

**SUBJECT: INTERNAL AUDIT SECTION
INTERNAL AUDIT CHARTER 2016**

**DIRECTORATE: Chief Executive's
MEETING: Audit Committee
DATE: 15th September 2016
DIVISION/WARDS AFFECTED: All**

1. PURPOSE

To make Members of the Council's Audit Committee aware of the revised and updated Internal Audit Charter for Monmouthshire County Council in order to enable them to make an informed decision to approve the Charter in line with the expectations of the Public Sector Internal Audit Standards (PSIAS).

2. RECOMMENDATION(S)

That the Committee endorse and approve the Internal Audit Charter.

3. KEY ISSUES

- 3.1 The Section has started to undertake its programme of audits in accordance with the 2016/17 Operational Audit Plan.
- 3.2 This report gives brief details of the work undertaken in the year to date. The report also gives details of the Section's performance indicators for the 3 months to 30th June 2016.
- 3.3 The Public Sector Internal Audit Standards came into force in April 2013 which the Internal Audit team needs to demonstrate it is compliant with; these replaced the former Code of Practice for Internal Audit within Local Government. The new standards have been reported to the Audit Committee separately.

4. REASONS

- 4.1 This report aims to make Members of the Audit Committee aware of the Council's Internal Audit Charter in order to enable them to make an

informed decision to approve The Charter in line with the expectations of the Public Sector Internal Audit Standards (PSIAS).

- 4.2 The purpose of this Charter is to define what Internal Audit at Monmouthshire Council is and explain its purpose, authority and responsibility.
- 4.3 This Charter has been written in accordance with Standard 1000 of the Public Sector Internal Audit Standards (PSIAS) which came into force from April 2013.
- 4.4 The Public Sector Internal Audit Standards 2013 (PSIAS) defines Internal Audit 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.”
- 4.5 A professional, independent and objective Internal Audit service is one of the key elements of good governance.
- 4.6 Internal Audit has specific responsibilities and rights of access to people and documents written into the Council’s Financial Procedure Rules which are included within The Charter, along with its objectives, roles and responsibilities, the staff involved and how it demonstrates its organisational independence. The expectations and responsibilities of the Chief Internal Auditor are also included within The Charter.
- 4.7 The Charter reinforces the point that Internal Audit provides assurance to Members and Senior Management and should not be involved with operational matters of service delivery. It includes an important reference to the Code of Ethics for those working within the team in that they need to conform with the principles of Integrity, Objectivity, Confidentiality and Competence and have due regard to the ‘Seven Principles of Public Life (Nolan Principles)’ when undertaking their duties.
- 4.8 The expectations of how Internal Auditors will approach their work in terms of due professional care, integrity, independence, impartiality is written into The Charter; the work itself being delivered through an Audit Strategy and an Annual Audit Plan. The reporting and quality assurance processes are also included, along with how relationships with the team’s stakeholders will be developed.
- 4.9 Dealing with Fraud and Irregularities is an important part of what the Internal Audit Team does in order to safeguard public money; it is important to include this aspect of its work within The Charter. How the

Internal Audit Team will be resourced and continually developed through training has also been included within The Charter.

- 4.10 The intention is to maintain The Charter as a working document, which from time to time, will need to be refreshed and updated; The Internal Audit Charter will therefore be reviewed periodically by the Chief Internal Auditor and presented to Senior Management and the Audit Committee for approval.

5. RESOURCE IMPLICATIONS

None.

6. CONSULTEES

Head of Finance

Results of Consultation:

N/A

7. BACKGROUND PAPERS

8. AUTHORS AND CONTACT DETAILS

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INTERNAL AUDIT

CHARTER

Version: DRAFT Team 02

Date: August 2016

Author: Andrew Wathan, Chief Internal Auditor

Approved by:

Date Approved:

Date of Next Review:

AUDIT COMMITTEE SEPTEMBER 2016

INTERNAL AUDIT CHARTER 2016

Monmouthshire County Council

INTERNAL AUDIT CHARTER

1. Introduction

- 1.1 The purpose of this Charter is to define what Internal Audit is and explain its purpose, authority, responsibility and position within Monmouthshire County Council.
- 1.2 This Charter has been written in accordance with Standard 1000 of the Public Sector Internal Audit Standards (PSIAS).
- 1.3 For the purposes of internal audit activity the following terms are defined as follows:

'board' – the Audit Committee

'senior management' – the Senior Leadership Team (SLT) which is made up of the Chief Executive, Chief Officer Enterprise, Chief Officer Social Care, Health and Housing, Chief Officer for Children & Young People, Chief Officer Resources, Head of Democracy, Engagement and Improvement.

