

**Report to the Audit and Governance
Committee**



Report reference: AGC-007-2014/15
Date of meeting: 25 September 2014

**Epping Forest
District Council**

Portfolio: Governance and Development Management
Subject: Internal Audit Charter
Responsible Officer: Brian Bassington (01992 564446)
Democratic Services Officer: Gary Woodhall (01992 564470)

Recommendations/Decisions Required:

(1) The Committee is asked to comment on and agree the adoption of the Internal Audit Charter and Quality Assurance and Improvement Programme attached at appendix 1.

Executive Summary:

The Public Sector Internal Audit Standards (PSIAS) adopted throughout the UK Public Sector from 1 April 2013 requires that the purpose, authority and responsibility of internal audit activity must be formally defined in an internal audit charter, which the Chief Internal Auditor must periodically review and present to senior management and the Audit and Governance Committee for approval.

Reasons for Proposed Decision:

Internal Audit Charter as required by the Public Sector Internal Audit Standards.

Other Options for Action:

No other options.

Report:

1. The Relevant Internal Audit Standard Setters (RIASS) have adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) with additional requirements and interpretations for the UK public sector.
2. These standards are applicable to all UK Local Authorities, the Office of the Police & Crime Commissioner, Constabularies, Fire authorities, National Park authorities, joint committees and joint boards, Government departments and their executive agencies and non-departmental public bodies, Clinical Commissioning Groups and NHS Trusts.
3. *"The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the Chief Internal Auditor's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements and*

defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.”

4. The Audit and Governance Committee fulfils the role of the Board as determined by the Public Sector Internal Audit Standards.

5. In addition, there are further Public sector requirements in which the internal audit charter must also:

(a) define the terms ‘board’ and ‘senior management’ for the purposes of internal audit activity;

(b) cover the arrangements for appropriate resourcing;

(c) define the role of internal audit in any fraud-related work; and

(d) include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

6. The Public Sector Internal Audit Standards require that the Chief Internal Auditor must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. This is detailed in appendix 1.

Resource Implications:

No specific implications.

Legal and Governance Implications:

Within the report.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Public Sector Internal Audit Standards (PSIAS).

Impact Assessments:

Risk Management

Internal Audit has a primary objective to provide an independent and objective opinion on the adequacy of the Council’s control environment, including its governance and risk management arrangements. The Internal Audit Charter confirms the authority, reporting lines and methodologies applicable to internal audit as required by the Public Sector Internal Audit Standards.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council’s general equality duties, reveal any potentially adverse equality implications?

No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

INTERNAL AUDIT CHARTER

Author: Brian Bassington

Title: Chief Internal Auditor

Date: 25th September 2014



Epping Forest District Council

1. Purpose, Authority and Responsibility

The Internal Audit Unit has been established by the Council as a key component of its governance framework as stated in the Council's Constitution. This Charter provides a framework for the conduct of Internal Audit at Epping Forest District Council and has been approved by the Council's Corporate Governance Group and Audit and Governance Committee.

2. The key provisions of this Charter are set out below.

2.1 Internal Audit Unit

The Council's Internal Audit Unit is an independent, objective assurance and consulting activity 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.

2.2 Independence & Objectivity

The Internal Audit Unit will remain free from interference by any element in the Council and its scope shall not be restricted in anyway. It shall be free to review the arrangements of any aspect of service delivery, finance or governance irrespective of whether those arrangements are provided directly or indirectly (via partnerships, contractually or any other business arrangement). The objectivity, impartiality, integrity and conduct of all Internal Audit staff must be above reproach at all times.

2.3 Authority

Internal auditors are authorised to have full, free and unrestricted access to all services and functions, premises, assets, employees, elected members, suppliers and contractors, records and other documentation and information that the Chief Internal Auditor considers necessary to enable the Internal Audit Unit to meet its responsibilities. All employees are required to assist the Internal Audit Unit in fulfilling its roles and responsibilities (Constitution, Part 4, K40 – K41).

