

APPENDIX B

INTERNAL AUDIT: INTERNAL AUDIT CHARTER

KEY CONTACTS		
Steve Crabtree	Chief Internal Auditor	☎ 384 557
Louise Cooke	Group Auditor	☎ 384 558
Julie Taylor	Group Auditor	☎ 384 559

March 2013

Next Review: By March 2014

INTRODUCTION

This Charter documents the terms of reference for Peterborough City Council's Internal Audit Section. It describes the section's purpose, authority, role, scope and principal responsibilities. It also outlines the relationship between Internal Audit and management, in terms of what can be expected from Internal Audit, and what Internal Audit expects from managers.

The Charter is reviewed annually.

DEFINITION OF AUDIT

The requirement for local authorities to have an internal audit function is determined by section 151 of the Local Government Act 1972, which requires that authorities "*make arrangements for the proper administration of their affairs*". The Accounts and Audit Regulations 2011 (SI¹ 2011 / 817), regulation 6, more specifically require that a "*relevant 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 the proper practices in relation to internal control*". The provision of internal audit is the responsibility of the Council; this responsibility has been formally delegated to the Executive Director of Strategic Resources.

The **Public Sector Internal Audit Standards** 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."

VISION / MISSION STATEMENT

Internal Audit will provide the public, Councillors and Council officers with confidence that Council operations are properly controlled and risks effectively managed. Where assurance is not possible the service will ensure that the implications and risks are understood to ensure proportionate action is taken.

Internal Audit aims to provide a high quality and effective audit service that is responsive to the needs of departments. Internal Audit aims to add value to the Council systems by identifying areas for improvement and offering advice and assistance to clients, in order to ensure effective systems of internal control.

PURPOSE AND OBJECTIVES

As described above, statute requires that the Council put in place arrangements for the systematic review and evaluation of the internal control environment and governance arrangements, including its policies, procedures and operations. As an independent function, Internal Audit fulfils this requirement by examining and evaluating the activities of the Council and by contributing advice at an early stage in the implementation of any developments or amendments to processes.

A key objective of Internal Audit is to provide the Council with assurance of the adequacy of the internal control environment together with supporting the Executive Director of Strategic Resources to discharge duties as the s.151 Officer.

Internal Audit is NOT responsible for control systems. Responsibility for effective internal control rests with the management of the Council.

¹ SI: Statutory Instrument

SCOPE AND AUTHORITY

Internal Audit's role applies to all functions and services for which the Council is responsible. Internal Audit has unrestricted coverage of the Council's activities and unrestricted access to all records and assets which is necessary for Internal Audit to effectively fulfil its responsibilities, however and wherever these are held. This includes Council information which is held or managed by third parties on the Council's behalf.

For the purposes of internal audit activity, the Chief Internal Auditor has direct access, as appropriate, to:

- Senior Management. This includes the Chief Executive, the Monitoring Officer and the Executive Director of Strategic Resources;
- Elected Members. This includes the Leader and Cabinet Members, together with the Chair and Members of the Audit Committee. The Audit Committee acts as the "Board" overseeing the works of Internal Audit;
- Employees of the Council;
- Agents of the Council.

The Chief Internal Auditor reports also to the Audit Committee, attending all meetings, which are held on a periodic basis throughout the municipal year.

Internal Audit's authority is defined within the Council's Constitution - these include Financial Regulations, Conditions of Service, Scheme of Delegation and Code of Conduct. The authority for the production and execution of the Audit Plan and subsequent audit activities rests with the Chief Internal Auditor. The annual audit plan is agreed in consultation with the Council's Corporate Management Team and approved by the Council's Audit Committee.

INDEPENDENCE

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. Such independence is achieved by ensuring that:

- Internal auditors have **NO** operational responsibilities. If any arise, then an appropriate declaration will be made accordingly in line with Internal Audit Standards;
- Auditors declare any interests they may have and audit work is allocated to avoid the risk of conflicts. A separate conflicts register is maintained by the Chief Internal Auditor and reviewed on a six-monthly basis;
- Audit responsibilities are rotated. If an auditor is seconded out of the section, or is involved on any specific project, their independence is maintained by preventing them from auditing that particular activity for a specific time period (determined by senior managers);
- Internal Audit is involved in the determination of its priorities in consultation with the Audit Committee;
- The Chief Internal Auditor has direct access and freedom to report in his own name and without fear or favour to all officers and members and particularly to those charged with governance (the Chair of the Audit Committee, the s.151 Officer, the Chief Executive, the Monitoring Officer and the Leader of the Council); and
- Resources are made available to enable Internal Audit to fulfil their role and to provide assurance for the Annual Governance Statement.

