

## INTERNAL AUDIT CHARTER FOR THE REGIONAL AUDIT SERVICE 2019 - 2020

The purpose of this Internal Audit Shared Service (IASS) Charter is to define the purpose, authority and responsibilities of the Regional Internal Audit Shared Service between Bridgend, Merthyr Tydfil, Rhondda Cynon Taf and the Vale of Glamorgan Councils. The Charter establishes the position of internal audit activity within the Councils along with reporting lines, authorising access to records, personnel and physical property relevant to the performance of audit work and defines the scope of internal audit activities. The Head of Audit is responsible for reviewing the charter and presenting it to each Council's respective Audit Committee at least annually for review and approval.

The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

The Public Sector Internal Audit Standards require that the internal audit charter defines the terms Board, Chief Audit Executive and Senior Management in relation to the work of internal audit. For the purposes of internal audit work the roles are defined as follows:

- **Board** – The internal audit activity is established and defined by the Board, (hereafter referred to as the Audit Committee) which has responsibility for overseeing the work of Internal Audit.
- **Chief Audit Executive** – The role of the Chief Audit Executive is undertaken by the Head of the Audit Service.
- **Senior Management** – Senior Management is defined as those officers designated as Chief Officers as set out in each Council's Constitution.

The Charter is split into the following sections;

1. Purpose, Authority and Responsibility;
2. Independence and objectivity;
3. Proficiency and due professional care;
4. Quality assurance and improvement programme.

**1. Purpose, Authority and Responsibility – (Standards 1000 & 1010)**

1.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to management and Members on the control environment comprising risk management, internal control and governance by evaluating its effectiveness in achieving the Council's objectives.

It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

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 issues.

In addition, the other objectives of the function are to:

- Support the Chief Finance Officer in each Council to discharge their s151 duties;
- Contribute to and support the Corporate Service Directorates with the objective of ensuring the provision of, and promoting the need for, sound financial systems;
- Investigate allegations of fraud or irregularity to help safeguard public funds;
- Support the work of the relevant Audit Committees; and
- Provide an annual audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

1.2 These objectives will be delivered through maintaining a high quality Regional Internal Audit Shared Service function that meets the needs of each Council, supporting the relevant Section 151 Officers and the Audit Committees in discharging their responsibilities and meeting the requirements of the Public Sector Internal Audit Standards.

1.3 Internal Audit is a statutory service in the context of the Accounts and Audit (Wales) Regulations 2014 (as amended), which states in respect of internal audit that:

- "A relevant body (i.e. Council) must maintain an adequate and effective system of internal audit of its accounting records and accounting control systems in accordance with the proper internal audit practices".

1.4 The work of Internal Audit forms part of the assurance framework, however, 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.

- 1.5 Section 151 of the Local Government Finance Act 1972 requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In each Council it is the Chief Finance Officer.

## **1.6 Scope and Authority**

- 1.7 The scope for Internal Audit work includes the control environment comprising risk management, control and governance.

This effectively means that Internal Audit has the remit to independently review all the Council's operations, resources, services and processes in place to:

- Establish and monitor the achievement of Council objectives;
- Identify, assess and manage the risks to achieving the Council's objectives;
- Facilitate policy and decision making;
- Ensure the economical, effective and efficient use of resources;
- Ensure compliance with established policies, procedures, laws and regulations;
- Safeguard assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption; and
- Ensure the integrity and reliability of information, accounts and data, including internal and external reporting.

- 1.8 In accordance with the Accounts and Audit (Wales) Regulations 2014 (as amended), all Internal Audit staff shall have unrestricted access to all Council activities and records (whether manual or computerised systems), personnel, cash, stores, other assets and premises, including those of partner organisations and have authority to obtain such information and explanations as considered necessary to fulfil Internal Audit's responsibilities.

- 1.9 All Chief Officers of the Council are required to give complete co-operation to Internal Audit staff for the expedient fulfilment of the audit process. In addition, all partners/agents contracted to provide services on the Council's behalf are also required to co-operate with Internal Audit staff and make available all necessary information. This requirement should be explicit within contract documents.

## **1.10 Scope of Internal Audit Work – Opinion Work**

1.11 The Internal Audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

### **1.12 Governance**

Internal audit must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the Council;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the Council; and
- Co-ordinating the activities of and communicating information among the Audit Committee, external and internal auditors and management.

