

Appendix B

Audit Charter

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An Audit Charter is a mandatory requirement of the Public Sector Internal Audit Standards and the associated Local Government Application Note (PSIAS) and sets out the purpose, responsibilities and authority of the internal audit service within Warwickshire County Council.

This document was approved by the Internal Audit Board on 24 May 2017 and endorsed by the Audit and Standards Committee on 1 June 2017 and applies until amended.

Context

The Council has a statutory responsibility to have in place arrangements for managing risks; The Accounts and Audit Regulations 2015 require local authorities to have a sound system of internal control which:

- facilitates the effective exercise of their 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.

Furthermore, the CIPFA/SOLACE governance framework “Delivering Good Governance in Local Government: Framework 2016” outlines the need for risk management to be embedded into the culture of the organisation, with members and officers recognising that risk management is an integral part of their jobs.

The requirement for an internal audit function is also contained in the Regulations which require the Authority to:

“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”.

Internal Audit Services for the County Council are provided by the Risk and Assurance Service of the Resources Group.

Definitions

The role of the “Board” outlined in the PSIAS is fulfilled by Corporate Board. The role of senior management is fulfilled by Corporate Board. The role of the Chief Audit Executive is fulfilled by the Chief Risk and Assurance Manager.

Purpose

The Council has to comply with the PSIAS which define 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.”

The key word in the definition is assurance; the role of audit is primarily to provide reasonable assurance to the organisation (the Board, managers, heads of services and the Audit and Standards Committee) and ultimately the taxpayers that the Authority maintains an effective control environment that enables it to manage its significant business risks. We do this by **providing risk-based and objective assurance, advice and insight**.

The IIA standards, on which PSIAS are based, define the mission of an effective internal audit function as:

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

Achievement of the mission is supported by a range of standards and guidance including: the Core Principles, the Definition of internal audit and a Code of Ethics.

For an audit function to be considered effective all of the following Core Principles must be present and operating effectively:

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organisation.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organisational improvement.

The PSIAS includes a mandatory Code of Ethics (based on international IIA standards) covering integrity, objectivity, confidentiality and competency. All internal auditors in the public sector must also have regard to the Committee on Standards of Public Life’s Seven Principles of Public Life – the Nolan principles.

The service also assists the Head of Finance in discharging his responsibilities under Section 151 of the Local Government Act 1972 which requires that authorities:

“make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.

Scope and Responsibility

The service is responsible for providing assurance in accordance with all relevant professional standards and guidance across the council's entire control environment and across all activities, including:

- services provided on behalf of other organisations by the Authority, and
- services provided by other organisations on behalf of the Authority.

In addition to core assurance work the service also provides the following work:

Consultancy / Advisory work

The service also undertakes consultancy and advisory work designed to add value and offer insights that should improve the effectiveness of risk management, control and governance processes at the request of the organisation, subject to the availability of skills and resources.

Due to its detailed knowledge of systems and processes the Service is well placed to provide advice and support to managers on the implications of changes to policy or processes. As such, the service must be informed and consulted about plans for major or complex changes to systems. The service will advise / comment on proposed changes and the controls to be incorporated in new and revised systems when invited to do so or where agreed in the annual plan but the final decision on whether to accept the audit advice rests with the relevant manager(s). However, where appropriate the Chief Risk and Assurance Manager may escalate the issue to more senior management. The provision of such advice does not prejudice the service's right to evaluate the established systems and controls at a later date.

Fraud

All managers are responsible for the prevention and detection of fraud, corruption and other irregularities. However, the service assists with these responsibilities. Internal auditors when conducting audit assignments are alert to opportunities, such as control weaknesses that could allow fraud. If the service discovers evidence of a fraud or other irregularity the relevant line manager will be informed.

Smaller, less complicated investigations will be undertaken by the relevant managers but the service will investigate the more complicated or large cases of suspected fraud and other irregularities. It is the responsibility of the relevant line manager to determine what action to take as a result of the investigation.

Managers should immediately inform the Chief Risk and Assurance Manager if a fraud or other irregularity is suspected who will then inform the Internal Audit Board of significant allegations. Managers should also ensure that:

- any supporting documentation or other evidence is secured; and
- confidentiality is maintained so as not to prejudice any subsequent investigation.

The service is responsible for reviewing the Authority's response to fraudulent activity in order to ensure that appropriate action has been taken. Once an investigation is concluded, the service will undertake a review to determine whether controls should be strengthened.

The Chief Risk and Assurance Manager is responsible for reporting frauds and subsequent liaison with the Police and other investigative agencies.

