

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
26 June 2013

From: Director of Resources

Subject: ANNUAL REVIEW OF THE AUDIT VISION & CHARTER

All Wards

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of this report is to seek approval to a revised Audit Vision & Charter for the Internal Audit Service.
- 1.2 The Accounts and Audit Regulations 2011 require all Councils to provide an adequate and effective Internal Audit function. This is further expanded upon in the Public Sector Internal Audit Standards (mandatory for all public sector bodies from 1 April 2013), and the Local Government Application Note issued by CIPFA and the CIIA.
- 1.3 The standards specify that the Vision and Charter should be reviewed regularly and approved by senior management and the Board. Within HDC, the Audit, Governance and Standards Committee is regarded as the appropriate Board. The existing Vision and Charter has been reviewed and amended to ensure it complies with the PSIAS. The revised Vision and Charter is attached at **Appendix 1**.

2.0 DECISIONS SOUGHT:

- 2.1 The Internal Audit Vision & Charter for 2013/14 be approved.

3.0 RISK ANALYSIS:

3.1 Risk in approving the recommendation(s)

Risk	Implication	Prob*	Imp*	Total	Preventative action
There are no significant risks associated with the consideration of this report	N/a	N/a	N/a	N/a	N/a

3.2 Risk in not approving the recommendation(s)

Risk	Implication	Prob*	Imp*	Total	Preventative action
Internal Audit & Risk Management activity is not monitored by a Member body.	External Audit may comment if Members are not kept informed of risk management activity.	3	2	6	Members continue to require regular reports on internal audit work that has been undertaken by the Council.

Prob = Probability, Imp = Impact

Score range is Low = 1 to High = 5

4.0 CONCLUSIONS:

4.1 Having regard to this report, the proposed Internal Audit Vision & Charter should give sufficient assurance to the Council that the internal audit service delivered by Veritau will comply with the revised standards.

5.0 RECOMMENDATION:

5.1 It is recommended that the attached report be approved.

Background papers: None

Author ref: RP

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HAMBLETON DISTRICT COUNCIL

AUDIT VISION & CHARTER

REQUIREMENT FOR INTERNAL AUDIT

1. The Accounts and Audit Regulations 2011

Part 2 of these regulations specifically requires: -

“ 6. (1) A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”

2 Vision

Hambleton District Council requires a high quality internal audit service which will provide an independent opinion on the effectiveness of review of the Council's risk management, governance and systems of internal control. In doing so, the Internal Audit service will promote economy, efficiency and effectiveness.

3 Provided by: -

To achieve this, the Council entered into a Partnership Agreement with Veritau North Yorkshire Ltd, to provide Internal Audit services to Hambleton, and 4 other District Councils in North Yorkshire.

TERMS OF REFERENCE

4 Introduction

4.1 This document sets out the purpose, authority and responsibilities of Internal Audit.

4.2 The requirement for an authority to have an internal audit function is set out in the Accounts and Audit (England) Regulations 2011. The standards appropriate to the practice of internal audit are defined in the Public Sector Internal Audit Standards (PSIAS) issued by the relevant Internal Audit Standard Setters in April 2013. These are supplemented by a local government application note issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in collaboration with the Chartered Institute of Internal Auditors (CIIA).

5.0 Objectives

5.1 The PSIAS defines internal auditing 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"

5.2 In addition, Internal Audit will: –

- contribute to the management aim of maintaining an effective and well-managed authority and support the achievement of the Council's key priorities by recommending improvements in control, performance and productivity
- support the Director of Resources in the discharge of his statutory S.151 responsibilities as the Chief Finance Officer

- advise the Director of Resources on the relevant counter fraud and corruption measures to be taken in the Counter Fraud Strategy
- lead investigations into allegations of fraud, corruption and irregularity in accordance with the Council's Financial Procedure Rules and the Counter Fraud Strategy
- provide advice and support to ensure sound systems of control throughout the Council
- support and advise the appropriate Directors on Information Governance matters