2 Purpose, Definition, Scope and Authority of Internal Audit

Purpose and Definition

- 2.1 The Public Sector Internal Audit Standards 2013 (PSIAS) defines Internal Audit 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."
- 2.2 A professional, independent and objective Internal Audit service is one of the key elements of good governance.

Authority

- 2.3 The authority of the internal audit function is derived from legislation. The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which required that authorities shall *'make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs'*. The Accounts and Audit (Wales) Regulations 2014 requires that 'A

relevant body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.

2.4 Monmouthshire Council has delegated these responsibilities to the Head of Finance.

2.5 Financial Procedure Rules (September 2014) 4.35 states:

To ensure that internal auditors have the authority to:

- access authority premises at reasonable times, subject to the Chief Internal Auditor being satisfied as to any risk to health and safety;
- access all assets, records, documents, correspondence and control systems;
- receive any information and explanation considered necessary concerning any matter under consideration;
- require any employee of the Authority to account for cash, stores or any other authority asset under his or her control;
- access records belonging to third parties, such as contractors, when required;
- review, appraise and report on the adequacy and application of financial and other controls, and on the protection of the Authority's property and assets against loss due to fraud or wasteful practices.

Scope

2.6 The scope of work of Internal Audit is to determine whether the Council's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

Risks are appropriately identified and managed;

- Interaction with the various governance groups occurs as needed;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the Council's control process;
- Significant legislative or regulatory issues impacting the Council are recognised and addressed appropriately; and

- Opportunities for improving management control, profitability and the Council's image may be identified during audits. They will be communicated to the appropriate level of management.

Our scope of work may include audit activity both within Monmouthshire County Council and on functions that MCC has delegated or contracted out,

- 2.7 The scope of Internal Audit allows for unrestricted coverage of the Authority's activities in order to review, report and provide the appropriate assurance based on its reviews to the Audit Committee. Internal Audit shall also have unrestricted access to all records, property and assets deemed necessary by auditors in the course of an audit. In addition, Internal Audit, will have unrestricted access to:-

the Audit Committee
 the Chief Executive
 the Leader of the Council
 Members of the Council
 individual Chief Officers
 all Authority employees.

- 2.8 Such access to records, access and personnel may be limited to certain named individuals as agreed with the Chief Internal Auditor where highly sensitive or confidential information is involved.
- 2.9 Internal Audit is known as the 3rd line of defence within an organisation, with operational management controls being the 1st, risk management and compliance the 2nd. Each line has its own role in the Authority to ensure that risks are appropriately managed and identified. Internal audit's unique role is to provide assurance to the senior management that is objective and independent of management about the controls in place to manage risk.

3 Objectives

- 3.1 Internal Audit's main objectives are to:

- provide a high quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
- provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures
- to ensure the objectives of the Council are being met
- provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes

- provide advice and support to management to enable an effective control environment to be maintained
- promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- investigate allegations of fraud, bribery, corruption and other irregularities
- to liaise with the police where criminal activities are suspected.

