

INTERNAL AUDIT CHARTER

2019-2022



Gloucester
City Council

ARA
AuditRiskAssurance

Gloucester City Council  STROUD DISTRICT COUNCIL  Gloucestershire COUNTY COUNCIL

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Introduction

Organisations in the UK public sector have historically been governed by an array of differing internal audit standards. The Public Sector Internal Audit Standards (PSIAS) 2017 provide a consolidated approach across the whole of the public sector enabling consistency, sound corporate governance and transparency.

The Standards encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) i.e. the Definition of Internal Auditing, Code of Ethics and the International Standards for the Professional Practice of Internal Auditing and define the way in which the Internal Audit Service should be established and undertake its functions.

Additional requirements and interpretations for Local Government are published via the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note for the UK PSIAS (2019 Edition).

The Standards require all internal audit functions to implement and retain an ‘Internal Audit Charter’. The purpose of the Charter is to formally define Internal Audit’s statutory role, authority, purpose, responsibility and position within Gloucester City Council (GCiC).

IPPF’s Mission and Core Principles for Internal Audit Services

“...to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”.

The “Core Principles” that underpin delivery of the mission require internal audit functions to:

- Demonstrate integrity;
- Demonstrate competence and due professional care;
- Be objective and free from undue influence (independent);
- Align with the strategies, objectives and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive, and future-focused; and
- Promote organisational improvement.

Authority

Accounts and Audit Regulations 2015

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (Section 151) and the Accounts and Audit Regulations 2015. The latter requires authorities 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.” (i.e. the PSIAS 2017 as reflecting proper internal auditing practice).

Purpose / Definition

The Council’s three lines of defence / assurance model clarifies that management (as the first line) is responsible for owning, establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The second line refers to the oversight arrangements in place to confirm that the controls in the first line are operating effectively, with Internal Audit forming the third line, i.e. providing independent assurance that the first and second line of defence are operating effectively.

It is important to think of the internal auditor as the Council’s critical friend, someone who can challenge current practice, champion good practice and support management in improvement, so that the Council as a whole achieves its strategic outcomes, priorities and objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. The role of internal audit is best summarised through its mandatory definition within the Standards, 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’.

Internal Audit Provision

The Internal Audit Service is provided by Audit Risk Assurance (ARA) under a Shared Service agreement between Gloucestershire County Council (Host Authority), Gloucester City Council and Stroud District Council. The Chief Internal Auditor is responsible for effectively managing the internal audit activity in accordance with the ‘Mission’, ‘Core Principles’, ‘Definition of Internal Auditing’, the ‘Code of Ethics’ and ‘the Standards’.

Accountability / Responsibility

The accountability for maintaining an adequate and effective system of internal audit within GCiC as per the Constitution lies with the Head of Policy and Resources as the Council's Section 151 Officer.

In addition, for the purposes of this Charter, the following definitions shall apply regarding accountabilities / responsibilities in relation to Internal Audit:

Definition	Details	Responsibility in relation to Internal Audit at GCiC
The Board	The governance group charged with providing independent assurance on the adequacy of the control environment, comprising risk management, control and governance.	Audit and Governance Committee.
Senior Management	Those responsible for the governance / management of the Council.	Senior Management Team
ARA Shared Service Board	Oversees the strategic direction and performance of the Shared Service.	ARA Shared Services Board Member – Head of Policy and Resources

Position in GCiC

The Chief Internal Auditor reports administratively to the Head of Policy and Resources and functionally to the Audit and Governance Committee, who are responsible for ensuring that there is a satisfactory standard of risk management, governance and internal control within the Council. In addition, the Chief Internal Auditor reports strategically to the ARA Shared Service Board, comprising of the three partner organisations Chief Financial Officers (s151 Officers) and/or their nominated deputies.

Right of Access

The Accounts and Audit (England) Regulations 2015 state that '*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*'.

The Chief Internal Auditor has the right of direct access to any Member or Officer of the Council including the Statutory Officers, i.e. Managing Director, Monitoring Officer and the Chief Financial Officer (s151 Officer).

