

**Eden District Council**  
**Accounts and Governance Committee**  
**30 June 2016**  
**Internal Audit: Annual Review of the Charter**  
**Report of the Director of Finance**

**1 Purpose of Report**

- 1.1 This report sets out the draft update of the Internal Audit Charter. The annual update is reviewed by this Committee.

**2 Recommendation**

1. The update of the Internal Audit Charter (see Annex) is agreed.
2. The changes to the Council's Accounting and Audit Rules set out at appendix A are agreed.

**3 Background to Report**

- 3.1 The Public Sector Internal Audit Standards (PSIAS) set the framework for how internal audit should operate in the public sector.
- 3.2 The detailed guidance on the application of PSIAS in local government internal audit is contained in the CIPFA (Chartered Institute of Public Finance and Accountancy) Local Government Application Note for the United Kingdom PSIAS. The Accounts and Audit Regulations 2015 state, '*A relevant authority must 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.*' The 'guidance referred to is the Application Note referred to above.

**4 Internal Audit Charter**

- 4.1 Under the PSIAS the purpose, authority and responsibility of the internal audit activity is formally defined in an Internal Audit Charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics*, and the *Standards*.
- 4.2 Under the PSIAS responsibility for, and ownership of, the Internal Audit Charter rests with the Council. The PSIAS require the 'Chief Audit Executive' (at Eden the Director of Finance in his role of Head of Internal audit) reviews the Charter periodically and present it to senior management and then the 'Board' for final approval.

- 4.3 The draft Internal Audit Charter is set out as an Annex: it was agreed as a draft by Management Team (in the role of senior management) on 7 June 2016. The changes from the current version are minor and shown as Track Changes. The changes arise primarily out of the replacement of the national Accounts and Audit (England) Regulations 2011 by a revised 2015 version. The charter is presented to this Committee in its role as 'board' for the purposes of the PSIAS.
- 4.4 The Charter is the Council's and all internal audit work done must be in compliance with this Charter. This includes work done both by the in-house Senior Auditor and the work bought-in under contract from TIAA Ltd. As noted above, the proposed update is substantially the same as the current Charter.

## **5 Policy Framework**

- 5.1 The Council has four corporate priorities which are:
- Decent Homes for All
  - Strong Economy, Rich Environment
  - Thriving Communities
  - Quality Council
- 5.2 Section 7 of the Council's Accounting and Audit Rules set out the key aspects of how internal audit operates in the Council. These Rules form part of the Constitution and support many of the requirements that are incorporated in the Charter.

## **6 Implications**

### **6.1 Legal**

- 6.1.1 There are no implications.

### **6.2 Financial**

- 6.2.1 Any decision to reduce or increase resources must be made within the context of the Council's stated priorities, as set out in its Council Plan 2015-19 as agreed at Council on 17 September 2015.
- 6.2.2 There are no implications.

### **6.3 Equality and Diversity**

- 6.3.1 The Council has to have regard to the elimination of unlawful discrimination and harassment and the promotion of equality under the Equality Act 2010 and related statutes.
- 6.3.2 There are no implications.

### **6.4 Environmental**

- 6.4.1 The Council has to have due regard to conserving biodiversity under the Natural Environment and Rural Communities Act 2006.
- 6.4.2 There are no implications.

## 6.5 Crime and Disorder

6.5.1 Under the Crime and Disorder Act 1998, the Council has to have regard to the need to reduce crime and disorder in exercising any of its functions.

6.5.2 There are no implications.

## 6.6 Children

6.6.1 Under the Children's Act 2004, the Council has to have regard to the need to safeguard and promote the welfare of children in the exercise of any of its functions.

6.6.2 There are no implications.

## 6.7 Risk Management

6.7.1 Risk Management is a process whereby attempts are made to identify, actively control and reduce risk to protect the Council. This covers not only the traditional areas of insurable risk but also the organisational risk that the Council faces in undertaking all its activities.

6.7.2 If the Council was not to adopt an Internal Audit Charter, it would not be following proper audit practices.

## 7 Conclusion

7.1 The annexed draft update of the Internal Audit Charter complies with the requirements of PSIAS.

D J Rawsthorn  
Director of Finance

### Governance Checks:

Checked by, or on behalf of, the Chief Finance Officer	✓
Checked by, or on behalf of, the Monitoring Officer	✓

### Background Papers:

Public Sector Internal Audit Standards and CIPFA application note thereon  
Accounts and Audit (England) Regulations 2015  
Eden District Council Accounts and Audit Rules

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## Eden District Council: Internal Audit Charter

### Introduction

The Internal Audit Charter is a formal document that defines internal audit's purpose, authority and responsibility within Eden District Council.