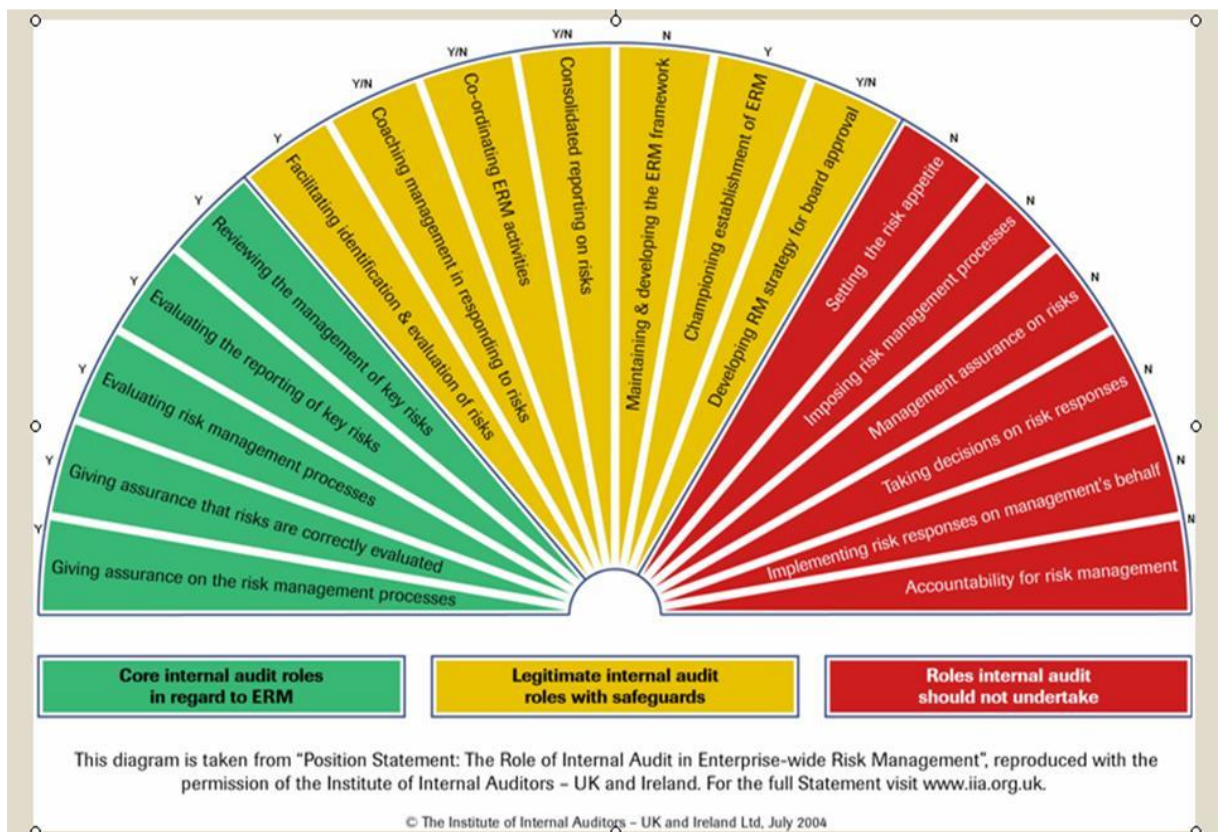
4 Roles & Responsibilities

Role of Internal Audit

4.1 To meet Internal Audit objectives, internal auditors are responsible for

- reviewing and assessing the soundness, adequacy and reliability of financial and non-financial management systems and operations
- reviewing and assessing the effectiveness of internal controls
- assessing the appropriateness of management action for improvement, where appropriate
- reviewing and assessing procedures to check that the Council's assets and interests are adequately protected and risks are identified and effectively managed
- checking for compliance with legislation, Council policies and procedures
- promoting and assisting the Council in the effective use of resources
- ensuring governance and risk management processes are effective and robust
- undertaking independent investigations into allegations of fraud and irregularity in accordance with Council policies and procedures and relevant legislation.

4.2 The diagram below illustrates the sorts of roles that Internal Audit can play, providing the necessary safeguards are in place:



Provision of the Internal Audit Function

4.3 The Internal Audit Function is provided 'in house' and consists of the Chief Internal Auditor, 1 Audit Manager, 1 Principal Auditor, 2 Senior Auditors and 1 Auditor. The team comprises of professionally qualified and part qualified accountants and auditors (CIPFA, IIA, AAT). The Chief Internal Auditor operates in collaboration with a neighbouring local authority dividing his time on a 60:40 basis between Newport and Monmouthshire.

Organisational Independence and Objectivity

4.4 PSIAS Standard 1100 states that the Chief Internal Auditor must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The Chief Internal Auditor will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity.

