

**RIBBLE VALLEY BOROUGH COUNCIL**  
**REPORT TO ACCOUNTS AND AUDIT COMMITTEE**

DECISION

Agenda Item No 6

meeting date: 19 NOVEMBER 2014  
title: INTERNAL AUDIT CHARTER  
submitted by: DIRECTOR OF RESOURCES  
principal author: MICK AINSCOW

**1 PURPOSE**

- 1.1 To seek members approval of the Internal Audit Charter following the adoption of the Public Sector Internal Audit Standards (PSIAS).

**2 BACKGROUND**

- 2.1 The Accounts and Audit (England) Regulations 2011 require local authorities to undertake internal audit in accordance with 'proper practices'. Up until 1 April 2013, proper practices have been defined as those professional standards published by the Chartered Institute of Public Finance and Accountancy (CIPFA). From 1 April these were replaced by the PSIAS, a new set of standards developed for the UK's public services and based on the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF).
- 2.2 CIPFA supplemented the new standards with an Application Note providing guidance on the specific requirements for local government organisations. One of the mandatory aspects of the PSIAS is the requirement to have an Internal Audit Charter.

**3 CURRENT POSITION**

- 3.1 Internal Audit have had Terms of Reference and an Audit Manual in place for many years. The Internal Audit Charter attached as Appendix A, in essence, replaces these documents. The requirements of the PSIAS are largely the same content as in the terms of reference and audit manual. Where there are any additional requirements these have been incorporated into the new Internal Audit Charter.

**4 CONCLUSION**

- 4.1 In accordance with the PSIAS the Internal Audit Charter incorporates the key organisational elements required to meet the requirements contained therein.

**5 RECOMMENDED THAT THE ACCOUNTS AND AUDIT COMMITTEE**

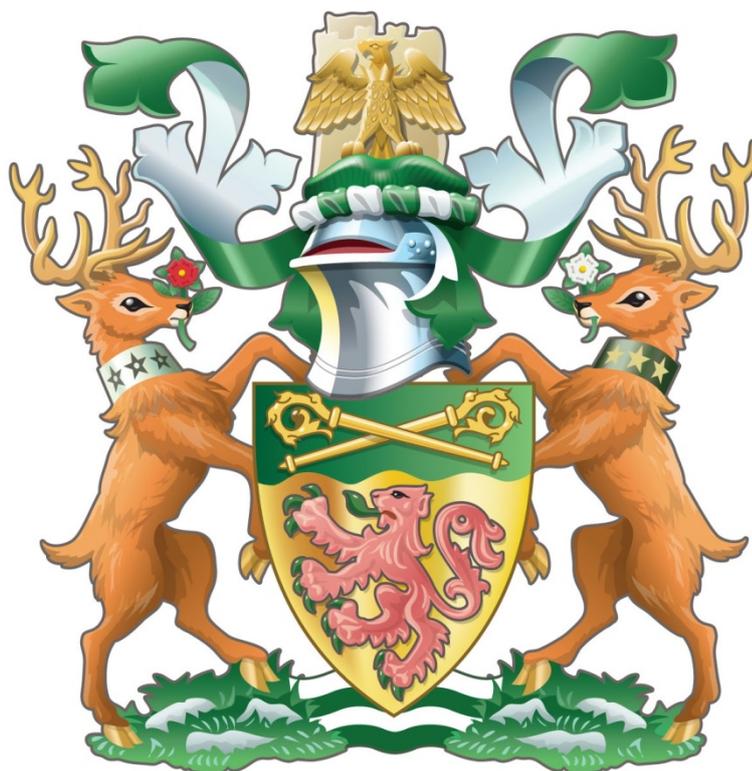
- 5.1 Approve the attached Internal Audit Charter.

PRINCIPAL AUDITOR

DIRECTOR OF RESOURCES

AA24-14/MA/AC  
31 October 2014

For further information please ask for Mick Ainscow.