Where it is considered necessary for the proper discharge of the internal audit function, the Chief Internal Auditor has the right of direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit and Governance Committee), including private meetings without management present.

To provide independent assurances to senior management and the board, Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is granted full, free and unrestricted access to all personnel, documents, personal records, other records, assets, and premises, belonging to the Council and/or its key delivery partner organisations, as considered necessary for the purposes of the audit.

In addition, Internal Audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

If required, this access should not be subject to prior notice, which extends to partner bodies and external contractors working on behalf of the Council. Internal Audit's right of access to third parties should be reflected in contracts and service level agreements.

All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities.

Independence and Objectivity

The Chief Internal Auditor will ensure that internal audit activity will remain free from interference by any element in the Council that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, report content and communicating results. The Chief Internal Auditor will ensure internal auditors:

- are sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in any other activity that may impair their judgment;
- do not perform any operational duties for GCiC or its partners;
- do not initiate or approve transactions external to the Internal Audit service;
- exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined; and

- make a balanced assessment of all the relevant circumstances and not be duly influenced by their own interests or by others in forming judgements and opinions.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, effective arrangements are in place within GCiC, to ensure the internal audit function:

- operates in a framework that allows unrestricted access to ‘Senior Management’ and ‘the Board’;
- reports functionally to ‘the Board’;
- reports in their own name;
- rotates responsibilities for audit assignments within the Internal Audit team;
- freedom to determine its priorities;
- completes individual annual declarations confirming compliance with rules on ethics, independence, objectivity, conflicts of interest, the Bribery Act 2010 and acceptance of inducements;
- ensures the planning process recognise and address potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles and/or undertaken consulting activity; and
- ensures independence and objectivity where executive or operational responsibilities lie with the Chief Internal. The Chief Internal Auditor does not have any executive responsibilities within GCiC and is independent of all audited activities.

The Chief Internal Auditor will confirm to the board at least annually that the internal audit activity is organisationally independent.

If there has been any real or apparent impairment of independence or objectivity, the details of the impairment will be disclosed to ‘Senior Management’ and ‘the Board’. The nature of the disclosure will depend upon the impairment.

To ensure the independence of the Chief Internal Auditor is safeguarded and that remuneration and performance assessment are not inappropriately influenced by those subject to audit.

Internal Audit Resources

The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide ranging internal audit, risk management and management experience.

The Head of Policy and Resources will provide the Chief Internal Auditor with the resources necessary to fulfil the Council's requirements and to meet statutory obligations. The Internal Audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, personal attributes, qualifications, experience and competencies required to perform and deliver its responsibilities. In addition to in-house internal audit resource, the Chief Internal Auditor may engage the use of external resources where it is considered appropriate, including the use of specialist providers e.g. IT internal audit provision and counter fraud specialists.

The audit plan is dynamic to ensure it remains responsive to the changing priorities and risks of the Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to 'Senior Management' and 'the Board'.

'Senior Management' and 'the Board' will be advised where, for whatever reason, Internal Audit is unable to provide assurance on any significant risks within the annual internal audit plan, due to limitations on resources.

If 'Senior Management', 'the Board' or the Chief Internal Auditor, consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Head of Policy and Resources accordingly.

Proficiency and Due Professional Care

Internal auditors will perform work in accordance with the PSIAS and with due professional care, competence and diligence. Internal auditors cannot be expected to identify every risk, control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance that the key risks (including the consideration of fraud and information technology risks) within the scope of their review, are being effectively controlled / managed, taking into consideration the relative complexity, materiality or significance of matters to which assurance procedures are applied.

Auditors will take into consideration the cost of assurance, in relation to the potential benefits and risk exposure.

Internal auditors will be required to undertake a programme of Continuing Professional Development in order to develop and maintain their professional and behavioural skills, competencies and knowledge.

Relationship with External Audit / Other Relevant Assurance Providers / Regulatory Bodies

Internal Audit will liaise, share information, including fraud and irregularity information to the external auditors and co-ordinate its activities with internal and external providers of assurance to ensure there is adequate coverage and minimise duplication of effort. Where other external and internal assurance providers have undertaken assurance work, Internal Audit will seek to rely on the work of these other providers, or jointly work with the third party, if deemed relevant and appropriate.