4.5 Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Audit Committee. The Audit Committee is required to;

- approve the Internal Audit Charter;
- approve the risk based Internal Audit Plan;

- approve the internal audit budget and resource plan;
- receive communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- make appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scopes or resource limitations.

4.6 Members of the Audit Team annually declare any potential conflicts of interests and do not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment.

Management Structure

4.7 Internal Audit is part of the Finance Service Area, with the Chief Internal Auditor reporting directly to the Head of Finance. However, in order to maintain its independence Internal Audit has a right of access to the Chief Executive and/or the Leader of the Council and/or the Chair of the Audit Committee should circumstances warrant it. The Chief Internal Auditor also reports in his own name.

4.8 Internal Audit carry out some non-audit functions, including controlling imprest accounts, issuing controlled stationery and undertaking financial appraisals for departments on request.

4.9 The Chief Internal Auditor is responsible:

- in managerial terms to the Head of Finance
- for the performance of the Internal Audit Service to the Audit Committee
- providing a level of assurance, or otherwise, to the Audit Committee.

4.10 The Chief Internal Auditor's responsibilities to the Audit Committee include:

- presenting for approval the internal audit charter
- presenting and obtaining approval of the risk-based annual audit plan
- reporting quarterly on the work undertaken by Internal Audit
- reporting any serious weaknesses found in the internal control systems, governance or risk, and any instances where corrective action has not been taken by management
- reporting any instances where responses to audit reports have not been received within a reasonable timescale of the issue of draft and/or final audit reports, and any instances where agreed management actions have not been implemented within an acceptable time period

- providing an annual audit opinion of the overall adequacy and effectiveness of the Council's internal control environment
- making the Audit Committee aware of emerging trends and successful practices in internal auditing.

4.11 The Audit Committee responsibilities are in accordance with the committee's terms of reference.

5 Code of Ethics

5.1 The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards 2013 (PSIAS) by:

- ensuring that all internal auditors conform to the Code of Ethics principles of integrity, objectivity, confidentiality and competency
- implementing the Attribute and Performance Standards as detailed in Section 5 of the Standards

5.2 Internal Audit staff are required to make an annual affirmation of their knowledge of, and compliance with, the PSIAS Code of Ethics and must also have regard to The Committee on Standards in Public Life's *Seven Principles of Public Life* (Nolan Principles).

6 Service Standards

What can be expected from Internal Audit:

6.1 Internal Auditors will, at all times, exercise due professional care, act with integrity and take a professional, reliable, independent and innovative approach to their work. It is essential that auditors are impartial so that when an audit opinion is requested it will be unbiased and based upon the facts available. Should a situation arise where impartiality could be questioned, then another auditor will be assigned to undertake the task concerned.

6.2 The Chief Internal Auditor and individual members of the IA team are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

6.3 Where an auditor was previously employed within a service/area subject to audit then the Chief Internal Auditor will ensure that the auditor concerned is not assigned audits in that area until an appropriate amount of time has lapsed.

Audit Strategy

6.4 The Chief Internal Auditor prepares a risk-based audit strategy and translates this into a three year rolling plan that shows cyclical coverage of audits. Where there is a difference between the strategy/plan and resources available, this is reported to the Audit Committee.

Annual Audit Plan

- 6.5 To implement the audit strategy, an annual audit plan is established using a risk-based assessment methodology. The plan determines in broad terms the resources and skills needed, and is used for allocating auditors' work. Should the plan indicate a need for additional resources, this will be discussed with the Head of Finance. Heads of Service / Managers are consulted on the audit plan during the planning process and asked if there are any areas or work they wish specifically to be incorporated into the audit coverage. The plan is flexible and includes a contingency to allow for changes in priorities, emerging risks, ad hoc projects, fraud and irregularity, etc.
- 6.6 The Annual Internal Audit Plan is reported to, considered and endorsed by the Audit Committee.