### **1.13 Risk Management**

Internal Audit must evaluate the effectiveness and contribute to the improvement of risk management processes by assessing how:

- Organisational objectives support and align with the Council's values;
- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the Council's risk appetite; and
- Relevant risk information is captured and communicated in a timely manner across the Council, enabling staff, management and the Audit Committee to carry out their responsibilities.

#### 1.14 Internal Control

Internal Audit must assist the Council in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the Council's governance, operations and information systems regarding the:

- Achievement of the Council's strategic objectives;
- Reliability and integrity of financial and operational information;
- Economical, effective and efficient use of resources;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of the Council's assets and interests from losses of all kinds, including those arising from fraud, irregularity, corruption or bribery; and
- Compliance with laws, regulations, policies, procedures and contracts.

#### 1.15 Non – Opinion Work

Internal Audit may provide, at the request of management, a consultancy service which evaluates the policies, procedures and operations put in place by management. A specific contingency will be made in the internal audit plan to allow for management requests which will be clearly identified as Unplanned Work. No contingency will be made for the provision of a consultancy service.

The Head of Audit must consider the effect on the opinion work before accepting any unplanned work over and above the contingency allowed for in the internal audit plan.

#### 1.16 Delivery of Internal Audit Work

##### Engagement Planning

For each assignment / engagement, a Client Brief will be prepared and agreed with relevant managers. The Client Brief will establish the objectives, scope and timing for the audit assignment and reporting requirements. Internal Auditors are not tasked with reviewing any systems for which they have previously held operational responsibility for. This is applied for a one year period to ensure that objectivity is not compromised.

## **Performing the Engagement**

Auditors are required to identify, analyse, evaluate and document sufficient information to achieve the review's objectives. This evidence supports their conclusions, professional judgements and recommendations and therefore must be factual and accurate. This data is held in compliance with the Council's Document Retention Policy. Assignments / Engagements are supervised to ensure objectives are achieved and quality is assured.

Where key systems are being operated on behalf of the Council or where key partnerships are in place, the Head of Audit must ensure arrangements are in place to form an opinion on their effectiveness.

Where the Council operates systems on behalf of other bodies, the Head of Audit must be consulted on the audit arrangements proposed or in place.

It is Management's responsibility to ensure the provision for relevant audit rights of access in any contract or Service Level Agreement the Council enters into, either as provider or commissioner of the service.

### **1.17 Reporting and Monitoring**

A written report will be prepared and issued by the Head of Audit following the conclusion of each internal audit assignment / engagement and will be distributed in accordance with internal protocols. Internal Audit results will also be communicated to the Audit Committee.

The internal audit report includes management's response and corrective action taken or to be taken in regard to the specific findings and prioritised recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The Head of Audit will agree reporting arrangements with the Regional Board which will include procedures for the:

- Distribution and timing of draft audit reports;
- Council's responsibilities in respect of responding to draft audit reports;
- Distribution of finalised audit reports;
- Follow up by internal audit of agreed recommendations; and
- Escalation of recommendations where management responses are judged inadequate in relation to the identified risks.

The internal audit activity will be responsible for appropriate follow up on assignment findings and high risk recommendations. All significant findings will remain open on the management information system until cleared. It is the responsibility of the manager to ensure that all agreed recommendations are implemented and for them to provide relevant evidence to internal audit. The findings and results of follow up reviews are communicated to the Audit Committee and used to inform future audit planning.

In the event that the Head of Audit concludes that management has accepted a level of risk that may be unacceptable to the Council, this will be discussed with the relevant Director / Senior Manager. If the Head of Audit determines that the matter has not been resolved, then the matter will be communicated to the relevant S151 Officer, Managing Director/Chief Executive and the Audit Committee.

## **2. Independence and Objectivity (Standards 1100, 1110, 1111, 1120 and 1130)**

- 2.1 Internal Audit is independent of the activities which it audits thereby providing an unbiased judgement to management. This is essential to its proper conduct and impartial advice to management.
- 2.2 To ensure this, Internal Audit operates within a framework that allows unrestricted access to senior management and Members, particularly the Leader of the Council, the Chair of the Audit Committee, the Managing Director/Chief Executive, Directors and Heads of Service, and maintains segregation from operations.

