

## **HAMBLETON DISTRICT COUNCIL**

**Report To:** Audit, Governance and Standards Committee  
25 July 2017

**From:** Director of Finance (s151 officer)

**Subject:** **UPDATE OF INTERNAL AUDIT CHARTER**

All Wards

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### **1.0 PURPOSE AND BACKGROUND:**

- 1.1 The Committee is asked to approve the changes to the Council's internal audit charter.
- 1.2 The Accounts and Audit Regulations 2015 require the Council to have an effective internal audit service that complies with public sector internal audit standards. CIPFA is responsible for setting those standards for Councils.
- 1.3 CIPFA works jointly with other bodies responsible for internal audit standards in the UK public sector (such as HM Treasury and the Department of Health) to produce common standards - the Public Sector Internal Audit Standards (PSIAS). The PSIAS are based on standards set by the Institute of Internal Auditors (IIA).
- 1.4 An updated version of the PSIAS has recently been published to reflect changes made to the International Professional Practices Framework (IPPF) by IIA. The changes are relatively minor in nature and mostly consist of further clarification. Other changes include revisions to job titles. Some changes are now required to the Authority's Internal Audit Charter. The revised Audit Charter with tracked changes to show those changes is attached as Appendix 1.

### **2.0 LINK TO COUNCIL PRIORITIES**

- 2.1 The work of internal audit supports the Council's overall aims and priorities by promoting probity, integrity and honesty and by helping support the council to become a more effective organisation.

### **3.0 RISK ASSESSMENT**

- 3.1 There are no risks associated with this report.

### **4.0 FINANCIAL IMPLICATIONS**

- 4.1 There are no financial implications associated with this report.

### **5.0 LEGAL IMPLICATIONS:**

- 5.1 There are no legal implications associated with this report.

### **6.0 EQUALITIES AND DIVERSITY ISSUES:**

- 6.1 There are no equalities or diversity issues associated with the report.

## **7.0 RECOMMENDATIONS:**

7.1 It is recommended that the Council's updated Audit Charter is approved.

LOUISE BRANFORD WHITE  
DIRECTOR OF FIANCE (S151 OFFICER)

**Background papers:** None

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# Hambleton District Council Internal Audit Charter

## 1 Introduction

- 1.1 There is a statutory duty on the council to undertake an internal audit of the effectiveness of its risk management, control and governance processes. The Accounts and Audit Regulations 2015 also require that the audit takes into account public sector internal auditing standards or guidance. The Chartered Institute of Public Finance and Accountancy (CIPFA) is responsible for setting standards for proper practice for local government internal audit in England.
- 1.2 From 1 April ~~2016~~ 2017 the Chartered Institute of Public Finance and Accountancy (CIPFA) adopted revised Public Sector Internal Audit Standards (PSIAS)<sup>1</sup> compliant with the Institute of Internal Auditors' (IIA) International Standards. The Public Sector Internal Audit Standards (PSIAS) and Chartered Institute of Public Finance and Accountancy (CIPFA's) local government application note for the standards represent proper practice for internal audit in local government. This charter sets out how internal audit at Hambleton District Council will be provided in accordance with this proper practice.
- 1.3 This charter should be read in the context of the wider legal and policy framework which sets requirements and standards for internal audit, including the Accounts and Audit Regulations, the Public Sector Internal Audit Standards (PSIAS) and application note, and the Council's constitution, regulations and governance arrangements.

## 2 Definitions

- 2.1 The standards include reference to the roles and responsibilities of the "board" and "senior management". Each organisation is required to define these terms in the context of its own governance arrangements. For the purposes of the Public Sector Internal Audit Standards (PSIAS) these terms are defined as follows at Hambleton District Council.

"Board" – the Audit, Governance and Standards Committee fulfils the responsibilities of the board, in relation to internal audit standards.

