

Report to Audit Committee

Internal Audit Charter 2020/21

Portfolio Holder: Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member Finance and Corporate Services

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Reason for Decision

To advise Audit Committee Members of the proposed Internal Audit Charter for 2020/21.

Executive Summary

The work of Internal Audit at Oldham Council has been governed by the UK Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The Standards comprise a revised definition of Internal Auditing, a Code of Ethics for Internal Auditors working in the Public Sector and the Standards themselves. The Standards are mandatory for all Internal Auditors working in the UK public sector.

The 2019/20 Internal Audit Charter was approved by the Audit Committee on 7 March 2019 and Appendix 1 to this report includes the updated Charter for 2020/21.

Recommendations

Members of the Audit Committee are requested to approve the Internal Audit Charter, effective from 1 April 2020.

Internal Audit Charter 2020/21

1 Background

- 1.1 The Accounts and Audit (England) Regulations 2015 require every Local Authority to undertake an effective Internal Audit to evaluate the effectiveness of the Authority's risk management, control and governance processes. This should be carried out with regard to public sector Internal Audit standards and guidance.
- 1.2 Local Authority Internal Audit functions should comply with the 2013 Public Sector Internal Audit Standards (Revised 2017). These Standards (PSIAS) comprise a revised definition of Internal Auditing, a Code of Ethics for Internal Auditors working in the Public Sector and the Standards themselves. The Standards are mandatory for all Internal Auditors working in the UK public sector; the objectives of the PSIAS are to:
- define the nature of Internal Auditing within the UK public sector;
 - set basic principles for carrying out Internal Audit in the UK public sector;
 - establish a framework for providing Internal Audit services, which add value to the organisation, leading to improved organisational processes and operations; and
 - establish the basis for the evaluation of Internal Audit performance and to drive improvement planning.
- 1.3 The Standards require an independent external assessment of the Council's Internal Audit service every five years. At its meeting on 8 September 2016, Members of the Audit Committee approved the selection of the Chartered Institute of Public Finance and Accountancy (CIPFA) to conduct this external assessment and this was conducted in September 2017. The conclusions of the independent external assessment were reported to the Audit Committee meeting of 11 January 2018. Therefore, the next PSIAS independent external assessment is due by 31 March 2023.
- 1.4 PSIAS requires the "Internal Audit Charter" defines the mission, purpose, authority and responsibility of the Internal Audit function and its position within the organisation. The External Assessment report by CIPFA contained four recommendations, which were fully agreed and implemented by the Head of Corporate Governance in 2018/19.
- 1.5 In accordance with the PSIAS external assessment, the following changes were made to the 2018/19 Audit Charter and these are retained in the attached 2020/21 Audit Charter, as follows:
- The "Mission of Internal Audit" replaced the role and purpose, which was clarified in the Charter.
 - The Audit Charter incorporated a statement to confirm whether the Service has sufficient resources to deliver an effective Internal Audit service to the Council.
- 1.6 The Internal Audit Charter for 2019/20 was approved by the Audit Committee on 7 March 2019. As part of his annual review, the Head of Corporate Governance, has reviewed the Internal Audit Charter to ensure that the recommendations from the CIPFA external assessment have been fully implemented. The proposed 2020/21 Internal Audit Charter is attached as **Appendix 1** and the Charter includes the following updates to the 2019/20 Internal Audit Charter:

- **Section 12: Review of Effectiveness of Internal Audit:** This sets out the requirement for the annual internal assessment of Internal Audit by the Audit Committee and highlights that the next PSIAS independent external assessment is due by 31 March 2023; and
- **Section 13: Head of Corporate Governance Annual Opinion:** This provides further detail of the Annual Opinion Report by the Head of Corporate Governance.

2. **Options/Alternatives**

2.1 N/A

3. **Preferred Option**

3.1 N/A

4. **Consultation**

4.1 N/A

5 **Financial Implications**

5.1 N/A

6. **Legal Services Comments**

6.1 N/A

7 **Cooperative Agenda**

7.1 N/A

8 **Human Resources Comments**

8.1 N/A

9. **Risk Assessments**

9.1 The risk assessment is based on the work completed.

10 **IT Implications**

10.1 N/A

11 **Property Implications**

11.1 N/A

12 **Procurement Implications**

12.1 N/A

13 **Environmental and Health & Safety Implications**

13.1 N/A

14 **Equality, community cohesion and crime implications**

14.1. None.

15 **Equality Impact Assessment Completed**

15.1 No.

16 **Key Decision**

16.1 N/A

17 **Key Decision Reference**

17.1 N/A

18 **Background Papers**

18.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act.

