

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	Meeting:	Audit Committee
2.	Date:	23 rd September, 2015
3.	Title:	Internal Audit Charter, 2015
4.	Directorate:	Finance and Corporate Services

5. Summary

Public Sector Internal Audit Standards state:

“the purpose, authority and responsibility of the internal audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, Code of Ethics and the Standards.”

Additionally, the Standards require “the chief audit executive” (In Rotherham’s case the Assistant Director Audit, ICT and Procurement) to periodically review the Internal Audit Charter and present the Audit Committee for approval.

The current Charter was produced in July 2014. It reflects the standard approach / template recommended by CIPFA. Proposed revisions are made to the Charter to reflect additional best practice relating to anti-fraud arrangements and arrangements for carrying out non-audit duties.

6. Recommendations

The Audit Committee is asked to approve the Internal Audit Charter 2015, as attached in Appendix A.

7. Proposals and Details

- 7.1 The Internal Audit Charter is a formal document that defines the Council's internal audit activities in the context of the service's purpose, authority and responsibility. The Charter covers such areas as organisational position, access to records, personnel and physical properties relevant to the performance of internal audit's work. The Charter also defines the scope of internal audit activities.
- 7.2 The first Internal Audit Charter was approved by the Audit Committee in July, 2014. The Council has adopted the example Charter recommended by CIPFA but adopted to reflect Rotherham Council's own arrangements.
- 7.3 An updated Charter, attached at **Appendix A**, has not significantly deviated from the previous version or current recommended practice. The revisions made are to take into account recent Council re-structuring and include additional sections to reflect current best practice in relation to
- defining the role of internal audit in any fraud related work (new Section 14 in the Charter), and
 - arrangements for avoiding conflicts of interest if internal audit undertakes non-audit duties (new Section 16).
- 7.4 UK Public Sector Internal Audit Standards require the Audit Committee to approve the Charter and any changes made to it. This report seeks the Audit Committee's agreement to the changes to the Charter outlined in paragraph 7.3 above.

8. Finance

- 8.1 There are no financial implications arising from this report.

9. Risks and Uncertainties

- 9.1 Failure to have an appropriately approved Internal Audit Charter will result in non-conformance with the PSIAS which is required to be reported in the Annual Internal Audit Report.

10. Policy and Performance Agenda Implications

- 10.1 The Rotherham Improvement Plan – A Fresh Start [2015], the Improvement Plan Actions [Phase 1 Transition May 2015 - May 2016] includes reviewing "Service delivery across the Council". This includes a "Health check of financial management and audit functions", implementation by April, 2016.

Approval of the Internal Audit Charter will contribute to a further improvement of Internal Audit.

11. Background Papers and Consultation

Public Sector Internal Audit Standards [PSIAS], 2013, produced by CIPFA
"Rotherham Improvement Plan – A Fresh Start, 2015"

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Appendices:

Appendix A – Internal Audit Charter, 2015

Appendix A

Rotherham Metropolitan Borough Council

Internal Audit Charter 2015

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1. Background

1.1 This charter, produced in line with the United Kingdom Public Sector Internal Audit Standards (UK PSIAS), confirms the authority and responsibility conferred by the Council on its Internal Audit Section with respect to the carrying out of its agreed functions.

1.2 The UK PSIAS sets out certain terms which require definition and application within Rotherham Council and its Internal Audit Service. For the purposes of Internal Audit activity:

- 'chief audit executive' is the Assistant Director of Audit, ICT and Procurement;
- 'board' refers to the Audit Committee;
- 'senior management' refers to the Managing Director, Strategic Directors and Service Directors.

2. Roles and Objectives of Internal Audit

2.1 As defined by the UK PSIAS:

'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'.

2.2 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the Council on the extent to which these arrangements are in place and operating properly. The Internal Audit Opinion, which informs the Annual Governance Statement, emphasises the importance of this aspect of internal audit work. The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Council's objectives.

2.3 To provide optimum benefit to the Council, Internal Audit works in partnership with management to improve the control environment and assist the organisation in achieving its objectives. This partnership must operate in such a way as to ensure that legal requirements and those of the UK PSIAS are met.

2.4 Internal Audit provides an independent and objective opinion to the organisation on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. It also undertakes consulting services at the request of the Council, subject to there being no impact on the core assurance work and the availability of skills and resources.