"Senior Management" – in the majority of cases, the term senior management in the Public Sector Internal Audit Standards (PSIAS) should be taken to refer to the ~~Head of Service - Finance~~ Director of Finance in her role as s151 officer. This includes all functions relating directly to overseeing the work of internal audit. In addition, senior management may also refer to any other director of the Council individually (including the Chief Executive) or collectively as Senior Management Team (SMT) in relation to:

- having direct and unrestricted access for reporting purposes

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<sup>1</sup> The PSIAS were adopted jointly by relevant internal audit standard setters across the public sector.

- consulting on risks affecting the Council for audit planning purposes
- approving the release of information arising from an audit to any third party.

2.2 The standards also refer to the “chief audit executive”. This is taken to be the Head of Internal Audit (Veritau).

### 3 Application of the standards

3.1 In line with the [Public Sector Internal Audit Standards \(PSIAS\)](#), the mission of internal audit at Hambleton District Council is:

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

3.2 The council requires that the internal audit service aspires to achieve the mission through its overall arrangements for delivery of the service. In aiming to achieve this, the council expects that the service:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

3.3 The Public Sector Internal Audit Standards (PSIAS) defines internal audit as follows:

*“Internal auditing 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.”*

3.4 The Council acknowledges the mandatory nature of this definition and confirms that it reflects the purpose of internal audit in Hambleton. The Council also requires that the service be undertaken in accordance with the code of ethics and standards set out in the [Public Sector Internal Audit Standards \(PSIAS\)](#).

## 4 Scope of internal audit activities

- 4.1 The scope of internal audit work will encompass the Council's entire control environment<sup>2</sup>, comprising its systems of governance, risk management, and control.
- 4.2 The scope of audit work also extends to services provided through partnership arrangements, irrespective of what legal standing or particular form these may take. The Head of Internal Audit, in consultation with all relevant parties and taking account of audit risk assessment processes, will determine what work will be carried out by the internal audit service, and what reliance may be placed on the work of other auditors.

## 5 Responsibilities and objectives

- 5.1 The Head of Internal Audit is required to provide an annual report to the Audit, Governance and Standards Committee. The report will be used by the Committee to inform its consideration of the Council's annual governance statement. The report will include:

- the Head of Internal Audit's opinion on the adequacy and effectiveness of the Council's framework of governance, risk management, and control
- any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)
- any particular control weakness judged to be relevant to the preparation of the annual governance statement.
- a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
- an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme
- a statement on conformance with the Public Sector Internal Audit Standards (PSIAS) (including the code of ethics and standards) and the results of the quality assurance and improvement programme.

- 5.2 To support the opinion the Head of Internal Audit will ensure that an appropriate programme of audit work is undertaken. In determining what work to undertake the service should:

- adopt an overall strategy setting out how the service will be delivered in accordance with this Charter
- draw up an indicative risk based audit plan on an annual basis following consultation with the Audit Committee and senior management. The audit

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<sup>2</sup> For example the work of internal audit is not limited to the review of financial controls only.

plan will also reflect which takes account of the requirements of the Charter, the strategy, ~~and proper and proper~~ practice.

- consider trends and emerging issues that may impact the organisation.

5.3 In undertaking this work, responsibilities of the internal audit service will include:

- providing assurance to the board and senior management on the effective operation of governance arrangements and the internal control environment operating at the Council<sup>3</sup>
- objectively examining, evaluating and reporting on the probity, legality and value for money of the Council's arrangements for service delivery
- reviewing the Council's financial arrangements to ensure that proper accounting controls, systems and procedures are maintained and, where necessary, for making recommendations for improvement
- helping to secure the effective operation of proper controls to minimise the risk of loss, the inefficient use of resources and the potential for fraud and other wrongdoing
- acting as a means of deterring all fraudulent activity, corruption and other wrongdoing; this includes conducting investigations into matters referred by members, officers, and members of the public and reporting findings to directors and members as appropriate for action
- advising the Council on relevant counter fraud and corruption policies and measures.

5.4 The Head of Internal Audit will ensure that the service is provided in accordance with proper practice as set out above and in accordance with any other relevant standards – for example Council policy and legal or professional standards and guidance.

