of internal audit activity the following terms are defined as follows:

‘board’ – the Audit and Governance Committee

‘senior management’ – the Senior Management Team which is made up of the Chief Executive and Growth Director, Deputy Chief Executive and Assistant Directors.

### 2. Purpose, Scope and Authority

#### 2.1 Purpose

The Public Sector Internal Audit Standards 2013 (PSIAS) defines Internal Audit as:

*“... 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”*

#### 2.2 Scope

Financial Regulations 6(a) states:

*‘Internal Audit may investigate such financial records, systems and management procedures of the Council and its employees as considered necessary for the purposes of audit. For this purpose Internal Audit shall have authority at all reasonable times to visit all Council establishments and have access to all records and property of the Council and may require such explanations/assistance as he/she considers necessary’*

#### 2.3 Authority

The authority of the internal audit function is derived from legislation. The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which required that authorities shall *‘make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs’*. The Accounts and Audit (England) Regulations 2011 requires that *‘A local government body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control’*. Exeter City Council has delegated these responsibilities to the Assistant Director Finance.

### 3. Objectives

3.1 Internal Audit’s main objectives are to:

- provide a quality, independent and objective audit service that effectively meets the Council’s needs, adds value, improves operations and helps protect public resources
- provide assurance to management that the Council’s operations are being conducted in accordance with external regulations, legislation, internal policies and procedures
- provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes
- provide advice and support to management to enable an effective control environment to be maintained

- promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- investigate allegations of fraud, bribery and corruption

#### **4. Roles and responsibilities**

##### **4.1 Role of Internal Audit**

To meet Internal Audit objectives, Internal Auditors are responsible for:

- reviewing and assessing the soundness, adequacy and reliability of financial and non-financial management
- reviewing and assessing the effectiveness of internal controls and making recommendations for improvement, where appropriate
- reviewing and assessing procedures to check that the Council's assets and interests are adequately protected and risks are identified and effectively managed
- checking for compliance with legislation, Council policies and procedures
- promoting and assisting the Council in the effective use of resources
- undertaking independent investigations into allegations of fraud and irregularity in accordance with Council policies and procedures and relevant legislation

##### **4.2 Provision of the Internal Audit Function**

The Internal Audit Function is provided 'in house' and consists of the Audit Manager, 2 full-time auditors and 1 part-time auditor.

##### **4.3 Management Structure**

Internal Audit is part of the Office of Assistant Director Finance. However, in order to maintain its independence Internal Audit has a right of access to the Chief Executive and Growth Director and/or the Leader of the Council and/or the Chair of the Audit and Governance Committee should circumstances warrant such. In addition, there is a right of access to Councillors as a matter of last resort. Internal Audit does not carry out any non-audit functions.

##### **4.4 The Audit Manager is responsible:**

- in managerial terms to the Assistant Director Finance
- for the performance of the Internal Audit Service to the Audit and Governance Committee

##### **4.5 The Audit Manager's responsibilities to the Audit and Governance Committee include:**

- presenting for approval the internal audit charter
- presenting and obtaining approval of the risk-based annual audit plan
- reporting quarterly on the work undertaken by Internal Audit
- reporting any serious weaknesses found in the internal control systems, and any instances where corrective action has not been taken by management
- reporting any instances where responses to audit reports have not been received within a reasonable timescale of the issue of draft and/or final audit reports, and any instances where agreed Audit recommendations have not been actioned within an acceptable time period
- providing an annual audit opinion of the overall adequacy and effectiveness of the Council's internal control environment

##### **4.6 The Audit and Governance Committee responsibilities are in accordance with the committee's terms of reference**

## 5. Code of Ethics

5.1 The Internal Audit Service operates in accordance with the Public Sector Internal Audit standards 2013 (PSIAS) by:

- ensuring that all internal auditors conform to the Code of Ethics principles of integrity, objectivity, confidentiality and competency
- implementing the Attribute and Performance Standards as detailed in Section 5 of the standard

5.2 Internal Audit staff are required to make an annual affirmation of their knowledge of, and compliance with, the PSIAS Code of Ethics and must also have regard to the Committee Standards of Public Life's *Seven Principles of Public Life*.

## 6. Service Standards

6.1 What you can expect from us:

Internal Auditors will, at all times, exercise due professional care, act with integrity and take a professional, reliable, independent and innovative approach to their work.

It is essential that Auditors are impartial so that when an audit opinion is requested it will be unbiased and based upon the facts available. Should a situation arise where impartiality could be questioned, then another Auditor will be assigned to undertake the task concerned.

Where an auditor was previously employed within a service/area subject to audit then the Audit Manager will ensure that the auditor concerned is not assigned audits in that area until an appropriate amount of time has elapsed.

6.2 Audit Strategy

The Audit Manager prepares a risk-based audit strategy and translates this into a four year rolling plan that shows cyclical coverage of non-fundamental audits. Where there is a difference between the strategy/plan and resources available, this is reported to the Audit and Governance Committee

6.3 Annual Audit plan

To implement the audit strategy, an annual audit plan is established using a risk-based assessment methodology. The plan determines in broad terms the resources and skills needed, and is used for allocating Auditors' work. Should the plan indicate a need for additional resources, this will be discussed with the Assistant Director Finance. Assistant Directors/Corporate Managers are consulted on the plan during the planning process and asked if there are any areas or work they wish specifically to be incorporated into the audit coverage. The plan is then presented to senior management for approval prior to being approved by the Audit and Governance Committee in March each year. The plan is flexible and includes a contingency to allow for changes in priorities, emerging risks, ad hoc projects, fraud and irregularity, etc.