The preparation of a Charter is a requirement of the Public Sector Internal Audit Standards 2013 (PSIAS). The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).

The PSIAS are supplemented with a Local Government Application Note (LGAN) produced by The Chartered Institute of Public Finance and Accountancy (CIPFA) in collaboration with the Chartered Institute of Internal Auditors. The Application Note was developed as sector-specific requirements for local government organisations within the UK Public Sector.

The Standards state that responsibility for and ownership of the Internal Audit Charter remains with the organisation. PSIAS 1000 requires the 'Chief Audit Executive' (CAE) to review the Charter periodically and present it to senior management and then the 'Board' for final approval.

The Standards also require that the Charter must define these terms for the purposes of internal audit activity. In this Council these are therefore:

- Chief Audit Executive – Director of Finance
- Senior Management – Management Team
- Board – Accounts and Governance Committee

The Charter documents the arrangements in the Council which are in place to meet the requirements of the PSIAS and LGAN and the principles to which internal audit works. It replaces the previous 'Internal Audit Terms of Reference'.

### Statutory Requirements

Section 5.1 of the Accounts and Audit Regulations 2015 states that "A relevant authority must 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". It is therefore mandatory that the PSIAS and CIPFA Application Note are followed in order to satisfy proper internal audit practices.

Regulation 5.2 requires that "Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit make available such documents and records; and supply such information and explanations as are considered necessary by those conducting the internal audit." Regulation 5.3 specifies that "documents and records includes information recorded in an electronic form."

Paragraph 6(1) of the Regulations also requires that "a relevant authority must each financial year conduct a review of the effectiveness of the system of internal control" and "prepare an annual governance statement".

Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should 'make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs'. CIPFA has defined 'proper administration' in that it should include 'compliance with the statutory requirements for accounting and internal audit'.

The CIPFA *Statement on the Role of the Chief Financial Officer in Local Government* states that the Chief Financial Officer (CFO) must:

- Ensure an effective internal audit function is resourced and maintained
- Ensure that the authority has put in place effective arrangements for the internal audit of the control environment
- Support the authority's internal audit arrangements, and
- Ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively.

The LGAN states that the relationship between the chief audit executive and the CFO is therefore of particular importance in local government. In Eden District Council the same officer is responsible for both roles.

## **Definition of Internal Audit**

The PSIAS provides the following definition of internal audit:

*Internal Audit 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.*

The above requires internal audit to be independent of the activities they audit.

The LGAN expands on this definition as follows:

*The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the organisation that these arrangements are in place and operating properly. The annual internal audit opinion, which informs the governance statement, both emphasises and reflects the importance of this aspect of internal audit work. The organisation's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.*

*To provide optimum benefit to the organisation, Internal Audit should work in partnership with management to improve the control environment and assist the organisation in achieving its objectives. This partnership must operate in such a way as to ensure that legal requirements and those of the PSIAS are met.*

*Internal audit provides an independent and objective opinion to the organisation on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. It may also undertake consulting services at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources.*

## Scope of Internal Audit Work

In accordance with the above definition, the work of Internal Audit therefore embraces the entire control environment of the Council not just financial controls and includes all of its activities, funded from any source. Work undertaken comprises of 'Assurance Work' which involves assessing how system processes are designed and working and how associated risks are managed and controlled, and 'Consultancy Work' which is concerned with improving those systems and processes where considered necessary.

Internal Audit work is planned to consider:

- The adequacy of risk assessments made by management on the areas under their control
- the soundness, adequacy and application of internal controls to mitigate risk;
- the reliability and effectiveness of systems in place for the authorisation, control and recording of income and expenditure;
- if operations are being carried out as planned, and if objectives and targets are being achieved;
- if adequate systems have been established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by the management of the organisation or externally;
- the completeness, reliability and integrity of information, both financial and operational;
- the extent to which the Council's assets, data and interests are properly accounted for and safeguarded from losses of all kinds, including fraud, corruption, waste, extravagance, abuse, ineffective management and poor value for money; and
- the economy, efficiency and effectiveness with which resources are deployed.