6.0 Scope

6.1 The scope of Internal Audit's remit includes the Council's entire control environment, which comprises the policies, procedures and operations in place to: -

- establish and monitor the achievement of the Council's key priorities
- identify, assess and manage the risks to achieving the Council's key priorities
- facilitate policy and decision making
- ensure the economical, effective and efficient use of resources
- ensure the continued delivery of high quality services and the achievement of required outcomes
- ensure compliance with established policies, procedures, laws and regulations
- safeguard the Council's assets and interests from all possible losses, including those arising from fraud, irregularity or corruption
- ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes

6.2 This does not imply that all systems will be subject to review, but that all systems and activities will be included in the risk based audit planning process and be considered for review. In doing so, account will be taken of other assurance and monitoring arrangements which may be in place.

6.3 The scope of Internal Audit work also includes providing assurance on: –

- services provided by the Council on behalf of other organisations
- services provided by other organisations on behalf of the Council

6.4 Internal Audit may also undertake special reviews, consultancy, and fraud related work, as well as provide assistance to projects, etc, as requested by management. Prior to the commencement of any such work consideration will be given to the possible impact on the Audit Plan and the ability of the company to maintain its objectivity and independence. Such work will therefore be agreed with the Director of Resources to ensure that it does not compromise Internal Audit independence.

7.0 Authority

7.1 The requirement for internal audit is set out in legislation. Section 151 of the Local Government Act 1972, requires that authorities "make arrangements for the proper administration of their financial affairs".

7.2 The Accounts and Audit Regulations 2011 more specifically require that: -

" Any officer or member of that body shall, if the body requires: –

- (a) make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and

(b) supply the body with such information and explanation as that body considers necessary for that purpose”.

7.3 The Council has given Internal Audit, through its Financial Procedure Rules, the authority to: –

- enter at all reasonable times on any Council premises or land
- have access to all records, documents and correspondence relating to any matter or business of the Council
- require and receive such explanations as considered necessary concerning any matter under examination
- require any employee of the Council to produce cash, stores or any other Council property under their control
- report uncensored to any Director, the Monitoring Officer, the Chief Executive, Committee, the Executive or the Council as considered necessary.

7.4 Additionally, where relevant, appropriate access rights will be negotiated and included in contracts and service level agreements to ensure Internal Audit has the right of access to the accounts, records and all other documentation in relation to the Council’s transactions, and is entitled to seek and receive explanations from officers of the partner/funded organisation regarding the Council’s transactions.

8.0 Independence

8.1 Internal Audit is an independent assurance function, and as such has direct access to and can report uncensored as considered necessary to: -

- the Council, Executive or any Committee
- Chief Executive
- Director of Resources
- all other Directors
- the Monitoring Officer
- Senior Managers

8.2 Internal Audit services are provided under contract to the Council by Veritau North Yorkshire Limited (part of the Veritau group). The company is a separate legal entity. Staff undertaking internal audit work are either contracted to or employed by Veritau.

8.3 All Veritau staff will act with due professional care ensuring that they are fair and objective, free from any conflicts of interest and abide by professional standards and guidelines as issued by relevant professional institutions and the Public Sector Internal Audit Standards.

9.0 Responsibilities

9.1 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The Council is responsible for conducting, at least annually, a review of the effectiveness of the system of internal control – this is led by the Audit, Governance and Standards Committee.

9.2 Internal Audit undertakes an important role in advising the Council that these arrangements are in place and operating properly. In order to provide this assurance, the Head of Internal Audit will provide annually, a formal opinion on the adequacy of the Council’s systems of internal control, to support and inform the Annual Governance Statement.