5.5 In undertaking their work, internal auditors should have regard to:

- the mission of internal audit, ~~and~~ core principles and standards as set out in the Public Sector Internal Audit Standards (PSIAS) and reflected in this charter
- the code of ethics in the Public Sector Internal Audit Standards (PSIAS)<sup>4</sup>
- the codes of any professional bodies of which they are members
- standards of conduct expected by the Council
- the Committee on Standards in Public Life's *Seven Principles of Public Life*.

<sup>3</sup> where third parties place reliance on the assurance provided then they do so at their own risk

<sup>4</sup> Veritau has adopted its own code of ethics which fulfil the requirements of the PSIAS.

## 6 Organisational independence

- 6.1 It is the responsibility of directors and service managers to maintain effective systems of risk management, internal control, and governance. Auditors will have no responsibility for the implementation or operation of systems of control and will remain sufficiently independent of the activities audited to enable them to exercise objective professional judgement.
- 6.2 Audit advice and recommendations will be made without prejudice to the rights of internal audit to review and make further recommendations on relevant policies, procedures, controls and operations at a later date.
- 6.3 The Head of Internal Audit will put in place measures to ensure that individual auditors remain independent of areas they are auditing for example by:
- rotation of audit staff
  - ensuring staff are not involved in auditing areas where they have recently been involved in operational management, or in providing consultancy and advice<sup>5</sup>
  - ~~seeking external oversight of any audit of functional activities managed by the Head of Internal Audit through Veritau client management arrangements.~~

## 7 Accountability, reporting lines, and relationships

- 7.1 Internal audit services are provided under contract to the Council by Veritau North Yorkshire. The company is a separate legal entity<sup>6</sup>. Staff undertaking internal audit work will be employed by Veritau North Yorkshire or another Veritau group company. Staff may also be seconded to the group from the Council. The ~~Head of Service~~ Director of Finance (s151 Officer) acts as client officer for the contract, and is responsible for overall monitoring of the service.
- 7.2 In its role in providing an independent assurance function, Veritau has direct access to members and senior managers and can report uncensored to them as considered necessary. Such reports may be made to the:
- Council, Cabinet, or any Committee (including the Audit, Governance and Standards Committee)
  - Chief Executive
  - ~~Head of Service~~ Director of Finance (s151 Officer)
  - Monitoring Officer

<sup>5</sup> auditors will not be used on internal audit engagements where they have had direct involvement in the area within the previous 12 months

<sup>6</sup> Veritau is part-owned by the Council. The company provides internal audit services to a number of member councils and other public sector organisations.

- other directors and service managers.

7.3 The ~~Head of Service~~ Director of Finance (s151 Officer) has a statutory responsibility for ensuring that the Council has an effective system of internal audit in place. In recognition of this, a protocol has been drawn up setting out the relationship between internal audit and the ~~Head-Director of Service~~ Finance (s 151 Officer) ~~).~~ This is included in Appendix 1.

7.4 The Head of Internal Audit will report independently to Audit, Governance and Standards Committee<sup>7</sup> on:

- proposed allocations of audit resources
- any significant risks and control issues identified through audit work
- his/her annual opinion on the Council's control environment.

7.5 The Head of Internal Audit (HoiA) will informally meet in private with members of the Audit, Governance and Standards Committee, or the committee as a whole as required. Meetings may be requested by committee members or the Head of Internal Audit.

7.6 Audit, Governance and Standards will oversee (but not direct) the work of internal audit. This includes commenting on the scope of internal audit work and approving the annual audit plan. The Committee will also protect and promote the independence and rights of internal audit to enable it to conduct its work and report on its findings as necessary<sup>8</sup>.

## 8 ~~Fraud, and consultancy services~~ and non-audit services

8.1 The primary role of internal audit is to provide assurance services to the Council. However, the service may also be required to undertake fraud investigation and other consultancy work to add value and help improve governance, risk management and control arrangements.

