

# Audit Charter

2020-21

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## **Mission of Internal Audit**

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

## 1. Purpose of the Charter

- 1.1 The Internal Audit Charter provides the functional and organisational framework in which Internal Audit operates to best serve Stockport Council and to meet its professional obligations under the Public Service Internal Audit Standards (PSIAS).
- 1.2 PSIAS encompass the mandatory elements of the Global Institute of Internal Auditor's International Professional Practices Framework including its definition of internal auditing, code of ethics, and international standards for the professional practice of internal auditing, and applies to all public sector internal audit service providers in the United Kingdom, whether in-house, shared or outsourced. A CIPFA Local Government Application Note (LGAN) sets sector-specific requirements for the application of the PSIAS in local government organisations.
- 1.3 This document sets out the purpose, authority, responsibilities and objectives of Internal Audit within the Council. It also establishes internal audit's position and the nature of the Head of Internal Audit and Risk's functional reporting relationships with the Audit Committee.

## 2. Definitions

- 2.1 For the purpose of this Charter, the following definitions of PSIAS terms apply here in the Council.

- Internal Audit: “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”.
- Audit Committee: the “Board”
- Corporate Leadership Team: “Senior management”
- Internal Audit and Risk Manager: the “Chief Audit Executive”

## 3 The statutory regime and related requirements

- 3.1 Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015 which state that:

*“a relevant 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”*

- 3.2 The PSIAS and their accompanying LGAN have been recognised as “proper practices” by the Department for Communities and Local Government which sponsors the Accounts and Audit Regulations.

- 3.3 In addition the Local Government Act 1972 (section 151) states that local authorities are required to “make arrangements for the proper administration of their financial affairs”. It is this legislation that requires internal audit to maintain a focus on internal financial controls as well as the controls over the Council’s wider risks as required by the Accounts and Audit Regulations.
- 3.4 The Council’s Constitution sets out Internal Audit’s constitutional role and rights of access to all records, properties, physical assets and explanations from Officers in the course of its assignments.

## **4 Purpose**

- 4.1 Internal Audit is described by the Chartered Institute of Internal Auditors as a key component of corporate governance. When properly resourced, positioned and targeted, internal auditors act as invaluable eyes and ears for senior management and audit committees inside their organisations, giving an unbiased and objective view on what’s happening in the organisation.
- 4.2 Internal audit’s core purpose is to provide the Corporate Leadership Team and the Audit Committee with independent, objective assurance that the Council has adequate and effective systems of risk management, internal control and governance. The Audit Committee is responsible for providing oversight of the audit process, the system of internal controls, risk management and governance.
- 4.3 Internal audit supports the Corporate Director, Corporate and Support Services (s151 officer) to discharge his responsibilities under section 151 of the Local Government Act 1972, the Accounts and Audit Regulations 2015 and the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. This statement places on the Chief Financial Officer, the responsibility for ensuring that the Council has put in place effective arrangements for internal audit of the effectiveness of the Council’s systems of governance, risk management and internal control as required by PSIAS.
- 4.4 Internal Audit supports the Head of Paid Service (Chief Executive) in providing high level assurances relating to the Council’s governance arrangements.
- 4.5 Internal Audit also supports the Monitoring Officer in discharging their responsibilities for providing advice on vires issues, maladministration, financial impropriety, probity, Code of Conduct, policy framework and investigating cases reported under the confidential reporting policy as appropriate.

## **5 Core Principles**

- 5.1 For an internal audit function to be considered effective, all Principles should be present and operating effectively
- 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

5.2 The following sections set out how the Council's Internal Audit Service meets these core principles.

## **6 Independence, authority and objectivity**

6.1 Independence is essential to the effectiveness of the Internal Audit function. Internal Audit must be, and must be seen to be, independent of the activities and processes, which it appraises to ensure it is able to perform its duties in an objective manner and provide impartial advice to senior management and the Board.

6.2 Internal Audit is independent of all of the activities of the Council (with the exception of its support to management in relation to risk management, counter fraud and investigatory work) to ensure it is able to appraise the Authority's governance, risks and internal control systems in the impartial and unbiased manner essential to the proper conduct of audits. No internal auditors have any other executive or operational responsibilities. Auditors are expected to deploy impartial and effective professional judgement.

6.3 To ensure this independence, Internal Audit operates within a framework that allows unfettered and unrestricted access to all council officers, senior management and elected Members. As such, all Internal Audit staff have the right to all documentation held by the Council and to seek explanations as they see necessary to effectively discharge their duties, from all officers and Elected Members of the Council.

6.4 The Head of Internal Audit and Risk has direct access to and freedom to report in his / her own name to all senior management and officers including the Corporate Director, Corporate and Support Services, Corporate Directors, Chief Executive, Audit Committee and Elected Members, particularly those charged with governance. The work of Internal Audit will only be reported in accordance with the direction and agreement of the Head of Internal Audit and Risk.

6.5 All auditors are required to make an annual declaration of their interests, which is updated every year as necessary. Where internal audit staff has a real or perceived conflict of interest in undertaking a particular piece of work, staff are required to declare any potential conflict of interest and the work will then be reassigned to another auditor. This is managed through the internal audit management and supervisory process to maintain the operational independence of the Internal Audit service as a whole.

## **7 Responsibilities and Scope**

### Responsibilities of Internal Audit

7.1 The Head of Internal Audit and Risk is responsible for:

- a. the effective review of all aspects of governance, risk and internal control throughout the full range of the Council's activities.
- b. developing an annual audit plan based on an understanding of the significant risks to which the Council is exposed.