RESPONSIBILITIES

For Internal Audit

Internal Audit responsibilities include but are not limited to:

- Examining and evaluating the adequacy of the Council's system of internal control, risk management and governance;
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures and regulations which could have a significant impact on operations;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Appraising the economy, efficiency and effectiveness with which resources are employed and the quality of performance in carrying out assigned duties;
- Producing an annual plan that provides adequate audit coverage of the Council's control environment within an agreed assurance framework;
- Co-ordinating with the work of the external auditors for audit planning and assisting the external auditors as required;
- Working in partnership with other bodies to secure robust internal control that protects the Council's interests.
- Providing an overall opinion on the control environment comprising risk management, control and governance.

In meeting its responsibilities, Internal Audit activities will be conducted in accordance with established Council policies and procedures. Internal Audit staff shall also maintain professional standards required by their respective professional body.

For Management

Managers are responsible for ensuring that control arrangements are sufficient to mitigate / address the risks facing their services to an adequate degree. Management is also responsible for ensuring that staff are aware of the processes and procedures required to operate the internal control systems. All managers can assist the process of internal audit by:

- Providing access at all reasonable times to premises, personnel, documents and assets that the internal auditors consider necessary for the purpose of their work;
- Giving information and explanations that are sought by the internal auditors in the course of their work;
- Providing input to both the audit plan and the Terms of Reference for each review, to ensure attention is focussed on areas of greatest risk;
- Early notification to Internal Audit of plans for change, including new operational systems and processes;
- Implementing agreed actions arising from audit recommendations in a timely and effective manner;
- Ensuring that where key systems are managed by an external organisation that contractual documentation identifies, in consultation with the Chief Internal Auditor, the internal audit arrangements for those key systems; and
- Notifying suspicions of fraud, theft or other irregularity, in accordance with the Council's Anti-Fraud and Corruption Strategy.

EXTERNAL RELATIONSHIPS

External Auditors

Internal Audit's role and function is distinct from external auditors. The council's external auditors, PricewaterhouseCoopers, have a Code of Practice and specific statutory responsibility for the audit of the Financial Aspects of Corporate Governance and the audit of financial statements.

External and Internal Audit co-operate to provide assurance to the Council in respect of the internal control environment. External Audit is given the opportunity to input and review Internal Audit plans and activities to assess its effectiveness and to obtain part of the audit assurance they require in relation to their audit of the financial statements. Additionally, Internal Audit carry out specific work on behalf of External Audit, including the audit of teachers' pension payments and certain grant claims.

Audit Groups

Internal Audit meets regularly with audit groups comprising Head's of Internal Audit from other councils to discuss best practice and developments in the audit profession, as well as exploring partnership working.

It also liaises with a larger network of local authority auditors, as well as other public and private sector auditors through national forums such as the Better Governance Forum to share and develop best practice.

Inspection Bodies

Internal Audit liaises with a variety of inspection bodies, where appropriate, to assist in formulation of our Audit Plan and to ensure that there are no gaps or duplications in the assurance provided to those charged with governance.

Third Parties

Internal Audit liaises with third party service providers to determine the level of assurance they are providing to the Council and the Partnership.

Similarly, Internal Audit may be required to provide assurance to other outside parties. Where required, audit reports will be provided to respective Audit Committees.

QUALITY ASSURANCE

The work of Internal Audit is controlled to ensure an effective level of performance, compliant with best practice codes, is maintained. All auditors are responsible for conducting audits with reference to due professional care and ethical standards, but the Chief Internal Auditor ensures that quality and performance are achieved by the following means:

- An Audit Manual describes policies and procedures for the guidance of staff. This builds upon the CIPFA Audit Manual;
- Assignments are allocated according to the experience and skills of individual auditors;
- Internal review of work standards is undertaken through a system of management review involving senior audit staff. This incorporates review of all audit documentation and reports prior to release;
- Quality questionnaires are issued at the end of each audit review. Completed questionnaires are recorded and monitored against performance indicators. If standards have slipped, quality issues are discussed with senior management across the Council;
- A self assessment of compliance with current best practice is carried out periodically (whether by internal assessment or peer review) and other external quality reviews are commissioned as appropriate; and
- A separate independent (external) review of quality and compliance with standards is also undertaken to meet Public Sector Internal Audit Standards, as a minimum every 5 years.