6.4 What we expect from you

Managers and staff should co-operate with the Auditors, and responses should be made to draft reports within 10 working days of issue of report. Where a response is not forthcoming a reminder will be issued. However, if a response is not received then the matter will be referred up to the next level of management, and ultimately to the Assistant Director/Corporate Manager, Chief Executive and Growth Director, Deputy Chief Executive, as appropriate.

## **7. Reporting**

### **7.1 Audit reports**

Audit reports:

- show the findings based on a risk assessment e.g. high, medium and low or may be advisory (a finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice)
- include an action plan showing the agreed actions and the target date for implementation
- give an opinion of the system as at the time of the audit and an opinion based on the agreed recommendations being implemented
- define the circulation of the draft and the final reports

### **7.2 Audit report circulation/Reporting structure:**

- Line managers receive a draft report for discussion followed by the final report
- Assistant Directors/Corporate Managers receive a copy of all final reports within their service
- Chief Executive and Growth Director receive a copy of all final reports
- Assistant Director Finance receives a copy of all reports for information

### **7.3 Reporting standards**

Upon completion of audits, draft audit reports are issued to the relevant line managers for them to confirm the accuracy of the audit findings. Managers are invited to contact the Auditor if they wish to discuss the report and asked to show their response to each recommendation on the draft report. For accepted recommendations, dates for action or implementation are recorded in the report and the action plan. The managers' responses are recorded in the final reports.

In accordance with professional standards, after three months from the date of issue of the final report, follow-up audits are undertaken to ensure that the agreed controls and actions have been implemented. Where the implementation date for the recommendation is beyond three months, then the follow-up will be due at three month intervals, as appropriate.

Any agreed recommendations not implemented within a reasonable timescale and any 'high' risk recommendations that are not accepted will be reported to the Audit and Governance Committee in accordance with the committee's terms of reference.

Internal Audit works to the reporting quality standards of:

- draft audit reports to be issued within 10 working days of the completion of the results table
- final audit reports to be issued within 10 working days of the discussion of the draft audit report
- final reports to be followed-up within 3 months of the date issue of the final audit report, to ensure that the accepted recommendations due for implementation have been established

## **8. Quality assurance**

8.1 The Audit Manager will maintain a process of review of the Internal Audit Service to provide reasonable assurance that its work conforms with the relevant standards and to the requirements of this document. Internal assessments will include:

- ongoing monitoring of the performance of the service including ensuring there is adequate supervision of work performed
- periodic self-assessments on how the service meets the requirements of the Public Sector Internal Audit Standards

8.2 External assessments of the internal audit service are conducted annually by the Council's external auditors.

8.3 Internal auditors are required to enhance their knowledge, skills and other competencies through continuing professional development.

## **9. Relationships**

9.1 General - in all of these relationships the person/s concerned will be treated with respect, courtesy, politeness and professionalism. Any confidential or sensitive issues raised with, or reported to, Internal Audit staff will be dealt with in an appropriate manner. Where issues could cause embarrassment to the Council, the appropriate manager will be advised immediately so that the issue can be addressed without delay.

9.2 Internal - the main contacts are with: Council employees, line managers, Assistant Directors, Deputy Chief Executive and the Chief Executive and Growth Director. Internal Auditors will ensure that they explain to the person/s concerned the purpose of the audit and the various stages that the audit will follow. Internal Audit will agree with the manager concerned the timing and scope of the audit and the circulation of the audit report.

9.3 Councillors – the main means of communication between Internal Audit and Councillors is via the Audit and Governance Committee which meets 4 times per year.

9.4 External – Internal audit will liaise with the external auditors in order to:

- foster a co-operative and professional working relationship
- eliminate the incidence of duplication of effort
- ensure appropriate sharing of information
- co-ordinate the overall audit effort

## **10. Fraud and irregularities**

10.1 The Audit Manager is responsible for reviewing and updating the Council's Anti-Fraud, Anti-Bribery and Anti-Corruption Strategy and for promoting an anti-fraud culture within the Council. This is achieved by the following:

- raising awareness of fraud by providing Anti-Fraud training via an e-learning package to all existing staff and all new staff as part of their induction
- assessing the Council's level of compliance with the recommendations contained in the Fighting Fraud Locally Strategy
- specific detailed testing in high risk areas
- participation in the Audit Commission national fraud initiative data matching exercise
- provision of a fraud hotline to allow suspected fraud and irregularity to be reported by telephone/internet directly to Internal Audit either anonymously or with contact detail provided
- investigation of all areas of concern identified through routine audit, reported to management or via the Council's Whistleblowing policy.

10.2 Assistant Directors/Corporate Managers are responsible for managing risks in order to prevent fraud, irregularity, waste of resources, etc. Internal Audit will assist Assistant Directors/Corporate Managers to effectively manage these risks.

10.3 However, no level of controls can guarantee that fraud will not occur, even when the controls are performed diligently with due professional care.

10.4 Where there is evidence or reasonable suspicion that a fraud or irregularity has occurred, then this must be reported immediately to Internal Audit. All cases will be dealt with in accordance with the Council's '*Anti-Fraud, Anti –Bribery and Anti-Corruption Strategy*' and '*Whistleblowing Policy* and Internal Audit's Fraud Response Plan.

## **11. Review**

11.1 The Internal Audit Charter will be reviewed biennially by the Audit Manager and presented to senior management and the board for approval.