2.4 Confidentiality

All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for the conduct of internal audit activities. The Chief Internal Auditor and individual audit staff (including contractors and external service providers performing work on behalf of internal audit) are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

2.5 Reporting

The Chief Internal Auditor shall submit to the Audit and Governance Committee, no later than the date at which the Council's annual governance statement is approved, an annual report and formal audit opinion.

2.6 Professionalism

The Internal Audit Unit will govern itself by adhering to the Public Sector Internal Audit Standards. Supplementary guidance issued and endorsed by the Relevant Internal Audit Standard Setters as applying to local government will also be adhered to along with the Council's relevant policies and procedures and the Internal Audit Charter. Non-conformance with the Public Sector Internal Audit Standards shall be reported to the Corporate Governance Group and the Audit and Governance Committee.

3. Relationship with Members & Senior Management

3.1 Audit and Governance Committee

The Accounts & Audit (England) Regulations 2011 require the Council to “undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices”.

The Council has established an Audit and Governance Committee (Constitution, Article 11) and specifically delegated to it responsibility to “provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority’s financial and non-financial performance to the extent that it affects the authority’s exposure to risk and weakens the control environment, and to oversee the financial reporting process.” The Internal Audit Unit shall report functionally to the Committee.

The Audit and Governance Committee fulfils the role of the Board as determined by the Public Sector Internal Audit Standards.

The Chief Internal Auditor shall have free and unrestricted access to the Committee and attend all of its meetings and have the right to meet with the Chairman of the Audit and Governance Committee and/or the relevant Portfolio Holder to discuss any matters or concerns that have arisen from internal audit work.

The Public Sector Internal Audit Standards are based upon The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing.

3.2 Senior Management

The Chief Executive and Management Board fulfil the role of senior management, as defined by the Public Sector Internal Audit Standards.

Audit and Governance matters are managed by the Corporate Governance Group, which consists of the Chief Executive, the Monitoring Officer (Director of Governance), the Section 151 Officer (Director of Resources), the Director of Neighbourhoods, the Director of Communities, the Deputy Monitoring Officer and the Chief Internal Auditor.

The Director of Governance shall support the Audit and Governance Committee by ensuring that there are effective arrangements for the internal audit of the control environment.

The Chief Internal Auditor has direct access to the Head of Paid Service, all levels of management and directly to elected members and shall report administratively to the Director of Governance (Constitution, Part 4, K40 – K41)

4. Independence & Objectivity

Independence is essential to the effectiveness of the Internal Audit Unit; so it will remain free from interference in all regards. This shall include, but not be limited to matters of audit selection, scope, procedure, frequency, timing or report content. Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments. The Chief Internal Auditor will confirm to the Audit and Governance Committee, at least annually, the organisational independence of the internal audit Unit.

The Chief Internal Auditor is responsible for the delivery of the Internal Audit and Corporate Fraud Investigation services. Both areas have a key part to play in mitigating the risks facing the Council. Responsibility for these operational areas is recognised by Management Board and the Audit and Governance Committee.

Internal audit staff will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment.

5. Authority & Confidentiality

Internal auditors shall have full, free and unrestricted access to all services and functions, premises, assets, employees, elected members, suppliers and contractors, records and other documentation and information that the Chief Internal Auditor considers necessary to enable the Internal Audit Unit to meet its responsibilities. All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities. All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for that purpose. The Chief Internal Auditor and individual audit staff (including contractors and external service providers performing work on behalf of internal audit) are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

6. Internal Audit Management

The Council shall appoint a Chief Internal Auditor who shall determine the priorities of, effectively manage and deliver the internal audit service in accordance with this Charter.

The Chief Internal Auditor shall ensure they have a comprehensive understanding of the Council's systems, structures and operations so allowing the preparation of strategic and annual risk based audit plans that are closely aligned to the need to provide assurance against the Council's business objectives as contained within its themes and aims, principal risks and framework of assurance.

Review and adjust the plans as necessary, in response to changes in the Council's risks, operations, programs, systems and controls.