In addition the Head of Audit reports in his/her own name.

- 2.3 Internal Audit is a shared regional service between Bridgend CBC, Merthyr Tydfil CBC, Rhondda Cynon Taf Council and the Vale of Glamorgan Council. The host authority for the delivery of the Regional Internal Audit Shared Service (RIASS) is the Vale of Glamorgan Council and the function is provided internally. The governance of the provision of the shared regional service shall be carried out by the Regional Board. This is a group made up of the Chief Financial Officers of each Authority or their nominated substitutes who shall be responsible for the strategic direction of the Service.
- 2.4 The activities of the Regional Board shall include but not be limited to:
- a. determining the strategic direction of the RIASS;
  - b. setting, monitoring and reviewing service standards;
  - c. determining the Authority Rate on the basis of reasonable information provided by the Head of Audit;
  - d. providing general supervision of the provision of the Service;

- e. Resolving conflicts between competing interests amongst the authorities collectively and individually relating to IASRS, the Regional Board and / or the Service; and
  - f. Endeavour to resolve any dispute between the respective Authorities;
- 2.5 Scrutiny remains the responsibility of each individual Council and therefore the Audit Committee for each Council will review the performance and effectiveness of audit activity, including that of the Regional Internal Audit Shared Service.

## **2.6 Internal Audit Standards**

- 2.7 There is a statutory requirement for Internal Audit to work in accordance with the “proper audit practices”. These are set out in the Public Sector Internal Audit Standards (PSIAS) which the Chartered Institute of Public Finance and Accountancy (CIPFA) developed in collaboration with the Chartered Institute of Internal Auditors (CIIA) and which came into force on the 1<sup>st</sup> April 2013.
- 2.8 The unified set of internal audit standards is based on the mandatory elements of the CIIA’s International Professional Practices Framework. The standards have been adopted by both the Vale of Glamorgan Council and Bridgend CBC Audit Committees.
- 2.9 Internal Audit Staff will;
- Comply with relevant auditing standards;
  - Comply and promote compliance throughout the Council with all Council rules and policies;
  - Be expected at all times to adopt a professional, reliable, independent and innovative approach to their work; and
  - It is essential that Internal Audit staff are seen to be impartial. All Internal Audit staff are required to complete an annual declaration of their interests. This is done as part of the annual appraisal and is in line with professional ethics. The Head of Audit is responsible for ensuring that audit staff are not assigned to operational areas or investigations that could compromise their independence (including previous and / or secondary employment elsewhere in the Council or its Audit Partner).
- 2.10 The Regional Internal Audit Shared Service (RIASS) has adopted (as a minimum) the Chartered Institute of Internal Auditors (CIIA’s) Code of Ethics. Where members of the RIASS have attained membership with other professional bodies such as: CIPFA or the Institute of Chartered Accountants in England and Wales (ICAEW), those officers must also comply with their relevant bodies’ ethical requirements.



- 2.11 Each member of the Team will receive a copy of the Code of Ethics and sign up to an annual declaration to confirm that they will work in compliance with the Code of Ethics as well as Councils standards and policies such as the Codes of Conduct. Where potential areas of conflict may arise during the year, the auditor will also be required to disclose this. It is critical that all Auditors maintain high standards of integrity, independence, objectivity, confidentiality and competence.

### **3. Proficiency and Due Professional Care (Standards 1200, 1210, 1220, 1230 and 2030)**

- 3.1 Directors and Service Managers are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their Service including the risk of fraud and corruption.
- 3.2 The Head of Audit is required to manage the provision of a complete Regional Internal Audit Shared Service to the Council which will include reviewing the systems of internal control operating throughout each Council, and will adopt a combination of system based, risk based, regularity, computer and contract audit approaches in addition to the investigation of fraud.
- 3.3 In discharge of this duty, the Head of Audit will:
- Prepare an annual strategic risk based audit plan for formal agreement by the Regional Board and formal approval and ratification by the relevant Audit Committee; and
  - The Annual Audit Plan will be regarded as flexible and may be revised to reflect changing services and risk assessments; elements of the annual plan are also based on items within the Corporate Risk Register.

