



## **ESPO MANAGEMENT COMMITTEE – 4 MARCH 2015**

### **AGENDA ITEM NO.7**

#### **REPORT OF THE CONSORTIUM TREASURER**

#### **THE INTERNAL AUDIT CHARTER FOR ESPO**

##### **Purpose of Report**

1. The purpose of this report is for the Management Committee to: -
  - a) approve the Internal Audit Charter for ESPO
  - b) note progress against implementing a Quality Assurance and Improvement Programme (QAIP) for the internal audit activity.

##### **Background**

2. A professional, independent and objective internal audit service is recognised throughout the UK public sector as a key element of good governance. The foundation of an effective internal audit service is compliance with standards, and the implementation of, and adherence to, effective practices.
3. The 'Relevant Internal Audit Standard Setters' in the UK (for which CIPFA represents local government), have adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF) as follows: -
  - a) Definition of Internal Auditing
  - b) Code of Ethics
  - c) International Standards for the Professional Practice of Internal Auditing
4. Additional requirements and interpretations for the UK public sector have been inserted into the PSIAS. All principal local authorities (Joint Committees included) must make provision for internal audit in accordance with the PSIAS.

5. The objectives of the PSIAS are to: -
  - a) define the nature of internal auditing within the UK public sector
  - b) set principles for carrying out internal audit in the UK public sector
  - c) establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations
  - d) establish the basis for the evaluation of internal audit performance and to drive improvement planning

### **The Internal Audit Charter for ESPO**

6. The PSIAS mandate that the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter (the Charter). Leicestershire County Council is the appointed Servicing Authority for ESPO, and is responsible for performing the functions set out in Schedule 3 of the Consortium Agreement, including under 'Support Services' the provision of internal audit service. The Charter establishes Leicestershire County Council's Internal Audit Service (LCCIAS) position with ESPO and the associated governance arrangements, including the nature of the HoIAS' functional reporting relationship with both the Finance and Audit Subcommittee (the Subcommittee) and Management Committee (the Committee); authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.
7. Common terms found throughout the PSIAS need to be interpreted in the context of differing governance arrangements at each organisation. For ESPO, consultations with the Director of ESPO, the Consortium Secretary and the Consortium Treasurer i.e. the three Officers with delegated functions within the Consortium Agreement, interpreted the terms 'Board' as the Finance and Audit Subcommittee (the Subcommittee); 'Senior Management' as the three Officers i.e., collectively known as (the Officers), and the 'Chief Audit Executive' as Leicestershire County Council's Head of Internal Audit Service (HoIAS).
8. Providing a formal, written Charter is important to managing the provision of internal audit activity by LCCIAS. The Charter provides a statement of roles, responsibilities and relationships for review and acceptance by the Officers and the Subcommittee, as approved by this Committee.
9. A Charter also facilitates a periodic assessment by the HoIAS of the adequacy of the internal audit activity's purpose, authority, and responsibility, which establishes the role of LCCIAS and whether it continues to be adequate to enable it to accomplish its objectives. If a question should arise, the Charter provides a formal, written protocol agreed with the Officers and the Subcommittee about ESPO's internal audit activity.

10. The PSIAS mandate that the Internal Audit Charter for ESPO should:-
- a) recognise the mandatory nature of the PSIAS
  - b) define the scope of internal audit activities recognising that internal audit's remit extends to the organisation's entire control environment not just financial controls
  - c) establish internal audit's responsibilities, objectives & organisational independence
  - d) establish accountability, reporting lines and relationships between the leader of the internal audit activity and those to whom they report functionally and administratively
  - e) set out the arrangements that exist within the organisation's anti-fraud and anti-corruption policies
  - f) establish internal audit's right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities

Additional public sector requirements also specify that the Charter must:-

- g) define the terms 'board' & 'senior management' in relation to internal audit activity
  - h) cover the arrangements for appropriate resourcing
  - i) define the role of internal audit in any fraud-related work
  - j) include arrangements for avoiding conflicts of interest if non audit activities are undertaken
11. In developing the Charter, the HoIAS has taken full account of the detailed requirements of the PSIAS and also a Local Government Application Note (LGAN) developed by CIPFA, which provides further explanation for the PSIAS and practical guidance on how to apply them. The Charter has 6 distinct sections:-

<u>Section</u>	<u>Content</u>
1	Introduction
2	Purpose (PSIAS definition of the internal audit activity)
3	Definitions (including the Board and Senior Management)
4	Authority (afforded to the internal audit activity)
5	Responsibility (the Subcommittee, the Officers and the HoIAS)
6	The scope of the internal audit activity (including its roles in fraud and corruption)

12. The HoIAS has interpreted that many of the detailed PSIAS requirements merely reinforce practices and procedures that are already firmly embedded in LCCIAS' approaches to internal audit activity. Those intricate details are not repeated in the Charter but new requirements, extensions and variations are explained.

13. The Charter replaces two documents that previously explained the internal audit activity at Leicestershire County Council, 'The Statement of Aims and Objectives' and 'The Strategy of Leicestershire County Council Internal Audit.
14. At its meeting on 23 February 2014, the Subcommittee reviewed the Internal Audit Charter for ESPO (which is included as Appendix 1) and recommended that it is approved by Management Committee.

#### **Brief update on the development of the Quality Assurance and Improvement Programme**

15. A Quality Assurance and Improvement Programme (QAIP) is being developed by the HoIAS. The QAIP is designed to enable an evaluation of LCCIAS' conformance with the PSIAS, assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. The QAIP is scheduled to be approved by the Council's Chief Financial Officer. There is not a requirement for an organisation's Board (the Subcommittee) to formally approve the QAIP, only to receive results of future assessments against it. Nevertheless, progress against the development of the QAIP and its approval will be reported to the Subcommittee.

#### **Resource Implications**

16. The determination of resource to undertake internal audit activity is referred to at various points throughout the Charter

#### **Equal Opportunities Implications**

17. There are no discernible equal opportunities implications resulting from the audits listed.

#### **Recommendations**

18. That the Committee approves the Internal Audit Charter for ESPO

## **Background Papers**

Report to the Finance and Audit Subcommittee 10 June 2014 – Progress against the Internal Audit Plan 2013/14

Report to the Management Committee 25 September 2014 – Draft Statement of Accounts and Annual Governance Statement

Report to the Finance and Audit Subcommittee 17 November 2014 – Progress against the Internal Audit Plan 2014/15

Report to the Finance and Audit Subcommittee 23 February 2015 – Internal Audit Charter

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## **Appendices**

Appendix 1 – The Internal Audit Charter for ESPO