Report annually the impact and consequence of any resource limitations across the strategic plan period to the Audit and Governance Committee, who will then recommend to Cabinet whether or not to accept the consequence identified or seek an increase in Internal Audit's resources.

Ensure that all audit work is completed to high standards and in accordance with the standards, practices and procedures as set out in the Public Sector Internal Audit Standards.

Undertake an annual review of the development and training needs of internal audit staff as part of the Council's Performance and Development review and arrange for appropriate training to be provided.

Put in place arrangements that ensure Internal Audit is notified of all suspected or detected instances of fraud, corruption or impropriety and in conjunction with the appropriate management, promote a counter-fraud culture within the Authority and determine the most appropriate method of investigating allegations.

7. Role and responsibilities

Internal audit reviews shall examine and evaluate the adequacy and effectiveness of the Council's governance, risk management, and internal control processes.

This shall be achieved via:

7.1 Communication: establish effective relationships with managers at all levels.

7.2 Assurance activities: results of which will influence the opinion on the adequacy and effectiveness of the control environment.

7.2.1 Risk based system audit reviews: the documentation, evaluation and testing of financial, operational and management information systems.

7.2.2 Information technology reviews: specialist evaluation of hardware, software and the IT environment.

7.2.3 Fundamental financial systems: Reviews focusing on agreed key controls.

7.2.4 Performance improvement: the economy, efficiency and effectiveness of business systems and processes.

7.3 Advisory activities: results of which will contribute to the opinion on the adequacy and effectiveness of the control environment.

7.3.1 Systems & processes: control advice on new and developing systems.

7.3.2 Consulting services: reviews at the request of management that add value and improve governance, risk management and control processes and support management in their work.

8. Reporting and Monitoring Internal Audit Reports

At the conclusion of a review, a written report will be issued to the appropriate manager, that will include an overall assurance opinion, but not provide absolute assurance, on the adequacy of the governance, risk and control processes. See Appendix 2.

Identify inadequately addressed risks and non-effective control processes and recommend corrective action based upon priority levels 1 (high) to 3 (low). See Appendix 2

Detail management's response and timescale for corrective action.

Identify issues of good practice.

When corrective action has not been agreed, reporting will be escalated to a level consistent with the Chief Internal Auditor's assessment of the risk.

The Chief Internal Auditor shall regularly review and report to Corporate Governance Group on the progress made by managers in introducing the agreed priority 1 recommendations. Senior Management shall ensure that agreed priority 1 recommendations are introduced.

9. Reporting to the Audit and Governance Committee

The Chief Internal Auditor shall present quarterly and annual reports to the Audit and Governance Committee that meets the requirements of the Public Sector Internal Audit Standards. The annual report shall be timed to support the Council's Annual Governance Statement and include an opinion on the overall adequacy and effectiveness of the control environment.

10. Quality and assurance programme

An annual review of Internal Audit, sufficient to meet the requirements of the Account & Audit (England) Regulations 2011 shall be completed. The results shall be reported to Corporate Governance Group and the Audit and Governance Committee.

The Chief Internal Auditor will arrange for an independent review of the efficiency and effectiveness of the internal audit unit to be undertaken at least every five years. The results of the review will be reported to Corporate Governance Group and the Audit and Governance Committee.

Improvement plans arising from any review of internal audit shall be prepared as appropriate, and reported to Corporate Governance Group and the Audit and Governance Committee annually.

11. Relationships with external audit and other assurance activities

Internal Audit will establish and maintain an open relationship with the external auditor and any other assurance provider. Internal audit will plan its activity so that there is adequacy of audit coverage and to minimise duplication of assurance effort.

External audit will have full and free access to all internal audit strategies, plans, working papers and reports.

12. Review of the Charter

The Chief Internal Auditor will review annually the Internal Audit Charter and report the outcome of that review to Corporate Governance Group. Approval of the Charter shall be the responsibility of the Audit and Governance Committee. This version was approved on the 25th September 2014.

