

# Internal Audit Charter 2017-18

Blackpool Council



# Internal Audit Charter 2017/18

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## Purpose, Mission Statement and Definition

The purpose of this Internal Audit Charter is to define internal audit's purpose, authority and responsibility. It establishes the internal audit activity's position within the Council and reporting lines; authorises access to records, personnel and physical property relevant to the performance of audit work; and defines the scope of internal audit activities.

This charter also covers the arrangements for the appointment of the Chief Internal Auditor and internal audit staff, and identifies the nature of professionalism, skills and experience required.

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

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.

## Role

The internal audit activity is established by the Corporate Leadership Team and Audit Committee. The internal audit activity's responsibilities are defined by the Corporate Leadership Team and Audit Committee as part of their oversight role.

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). The internal audit activity's responsibilities are defined by the Audit Committee as part of their oversight role.
- **Chief Audit Executive** - The role of the Chief Audit Executive is undertaken by the Chief Internal Auditor.
- **Senior Management** – Senior Management if defined as the Corporate Leadership Team.

## Standards and Core Principles

Internal audit is a statutory service in the context of the Accounts and Audit (England) Regulations 2015, which require authorities to ensure that they have a sound system of internal control which:

- Facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- Ensures that the financial and operational management of the authority is effective; and
- Includes effective arrangements for the management of risk.

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The Accounts and Audit Regulations 2015 also state that: “a relevant body 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”.

The internal audit function is required to comply with Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Chartered Institute of Internal Auditors (CIIA); International Professional Practices Framework (IPPF) and CIPFA in respect of local government. A common set of Public Sector Internal Audit Standards (PSIAS) were adopted from 1 April 2013.

Compliance with the standards is subject to a quality assurance and improvement programme in line with the standards. This includes a regular self-assessment and an external assessment which must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. Results of quality reviews shall be reported to the Audit Committee by the Chief Internal Auditor.

The Core Principles within the PSIAS articulate internal audit effectiveness. For an internal audit function to be considered effective, all principles should be present and operating effectively. Failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit’s mission. The internal audit activity must achieve the following Core Principles:

- 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; and
- Promotes organisational improvement.

## **Ethics and Professionalism**

Internal audit operates in accordance with the PSIAS and all internal audit staff in the public sector governs themselves by adherence to the PSIAS Code of Ethics. All audit staff are also required to adhere to the Codes of Ethics of their professional bodies, where appropriate. Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life’s ‘Seven Principles of Public Life’. Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement’s objectives;
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes; and
- Probability of significant errors, fraud, or non-compliance.

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## **Authority**

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, has authorised full, free, and unrestricted access to any and all of the organisation'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 the Audit Committee. Designated auditors are entitled, without necessarily giving prior notice, to require and receive:

- Access to all records, documents and correspondence relating to any financial or other relevant transactions, including documents of a confidential nature;
- Access at all reasonable times to any land, premises, officers and members of the Council;
- The production of any cash, stores or other property of the Council under an officer's and member's control; and
- Explanations concerning any matter under investigation.

Where the Council works in partnership with other organisations, the role of internal audit will be defined on an individual basis. 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 Director of Resources to ensure that appropriate audit resources are available to provide assurance over the Council's activities.

## **Organisation**

Internal audit activity supports the Director of Resources to discharge their responsibilities for maintaining proper administration of financial affairs and an adequate and effective system of internal control as required under section 151 of the Local Government Act 1972 and by the Accounts and Audit (England) Regulations 2015.

The Chief Internal Auditor reports to meetings of the Audit Committee. The Audit Committee approve the annual internal audit plan and review the adequacy of internal audit activity, the scope and nature of its work and receives and reviews the assurance statements from internal audit work undertaken.

Internal audit resides within the Resources Directorate. The Chief Internal Auditor will report on operational issues to the Director of Resources (Section 151 Officer) and the Chief Executive on strategic matters. The Chief Internal Auditor has the authority to communicate and interact directly with the Corporate Leadership Team and the Audit Committee.

Internal audit and external audit meet as and when required to reduce duplication and make optimum use of the available audit resources.

## **Independence and Objectivity**

The internal audit activity will remain free from interference by any element in Blackpool Council, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

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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 judgement.

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 of the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

The Chief Internal Auditor will confirm to the Corporate Leadership Team and Audit Committee, at least annually, the organisational independence of the internal audit activity.

