



ESPO FINANCE AND AUDIT SUBCOMMITTEE – 7 FEBRUARY 2017

THE INTERNAL AUDIT CHARTER FOR ESPO

REPORT OF THE CONSORTIUM TREASURER

Purpose of Report

1. The purpose of this report is for the Subcommittee to review and note: -
 - a. additions to the Public Sector Internal Audit Standards (the PSIAS)
 - b. the revised Internal Audit Charter for ESPO containing the aforementioned additions and recommend its formal approval by the Management Committee

Background

2. The 'Relevant Internal Audit Standard Setters' (RIASS) in the UK (for which CIPFA represents local government), adopted from 1 April 2013 a common set of Public Sector Internal Audit Standards (the PSIAS). The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF).
3. Additional requirements and interpretations for the UK public sector are inserted into the PSIAS. A Local Government Application Note (LGAN) developed by CIPFA guides the Head of Assurance Services when undertaking the role of Head of Internal Audit Service (HoIAS) in consistently applying the PSIAS.
4. The revised Accounts and Audit Regulations (2015) now reflect the PSIAS by stating that, '*A relevant local 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*'.
5. Following changes to the IPPF in 2015, two additions to the PSIAS were adopted from 1 April 2016, namely the Mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing.

6. The PSIAS require that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter (the Charter), and the HoIAS must periodically review the Charter and have it approved.

Additions to the PSIAS 2016

7. The Mission of Internal Audit articulates what the internal audit activity aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission. The PSIAS define the Mission of internal audit as, *'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'*.
8. The Core Principles, taken as whole, point to an effective internal audit function i.e. what 'good' internal audit looks like. The Principles are: -
- 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.
9. The HoIAS is confident that both the Mission of Internal Audit and the Core Principles align to the current approach to providing the internal audit function at ESPO. Nevertheless, the LGAN will be revised to provide additional guidance and examples of how achievement can be demonstrated, but this is not likely to be issued until April 2017.
10. Further changes to the IPPF are to be implemented in January 2017 and they will be reflected in a further update to the PSIAS later in that year.

The Internal Audit Charter for ESPO

11. 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 the Subcommittee and Management Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

12. 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).
13. Providing a formal, written Charter is important to managing the provision of internal audit activity by LCCIAS. The Charter provides a recognised statement for review and acceptance by the Officers and for the Subcommittee to recommend, as documented in formal minutes, final approval by the Management Committee.
14. 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 and Management Committee, about ESPO's internal audit activity.
15. 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
16. In this first revision of the Charter, the HoIAS has taken account of the additional requirements of the PSIAS and amendments to the Accounts and Audit Regulations (2015). The revised Charter has 8 distinct sections: -

Section Content

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| 1 | Introduction |
| 2 | Mission of Internal Audit (new) |
| 3 | Purpose (PSIAS definition of the internal audit activity) |
| 4 | The Core Principles (new) |
| 5 | Definitions (including the Board and Senior Management) |
| 6 | Authority (afforded to the internal audit activity) (updated) |
| 7 | Responsibility (of the Committee, CMT and the HoIAS) |
| 8 | The scope of the internal audit activity |
17. 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.
18. The revised Internal Audit Charter for ESPO, as reviewed by the Officers is included as Appendix 1.

Resource Implications

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

Equal Opportunities Implications

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

Recommendations

21. That the Subcommittee: -
- a. reviews the revised Charter and notes the report
 - b. recommends to Management Committee final approval of the Charter.

Background Papers

Report to ESPO Finance and Audit Subcommittee 9 June 2016 – Annual Internal Audit Plan

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Appendices

Appendix 1 – The revised Internal Audit Charter for ESPO

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