Extract from Public Sector Internal Audit Standards

1300 Quality Assurance and Improvement Programme

The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

Interpretation:

A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the *Definition of Internal Auditing* and the *Standards* and an evaluation of whether internal auditors apply the *Code of Ethics*. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

1310 Requirements of the Quality Assurance and Improvement Programme

The quality assurance and improvement programme must include both internal and external assessments.

1311 Internal Assessments

Internal assessments must include:

Ongoing monitoring of the performance of the internal audit activity; and

Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Periodic assessments are conducted to evaluate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

The form of external assessments;

The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs.

Public sector requirement

The chief audit executive must agree the scope of external assessments with an appropriate sponsor, e.g. the Accounting/Accountable Officer or chair of the audit committee as well as with the external assessor or assessment team.

Existing Quality Assurance and Improvement Programme

Draft report review

File (working papers) review

Final report review / authorisation to issue final report

Customer survey form

Annual staff Performance Development Review

External Audit annual review of audit files

Annual review of the Effectiveness of the System of Internal Audit undertaken by the Corporate Governance Group in the context of the Council's Governance Statement

Internal Audit Annual Report

Constant review of developments within the profession (e.g. Lean audit, Computer Assisted Audit Techniques (CAATS), emerging risks)

Hosting regular meetings of the West Essex Audit Partnership* and attendance at the Essex Audit Group and London Audit Group to discuss best practice, identify any trends and share findings and risk assessments.

*Note: West Essex Audit Partnership consists of EFDC, Uttlesford DC, Harlow DC and Broxbourne BC

Proposed Addition to Existing Quality Assurance and Improvement Programme

To ensure conformance with the Public Sector Internal Audit Standards external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation which can be in the form of a full external assessment, or a self-assessment with independent external validation.

This is currently under discussion between the members of the Essex Audit Group where it has been suggested that group members would provide the external validation for a self-assessment. The group members consider that neighbouring authorities would not provide sufficient independence for the validation, so for example, the members of the West Essex Audit Partnership would not validate each other.

EFDC - Definition of Levels of Assurance**Assurance levels:**

The level of assurance to be applied will be based on the auditor's assessment of the extent to which system objectives are met, with the agreement of the Chief Internal Auditor. As a guide, the following triggers will be used, taking into account the level of risk of error, loss, fraud or damage to reputation.

Level	Evaluation opinion	Priority Triggers
Full assurance	There is a sound system of control designed to achieve system objectives, and the controls are being consistently applied.	Priority 3s or no audit recommendations.
Substantial assurance	There is a sound system of control designed to achieve system objectives, and the controls are generally being consistently applied. However, there are some minor weaknesses in control, and/or evidence of non-compliance, which are placing some system objectives at risk.	Priority 2s and one Priority 1 (if assessed as a low risk).
Limited assurance	There is a system of control in place designed to achieve system objectives. However, there are significant weaknesses in the application of control in a number of areas, and / or evidence of significant non-compliance, which are placing some system objectives at risk.	Between 1 and four 1s and (usually) several Priority 2s.
No assurance	The system of control is weak, and / or there is evidence of significant non-compliance, which exposes the system to the risk of significant error or unauthorised activity.	Five or more Priority 1s.

Priority Ratings

Each audit finding will generate an audit recommendation. These recommendations will be prioritised in accordance with the following criteria:

Priority 1 – Observations refer to issues that are fundamental to the system of internal control. We believe that these issues have caused or will cause a system objective not to be met and therefore require management action as a matter of urgency to avoid risk of major error, loss, fraud or damage to reputation. Failure to apply a Financial Regulation or Contract standing Order will normally be in this category.

Priority 2 – Observations refer mainly to issues that have an important effect on the system of internal control but do not require immediate management action. System objectives are unlikely to be breached as a consequence of these issues, although Internal audit suggested improvement to system design and / or more effective operation of controls would minimise the risk of system failure in this area.

Priority 3 – Observations refer to issues that would if corrected, improve internal control in general and ensure good practice, but are not vital to the overall system of internal control.