#### **3.4 Resources and Proficiency**

- 3.5 For the Regional Internal Audit Shared Service to fulfil their responsibilities, the service must be appropriately staffed in terms of numbers, professional qualifications, skills and experience. Resources must be effectively developed to achieve the approved risk based plan. The Head of Audit is responsible for ensuring that there is access to the full range of knowledge, skills, qualifications and experience to deliver the audit plan and meet the requirements of the PSIAS.
- 3.6 The Head of Audit must hold a full professional qualification, defined as CCAB, CMIIA or equivalent professional membership and adhere to professional values and the Code of Ethics. They must have sufficient skill, experience and competencies to work with Corporate Officers and the Audit Committee and influence the risk management, governance and internal control of the Council.

3.7 Each job role within the Regional Internal Audit Shared Service structure will detail the prerequisite skills and competencies required for that role and these will be assessed annually in line with Council policy and the PSIAS. Any development and training plans will be regularly reviewed, monitored and agreed with officers.

3.8 All Auditors are also required to maintain a record of their continual professional development in line with their professional body.

### **3.9 Due Professional Care**

3.10 Internal Auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the assignment objectives;
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk-management and control processes;
- Probability of significant error, fraud, or non-compliance;
- Cost of assurance in relation to potential benefits; and
- Considering various data analysis techniques and being alert to significant risks that may affect the objectives.

### **3.11 Relationships**

#### 3.12 General

All stakeholders will be treated with respect, courtesy, politeness and professionalism. Any confidential or sensitive issues raised with or reported to Internal Audit staff will be dealt with in an appropriate manner.

Internal – Our main contacts are with:

- Elected Members;
- Chief Officers (as defined in the Council's Constitution)
- Corporate Directors and Section 151 Officers
- Heads of Service;
- Group Managers / Operational Managers and line supervisors;
- Front line employees delivering services to the public; and
- Back office support staff, in particular Financial Services, Legal Services, IT and HR.

External – Our main contacts are with:

- The Council's External Auditors.  
Internal and External Audit work together to ensure audit resources are used to best advantage for the benefit of the Council. The External Auditors have regard to the work performed by Internal Audit when undertaking their final accounts audit.
- Various Government Agencies and Inspectorates.

#### **4. Quality Assurance and Improvement Programme (Standards 1300, 1310, 1311, 1312, 1320, 1321 and 1322)**

- 4.1 To enable the Head of Audit to assess the Regional Internal Audit Shared Service's activities with conformance to the PSIAS and to aid in the annual assessment of the Regional Internal Audit Shared Service's efficiency and effectiveness and identify opportunities for improvement, a Quality Improvement and Management Programme (QIMP) has been developed.
- 4.2 The QIMP includes both internal and external assessments in accordance with the Standards.
- 4.3 Assessment against QIMP forms part of the annual assessment of the effectiveness of internal audit (as contained within the Head of Audit's Annual Opinion Report) which is presented to the relevant Audit Committee and to the Regional Board.
- 4.4 Where there are instances of non-conformance to the PSIAS this will be reported to the Audit Committee and the Regional Board with any significant deviations being detailed within the Annual Governance Statement.
- 4.5 Internal Assessment**
- 4.6 All Auditors have access to up to date business processes, working instructions, the Internal Audit Charter, Council policies, the PSIAS, journals, publications and other relevant articles. Where staff are members of bodies such as CIPFA and/or CIIA further guidance is available.
- 4.7 To maintain quality, work is allocated to staff with appropriate skills, competence and experience. All levels of staff are supervised. Work is monitored for progress, assessed for quality and to allow for coaching and mentoring.

- 4.8 Targets are set for individual auditors (such as completion of an audit within a set number of days) as well as for the team Audit targets and performance indicators will be agreed with the Regional Board and reported to the relevant Audit Committee.
- 4.9 In addition to the QIMP, progress made against the annual audit plan and any emerging issues (i.e. fraud risks or governance issues) are reported regularly to the relevant Audit Committee.
- 4.10 Ongoing assessment of individuals is carried out through regular on-going reviews, one to one meetings, feedback from clients via the Client Satisfaction Surveys and formally in the annual personal development review process.
- 4.11 External Assessment**
- 4.12 In compliance with the PSIAS, external assessment will be carried out at least once every five years by a qualified, independent assessor or assessment team from outside of the Regional Internal Audit Shared Services Councils. The External Assessment of the existing Shared Service between Bridgend CBC and the Vale of Glamorgan Council took place during 2016/17.