Value for money

The service will offer advice and insight concerning instances of over control, or inefficiency, but will not specifically examine or evaluate the extent that value for money is achieved as part of our routine reviews.

Where specifically agreed in the audit plan the service will, subject to availability of resources, also:

- undertake or participate in specific value for money / service reviews; and
- facilitate the introduction of best practices across the Authority.

The scope of a value for money / service review will not normally overlap with the scope of an audit. However, the service will take account of the timing and scope of such reviews when planning its work.

Where a review team is actively looking at options that have a material impact on risks and controls the Chief Risk and Assurance Manager must be informed at an early stage. Where requested, and subject to the agreement of the relevant manager, the service will assist reviewers by supplying information and knowledge gained during audits where this is relevant to the scope of the review.

Other

The Chief Risk and Assurance Manager may, at the request of the Board, a senior manager or the Council or any of its committees, carry out investigations into issues where the Authority's strategic, corporate or financial interests are at stake.

Wherever possible staff responsible for providing advice on a particular topic will not undertake assurance work on that topic for at least 12 months. Where this is unavoidable management supervision will ensure that no conflict of interest arises and objectivity is maintained.

Any significant unplanned non-assurance work that would impact delivery of the core assurance work will require the prior approval of the Board.

Independence

The service is managed by the Chief Risk and Assurance Manager who is professionally qualified as required by PSIAS. Although the Chief Risk and Assurance Manager's direct reporting line is to the Head of Law and Governance he also reports functionally to the Internal Audit Board. The Service also provides regular reports to the Council through its Audit and Standards Committee which has responsibility for overseeing audit arrangements.

The Service has responsibility for co-ordinating work on risk management but individual managers are responsible for managing risk for their areas of responsibility. The Chief Risk and Assurance Manager also manages the insurance function. Any audits of the risk management and insurance functions will be overseen by the Head of Law and Governance. Apart from these areas of work the Service does not have any executive responsibilities and is independent of the activities that it audits. This enables it to provide impartial and unbiased professional opinions and recommendations.

The Service is free to plan, undertake and report on its work, as the Chief Risk and Assurance Manager deems appropriate, in consultation with relevant managers and the Board.

Line managers are fully responsible for the quality of internal control within their area of responsibility. They should ensure that appropriate and adequate control and risk management arrangements exist without depending on internal audit activity.

The service provides advice and assistance to managers and provides assurance that their control responsibilities are being properly fulfilled. Line managers are accountable for accepting the Service's advice and implementing their recommendations.

Audit and Standards Committee

The Council is responsible for maintaining an audit committee which complies with all relevant guidance. The committee's responsibilities include reviewing and commenting upon:

- formally approving the audit charter;
- formally approving (but not directing) the overall internal audit strategy and programme of audits to ensure that it meets the council's overall strategic direction (paying particular attention to whether there is sufficient and appropriate coverage);
- reviewing and commenting on summaries of work done, key findings, issues of concern and action in hand as a result of audit work; and
- receiving and reviewing the annual report from the Chief Risk and Assurance Manager in order to reach an overall opinion on the internal control environment and the quality of internal audit coverage.

Right of access

To undertake their work the Service has unrestricted access to all the Authority's personnel, premises, documents, records, information and assets including those of partner organisations¹. The Service has authority to access all relevant computer data as part of their work, including that registered under the Data Protection Act.

The Service is authorised to obtain the information and explanations they consider necessary from any employees, partners or agents of the Authority to fulfil their objectives and responsibilities. Managers must ensure that internal audit access is considered when preparing partnership agreements or contracts for the purchase or supply of goods and services.

The Service has the right of access to any data required for their work that is owned by the Authority, but is processed or held elsewhere by third parties.

The Chief Risk and Assurance Manager has the right of direct access to the Leader, Chief Executive, Strategic Directors, Chair of the Audit and Standards Committee and heads of service.

Standards

The service operates in accordance with the best practice standards and guidance in the PSIAS.

Individual auditors are required to comply with the standards, all relevant ethical and technical standards issued by their professional bodies and with all relevant codes of conduct issued by the Authority.

Internal auditors are expected to:

- exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity;
- maintain and keep up to date their professional knowledge and skills and to participate in any continuing professional development scheme (CPD) operated by their professional body;
- participate in the Warwickshire County Council's staff appraisal scheme;
- comply with the Authority's rules about declaring interests; and
- obtain and record sufficient audit evidence to support their findings and recommendations.