Scope of Internal Audit Activities

Assurance

The service is responsible for providing independent assurance across the Council's entire 'control environment', comprising risk management, control and governance. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of GCiC's strategic objectives are appropriately identified and managed;
- Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management;
- The actions of GCiC's officers, directors and contractors are in compliance with the Council's policies, procedures, and applicable laws, regulations, and governance standards;
- The results of operational activities or programs are being carried out effectively and efficiently consistent with established goals and objectives;
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity; and
- Resources and assets are acquired economically, used efficiently, and protected adequately.

This means that the scope includes all of the Council's operations, resources, services and responsibilities to enable the Chief Internal Auditor to provide an annual opinion. However, in addition to the core assurance activity, Internal Audit also provides the following services:

Counter-Fraud and Investigation

Managing the risk of fraud, corruption and bribery is the responsibility of management. Internal Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud and corruption will be detected. However, whilst Internal Audit does not have responsibility for the detection or prevention of fraud and corruption, Internal Audit fully considers the risk of fraud and corruption when undertaking its activities.

Investigations into potential financial irregularities are undertaken by Internal Audit, whether reported directly to the Chief Internal Auditor, or referred by the Monitoring Officer, as required under the Council's Counter-Fraud and Corruption Policy Statement and Strategy and Whistleblowing Policy. The scope and approach taken to the investigation is dependent upon the nature of the allegations, which may also require referral to the Police or other enforcement agencies.

In certain circumstances, Internal Audit may delegate the investigation of specific allegations to the service itself following an assessment of risk and financial impact.

On completion, findings are reported to an appropriate level of management, who will then be responsible for determining action to be taken. In addition, the Chief Internal Auditor reports all key frauds and irregularities to the statutory officers, namely the Managing Director, Monitoring Officer and Chief Financial Officer on a monthly basis and quarterly updates are provided to the Audit and Governance Committee.

Internal Audit also facilitates the Council's participation in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

Consultancy

The service also undertakes consultancy work designed to improve the effectiveness of risk management, control and governance processes at the request of the Council, subject to there being no material impact on the core assurance activity and the availability of skills and resources. Due to Internal Audit's knowledge of the Council's systems and processes Internal Audit is well placed to provide risk and control advice and support to managers on potential implications of changes to policy, process and/or systems. The provision of such advice does not prejudice Internal Audit's right to evaluate the established systems and controls at a later date.

In order to help services to develop a greater understanding of audit activity and have a point of contact in relation to any support they may need, Internal Audit has nominated a specific named portfolio lead auditor. The arrangements also enable Internal Audit to keep in touch with key changes and developments within services that may impact on its work.

Other Activity

The Chief Internal Auditor, may, at the request of ‘the Board’ or ‘Senior Management’, carry out investigations into issues where the Council’s strategic, operational and/or financial interests are at stake.

The Chief Internal Auditor shall seek approval from the Board for any significant additional consultancy services/other activity not already included in the Annual Internal Audit Plan, prior to accepting the engagement, if this materially affects the core assurance activity.

External Work

ARA provides an internal audit service outside of the Council and its partners. Such assurances fall under the following categories:

- Work under contract;
- Government Grant Chief Internal Auditor sign off; and
- Pension Fund activity.

Approval from the ARA Shared Service Board is obtained prior to entering into any significant contractual arrangements.

Risk Management

Internal Audit is not responsible for managing the Council’s risks, which is the responsibility of management. However, Internal Audit supports management in making its assessment of risk and impact. The Internal Audit service will also share information gathered during the course of the audit work with management to enhance management’s understanding of their risks and advise on the controls to manage them.

Internal Audit Planning

The Chief Internal Auditor will produce an Annual Risk Based Internal Audit Plan to determine the priorities of the internal audit activity. The proposed activity should be consistent with the Council’s priorities and objectives and taking into account the Council’s risk management framework, including risk appetite levels set by management and Internal Audit’s own judgement of risks.

To ensure our internal audit resources continue to be focussed accordingly, it is essential that we understand our clients’ needs, which means building relationships and consultation with our key stakeholders, which includes the Audit and Governance Committee and other assurance providers in order to gain crucial insight and ongoing ‘intelligence’ into the strategic and operational change agendas within the Council.