# Ribble Valley Borough Council

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**Internal Audit Charter for Ribble Valley Borough Council**

**November 2014**

## Contents

1	Introduction .....	3
2	Regulatory basis for Internal Audit .....	3
3	Purpose, Authority and Responsibility (Standards 1000 and 1010) .....	4
4	Independence and Objectivity (Standards 1100, 1110, 1111, 1120 and 1130).....	6
5	Internal Audit Resource Management, Proficiency and Due Professional Care (Standards 1200, 1210, 1220, 1230, and 2030).....	6
6	Quality Assurance and Improvement Programme (Standards 1300, 1310, 1311, 1312, 1320, 1321 and 1322) .....	7
7	Performance Standards (Standards 2000, 2010, 2020, 2030, 2040, 2050, 2060 and 2070) .....	8
8	Nature of work (Standards 2100, 2110, 2120 and 2130).....	9
9	Audit Delivery .....	11

# **INTERNAL AUDIT CHARTER FOR RIBBLE VALLEY BOROUGH COUNCIL**

## **1 Introduction**

- 1.1 The Internal Audit Charter describes the purpose, authority and responsibility of the internal audit activity. The Head of Financial Services and the Principal Auditor are responsible for reviewing the charter and presenting it to the Director of Resources and Management Team (Senior Management) and Accounts and Audit Committee (Board) regularly for review and approval.
- 1.2 The charter is split into the following sections;
- Regulatory basis for Internal Audit
  - Purpose, Authority and Responsibility
  - Independence and Objectivity
  - Internal Audit Resource Management, Proficiency and Due Professional Care
  - Quality Assurance and Improvement Programme
  - Performance Standards
  - Nature of Work
  - Audit Delivery

## **2 Regulatory basis for Internal Audit**

- 2.1 The requirement for an internal audit function is contained in Regulation 6 of the Accounts and Audit Regulations, which require the Council to:
- “undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.
- 2.2 The regulations also add that the Council is required to:
- “make available documents and records as appear to that body to be necessary for the purposes of the audit and supply the body with such information and explanation as that body considers necessary for that purpose”.
- 2.3 Ensuring that at least annually, a review is carried out on the effectiveness of its internal audit function.
- 2.4 Internal Audit also assists the Section 151 Officer (Director of Resources) in discharging their delegated responsibilities under Section 151 of the Local Government Act 1972 which requires the Council to;
- “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”.
- 2.5 The internal audit activity will govern itself by adherence to Public Sector Internal Audit Standards (PSIAS). The PSIAS include mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). The PSIAS apply to all internal audit service providers, whether in house, shared services or outsourced.

## **Council Constitution**

2.6 Ribble Valley Borough Council's constitution, Part 6 contains the Council's Financial Regulations. Internal Audits responsibilities are separately recorded in section 18.

### **3 Purpose, Authority and Responsibility (Standards 1000 and 1010)**

#### **Purpose (Definition of Internal Auditing)**

3.1 Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance issues.

#### **Scope and Objectives**

3.2 The following objectives will be delivered through maintaining a high quality internal audit function which meets the needs of the Council, supporting the Director of Resources and the Accounts and Audit Committee in discharging their responsibilities and meeting the requirements of the PSIAS.

1. To review, appraise and report on the adequacy of internal controls across the whole organisation's Control Environment<sup>1</sup> as a contribution to the proper, economic, efficient and effective use of resources. This includes;
  - a. the completeness, reliability and integrity of information, both financial and operational
  - b. the systems established to ensure compliance with policies, plans, procedures, laws and regulations
  - c. the extent to which the assets and interests are accounted for and safeguarded from loss
  - d. the economy, efficiency and effectiveness with which resources are employed and
  - e. whether operations are being carried out as planned and objectives and goals are being met.

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<sup>1</sup> The PSIAS defines the Control Environment as;

"the attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control".

The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

The detailed work of internal audit is set out within the risk based internal audit plan which is designed to support the Annual Internal Audit Opinion and the Council's Annual Governance Statement. The internal audit plan will be continually reviewed to ensure emerging risks are taken into account throughout the year.

2. To promote good governance arrangements and monitor progress made against governance actions
3. To support the risk management process within the Council
4. To advise on internal control implications on new systems
5. To support relevant corporate or service projects
6. To add value through advice, facilitation and training (subject to there being no impact on the core assurance work, maintaining independence and availability of skills and resources)
7. Provide a quality fraud investigation service (not to include Benefit Investigation work) and
8. Support the work of the Accounts and Audit Committee

### **Reporting Lines and Relationships**

3.3 The Principal Auditor reports to the Head of Financial Services, however Internal Audit is independent in its planning and operation and as such has unrestricted access to the following;

- Chief Executive
- Management Team (Senior Management)
- Monitoring Officer
- Councillors including specifically the Chair of Accounts and Audit Committee
- All levels of management and
- Other council employees as necessary

3.4 CIPFA has published "The Role of the Head of Internal Audit in Public Organisations". The Head of Financial Services must comply with these requirements in addition to those set out in the PSIAS.