- File Ref: Background papers are provided at Appendix 1
- Officer Name: Mark Stenson
- Contact No: 0161 770 4783

19 **Appendices**

19.1 **Appendix 1:** Oldham Council Internal Audit Charter 2020/21.

Oldham Council Internal Audit Function

Internal Audit Charter 2020/21

Internal Audit and Counter Fraud
Level 14
Civic Centre
West Street
Oldham
OL1 1 UH

Internal Audit Charter 2020/21

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1 April 2020

1 Accounts and Audit (England) Regulations 2015

- 1.1 The Accounts and Audit (England) Regulations 2015 require every Local Authority to undertake an effective Internal Audit to evaluate the effectiveness of the Authority's risk management, control and governance processes. This should be carried out with regard to public sector Internal Audit standards and guidance. Local Authority Internal Audit functions should comply with the Public Sector Internal Audit Standards (PSIAS).
- 1.2 PSIAS (also referred to, in this document, as "the Standards") define Internal Auditing as "*....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.*"
- 1.3 The Standards state that the Internal Audit plan should include and/or be aligned to the strategic statement of how the service will be delivered in accordance with the Internal Audit Charter, which is illustrated by the following process flow diagram:



- 1.4 The purpose of the Internal Audit Charter is to:
- define the mission, purpose, authority and responsibility of Internal Audit;
 - establish the position of Internal Audit within the Council, its reporting lines and resources;
 - authorise access to records, personnel and physical property relevance to the performance of the audit work; and
 - define the scope of Internal Audit activities.

2 Definition of Internal Audit

- 2.1 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.
- 2.2 The PSIAS require that the Internal Audit Charter defines the terms 'board' and 'senior management' in relation to the work of Internal Audit. For the purposes of Internal Audit work, at Oldham Council:
- the 'Board' refers to the Council's Audit Committee which has delegated responsibility for overseeing the work of Internal Audit; "Senior Management" is defined as the Chief Executive and members of the Council's Executive Management Team; and
 - the Head of Corporate Governance reports to the Director of Finance (Chief Finance Officer), to support their requirements under Section 151 of the Local Government Act 1972.

3. Mission of Internal Audit

- 3.1 The mission of Internal Audit is to provide an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. The primary objective of Internal Audit is to review, appraise and report upon the adequacy of internal controls across the entire council.

4. Professionalism

- 4.1 The Internal Audit activity will govern itself by adherence to the PSIAS. This guidance constitutes principles of fundamental requirements for the professional practice of Internal Auditing and for the evaluating the effectiveness of the Internal Audit activity's performance.
- 4.2 The service, and individual staff, will be governed by the Code of Ethics of the relevant professional bodies of which they are a member, and all codes and policies operated by Oldham Council.

5. Authority

- 5.1 The Internal Audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of Oldham Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the Internal Audit activity in fulfilling its roles and responsibilities. The Internal Audit activity will also have free and unrestricted access to senior officers, Members and the Audit Committee.
- 5.2 Managers must also ensure that Internal Audit is provided with all the information and explanations that it requires in the course of its work.

6. Organisation

- 6.1 The Internal Audit Section is part of the Finance Department within the Commissioning Portfolio. The Head of Corporate Governance reports directly to the Director of Finance, and also reports functionally to the Audit Committee.

7. Independence and Objectivity

- 7.1 The Internal Audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.
- 7.2 Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair an Internal Auditor's judgment.
- 7.3 Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 7.4 The Head of Corporate Governance will confirm the organisational independence of the Internal Audit activity to the Audit Committee, at least annually.

8. Responsibility

8.1 The scope of Internal Auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal process as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organisation's risk management processes.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation.
- Reporting periodically on the purpose of Internal Audit activity, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee.
- Evaluating specific operations at the request of the Audit Committee or management, as appropriate.
- Involvement in the investigation of any allegations of fraud in accordance with the Council's Fraud Response Plan.

9. Internal Audit Resources

9.1 At Oldham Council, the Head of Internal Audit (known as the Chief Audit Executive) is the Head of Corporate Governance, who is responsible for ensuring that Internal Audit resources are appropriately organised, trained and deployed to deliver an effective Internal Audit service to the Council. In particular, his role is to ensure that Internal Audit resources:

- are appropriately qualified and experienced, and that they possess the appropriate skills, knowledge and competences to ensure due professional care;
- have sufficient knowledge of systems and ensure they have access to appropriate computer assisted audit techniques to perform their work, and data matching and analysis techniques; and
- are recruited, supported and trained using the Council's People Services standards and processes.