## Internal Audit Purpose and Authority

The **Purpose** of the Internal Audit activity in the Council is to fulfil the statutory requirements as recorded above and provide a service that complies with the PSIAS definition of internal audit.

The **Authority** of the function arises from these statutory requirements and from the provisions contained in Section 7 of the Council's Accounting and Audit Rules which form part of the Council's Constitution (Part 4, Section 6). These are included as Appendix A to the Charter. In particular these establish internal audit's right of access to all Council records, assets, personnel and premises, including those of partner organisations where appropriate, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

## Internal Audit Responsibilities

The Service is responsible for complying with this Charter, and conducting its work in accordance with the PSIAS and LGAN. By complying with the standards the service has a responsibility to undertake work in an ethical and unbiased manner and ensure that opinions and recommendations arising from audit work are based on sound evidence which has been professionally and objectively collected, recorded and reviewed.

As a general principle, Internal Audit has no responsibilities over the operations which it audits, other than providing recommendations and advice to management on risks, procedures and controls as a result of the reviews it undertakes. It should be noted that the Chief Audit Executive in the role of Director of Finance has operational responsibilities for a small number of the functions that are audited. Due to the size of the Council the current arrangements are considered pragmatic and to give value for money. To ensure that these arrangements do not compromise the independence of internal audit a number of safeguards are in place. As part of this Charter and under the Council's Accounting and Audit Rules (7.7 and 7.13) the Senior Auditor or external contractor are given full authority to report directly to the Chief Executive, the Accounts and Governance Committee, the Leader of the Council or External Audit if they have any concerns about suppression of audit evidence or the conduct of the Director of Finance. It should also be noted that the Director of Finance does not undertake any audit work on the Council's systems but purely manages the function.

Internal Audit work within the Council is split between an 'in-house' Senior Auditor who is responsible for undertaking predominantly financial systems work as well as providing on-site audit support and advice and an external contractor (currently TIAA Limited). The contractor provides 80 audit days per annum as part of a contract for the audit of Council Tax, Business Rates, Benefits, and other audits allocated in the Audit Plan. The current contract is due to end on 31 March 2019.

Internal Audit work will normally be restricted to that included in the Audit Plan. Work of a 'non-audit' nature will not normally be undertaken unless approved by the Accounts and Governance Committee or it is considered that this will require limited resources (less than 5 days) and is unlikely to affect completion of the audit plan.

Non-audit work currently undertaken is restricted to the Senior Auditor providing support and advice when requested in respect of 'system administration' aspects of the Council's Financial Management System and Cash Receipting System. This arises purely from the auditor's knowledge of these systems built up during his secondment as the Project Manager for implementation of the FMS in 2004 and upgrade of the Cash Receipting system in 2013. Advice provided generally relates to functional or technical rather than control issues. Responsibility for the day to day operation of these systems and associated controls remains the responsibility of the relevant designated system administrators in Financial Services and Revenues & Benefits.

When undertaking any non-audit work it is understood that the Senior Auditor is not acting in an internal audit capacity.

## **‘Chief Audit Executive’ / Director of Finance / Section 151 Officer**

As recorded in Accounting and Audit Rule 7.4, the role of Chief Audit Executive (CAE) is undertaken by the Director of Finance who manages the work of the in-house auditor and acts as client for the contract with the external provider. He is also responsible for ensuring there are established policies and procedures to guide internal audit activity. As CAE he is also responsible for preparing the Audit Plan and submitting various reports to the Accounts and Governance Committee on a regular basis. These are principally:

- every cycle
  - Completed Audits Report
  - Implementation of Internal Audit Recommendations report
- annually
  - Annual Report.
  - 
  - Audit Plan
  - Review and approval of Internal Audit Charter

In preparing the Audit Plan, the Director of Finance is also required to assess the adequacy of Internal Audit resources available to meet the requirements of the plan and report to Management Team and the Accounts and Governance Committee accordingly if resources are considered to be inadequate or likely to be unable to provide satisfactory assurance on internal control. This includes not just the physical resource but ensuring that the internal audit service has access to the appropriate range of knowledge, skills, qualifications and experience required to deliver the plan. If it is considered these requirements cannot be met then the CAE can propose an increase in the audit resource or a reduction in the range or scope of the planned audits.

