

**CORPORATE GOVERNANCE COMMITTEE****24 NOVEMBER 2014****REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****THE INTERNAL AUDIT CHARTER****Purpose of Report**

1. The purpose of this report is to seek the Committee's approval of the Internal Audit Charter and to provide a brief update on the development of the Internal Audit Service Quality Assurance and Improvement Programme.

**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 proper 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 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

6. Common terms found throughout the PSIAS need to be interpreted in the context of differing governance arrangements at each organisation. For Leicestershire County Council, the term 'board' has been interpreted as the Corporate Governance Committee (the Committee), 'senior management' as Corporate Management Team (CMT), and 'chief audit executive' the Head of Internal Audit Service (HoIAS).
7. 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), which must be periodically reviewed and presented to CMT (senior management) and the Committee (board) for approval.
8. The HoIAS' Annual Report for 2013-14 which was discussed at the Committee on 23 September 2014, informed members that a Charter (and a Quality Assurance and Improvement Programme – QAIP) had not been finalised and approved. For transparency the HoIAS reported this as an area for improvement in the Annual Governance Statement.
9. The CFO tasked the HoIAS to develop and implement both a Charter and QAIP by the end of December 2014.

#### **The Internal Audit Charter for Leicestershire County Council**

10. Leicestershire County Council Internal Audit Service (LCCIAS) provides internal audit activity and the Charter establishes its position within the Council, including the nature of the HoIAS' functional reporting relationship with the Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the Charter resides with the Committee.
11. 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 CMT and for approval, as documented in formal minutes, by the Committee. It 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 Chief Financial Officer (CFO), the Monitoring Officer (MO), CMT, and the Committee about the Council's internal audit activity.
12. The PSIAS mandate that the Internal Audit Charter for the Council 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 and 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' and '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

13. 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>
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| 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 (of the Committee, CMT and the HoIAS)  |
| 6 | The scope of the internal audit activity (including its roles in compiling the AGS and in fraud and corruption) |

14. Within section 4, under the sub-heading of 'Organisational Independence', the HoIAS has included at paragraph 4.11 that the PSIAS require that '*if independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties*' and specifically that, '*Assurance engagements for functions over which the HoIAS (chief audit executive) has responsibility must be overseen by a party outside the internal audit activity*'. On 23 September 2014 the Committee considered a report of the Director of Corporate Resources entitled 'Risk Management Update', and noted that responsibility for the administration and development of, and reporting on, the Council's risk management framework had transferred to the HoIAS. Whilst the HoIAS does not identify, evaluate and manage the risks, since that is a management function, it is considered prudent that the Charter records that any internal audit engagement covering the risk management framework, especially for the formation of the annual opinion on the effectiveness of the control environment, would be overseen by someone outside of LCCIAS.

15. Within section 5, under the sub-heading of 'International Standards for the Professional Practice of Internal Auditing', paragraph 5.5 states that LCCIAS will conform to the full range of the standards. However, 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 details are not repeated in the Charter but new requirements, extensions and variations are explained.
16. The Internal Audit Charter, jointly reviewed by the Chief Financial Officer and Monitoring Officer and approved by CMT at its meeting on 13 November 2014 is included as Appendix 1. The full PSIAS are included as Appendix 2.
17. 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.

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

18. 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, assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The QAIP is scheduled to be approved by the Council's Chief Financial Officer and CMT by the end of December. There is not a requirement for the Council's Corporate Governance Committee 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 February Corporate Governance Committee.

#### **Resource Implications**

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

#### **Equality and Human Rights Implications**

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

#### **Recommendations**

21. It is recommended that the Committee:
  - a. Approves the Internal Audit Charter, attached as Appendix 1 to this report;
  - b. Notes the progress with the development of a Quality Assurance and Improvement Programme (QAIP).

**Background Papers**

The Constitution of Leicestershire County Council

Reports to the Corporate Governance Committee on progress against the implementation of the Public Sector Internal Audit Standards (PSIAS) on 10 February, 12 May, and 23 September 2014.

**Circulation under the Local Issues Alert Procedure**

None.

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**Appendices**

Appendix 1 - The Internal Audit Charter

Appendix 2 - The Public Sector Internal Audit Standards (2013)

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