What is expected from managers and staff

- 6.7 Managers and staff should co-operate with the auditors, for example:
- Agreeing audit scopes promptly prior to the commencement of audit fieldwork;
 - Providing Internal Audit with full support and co-operation, including complete access to all records, data, property and personnel relevant to the performance of their responsibilities at all levels of operations, without unreasonable delay;
 - Responding to the draft internal report, including provision of management responses to recommendations, within the timescale requested by the audit team (Where a response is not forthcoming a reminder will be issued. However, if a response is not received then the matter will be referred up to the next level of management, and ultimately to the Head of Service, Chief Officer, Chief Executive or Audit Committee, as appropriate);
 - Implementing agreed audit recommendations in accordance with the agreed timescales;
 - Updating Internal Audit with progress made on audit recommendations;
 - Informing Internal Audit of proposed changes and developments in processes and systems and newly identified significant risks.
- 6.8 Managers and staff are encouraged to feedback any comments which would help improve the future delivery of internal audit services during the audit and through the client questionnaire issued at the conclusion of each audit.

7 Reporting

Audit Reports

7.1 All audit assignments will be the subject of formal reports or memoranda. Where appropriate draft reports will be sent to the managers responsible for the area under review for agreement of the factual accuracy of findings. After agreement, the final reports will be issued to the relevant Head of Service. All reports will be issued on behalf of the Chief Internal Auditor and will contain a corresponding audit opinion.

7.2 Audit reports:

- show the findings based on a risk assessment e.g. significant, moderate and minor, together with control strengths identified during the audit
- include an action plan showing the agreed audit recommendations and the target date for implementation
- give an opinion of the system as at the time of the audit
- define the circulation of the draft and the final reports
- all reports will be issued on behalf of the Chief Internal Auditor.

7.3 Audit report circulation/Reporting structure:

- Operational managers receive a draft report for discussion followed by the final report
- Heads of Service (and for schools, Chairs of Governors) will receive a copy of all final reports within their service area
- Chief Executive and Senior Leadership Team will receive a copy of all quarterly update reports presented to the Audit Committee and can request individual reports as required.

Reporting Standards

7.4 Upon completion of audits, draft audit reports are internally quality reviewed and issued to the relevant line managers for them to confirm the accuracy of the audit findings. Managers are invited to contact the auditor if they wish to discuss the report and asked to show their response to the significant and moderate risk weaknesses raised in the draft report. For agreed audit recommendations, dates for action or implementation are recorded in the report and the action plan. The managers' responses are recorded in the final report.

7.5 In accordance with professional standard (2500 Monitoring Progress), follow-up audits are undertaken to ensure that the agreed controls and actions have been implemented by management.

7.6 Any agreed management actions not implemented within a reasonable timescale and any 'significant risk weaknesses that are not accepted will be reported to the Audit Committee in accordance with the committee's terms of reference.

- 7.7 Internal Audit works to the reporting quality standards benchmarked by the Welsh Chief Internal Auditors' Group, which include the timely issue of draft and final audit reports.
- 7.8 Agreed action plans within final reports will be followed-up within 12 months of the date issue of the final audit report, to ensure that the agreed audit recommendations have been implemented.

8 Quality Assurance

- 8.1 The Chief Internal Auditor will maintain a process of review of the Internal Audit Service to provide reasonable assurance that its work conforms with the relevant standards and to the requirements of this document. Internal assessments will include:
- ongoing monitoring of the performance of the service including ensuring there is adequate supervision of work performed
 - periodic self-assessments on how the service meets the requirements of the Public Sector Internal Audit Standards
- 8.2 External assessments of the Internal Audit Service will be undertaken once every five years, in accordance with the PSIAS.
- 8.3 Internal auditors are required to enhance their knowledge, skills and other competencies through continuing professional development.
- 8.4 Audit reports are reviewed by a senior member of staff / peer reviewed prior to issue. All reports are issued by the Audit Manager (or Chief Internal Auditor).