### **Authority**

3.5 Internal Auditors can also:

- enter any Council premises or land at any time, subject to statutory requirements;
- have access to all records and documents concerning any past or prospective financial transaction of the Council;
- require, and receive, any necessary explanations concerning any matter under examination;
- require any employee of the Council to produce any Council property or asset under their control.

3.6 For clarity this may extend to partner or service delivery organisations if required.

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

### **Code of Ethics**

- 4.1 All Internal Auditors will conform to the Chartered Institute of Internal Auditors' (CIIA) Code of Ethics. Where members of the Internal Audit team have attained membership with other professional bodies such as: ACCA<sup>2</sup>, CIPFA<sup>3</sup> or AAT<sup>4</sup>, those officers must also comply with their relevant bodies' ethical requirements. In addition to this, all Internal Auditors will have regard to the Standards of Public Life's "Seven Principles of Public Life". ([www.public-standards.gov.uk](http://www.public-standards.gov.uk))
- 4.2 Each member of the team works in compliance with the Code of Ethics as well as the Council's standards and policies such as the Employee Code of Conduct. Auditors also complete and sign an annual Declaration of Possible Conflicts. It is critical that all Auditors maintain high standards of integrity, independence, objectivity, confidentiality and competence.
- 4.3 Where an Internal Auditors' conduct does not comply with these standards or codes, disciplinary action may be taken, either by the Council or by the individual's professional body.

### **Further Standards and Independence**

- 4.4 Internal Auditors must remain independent; therefore Auditors will be independent of the activities audited to enable staff to perform their duties in a way that allows them to make impartial, objective and effective professional judgements and recommendations. As such, Audit staff will not have operational responsibilities other than in the areas of Insurance and Risk Management. The audit staff involved in these operations will not carry out any audit in these areas.
- 4.5 The Principal Auditor will report annually to Accounts and Audit Committee that independence and objectivity has been maintained. If this is not the case, disclosure will be made, this for example may be as a result of resource limitations, conflicts of interest or restricted access to records.

## **5 Internal Audit Resource Management, Proficiency and Due Professional Care (Standards 1200, 1210, 1220, 1230, and 2030)**

### **Resource Management (Standard 2030)**

- 5.1 For the audit team to fulfil their responsibilities, the team must be appropriately staffed in terms of numbers, professional qualifications, skills and experience. Resources must be effectively deployed to achieve the approved risk based plan. The mix of available knowledge, skills and other competencies will be considered once the risk based plan is drafted to ensure they are sufficient to deliver the plan.

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<sup>2</sup>Association of Chartered Certified Accountants

<sup>3</sup>Chartered Institute of Public Finance & Accountancy

<sup>4</sup>Association of Accounting Technicians

- 5.2 It is the responsibility of the Principal Auditor to report concerns over a lack of resources to the Head of Financial Services and to Accounts and Audit Committee.
- 5.3 If necessary the Principal Auditor will agree with the Head of Financial Services additional and or specialist resources.
- 5.4 Employment of staff will be in compliance with the Council's HR policies. External resources will be procured in line with the Council's Financial Regulations and Contract Procedure Rules.
- 5.5 There is a further requirement under the PSIAS that approval be sought from Accounts and Audit Committee to engage in any significant additional consultancy services not already included within the audit plan.

#### **Proficiency (Standard 1210)**

- 5.6 The Head of Financial Services (Chief Audit Executive) must hold a professional qualification (CIA, CIPFA or equivalent) and be suitably experienced.
- 5.7 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.
- 5.8 Auditors are also required to maintain a record of their continual professional development in line with their professional body (Standard 1230)

#### **Due Professional Care (Standard 1220)**

- 5.9 Internal auditors must exercise due professional care by considering:
  - the extent of work needed to achieve the engagement's objectives;
  - the relative complexity, materiality or significance of matters to which assurance and procedures are applied;
  - the adequacy and effectiveness of governance, risk management and control processes;
  - the probability of significant errors, fraud, or non-compliance
  - the cost of assurance in relation to potential benefits; and
  - various data analysis techniques and being alert to significant risks that may affect the objectives.