8.2 The prevention and detection of fraud and corruption is the responsibility of directors and service managers. However, all instances of suspected fraud and corruption should be notified to the Head of Internal Audit (HoiA), who will decide on the course of action to be taken in consultation with relevant service managers and/or other advisors (for example human resources). Where appropriate, cases of suspected fraud or corruption will be investigated by Veritau.

<sup>7</sup> The committee charged with overall responsibility for governance at the council.

<sup>8</sup> The relationship between internal audit and Audit, Governance and Standards Committee is set out in more detail in Appendix 2.

8.3 Where appropriate, Veritau may carry out other consultancy related work, for example specific studies to assess the economy, efficiency, and effectiveness of elements of service provision. The scope of such work will be determined in conjunction with service managers. Such work will only be carried out where there are sufficient resources and skills within Veritau and where the work will not compromise the assurance role or the independence of internal audit. Details of all significant consultancy assignments completed in the year will be reported to the Audit, Governance and Standards Committee.

8.4 Where Veritau provides non-audit services (for example information governance), appropriate safeguards will be put in place to ensure audit independence and objectivity are not compromised. These safeguards include the work being performed by a separate team with different line management arrangements. Separate reporting arrangements will also be maintained. The Head of Internal Audit (HoIA) will report any instances where audit independence or objectivity may be compromised to the Corporate Director – Strategic Resources and the Audit Committee. The Head of Internal Audit (HoIA) will also take steps to limit any actual or perceived impairment that might occur (for example by arranging for the audit of these services or functional activities to be overseen externally).

## 9 Resourcing

9.1 As part of the audit planning process the Head of Internal Audit (HoIA) will review the resources available to internal audit, to ensure that they are appropriate and sufficient to meet the requirements to provide an opinion on the Council's control environment. Where resources are judged to be inadequate or insufficient, recommendations to address the shortfall will be made to the Head Director of Service—Finance (s151 Officer) and to Audit, Governance and Standards Committee.

## 10 Rights of access

10.1 To enable it to fulfil its responsibilities, the Council gives internal auditors employed by Veritau the authority to:

- enter all Council premises or land, at any reasonable time
- have access to all data, records, documents, correspondence, or other information - in whatever form - relating to the activities of the Council
- have access to any assets of the Council and to require any employee of the Council to produce any assets under their control
- be able to require from any employee or member of the Council any information or explanation necessary for the purposes of audit.

- 10.2 Directors and service managers are responsible for ensuring that the rights of Veritau staff to access premises, records, and personnel are preserved, including where the Council's services are provided through partnership arrangements, contracts or other means.

## 11 Review

- 11.1 This charter will be reviewed periodically by the Head of Internal Audit (HoIA). Any recommendations for change will be made to the Head-Director of ~~Service-~~ Finance (s151 Officer) and Audit, Governance and Standards Committee, for approval.

**Relationship between the ~~Head of Service-Director of~~ Finance  
(s151 Officer) and internal audit**

- 1 In recognition of the statutory duties of the Council's ~~Head-Director of Service—~~ Finance (s151 Officer) for internal audit, this protocol has been adopted to form the basis for a sound and effective working relationship between the ~~Head Director of Service—~~ Finance (s151 officer) ~~and) and~~ internal audit.
- (i) The Head of Internal Audit (HoIA) will seek to maintain a positive and effective working relationship with the s151 Officer
  - (ii) Internal audit will review the effectiveness of the Council's systems of control, governance, and risk management and report its findings to the s151 Officer (in addition to Audit, Governance and Standards Committee)
  - (iii) The s151 Officer will be asked to comment on those elements of internal audit's programme of work that relate to the discharge of his/her statutory duties. In devising the annual audit plan and in carrying out internal audit work, the Head of Internal Audit (HoIA) will give full regard to the comments of the s151 Officer
  - (iv) The Head of Internal Audit (HoIA) will notify the s151 Officer of any matter that in the Head of Internal Audit's (HoIA)'s professional judgement may have implications for the s151 Officer in discharging his/her s151 responsibilities
  - (v) The s151 Officer will notify the Head of Internal Audit (HoIA) of any concerns that he/she may have about control, governance, or suspected fraud and corruption and may require internal audit to undertake further investigation or review
  - (vi) The Head of Internal Audit (HoIA) will be responsible for ensuring that internal audit is provided in accordance with proper practice
  - (vii) If the Head of Internal Audit (HoIA) identifies any shortfall in resources which may jeopardise the ability to provide an opinion on the Council's control environment, then he/she will make representations to the s151 Officer, as well as to Audit, Governance and Standards Committee
  - (viii) The Head of Internal Audit (HoIA) will report to the s151 officer (and the Audit, Governance and Standards Committee) any instances where internal audit independence or objectivity is likely to be compromised, together with any planned remedial action
  - (ix) The Head of Internal Audit (HoIA) will report to the s151 officer (and the Audit, Governance and Standards Committee) any instances where audit