The Service will safeguard the information obtained in carrying out its duties. Information obtained will not be disclosed unless there is a legal or professional requirement to do so (for example under the Freedom of Information Act) or used for personal gain.

Planning

¹ Regulation 5 Accounts and Audit Regulations 2015

Internal audit work is planned at all levels of operation in order to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources.

The Chief Risk and Assurance Manager produces annual plans. These plans are developed in consultation with senior managers and take account of the Authority's aims, strategies, key objectives, associated risks, and risk management processes.

The Board agrees each year's plan which are endorsed by the Audit and Standards Committee. These plans will normally include an element of contingency to allow internal audit to be responsive to changing conditions and requests for assistance from managers. It is the responsibility of the Board to ensure that the budget and resources allocated to internal audit are sufficient to ensure that these plans can be delivered. This is assessed as part of the business planning process.

The Chief Risk and Assurance Manager is authorised to amend the plan during the year as necessary to reflect changes to systems or processes or in the risks facing the Authority. Any significant changes will be reported to the Board. All managers are expected to notify the service of any issues that may potentially require a change in the plan as soon as they become aware of them.

Terms of reference are usually prepared for each routine assignment and usually discussed with relevant line managers before the work is started.

Reasonable notice will usually be given to the relevant manager of the start of an audit and the Service will minimise any disruption to the smooth running of the unit under review. However, the Service reserves the right for unannounced visits where the Chief Risk and Assurance Manager considers it necessary.

Reporting

All findings are reported to appropriate managers. Significant issues are reported in writing. The reports include an opinion on the adequacy of controls in the area reviewed, make recommendations for improvement and specify the officer responsible for implementation. Opinions on individual assignments feed into the overall opinion given in the annual report. Recommendations are prioritised.

Reports will usually be agreed with the relevant manager and the final agreed report will be copied to the relevant head of service and strategic director. Reports identifying significant financial issues will also be copied to the Head of Finance.

The Chief Risk and Assurance Manager is responsible for monitoring and reporting to the Board on the extent of implementation of agreed internal audit recommendations.

The Chief Risk and Assurance Manager submits regular reports to the Board and Audit and Standards Committee summarising the results of audits and progress in implementing audit recommendations. An annual report will be provided giving an opinion on the Authority's control environment and which feeds into the annual

review of the effectiveness of the Authority's system of internal control and the Annual Governance Statement.

Co-operation

The Chief Risk and Assurance Manager co-ordinates internal audit plans and activities with other internal and external providers of assurance, to ensure the most efficient use of the total resources devoted to audit. However, as recognised in professional standards (ISA 610) external audit and internal audit have different objectives and priorities. The Chief Risk and Assurance Manager is authorised to share information with external auditors and the Cabinet Office (for the purposes of the National Fraud Initiative). The Head of Audit will liaise as appropriate with those involved in risk management and other policy and assurance providers, internal and external, sharing information and co-ordinating work as far as is practicable, in line with appropriate professional standards and other confidentiality considerations.

The service will work in partnership with other parts of the organisation on such matters as corporate governance, data protection, contracting and risk management.

It is the responsibility of every manager to be open, frank and honest at all times about any risks, concerns or problems that may exist and should provide more detailed information and evidence to internal audit within a reasonable time scale.

Where services are provided by or to other organisations the Chief Risk and Assurance Manager is authorised to agree the responsibility for internal audit of those services with the internal auditors of those organisations and to share relevant information. Managers setting up a shared service / partnership must consider the requirement for assurances in relation to what they are doing, including the option of internal audit work, and must include appropriate assurance obligations and internal audit access rights in any agreement.

Quality of service

The Chief Risk and Assurance Manager manages a quality assurance programme to ensure that internal audit work complies with professional standards and achieves its objectives.

The service takes the following steps to provide a quality service:

- adopts a flexible risk driven approach;
- works in partnership with managers and staff to develop and maintain adequate and reliable systems of internal control;
- continually seeks to improve the efficiency of its services in consultation with managers from across the Authority; and
- regularly reviews its procedures to ensure that they remain appropriate.

The quality assurance programme includes:

- suitable guidance, support and review of all internal audit work;
- seeking feedback from line managers on the quality of internal audit work;

- periodic internal quality audits to monitor services provided by all internal auditors; and
- regular internal and external assessments in accordance with the PSIAS and IIA global standards.

The Chief Risk and Assurance Manager will investigate and respond promptly to all complaints about internal auditors or the service provided.

G Rollason
Chief Risk and Assurance Manager