Quality also depends on appropriate staffing, in terms of numbers, grades, qualifications and experience. The Chief Internal Auditor is CIPFA qualified. Other auditors are professionally qualified

within the field of accountancy or internal audit, or are in the process of becoming qualified. Training needs are assessed as part of the appraisal process and time and financial resources (subject to availability) are made available to all staff to undertake continuing professional development.

AUDIT PROTOCOLS

Annual Planning

Internal Audit review the Audit Plan on an annual basis which is agreed through the Audit Committee. This document sets out the commitment to continue to develop the audit role and activity, principally as an internal function to Peterborough, but also to seize any opportunities to develop into other areas, e.g. shared arrangements with Cambridge City Council.

Internal Audit will prepare a risk based audit plan, taking into account of the Council's risk management process and the Assurance Framework. Any difference between the plan and the resources available will be identified and reported to the Audit Committee. The risk based plan will outline the assignments to be carried out and the broad resources and skills required to deliver the plan. It will provide sufficient information for the Council to understand the areas to be covered and for it to be satisfied that sufficient resources and skills are available to deliver the plan. Areas included in the audit plan are highlighted in **Table 1**.

TABLE 1: AUDIT ACTIVITIES
<ul style="list-style-type: none"> • Core system assurance work • Governance, Risk Management and Assurance Framework • ICT governance and risk • Corporate / Cross Cutting audits, including value for money reviews • Contracts and Projects • Departmental specific reviews • Compliance activity e.g. schools • Grant claim verification • Fraud and irregularities² • Follow up activity • Internal consultancy / advice on risks, controls and procedures • Fee Paying Audit work • Member support

The audit plan will be kept under review to identify any amendment needed to reflect changing priorities and emerging risks. It will be flexible, containing an element of contingency to accommodate assignments which could not have been readily foreseen. However, on occasions, specific audit requests take precedence over the original audit plan and will be required as additional work rather than as a replacement. Resources, such as specialist or additional auditors may be required to supplement this. Internal Audit will reserve the right to make a charge for any additional work that is over and above that originally planned.

Annual audit plans will be discussed with each Executive Director and Departmental Management Team prior to their formal approval.

Notification of an Audit

The Director, Head of Service, service manager and other relevant managers will be given sufficient notice prior to the start of each audit assignment. After discussion with relevant managers, an Audit Brief, detailing the objectives and timings of the audit, will be issued to the Head of Service, service manager and other relevant managers. However, this arrangement does not preclude Internal Audit from making unannounced or short-notice visits.

² A joint working arrangement between Internal Audit and Corporate Compliance Team to deal with allegations of fraud and irregular activity. A primary role for Internal Audit is to evaluate the control weaknesses that have allowed a fraud to take place or remain undetected, and provide recommendations to improve fraud prevention and detection. Referrals are usually received by the Corporate Compliance Team and investigated by them, with assistance by Internal Audit where required. Where there is irregular activity, but fraud is not suspected, Internal Audit will consider the need for a review.

Conduct of Audit

Significant issues arising during the course of the audit will be discussed with the service manager during the course of the audit. At the end of an audit, findings will be discussed with the service manager at his choice of an exit meeting (at the conclusion of fieldwork) or a draft report meeting.

Reporting

Reports contain an opinion on the control environment of the area under review, and a table of recommendations for improvement, prioritised according to the level of risk. **Table 2** provides information on the criteria used to determine the opinion and risk classification.