9.2 The Chief Audit Executive ensures that the Annual Audit Plan sets out the resources that are available, and how they will be deployed to ensure that the Plan is delivered. Specialist resources may be commissioned from other providers.

- 9.3 The Chief Audit Executive will report to the Council's Audit Committee, if he believes there are insufficient resources available to deliver the Plan and if the level of agreed resources will impact adversely on the provision of the annual Internal Audit opinion.
- 9.4 The Chief Audit Executive concludes that there are sufficient Internal Audit resources to deliver an effective Internal Audit service to the Council in 2020/21.

10. Internal Audit Plan

- 10.1 At least annually, the Chief Audit Executive will submit to senior management and the Audit Committee an Internal Audit plan for review and approval. The Internal Audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.
- 10.2 The Internal Audit Plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee. Any significant deviation from the approved Internal Audit plan will be communicated to senior management and the Audit Committee through periodic activity reports.
- 10.3 The Internal Audit Plan includes a strategic statement on Internal Audit, setting out how the overall service and how specific types of audits will be delivered. The Audit Charter sets out whether the Service has sufficient resources to deliver an effective Internal Audit service to the Council (this is set out in section 9.4 above).

11. Reporting and Monitoring

- 11.1 A written report will be prepared and issued by the Head of Corporate Governance or designee following the conclusion of each Internal Audit engagement and will be distributed as appropriate. Internal Audit results will also be communicated in summary to the Audit Committee.
- 11.2 The Internal Audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations.
- 11.3 The Internal Audit team will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

12. Review of Effectiveness of Internal Audit

- 12.1 The Accounts and Audit (England) Regulations 2015 and PSIAS require that the body charged with governance, which for Oldham Council is the Audit Committee, should undertake an annual review of the effectiveness of its system of Internal Audit.
- 12.2 The Head of Corporate Governance conducts an annual review of the Internal Audit services against criteria set out in the "Balanced Scorecard" methodology, which is based on the criteria set out in PSIAS. The outcome of this internal assessment is reported to the Audit Committee in the report "Review of the System of Internal Audit by the Audit Committee". the last internal assessment was approved by the Audit Committee at its meeting on 6 June 2019. The next report will be considered by the Audit Committee at its meeting in June 2020.

- 12.3 The PSIAS also requires an external assessment of Internal Audit every five years. The PSIAS are not prescriptive in terms of how this should be fulfilled. Guidance by the Chartered Institute of Finance and Accountancy (CIPFA) indicates that external assessments can be in the form of a full external assessment, or a self-assessment with independent external validation. Furthermore, an independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being part of, or under the control of, the organisation to which the internal audit activity belongs. In addition, it is recommended that the Head of Corporate Governance must agree the scope of external assessments with the Director of Finance and Audit Committee, as well as with the external assessor or assessment team.
- 12.4 Internal Audit will also complete an annual self-assessment against the PSIAS for approval by the Chief Finance Officer. The results of this will be reported to the Audit Committee within the Internal Audit Annual Report.
- 12.5 As reported earlier, in line with PSIAS, an external assessment of the Internal Audit service was conducted in 2017/18. Following a procurement exercise and approval by the Council's Audit Committee, this assessment was carried out by CIPFA.
- 12.6 The outcome of this external assessment was reported to the Audit Committee at its meeting of 11 January 2018. The next PSIAS independent external assessment is due for completion by 31 March 2023.

13. Head of Corporate Governance Annual Opinion

- 13.1 In addition to periodic assessments, the Head of Corporate Governance will report annually to senior management and the Audit Committee on the Internal Audit team's mission, purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Audit Committee.
- 13.2 The Audit Annual Opinion Report by the Head of Corporate Governance provides an overview of the work and performance of Internal Audit throughout each year. This Opinion is supported, during the year by regular reports to the Audit Committee, which provide an ongoing view of the effectiveness of the overall internal control environment and also providing the Members with an opportunity to challenge the Internal Audit process and relevant officers in relation to specific issues identified within each Directorate/Service area.

14. Internal Audit Charter Review

- 14.1 The Internal Audit Charter will be reviewed by the Head of Corporate Governance annually, to ensure that it supports and links to the Council's corporate priorities. The Charter should be reported to Audit Committee at least every two years. The Charter was last reported to, and agreed by, the Audit Committee on 7 March 2019 and this reflected the agreed changes made to reflect the PSIAS External Assessment by CIPFA in September 2017.