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

- 6.1 To enable the Head of Financial Services to assess Internal Audits conformance to the PSIAS and to aid in the annual assessment for Internal Audit's efficiency and effectiveness and identify opportunities for improvement, a Customer Feedback Questionnaire has been developed. The questionnaire is an assessment by clients of the audit work carried out.

- 6.2 Analysis of the questionnaires will form part of the annual assessment of the effectiveness of internal audit (contained within the Annual Audit Report) which is published to the Director of Resources and Accounts and Audit Committee. (Standard 1320)
- 6.3 Where there are instances of non-conformance to the PSIAS this is reported to the Director of Resources and Accounts and Audit Committee. Any significant deviations will be detailed within the Annual Governance Statement (Standard 1322)

#### **Internal Assessment (Standard 1311)**

- 6.4 All Auditors have access to an up to date electronic audit manual, the Internal Audit Charter, Council policies, the PSIAS and application note as well as other references.
- 6.5 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 training. (linked to Standard 2340). Performance Appraisals are undertaken for individual auditors and targets agreed.
- 6.6 Progress made against the audit plan and any emerging issues (i.e. fraud risks or governance issues) are reported to each meeting of Accounts and Audit Committee (linked to Standard 2060).
- 6.7 On-going assessment of individuals is carried out through regular meetings, customer feedback from post audit questionnaires and formally in the Performance Appraisal process.

#### **External Assessment (Standard 1312)**

- 6.8 In compliance with the PSIAS, external assessment will ideally be carried out at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. One method would be through self-assessment, with independent validation from a peer review (organised through the Lancashire Districts Chief Auditors Group) providing there is no conflict of interest and impairment to objectivity in this arrangement.
- 6.9 This arrangement and scope must be agreed with the Director of Resources, Accounts and Audit Committee and the Independent Assessor.
- 6.10 Alternatively, our external auditor, Grant Thornton, or another similar external organisation could be engaged at a fee.

### **7 Performance Standards (Standards 2000, 2010, 2020, 2030, 2040, 2050, 2060 and 2070)**

- 7.1 The prime responsibility of Internal Audit is to the Council. Key are the risks and controls within the Council activities, and those undertaken by any “partners” where there is also a need for assurance over their activities on the Council’s behalf.
- 7.2 In order to give an evidence based opinion there is a minimum level of coverage required. When planning the work of internal audit, assurances provided by third parties can be considered.

#### **Planning (Standard 2010)**

- 7.3 The Head of Financial Services together with the Principal Auditor develops a risk based plan, which can be updated to reflect the changing risks and priorities of the organisation, to enable the production of the annual internal audit opinion.
- 7.4 In order to prepare this risk based audit plan, the Head of Financial Services together with the Principal Auditor considers both National (i.e. economic climate, fraud trends) and Local

issues (corporate plan, service action plans, Medium Term Financial Strategy, risk registers and discussions with management).

7.5 A risk assessment of the “Audit Universe” is undertaken by scoring against 4 key factors, which are weighted to give an overall score, which dictates how often the area should be reviewed. The factors used for the assessment are Materiality, Primary Objectives, Audit Experience and Assurance, and Time since last audit.

7.6 The plan will consider;

- the need for specialist auditor skills, where they are not available already
- the balance of the range of reviews and sufficient coverage to ensure that External Audit can place reliance on the work of Internal Audit
- the need to update and review for emerging risks
- contingency time for ad hoc reviews or fraud investigations
- sufficient time for audit management including audit planning, development of the annual audit opinion and attendance at meetings and maintenance of audit policies and procedures (Standard 2040)
- staff training and development needs
- liaison time with other assurance providers to share information (standard 2050), such as the External Auditor
- assurances provided by other bodies

7.7 The Principal Auditor reports the risk based audit plan and resource requirements to Accounts and Audit Committee for review and approval. For clarity Committee can approve but cannot direct the audit plan.