As part of the Annual Report, the Director of Finance (as CAE) is required to provide an annual audit opinion on the systems of risk management, governance and internal control. This in turn supports the Annual Governance Statement that all local authorities must include as part of their annual financial statements. (*Accounting and Audit Rule 7.5*)

The CAE must also periodically review this Charter and present it to Management Team and the Accounts and Governance Committee for approval.

The Accounts and Audit Regulations 2015 requires the Council to conduct an annual review of the effectiveness of the system of internal control and prepare an annual governance statement. This is undertaken by the Director of Finance and reported to the Accounts and Governance Committee each year.

As Section 151 Officer the Director of Finance is also responsible for “making arrangements for the proper administration” of the Council’s financial affairs and ensuring there are “effective arrangements for the internal audit of the control environment” (*Accounting and Audit Rule 7.3*)

## **Internal Audit Position within the Council and Reporting Lines**

The 'in-house' Senior Auditor is part of the Department of Finance and is in the Director of Finance's business unit reporting directly to him and having no other 'line' responsibility thereby promoting independence. The internal audit contractor also reports to the Director of Finance as Chief Audit Executive. Audit Reports produced in-house are reviewed and approved by the Director of Finance before being issued to management and reporting to the Accounts and Governance Committee once 'finalised'. The Director of Finance as Chief Audit Executive also reviews the contractor's audit reports before they are reported to the Accounts and Governance Committee.

As noted above both the Senior Auditor and external contractor have authority to by-pass normal reporting lines if they have any concerns about the suppression of audit findings or recommendations.

The Director of Finance reports functionally as CAE to the Accounts and Governance Committee and organisationally as a "Chief Officer" within the Council's Management Team. He has direct working relationships with other Chief Officers and the Chief Executive and day to day contact with Members. He attends each meeting of the Accounts and Governance Committee to present the various audit reports required. The Senior Auditor and a representative of the external contractor may also attend meetings if requested by the Chairman or the CAE. The Senior Auditor or a representative of the external contractor (as appropriate) would normally attend meetings where they were reporting on one of the small number of areas for which the Director of Finance has direct operational responsibility.

## **Internal Audit Responsibilities Arising from Council Policies, Plans and Statements**

### **Council Plan and Portfolio Plans**

Whilst no Internal Audit responsibilities are specifically detailed in the Council Plan, audit work contributes to the 'strategic priority' of 'A Quality Council' by promoting control, risk and governance processes. The priorities, objectives and actions within the Council plan and associated portfolio plans are considered as part of the production of the Internal Audit Plan and when assessing objectives during the planning of each audit. Internal Audit also monitors progress against actions and targets via reports to Scrutiny and testing undertaken as part of audit work.

### **Annual Governance Statement**

The work of Internal Audit and resultant reports contribute to the assurances given in the Annual Governance Statement (AGS). This is "signed off" by the Leader and Chief Executive before being considered by the Accounts and Governance Committee (a statutory requirement). It is important therefore that Internal Audit fulfils its responsibilities in accordance with the PSIAS and this Charter in order to ensure that the appropriate assurances can be provided in the AGS. As required by Accounting and Audit Rule 7.2, Internal Audit is also required to undertake an annual evaluation of the completeness and accuracy of the AGS. This is usually undertaken by the contracted service.

## **Anti-Fraud, Theft, Bribery and Corruption Strategy and Response Plan**

Paragraph 2.4 details the role of Internal Audit in the prevention and detection of theft, fraud and corruption. (Paragraphs 2.1 and 2.3 outline the roles of staff and managers). Paragraph 4.1 of the Policy requires that the Director of Finance is informed as soon as any fraud is discovered and Paragraph 4.2.1 requires that he is informed immediately of all financial irregularities. Paragraphs 4.5 and 4.6 detail the responsibilities of the Director of Finance and 'Lead Officer' (usually the Senior Auditor) in respect of the discovery and investigation of a fraud. The requirement to report all irregularities to the Director of Finance or Internal Audit is also included in Accounting and Audit Rule 7.12

### **Confidential Reporting Code**

Paragraph 7.5 includes the Senior Auditor as a contact for anyone who may wish to report any issues under the terms of the code.