## **Responsibility**

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of Blackpool Council's governance, risk management and internal control processes in relation to the Council's defined goals and objectives. Internal control objectives considered by internal audit include:

- Consistency of operations or programs with established objectives and goals and effective performance;
- Effectiveness and efficiency of operations and employment of resources;
- Compliance with significant policies, plans, procedures, laws and regulations;
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify and report such information; and
- Safeguarding of assets.

Internal audit is responsible for evaluating all processes (Audit Universe) of the entity including governance and risk management processes. The Chief Internal Auditor must deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement (AGS). The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. This is the 'assurance role' for internal audit.

Internal audit may also perform consulting and advisory services related to governance, risk management and control as appropriate for the Council; this is advisory in nature and generally performed at the specific request of the organisation. The aim of the consultancy service is to help line management improve the Council's risk management, governance and internal control.

Based on its activity, internal audit is responsible for reporting significant risk exposures and control issues identified to the Corporate Leadership Team and Audit Committee, including fraud risks, governance issues and other matters requested or needed by the Corporate Leadership Team.

Managing the risk of fraud is the responsibility of line management. The Section 151 Officer has specific responsibilities in relation to the detection and investigation of fraud and may request internal audit to assist with the investigation of suspected fraud or corruption. The Corporate Fraud Team also reports to the Chief Internal



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Auditor and therefore appropriate links are in place to ensure a prompt response to serious fraud issues. The Chief Internal Auditor should be notified of all suspected or detected fraud, corruption or impropriety, to inform their opinion on the control environment and their audit plan.

The Audit Committee is responsible for oversight of the governance, risk management and internal control environment at the Council.

The Section 151 Officer, Head of Paid Service and Monitoring Officer are responsible for ensuring that the Council complies with the Councils governance framework, of which internal audit form an integral role.

## **Internal Audit Plan**

The Chief Internal Auditor should develop and maintain a strategy for economically and efficiently providing the Section 151 Officer, with objective evaluation of, and opinions on, the effectiveness of the Council's risk management, governance and internal control arrangements.

On an annual basis, the Chief Internal Auditor will submit to the Corporate Leadership Team and Audit Committee an internal audit plan for review and approval, including risk assessment criteria. The internal audit plan include timing as well as budget and resource requirements for the next financial year. The Chief Internal Auditor will communicate the impact of resource limitations and significant interim changes to the Corporate Leadership Team and the Audit Committee.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk based methodology, including input from senior managers. Prior to submission of the plan to the Corporate Leadership Team for approval the plan may be discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

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

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

### **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 organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Co-ordinating the activities of and communicating information among the Audit Committee, external and internal auditors and management.

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

## **Internal Control**

Internal audit must assist the organisation 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 organisation's governance, operations and information systems regarding the:

- Achievement of the organisation'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.

## **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 and consultancy work.

The Chief Internal Auditor must consider the effect on the opinion work before accepting consultancy work or management requests over and above the contingency allowed for in the internal audit plan. Approval must be sought from the Audit Committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement. The Chief Internal Auditor must consider how the consultancy work contributes towards the overall opinion.

## **Delivery of Internal Audit Work**

### **Engagement Planning**

For each engagement, a Client Notification will be prepared, and agreed with relevant managers. The Client Notification will establish the objectives, scope and timing for the audit assignment, and reporting requirements.

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Internal Auditors are not tasked with reviewing any systems for which they have previously held operational responsibility for. This is applied for a three year period to ensure that objectivity is not compromised.

As the Chief Internal Auditor has operational responsibilities for the management of other areas in Risk Services any audit assurance work related to these areas is managed by the Audit Manager with no involvement from the Chief Internal Auditor. On these occasions the scope of the work and agreement of the report are undertaken in conjunction with the Chief Internal Auditor's line manager (Section 151 Officer), to help avoid the risk of conflicts of interest.

## **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 judgments and recommendations and therefore must be factual and accurate. This data is held in compliance with the Council's Document Retention Policy. 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 Chief Internal Auditor must ensure arrangements are in place to form an opinion on their effectiveness.

Where the Council operates systems on behalf of other bodies, the Chief Internal Auditor 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.

## **Reporting and Monitoring**

A written report will be prepared and issued by the Chief Internal Auditor or designee following the conclusion of each internal audit 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 Chief Internal Auditor will agree reporting arrangements with the Section 151 Officer 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



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- 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 engagement findings and high risk recommendations. All significant findings will remain in an open issues file until cleared. It is the responsibility of the manager to ensure 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.