## **8 Nature of work (Standards 2100, 2110, 2120 and 2130)**

### **Governance (Standard 2110)**

8.1 Internal audit will 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 Accounts and Audit Committee, external and internal auditors and management.

### **Risk Management (Standard 2120)**

8.2 Internal audit evaluates the effectiveness and contributes to the improvement of the risk management process.

### 8.3 The PSIAS require Internal Audit to:

- Evaluate risk exposures relating to the Council's governance, operations and information systems regarding the:
  - Achievement of the organisation's strategic objectives;
  - Reliability and integrity of financial and operational information;
  - Effectiveness and efficiency of operations and programmes;
  - Safeguarding of assets; and
  - Compliance with laws, regulations, policies, procedures and contracts
- Address risks consistent with the Council's objectives and be alert to the existence of other significant risks.
- Assist management in establishing or improving risk management processes, but refrain from assuming any management responsibility by actually managing risks

#### **Control (Standard 2130)**

8.4 Internal audit assists the Council in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

8.5 Internal Audit evaluates 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;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts

#### **Fraud (Consultancy Work)**

8.6 Whilst it is not a primary role of Internal Audit to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud. Internal audit can do additional work, although it cannot be prejudicial to this primary role. Typical activities may include;

- Investigating the cause of fraud
- Responding to whistleblowers
- Considering fraud in every audit
- Making recommendations to improve processes
- Review fraud prevention controls and detection processes put in place by management

## **9 Audit Delivery**

### **Engagement Planning (Standards 2200, 2201, 2210, 2220, 2230 and 2240)**

- 9.1 For each audit undertaken a brief will be prepared, discussed and agreed with relevant managers. The brief establishes the objectives, scope and timing for the audit assignment and its resources and reporting requirements. Audit work is undertaken using a risk based audit approach, which will consider the probability of significant errors, fraud and non-compliance. Adequate criteria will be needed to evaluate the nature of internal audit's work. Criteria can be extended to consider value for money assessments.

### **Performing the Engagement (Standard 2300, 2310, 2320, 2330 and 2340)**

- 9.2 Auditors are required to identify, analyse, evaluate and document sufficient information to achieve the audits objectives. This evidence supports their conclusions, professional judgement and recommendations and therefore must be factual and accurate. This data is held in compliance with the Council's retention policies.

### **Communicating Results (Standards 2400, 2410, 2420, 2421, 2430, 2431, 2440 and 2450)**

- 9.3 The results of all audits are reported, including the objective, scope, all material facts, conclusions, recommendations, action plans, any limitations and where appropriate contain the internal auditors' opinion.
- 9.4 Contents of draft reports are discussed with auditees, managers and Heads of Service as appropriate to verify factual accuracy. It is important to bring significant issues to the attention of management during the course of the audit to allow for immediate action.
- 9.5 Auditees are required to give responses to each recommendation and a target date for implementation will be agreed for all recommendations accepted. Where there is a disagreement over the actions to be taken, this is recorded in the action plan with the residual risks highlighted.
- 9.6 Where those risks are deemed to be high, they are reported to the relevant Director, and to Accounts and Audit Committee. Risk registers are updated where relevant.

### **Overall Opinions (Standard 2450)**

- 9.7 The annual Internal Audit Report is prepared by the Principal Auditor. This opinion is used to inform the Annual Governance Statement. This report must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control giving an overall opinion, summary of the work undertaken to support this opinion (including any reliance placed on work by other assurance providers), a statement on the conformance with the PSIAS, any external assessors improvement recommendations and disclosure of any impairments or limitations. If an unfavourable opinion is given, the reasons for this must be specified.

### **Monitoring Progress (Standard 2500) and Communicating Unacceptable Levels of Risk (Standard 2600)**

- 9.8 Internal Audit tracks progress made on agreed actions. It is the responsibility of the relevant Head of Service to implement and provide relevant evidence of the agreed actions to internal audit.
- 9.9 Details of all audits carried out and the assurance levels awarded are reported to Accounts and Audit Committee.

9.10 Where Heads of Service have not actioned high priority agreed actions, or where the level of risk may be unacceptable to the Council, the Principal Auditor will report this to the relevant Director. If the matter remains unresolved Accounts and Audit Committee will be informed. The findings and follow up reviews inform future audit planning.