TABLE 2: AUDIT OPINION / CLASSIFICATION OF RISKS		
We categorise our opinions according to our assessment of the controls in place and the level of compliance with these controls:		
Opinion	Description	Guide For Awarding
FULL assurance	The system is designed to meet objectives and controls are consistently applied that protect the Authority from foreseeable risks.	Only LOW recommendations.
SIGNIFICANT assurance	The system is generally sound but there are some weaknesses of the design of control and / or the inconsistent application of controls. Opportunities exist to mitigate further against potential risks.	Predominantly LOW and MEDIUM recommendations or a significant number of LOW recommendations.
LIMITED assurance	There are weaknesses in the design of controls and / or consistency of application, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.	Predominantly MEDIUM and HIGH recommendations, or a significant number of LOW and MEDIUM recommendations.
NO assurance	Controls are weak and /or there is consistent non-compliance, which can result in the failure of the system. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives.	One CRITICAL or a significant proportion of HIGH recommendations.
We categorise our recommendations according to their level of risk and priority for implementation		
PRIORITY	LEVEL OF RISK	
CRITICAL	Extreme control weakness that jeopardises the complete operation of the service. TO BE IMPLEMENTED IMMEDIATELY.	
HIGH	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency. TO BE IMPLEMENTED AS A MATTER OF PRIORITY.	
MEDIUM	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority. TO BE IMPLEMENTED AT THE FIRST OPPORTUNITY.	
LOW	Control weakness which, if corrected, will enhance control procedures that are already relatively robust. TO BE IMPLEMENTED AS SOON AS REASONABLY PRACTICAL.	

Our current reporting arrangements are set out in **Table 3**.

TABLE 3: INTERNAL REPORTING ARRANGEMENTS DURING AUDITS	
Stage	Commentary
Audit Brief	Set up and agreed with manager(s)
Fieldwork	Assignment undertaking including interviews, testing etc.
Exit Meeting	At conclusion of fieldwork, issues raised for reporting (if not already provided during course of fieldwork).
Draft report	Produced within 15 working days of completion of fieldwork / exit meeting. Head of Service / Line Manager to formally respond within 15 days, including acceptance (or not) of recommendations together with timescale proposals to implement.
Final Report	Internal Audit incorporates all management comments within the report and re-issue as a final within 10 days of receiving the response. The report will be distributed to the Chief Executive, Director, Head of Service, service manager together with the Leader of the Council and Audit Committee chair. Unless a special investigation, a questionnaire will be included with the final report to assess management's opinions on the conduct of the audit and the usefulness of the report
Non Responses	If management do not respond to the draft report, a reminder will be sent to the original recipients requesting a response within 10 working days. The reminder will be endorsed by the Audit Committee Chair as to it the importance of responding to audit reports. After that time, a further reminder will be sent to the original recipients and the relevant Director, requesting a response within 10 working days. All delayed or non-responses to audit reports will be reported to the Audit Committee.

Our current frequency of reporting is documented in **Table 4**.

TABLE 4: PLANNING AND REPORTING FREQUENCY			
Reports	To	At	Content
Audit Assignment Report	<ul style="list-style-type: none"> • Service Manager (or Head teacher) • Director (or Chair of Governors) 	The end of each audit assignment as the main recipient	<ul style="list-style-type: none"> • Executive Summary • Audit Opinion • Detailed risk issues • Agreed improvement plan
	<ul style="list-style-type: none"> • Chair of the Audit Committee • Leader of the Council • Cabinet Member for Resources • Chief Executive • s.151 Officer 	At the conclusion of the audit for information purposes	<ul style="list-style-type: none"> • Executive Summary • Audit Opinion • Detailed risk issues • Agreed improvement plan
Half Year Progress Reports	Audit Committee	To comply with Committee cycle	<ul style="list-style-type: none"> • Progress against annual plan and performance data • Amendments to current annual plan • Details of significant risk issues • Details of non-responses or non-implementation of recommendations
Annual Opinion and Performance Report	<ul style="list-style-type: none"> • Audit Committee • Corporate Management Team • s.151 Officer • Monitoring Officer • External Audit 	The end of each year	<ul style="list-style-type: none"> • Annual assurance report giving Chief Internal Auditor's opinion on the control environment • Achievement of the annual plan and performance data.
Annual Audit Plan	<ul style="list-style-type: none"> • Audit Committee • Corporate Management Team • s.151 Officer • External Audit 	Beginning of every year	<ul style="list-style-type: none"> • Audit area • Audit risk assessment • Budgeted days • Timetable

Follow-up

The implementation of agreed recommendations will be subject to self-assessment by management within 6 months of the final report. Internal Audit will provide the service manager with a template containing the agreed action plan, which should be updated with progress and returned within 15 working days.

Internal Audit will check the implementation status by further audit review and testing as appropriate and will issue a follow-up report.

Continuing significant weaknesses will be reported to the Audit Committee.

This page is intentionally left blank