### **Council Constitution**

Part 4 Rules of Procedure, Section G – Accounting and Audit Rules 7 details the scope, authority and responsibilities of Internal Audit within the Council. (See Appendix A)

Part 4 Rules of Procedure, Section H – Procurement Rules, Paragraphs 4.6, 4.7 and 4.8 detail the responsibilities of the Senior Auditor in respect of the opening, recording and acceptance of tenders. Paragraph 1.6 also notes that throughout the Procurement Rules "the Director of Finance shall deputise for the Senior Auditor in his absence, and vice versa."

### **Treasury Management Practices Document / Treasury Management Operations and Systems Document**

TMP 7 requires that auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices. The annual audit of the Treasury Management function is planned to comply with Paragraph 3.4a of the TMOSD which requires that Internal Audit review compliance with approved policies and procedures, and confer with the Monitoring Officer if there is evidence of any non-compliance; and paragraph 3.4b which requires that Internal Audit audit the Treasury Management function.

### **National Fraud Initiative**

The Senior Auditor is the designated 'Key Contact' within the Council for all NFI data matching exercises run by the Cabinet Office. The key contact is responsible for ensuring all data required by the Cabinet Office for matching purposes is submitted within the timescales specified and for co-ordinating, monitoring and reviewing the investigation of returned matches (*Accounting and Audit Rule 7.17*).

## **Responsibilities within the Council in Respect of Internal Audit Issues**

### **Chief Officers and Senior Management**

The Council's Chief Officers are responsible for ensuring that appropriate and adequate internal controls exist, independently of any Internal Audit activity. Chief Officers must establish sound arrangements for planning, appraising, authorising and controlling their operations in order to achieve continuous improvement, economy, efficiency and effectiveness and for achieving their financial performance targets (*Accounting and Audit Rule 7.9*).

Paragraph 2.3 of the Council's Anti-Fraud, Theft and Corruption Strategy further emphasises this requirement and provides examples of the controls and procedures that Managers are expected to take into consideration in the operation of the areas under their control.

When an Internal Audit report is issued, it is for management (either Chief Officers or Section Heads depending on the contents of the report) to decide whether to accept and implement audit findings and recommendations. Any decision to reject a formal recommendation must be justified in writing on the schedule of recommendations issued by Internal Audit and forms part of the audit report issued at the end of each audit assignment. It is the CAE's duty to consider taking matters to a higher level of management, or to the Accounts and Governance Committee, if it is felt that non-acceptance of a recommendation would lead to unacceptably high risk (*Accounting and Audit Rule 7.10*).

### **Management Team**

This comprises of the Chief Executive and all Chief Officers of the Council who collectively have responsibility for approving the Strategic Audit Plan and the review of this Charter each year before these are submitted to the Accounts and Governance Committee who give final approval.

### **Statutory Officers**

The Chief Executive is Head of Paid Service and Accounting and Audit Rules 7.7 & 7.13 record right of the in-house auditor or internal audit contractor to report directly to the Chief Executive if considered necessary.

The Director of Governance is Monitoring Officer and the Confidential Reporting Code and Treasury Management Operations & Systems Document include reference to the reporting processes between the Monitoring Officer and Internal Audit.

The Chief Finance Officer (Director of Finance) also acts as Head of Internal Audit / Chief Audit Executive. Whilst this is not normal practice this has been approved as per Accounting and Audit Rule 7.4. The arrangements and reason for this are included in the relevant sections in this Charter and Accounting & Audit Rule 7.7.

## **Accounts and Governance Committee**

The Accounts and Governance Committee takes on the role of 'Audit Committee' in the Council as per the Terms of Reference in Part 3, Section 2.6 of the Council's Constitution:

The Accounts and Governance Committee will consist of nine members and will have specific responsibility for governance issues including audit functions. The Committee will meet at least quarterly linked to any appropriate audit/governance reporting timescales.

Terms of Reference:

- The Annual Governance Statement
- External Audit reports
- Internal Audit reports
- Final Accounts
- Setting the Council Tax

The Committee's responsibilities in respect of Internal Audit are further defined in Accounting and Audit Rule 7.8 (See Appendix A).