work has not conformed to the code of ethics and/or the standards. This includes the reasons for non-conformance and the possible impact on the audit opinion.

- (~~xviii~~) The s151 Officer will protect and promote the independence and rights of internal audit to enable it to conduct its work effectively and to report as necessary.

**Relationship between Audit, Governance and Standards Committee and internal audit**

- 1 The Audit, Governance and Standards Committee plays a key role in ensuring the Council maintains a robust internal audit service and it is therefore essential that there is an effective working relationship between the Committee and internal audit. This protocol sets out some of the key responsibilities of internal audit and the Committee.
- 2 The Committee will seek to:
  - (i) raise awareness of key aspects of good governance across the organisation, including the role of internal audit and risk management
  - (ii) ensure that adequate resources are provided by the Council so as to ensure that internal audit can satisfactorily discharge its responsibilities
  - (iii) protect and promote the independence and rights of internal audit to conduct its work properly and to report on its findings as necessary.
- 3 Specific responsibilities in respect of internal audit include the following.
  - (i) Oversight of, and involvement in, decisions relating to how internal audit is provided.
  - (ii) Approval of the internal audit charter.
  - (iii) Consideration of the annual report and opinion of the Head of Internal Audit (HoIA) on the Council's control environment.
  - (iv) Consideration of other specific reports detailing the outcomes of internal audit work.
  - (v) Consideration of reports dealing with the performance of internal audit and the results of its quality assurance and improvement programme.
  - (vi) Consideration of reports on the implementation of actions agreed as a result of audit work and outstanding actions escalated to the Committee in accordance with the approved escalation policy.
  - (vii) Approval (but not direction) of the annual internal audit plan.
- 4 In relation to the Audit, Governance and Standards Committee, the Head of Internal Audit (HoIA) will:
  - (i) attend its meetings and contribute to the agenda
  - (ii) ensure that overall internal audit objectives, workplans, and performance are communicated to, and understood by, the Committee

## Appendix 2

- (iii) provide an annual summary of internal audit work, and an opinion on the Council's control environment, including details of unmitigated risks or other issues that need to be considered by the Committee
- (iv) establish whether anything arising from the work of the Committee requires consideration of the need to change the audit plan or vice versa
- (v) highlight any shortfall in the resources available to internal audit or any instances where the independence or objectivity of internal audit work may be compromised (and ~~to~~ make recommendations to address these to the Committee)
- (vi) report any significant risks or control issues identified through audit work which the Head of Internal Audit (HoIA) feels necessary to specifically report to the Committee. This includes risks which management are failing to address but which the Head of Internal Audit (HoIA) considers are unacceptable for the Council.
- (vii) participate in the Committee's review of its own remit and effectiveness
- (viii) discuss the outcomes of the quality assurance and improvement programme, and consult with the board on how external assessment of the internal audit service will be conducted (required once every five years).

5 The Head of Internal Audit (HoIA) will informally meet in private with members of Audit, Governance and Standards Committee, or the committee as a whole as required. Meetings may be requested by committee members or the Head of Internal Audit (HoIA).