9.3 To provide an opinion on the Council's systems of internal control Internal Audit will:

- maintain a strategy for delivering an internal audit service to meet these terms of reference including audit resources required and their allocation
- in discussion with Directorates, prepare and deliver a risk based Audit Plan, taking account of the Council's risk management processes. The Plan will be kept under review in any one year to reflect changing priorities and emerging risks
- plan, manage and carry out audits in accordance with the standards set out in the PSIAS, the local government practice note and the company's internal operating procedures, to ensure that work is undertaken with due professional care
- maintain good relationships with managers, partners, external audit and other review agencies
- ensure staff are competent, provided with appropriate training and professional development
- provide advice on internal control matters
- lead or advise as appropriate, investigations into allegations of fraud, corruption and irregularity
- ensure an effective and efficient internal audit service is provided to the Council through performance management, monitoring and benchmarking

9.4 Ultimate responsibility for ensuring that internal controls throughout the Council are adequate and effective rests with management and not Internal Audit. Managers are responsible for establishing effective arrangements for internal control, ensuring compliance with all applicable statutes and regulations, and for ensuring that public funds are properly safeguarded and used economically, efficiently and effectively.

9.5 Managing the risk of fraud and corruption is also the responsibility of management. Audit reviews alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for the prevention and detection of fraud and corruption, however Veritau staff will be alert in all their work to risks and exposures that could allow fraud or corruption to occur. The roles and responsibilities of management and Internal Audit in the investigation of allegations of fraud and corruption are set out in the Council's Counter Fraud Strategy.

10.0 Internal Audit Resources

10.1 The number of internal audit staff employed by Veritau will be kept under review to ensure that the company can deliver the agreed Audit Plan and provide the assurances required by those charged with governance and necessary for the preparation of the Annual Governance Statement. Where appropriate specialist skills will be procured to assist with an audit or investigation, should these be required.

10.2 The Council has a duty to provide sufficient resources to allow an adequate and effective internal audit service to be provided. Where it is felt that the resources are inadequate to meet internal audit objectives, the Chief Audit Executive (Head of Internal Audit) will formally report this to the Director of Resources and the Audit, Governance and Standards Committee.

11.0 Audit ,Governance and Standards Committee

11.1 Internal Audit is an assurance function and therefore must report to those charged with governance. The Audit, Governance and Standards Committee fulfils this role for the Council.

11.2 The Head of Internal Audit and/or his or her appointed deputy will attend all meetings of the Audit Governance and Standards Committee.

11.3 In order that the Audit, Governance and Standards Committee and Internal Audit can meet their objectives, the following reports will be received from the Head of Internal Audit and considered by the Audit Governance and Standards Committee:–

- Vision and Charter for Internal Audit Internal Audit Strategy and Plan
- progress against the Audit Plan
- annual report and opinion on the overall adequacy and effectiveness of the Council's internal control environment.

11.4 The Head of Internal Audit will maintain effective working relationship with the Audit Governance and Standards Committee and assist the Committee in its own review of its remit and effectiveness. The Head of Internal Audit (or his deputy) will meet privately with the Audit Governance and Standards Committee at least once a year.

12.0 Reporting

12.1 A report will be produced on each assignment (and fraud investigation) giving an opinion on the system of internal control under examination, making recommendations to improve control and where appropriate improve performance and productivity.

12.2 Internal Audit will seek a management response to work undertaken and follow up on management action arising from audit work undertaken. However, responsibility for acting on the advice and recommendations of Internal Audit rests with management, who can either accept and implement the recommendations or formally reject them.

12.3 Audit advice and recommendations are given without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later date.

13.0 Quality Assurance Arrangements

Quality Control

13.1 Veritau will maintain appropriate quality control arrangements to ensure that internal audit work is undertaken to necessary professional standards. These arrangements include:-

- agreeing a specification for planned audit work with the relevant managers
- documenting audit work performed using the company's automated working papers
- file review by an Audit Manager

Quality File Review

13.2 On an ongoing basis, a sample of completed audit files will be separately reviewed by the Client Relationship Manager (or equivalent) to confirm quality standards are being maintained. A record of any issues or recommended improvements will be kept.

13.3 A formal report will be sent to the Head of Internal Audit at the end of each year, detailing the results of quality file reviews completed and making any recommendations for improvements in working practices.

14. Review

14.1 This Vision and Charter will be reviewed annually and any amendments will be submitted to the Audit Governance and Standards Committee for approval.