9 Relationships

- 9.1 General - in all of these relationships the person/s concerned 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. Where issues could cause embarrassment to the Council, the appropriate manager will be advised immediately so that the issue can be addressed without delay.
- 9.2 Internal - the main contacts are with: Council employees, operational managers, Heads of Service, Chief Officers and the Chief Executive. Internal auditors will ensure that they explain to the person/s concerned the purpose of the audit and the various stages that the audit will follow. Internal Audit will agree with the manager concerned the timing and scope of the audit and the circulation of the audit report.
- 9.3 Councillors – the main means of communication between Internal Audit and Councillors is via the Audit Committee which meets approximately 7 times per year.
- 9.4 External – Internal Audit will liaise with the external auditors in order to:

- foster a co-operative and professional working relationship
- minimise the incidence of duplication of effort
- ensure appropriate sharing of information
- co-ordinate the overall audit effort

10 Fraud & Irregularities

10.1 The Chief Internal Auditor is responsible for reviewing and updating the Council's Anti-Fraud and Corruption Strategy and for promoting an anti-fraud culture within the Council. This is achieved by the following:

- specific detailed testing in high risk areas
- participation in the Cabinet Office National Fraud Initiative data matching exercise
- investigation of all areas of concern identified through routine audit, reported to management or via the Council's Whistleblowing Policy.

10.2 Heads of Service / operational managers are responsible for managing risks in order to prevent fraud, irregularity, waste of resources, etc. Internal Audit will assist Heads of Service / operational managers to effectively manage these risks.

10.3 However, no level of controls can guarantee that fraud will not occur, even when the controls are performed diligently with due professional care.

10.4 Where there is evidence or reasonable suspicion that a fraud or irregularity has occurred, then this must be reported immediately to Internal Audit. All cases will be dealt with in accordance with the Council's '*Anti-Fraud and Corruption Strategy*' and '*Whistleblowing Policy*'.

11 Audit Resources

11.1 The staffing structure of Internal Audit will comprise a mix of qualified, technician, trainee and auditor posts with a mix of professional specialisms to reflect the varied functions of the section.

11.2 As far as is practicable, Internal Audit will not participate in the day-to-day operation of any systems of internal control. However, in strict emergency situations only, audit personnel may be called upon to carry out non-audit work on a short-term basis.

11.3 Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls or being asked to be part of a project team. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee.

11.4 Members of the Internal Audit Section will be expected to contribute to the general management and conduct of business through membership of working groups and participation in ad hoc exercises.

12 Audit Training

- 12.1 Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development (Standard 1230).
- 12.2 The Chief Internal Auditor will carry out a continuous review of the development and training needs of all audit personnel and will arrange in-service training covering both internal and external courses. This will complement the Council's 'Check in: check out' process.
- 12.3 The Internal Audit Team will be encouraged to attend the training programme for internal auditors on behalf of the South Wales Chief Auditors Group; a sub group of the Welsh Chief Auditors Group.

13 Review

- 13.1 The Internal Audit Charter will be reviewed periodically by the Chief Internal Auditor and presented to senior management and the Audit Committee for approval.

APPENDIX 1

RATING	RISK DESCRIPTION	IMPACT
1	Significant	<p>(Significant) – Major / unacceptable risk identified.</p> <p>Risk exist which could impact on the key business objectives. Immediate action required to address risks.</p> <p>RED</p>
2	Moderate	<p>(Important) – Risk identified that requires attention.</p> <p>Risk identified which are not business critical but which require management as soon as possible.</p> <p>AMBER</p>
3	Minor	<p>(Minimal) - Low risk partially mitigated but should still be addressed</p> <p>Audit comments highlight a suggestion or idea that management may want to consider.</p> <p>YELLOW</p>
4	Strength	<p>(No risk) – Good operational practices confirmed.</p> <p>Well controlled processes delivering a sound internal control framework.</p> <p>GREEN</p>

APPENDIX 2

SUBSTANTIAL	<p>Substantial level of assurance.</p> <p>Very well controlled, with numerous strengths identified and any risks being less significant in nature.</p>
CONSIDERABLE	<p>Considerable level of assurance</p> <p>Generally well controlled, although some risks identified which should be addressed.</p>
REASONABLE	<p>Reasonable level of assurance.</p> <p>Adequately controlled, although risks identified which could compromise the overall control environment. Improvements required.</p>
LIMITED	<p>Limited level of assurance.</p> <p>Poorly controlled, with unacceptable levels of risk. Fundamental improvements required urgently.</p>

APPENDIX 3