The Chief Internal Auditor will present a formal report annually to the Corporate Leadership Team and Audit Committee giving an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management, and internal control (including any reliance placed on work by other assurance providers). This report will conform to the PSIAS for the Head of Internal Audit Opinion statement, and will provide a summary of the work to support the opinion. It will be timed to support the production of the Council's Annual Governance Statement. Reports of progress against the planned work will be presented to the Audit Committee on a quarterly basis during the year.

A statement will also be made on the conformance with the PSIAS, the results of the quality assurance and improvement program and any external assessor's improvement recommendations, disclosure of any impairments or limitations. If an unfavourable opinion is given, the reasons for this must be specified.

## **Communicating the Acceptance of Risk**

If the Chief Internal Auditor concludes that management has accepted a level of risk that may be unacceptable to the organisation, this will be discussed with the relevant senior manager. If the Chief Internal Auditor determines that the matter has not been resolved, then the matter will be communicated to the S151 officer, Chief Executive and the Audit Committee.

## **Responsibilities of the Council**

The Council is responsible for ensuring that Internal Audit is provided with all necessary assistance and support to ensure that it meets the required standards.

The Section 151 Officer will make appropriate arrangements for the provision of an internal audit service. This will include the formal adoption of this Charter by the Corporate Leadership Team and Audit Committee and the adoption of corresponding elements in the Financial Regulations.

The Council will ensure it has taken all necessary steps to provide internal audit with information on its objectives, risks, and controls to allow the proper execution of the audit plan and adherence to internal audit standards. This will include notifying internal audit of any significant changes in key control systems which may affect the internal audit plan.

The Council, through the Corporate Leadership Team and other relevant managers will respond promptly to audit plans, reports and recommendations.

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Responsibility for monitoring and ensuring the implementation of agreed recommendations rests with the Council.

## **Skills and Competencies**

### **Chief Internal Auditor**

The Chief Internal Auditor will be appointed by the Council and will have sufficient skill, experience and competencies to work with the leadership team and the Audit Committee and influence the risk management, governance and internal control of the Council. The Chief Internal Auditor 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. In addition to internal audit skills, the Chief Internal Auditor will specify any other professional skills that may be needed by the internal audit team. The Chief Internal Auditor will hold a full, professional qualification, defined as CCAB, CMIIA or equivalent professional membership and adhere to professional values and the Code of Ethics.

### **Internal Audit Staff**

Internal audit must be appropriately staffed in terms of grades, qualification levels and experience. Internal auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme. The Chief Internal Auditor is responsible for appointing the staff of internal audit and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Chief Internal Auditor is responsible for allocating appropriately qualified auditors to specific assignments, from within the internal audit team and when using auditors from partner internal audit teams or other external sources.

Each job role within the internal audit structure will detail skills and competencies within the approved job description and person specification. In line with Council policy and the PSIAS, each member of the team will be assessed against these predetermined competencies and annual objectives. Any development and training plans will be regularly reviewed, monitored and agreed with officers. This assessment will also take into account competency changes as needed i.e. to reflect changing technology and legislation. Auditors are also required to maintain a record of their continual professional development in line with their professional body.

## **Periodic Assessment**

The Chief Internal Auditor is responsible for providing periodically a self-assessment on the internal audit activity regarding its conformity to the Audit Charter (purpose, authority, responsibility) and performance relative to the audit plan.

In addition, the Chief Internal Auditor will communicate to the Corporate Leadership Team and the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

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## **Quality Assurance and Improvement Programme**

The internal audit service will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Public Sector Internal Audit Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Chief Internal Auditor will communicate to the Corporate Leadership Team and Audit Committee on the internal audit activity's quality assurance programme, including results of ongoing internal assessments and external assessment conducted at least every five years.

## **Internal Audit Resources**

If the Chief Internal Auditor or the Committee consider that the level of audit resources or the terms of reference in any way limit the scope of internal audit, or prejudice the ability of internal audit to deliver a service consistent with the Mission, the Definition of Internal Auditing and the Standards, they should advise the Chief Executive and the Section 151 Officer accordingly.

## **Review**

This Charter will be the subject of annual review by the Chief Internal Auditor and will be formally presented to the Corporate Leadership Team and Audit Committee for approval.