- c. the determination and development of a strategic plan for the service. This strategic plan will establish the future strategic direction for Internal Audit within the Council.
- d. the management of the provision of a complete professional internal audit service to the Council that is compliant with the Public Sector Internal Audit Standards.
- e. the monitoring and reporting of the performance of the Internal Audit service in accordance with the documented Internal Audit Performance Management Framework.
- f. the production and reporting of an annual audit opinion based on the outcomes of internal audit work conducted throughout the year.
- g. providing advice and guidance on risks and the application and development of internal controls.
- h. the fostering of good working relationships with External Audit with an aim to achieving mutual recognition and respect, leading to a joint improvement in performance and the avoidance of unnecessary overlapping of work.
- i. assessing all matters of potential fraud or irregularity in line with the requirement of the Council's Anti-Fraud and Corruption Policy. Internal audit will undertake investigations into such matters under the direction of the Fraud and Irregularities Panel.

#### Scope of Internal Audit's work

- 7.2 The scope of Internal Audit allows for unrestricted coverage of the authority's activities and unfettered access to all records, assets, personnel and premises deemed necessary in the course of its work. The nature of internal audit's assurance services includes
- All council systems, processes, policies, plans and procedures
  - Use of and safeguarding of resources and assets, including data
  - Governance and risk management processes
  - Commissioning and procurement
  - Projects and programmes; and
  - Counter fraud, including investigations of allegations of fraud and corruption
- 7.3 Internal Audit has unrestricted access to all authority employees and Elected Members and the authority to obtain such information and explanations, as it considers necessary to fulfil its responsibilities.
- 7.4 Where the Council works in partnership with other organisations, the role of Internal Audit will be defined on an individual basis.
- 7.5 Where Internal Audit undertakes work on behalf of any other organisations, this will be determined in conjunction with the organisation's board and in consultation with the Corporate Director, Corporate and Support Services to ensure that appropriate audit resources are available to provide assurance over the Council's activities. External assurance work will result in an assurance statement to the organisation's Board and recommendations to senior management.
- 7.6 Due to its detailed knowledge of Council's systems and processes, Internal Audit may undertake consultancy work in addition to its primary assurance role. Examples of this may include counsel, advice, facilitation and training. The scope of any consultancy work will be agreed with management and will only be undertaken where

resources permit without impacting on the annual assurance process. In line with the PSIAS, approval will be sought from the Audit Committee before any significant unplanned consultancy work is accepted.

#### Limitations of Internal Audit Responsibilities

7.7 In seeking to discharge the responsibilities detailed above, and in line with the responsibilities of Internal Audit set out in 7.1 above, it should be noted that the existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner. Specifically Internal Audit Service is not responsible for:

- Controlling the risks of the Council
- Establishing and maintaining systems of internal control
- Determining operational policies or procedures
- Ensuring the prevention or detection of fraud and irregularity

### **8 Reporting lines**

8.1 The Head of Internal Audit and Risk reports operationally to the Corporate Director, Corporate and Support Services (Section 151 Officer) and functionally to the Audit Committee. This ensures that the Head of Internal Audit and Risk is independent of any of the services, systems and processes that may be the subject of internal audit review.

8.2 On a day to day basis internal audit will report the outcomes of its work to the senior officer responsible for the area under review. Progress and performance of Internal Audit is monitored by the Corporate Director, Corporate and Support Services who is charged with ensuring the Council has put in place effective arrangements for Internal Audit of the control environment and systems of internal control as required by professional standards.

8.3 The work of internal audit is reported to the Chief Executive in full and to the Audit Committee in summary via a quarterly progress report.

8.4 The Head of Internal Audit and Risk also has direct access to the Chair of the Audit Committee as he considers appropriate.

### **9 Resourcing and Professionalism**

9.1 Internal audit will be staffed according to the staffing structure as approved by the Corporate Leadership Team and the Audit Committee. The three-year plan for internal audit staffing will be as defined within the internal audit strategy and will aim to maintain a suitable mix of experienced and qualified staff.

9.2 Stockport Council's performance and development review scheme is applicable to all staff within the Internal Audit Service. The Service supports continuous staff performance appraisal and development, and assessment of training needs. Individual training needs are established and agreed through the performance appraisal process and regular one-to-one meetings and it is the intention that an appropriate training budget will be maintained to ensure training needs are addressed each year.

- 9.3 Compliance with the PSIAS and its associated Code of Ethics promotes an ethical, professional culture. Internal Audit officers are subject to the PSIAS Code of Ethics, Council's Code of Conduct for Employees and are governed by the ethical codes of professional bodies to which they belong. Staff are reminded of the need to comply with the Code on an annual basis and staff are required to sign and date a Code of Ethics declaration form in April each year.

## **10 Reporting**

- 10.1 All internal audit assignments will be the subject of formal reports. Draft reports will be sent to the manager(s) responsible for the area under review for agreement of the factual accuracy of findings and the implementation of recommendations made to address weaknesses in internal controls.
- 10.2 Once agreed, final reports will be copied to the all relevant stakeholders as identified in the agreed scoping document.
- 10.3 Internal Audit will report regularly on the results of its work to Senior Management (through quarterly SMT meetings) and the Audit Committee, highlighting significant control issues and potential for improving risk management and internal control processes.