## **Relationships with Management**

Internal Audit aims at all times to maintain effective relationships with managers. This is achieved by:

- Consultation on the Audit Plan prior to the start of each year with Management Team;
- Discussing audit scope, objectives, timings etc.' with managers prior to the start of each audit;
- Agreeing the timing of audits with managers. Unannounced work will only be undertaken if warranted by specific circumstances;
- Allowing managers to raise any concerns or issues they may have and incorporating these into audit work;
- Undertaking risk based systems audits in accordance with professional standards to provide managers with assurance that the council has adequate and effective systems of governance, risk management and internal control;
- Issuing objective and constructive recommendations for improvement where areas of weakness are discovered as a result of audit work.
- Consulting on the draft audit report that is produced at the conclusion of each audit: the final reports are presented in summary to the Accounts and Governance committee

## **Relationships with Other Internal Auditors**

Provision of part of the Council's internal audit service by TIAA Ltd provides links with auditors working in various fields across the country and in particular at South Lakeland District Council as TIAA provide the full internal audit service there as part of the joint procurement that was undertaken. Contact is also maintained with auditors working for the remaining Cumbrian Councils.

## **Relationships with External Audit**

In accordance with Accounting and Audit Rule 7.14, the work of internal and external audit is co-ordinated wherever possible. Arrangements are recorded in a 'protocol' which sets out the basis of:

- liaison meetings
- external audit review of and reliance on, internal audit work;
- arrangements for sharing documents and information.

Following the abolition of the Audit Commission, the Council's External Auditors are Grant Thornton UK LLP.

## **Relationships with Other Regulators and Inspectors**

Internal Audit currently has no direct responsibilities or working arrangements with any such bodies but will provide advice and assistance if requested.

## **Relationships with Elected Members**

In dealing with Members internal audit staff are expected to comply with the provisions in the Council's 'Officers' Code of Conduct' and the 'Protocol on Member / Officer Relations' set out in Part 5, Section C of the Constitution. In addition internal audit have the right to report directly to certain members if it is felt to be warranted as per Accounting and Audit Rules 7.7 and 7.13.

## **Audit of 'Outside' Organisations**

Internal Audit does not generally have the resources to audit organisations to which the Council may provide grants or enter into partnership or contractual agreements with but the option of doing this if necessary needs to be maintained. Chief Officers or managers entering into such agreements should therefore include a requirement that the Council's Internal Audit section has a right of access to all documentation and records in which the Council has a financial interest, as per Accounting and Audit Rule 7.18.

## **Internal Audit Performance**

As per Accounting and Audit Rules 7.15 and 7.16 audit performance in respect of work undertaken and conformance with the 'definition of internal auditing', the 'code of ethics' and the 'standards' contained within the PSIAS will be regularly monitored and reported.

## **Approval and Review of the Internal Audit Charter**

The Charter is subject to regular review (latest update June 2016) and is annually approved by the Accounts and Governance Committee as per PSIAS requirements and Accounting and Audit Regulation 7.8f.

## Extract from Accounting and Audit Rules

### 7. Internal Audit

- 7.1 This section is based on the 2013 Public Sector Internal Audit Standards (PSIAS) issued by the Relevant Internal Audit Standard Setters which includes the Chartered Institute of Public Finance and Accountancy (CIPFA) for UK Local Government Authorities. It also complies with the provisions of the Accounts and Audit Regulations 2015.
- 7.2 Internal audit shall annually undertake an objective assessment of the framework of risk management, control and governance processes within the Council including an evaluation of the completeness and accuracy of the Annual Governance Statement.
- 7.3 The Director of Finance will 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. Such proper internal control practices for internal audit are those included in the PSIAS. The Director of Finance will also conduct an annual review of the effectiveness of the Council's system of internal control.
- 7.4 The Director of Finance shall be Head of Internal Audit (or Chief Audit Executive as defined in the PSIAS). He is responsible for overseeing the work of the in-house auditor and the external contractor as well submitting various reports to the Accounts and Governance Committee as detailed in 7.5 and 7.8 below. He must also ensure that there are established policies and procedures to guide the internal audit activity.
- 7.5 The Director of Finance must deliver an annual audit opinion and report that can be used by the Council to inform the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The annual report must include the opinion, a summary of the work that supports the opinion and a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.
- 7.6 When any non-conformance with the PSIAS impacts on the overall scope or operation of the internal audit activity the Director of Finance must disclose the non-conformance and the impact of this to Management Team and the Accounts and Governance Committee. If the deviation is significant then consideration must be given to including it in the Annual Governance Statement.
- 7.7 The Director of Finance also has some operational responsibilities for some of the functions that are audited. Given Eden's size, it is not practicable to comply with PSIAS 1130.A2 which requires that such work is overseen by a party outside the internal audit activity. To ensure as much independence and objectivity as possible is maintained in such circumstances the Director of Finance (as Head of internal Audit) does not undertake any actual audit assignments and the Senior Auditor and external contractor are given full authority to report directly to the Chief Executive or the Accounts and Governance Committee if they have any concerns about suppression of audit evidence, or the conduct of the Director of Finance.