This insight is not only identified at the initial development stages of the plan but dialogue continues throughout the financial year(s) which increases the ability for the Internal Audit service to adapt more closely to meet the assurance needs of the Council, particularly during periods of significant change. The plan is therefore dynamic and flexible to meet these needs.

The Audit and Governance Committee are responsible to formally approve the Risk Based Internal Audit Plan, whilst the Chief Internal Auditor will be responsible for its delivery.

Reporting

Reporting to Management

A written report will be prepared and issued by the Chief Internal Auditor or designee following the conclusion of each Internal Audit activity and will be distributed as appropriate.

The Internal Audit report will include management's response, corrective action taken, or to be taken, action owners and target dates in regard to specific findings and recommendations. Internal Audit will follow up all high priority recommendations made and report, as required, to Senior Management and the Board any corrective actions agreed but not implemented.

Reporting to 'the Board' and 'Senior Management'

The Board (at Gloucester City Council is Audit and Governance Committee)

The Chief Internal Auditor shall deliver an annual internal audit opinion and report (and quarterly progress reports on Internal Audit activity) to 'the Board' that helps to inform the Council's Annual Governance Statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The annual report will include, as a minimum:

- The Chief Internal Auditor's opinion;
- A summary of the work that supports the opinion;
- A statement of conformance with the PSIAS; and
- The results of the quality assurance and improvement programme.

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- approving the Internal Audit Charter and Code of Ethics;
- approving the Annual Risk Based Internal Audit Plan;

- receiving communications from the Chief Internal Auditor on the Internal Audit activity's performance relative to its plan and other matters, including the annual report and opinion;
- receiving and considering major Internal Audit findings and recommendations;
- monitoring management's response to Internal Audit findings and the implementation of the recommendations, including where the Chief Internal Auditor has concluded that management has accepted a risk that may be unacceptable to the Council or concerns about progress with the implementation of agreed actions;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations;
- agreeing the scope and form of the external assessment as part of the Quality Assurance and Improvement Programme;
- receiving the results of internal and external assessments of the Quality Assurance and Improvement Programme, including areas of non-conformance with professional standards;
- approving significant consulting services not already included in the audit plan, prior to acceptance of the engagement, if this materially impacts on core assurance activity.

Senior Management

As those responsible for the management of the Council it is imperative that the Senior Management Team is engaged in:

- reviewing and being consulted on the Internal Audit Charter and Code of Ethics;
- reviewing and being consulted on the Risk Based Internal Audit Plan;
- receiving communications from the Chief Internal Auditor on the Internal Audit activity's performance relative to its plan and other matters;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations; and
- receiving the results of internal and external assessments of the Quality Assurance and Improvement Programme, including areas of non-conformance.

Within GCiC, the Head of Policy and Resources and the Chief Internal Auditor ensure that all of the above are brought to the attention of the Senior Management Team.

Management can assist the process of Internal Audit by:

- Early notification of plans for change, including new operational systems and processes;
- Considering and responding to audit reports and recommendations within a reasonable time period; and
- Notifying the Chief Internal Auditor immediately of any suspected fraud, irregularity, theft and improper use of misappropriation of the Council's assets, property or resources.

Quality Assurance and Improvement Programme (QAIP)

The PSIAS require that the Internal Audit function is subject to maintaining a Quality Assurance and Improvement Programme that must include both internal and external assessments. The Chief Internal Auditor has developed and implemented a QAIP that covers all aspects of the internal audit activity which enables conformance with all aspects of the PSIAS to be evaluated.

In addition, the Chief Internal Auditor will communicate to the Senior Management and the Board on the internal audit activity's QAIP, including results of annual internal assessments and external assessments conducted at least every five years.

The external assessment will be undertaken by a qualified, independent assessor or assessment team from outside the Council. Progress against any improvement plans agreed following external assessment, will be reported in the Internal Audit Annual Report.

The Chief Internal Auditor will discuss options for the assessment jointly with the ARA Shared Services Board and the partner Audit Committees.