- 7.8 Those functions of an audit committee relating to internal audit shall be undertaken by the Accounts and Governance Committee. These responsibilities are:
- a. to consider the Internal Audit Plan report - this shall be submitted each year after consideration by the Council's Management Team. This will also consider the adequacy of audit resources
  - b. to consider internal audit reports - summaries of individual audit reports are to be submitted after agreement of the final report with management. This will also detail any recommendations rejected and any failure to implement recommendations from the previous audit
  - c. to consider the annual internal audit report and annual internal audit opinion - to be submitted within three months of the end of each financial year
  - d. to monitor the implementation of agreed audit recommendations - to be reported to each meeting
  - e. to consider any other audit and financial investigation reports
  - f. to approve the Internal Audit Charter – this shall be submitted each year after consideration by the Council's Management Team. The Charter is a formal document that defines the internal audit's purpose, authority and responsibility. Key requirements of the Charter are included in these Rules
  - g. to receive reports on the results of external and periodic internal assessments of the internal audit service
- 7.9 The Council's Chief Officers are responsible for ensuring that appropriate and adequate internal controls exist, independently of any Internal Audit activity. Chief Officers must establish sound arrangements for planning, appraising, authorising and controlling their operations in order to achieve continuous improvement, economy, efficiency and effectiveness and for achieving their financial performance targets.
- 7.10 When an Internal Audit report is issued, it is for management to decide whether to accept and implement audit findings and recommendations. Any decision to reject a formal recommendation must be justified, in writing, on the Schedule of Recommendations issued by Internal Audit within the audit report at the end of each audit assignment. It is the Head of Internal Audit's duty to consider taking matters to a higher level of management, or to the Accounts and Governance Committee, if non-acceptance of a recommendation would lead to unacceptably high risk.
- 7.11 The Director of Finance and all internal audit staff shall have authority at all reasonable times to:
- a. enter lawfully on any Council premises or land;
  - b. have access to all records, documents and correspondence relating to any financial or other transactions of the Council;
  - c. require and receive such explanations from all officers and members of the Council as deemed necessary concerning any matter under examination; and
  - d. require any officer or member of the Council to produce cash, stores, or any other Council property under his control.

- 7.12 Whenever any matter arises which involves, or is thought to involve, irregularities concerning cash, stores, or other property of the Council, or any suspected financial irregularity in the exercise of the functions of the Council, the Chief Officer concerned shall, forthwith, notify the Director of Finance, or Internal Audit, who shall ensure that such steps have been, or are taken, as he considers necessary, by way of investigation and report. The Director of Finance will keep the Chief Officer appropriately informed of any matter under investigation.
- 7.13 Internal Audit has the right to report directly to the Chief Executive, external audit, the Accounts and Governance Committee, or the Leader of the Council, if warranted by the circumstances.
- 7.14 Internal Audit shall co-ordinate its work with the appointed external auditor for the benefit of the Council and to avoid duplication of effort. An Internal - External Audit protocol shall be maintained to set out the basis for the managed audit arrangements between the Council's internal audit service and the external auditor.
- 7.15 The performance of internal audit will be monitored on an ongoing basis as part of the routine policies and practices used to manage the activity. Periodic assessments will be conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards contained within the PSIAS.
- 7.16 External assessments of the internal audit service must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council. This assessment may take the form of a full external assessment or a self-assessment with independent external validation.
- 7.17 Internal Audit will co-ordinate the Council's response to the National Fraud Initiative and investigate a sample of returned matches in particular 'key and 'recommended' matches. Matches will also be investigated by other sections with responsibility for their associated match categories..
- 7.18 Chief Officers or managers entering into agreements with third parties should include a requirement that the Council's Internal Audit section has a right of access to all documentation and records in which the Council has a financial interest.