2.5 The attainment of the overall objective involves:

- Reviewing and appraising risks related to the achievement of objectives and business goals, and evaluating the adequacy and effectiveness of the system of internal control related to those risks;

- Appraising the relevance, reliability and integrity of information;
- Reviewing compliance with those policies, plans, procedures, statutory requirements and regulations which could have a significant impact on the achievement of the Council's objectives and business operations;
- Reviewing the means of safeguarding assets and as appropriate verifying the existence of such assets;
- Appraising the economy, efficiency and effectiveness with which resources are employed, and the delivery of services in a best value manner;
- Reviewing operations or projects to ascertain whether results are consistent with the Council's established objectives and goals and whether the operations or projects are being carried out as planned;
- Maintaining a program of review and assessment to enhance the integrity and usefulness of the Council's risk management processes;
- Maintaining a program of development, review and audit in relation to quality improvement and assurance methodologies;
- Assisting management in conducting special assignments and investigations into any matter or activity affecting the interests of the Council.

2.6 Internal Audit also carries out income earning work for external bodies such as providing assurance over the internal controls for academy schools.

3. Independence

3.1 The Council's Internal Audit Services is an appraisal and advisory function having independent status within the Council.

3.2 The Assistant Director of Audit, ICT and Procurement:

- Shall have direct access to the Commissioners, Leader, Managing Director, the Strategic Director Finance and Corporate Services, the Monitoring Officer, the External Auditor, the Chair and Members of the Council's Audit Committee and any other officer or member of the Council as the Assistant Director of Audit, ICT and Procurement shall determine.
- The Assistant Director of Audit, ICT and Procurement has a wide range of responsibilities at the Council including ICT, Insurance, Risk Management, Procurement and Internal Audit. In order to address the independence issue arrangements have been put in place whereby the Chief Auditor is able to report any concerns regarding the functions managed by the Assistant Director of Audit, ICT and Procurement.
- Shall be able to make appropriate provisions for the undertaking of an objective assessment of the resource requirements of Internal Audit Services.

4. Authority

4.1 The authority of the Assistant Director of Audit, ICT and Procurement is derived from the Council, the Strategic Director Finance and Corporate Services, the Monitoring Officer and the Council's Financial Regulations.

4.2 The Assistant Director of Audit, ICT and Procurement and Internal Audit staff have the authority to:

- Access Council records, assets, personnel and premises, including accounting records, documents, invoices, vouchers, correspondence and other data, whether held manually or electronically, the examination of which is necessary for the proper performance of internal audit duties.
- Enter any Council premises and receive prompt response, every assistance, all information and explanation from any Council employees or Council Members necessary for the internal auditors to carry out their audit duties.
- Access as listed above, depending on the terms of the contract with the partner organisation, those items held by contractors/partner organisations that affect the business of Rotherham Council or its control environment.
- Monitor and follow-up on the requirement for managers to respond promptly to internal audit reports and requests for information relating to the implementation of recommendations. Responses are required within thirty working days of the date of receipt of the report and by the date requested for any other information sought.
- Report to the Audit Committee the failure of managers to respond to internal audit reports and requests for information relating to the implementation of recommendations within the set time limits.

5. Responsibilities

5.1 The Assistant Director of Audit, ICT and Procurement shall be responsible for the functional control of audit activities in relation to:

- Development, implementation and oversight of internal audit methods and procedures.
- Development and control of an effective internal audit plan including those for which there are partnership arrangements.
- Scope and boundaries of audits.
- Fulfilling the objectives of internal auditing.
- Utilising designated internal audit resources to maximise the efficiency and effectiveness of the internal audit function.
- Maintenance of the appropriate auditing standards, currently those defined by the UK PSIAS.

5.2 The Audit Committee provides an independent oversight and advisory role in relation to governance, risk management and internal control practices. The Audit Committee plays a significant role in improving and providing transparency around these areas. It is not responsible for decision making. Responsibility for decision making rests with senior management.

5.3 The Assistant Director of Audit, ICT and Procurement reports periodically to the Audit Committee on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting includes the areas of significant risk exposure and control issues.

5.4 The Assistant Director of Audit, ICT and Procurement is responsible for ensuring that an effective internal audit function is resourced and maintained, ensuring that the authority has put in place effective arrangements for internal audit of the control environment, supporting the authority's internal audit arrangements and ensuring that the audit committee receives the necessary advice and information so that it can function effectively.

5.5 It should be noted that internal audit is not responsible for the operation of control functions within the Council; these responsibilities rest with management. Internal audit should not be regarded as a substitute for good management.

6. Scope of Internal Audit Work

6.1 The scope of internal audit work shall be sufficiently comprehensive to meet the needs of management, the Council and the UK PSIAs. Work areas for review are determined using a risk-based process based upon a risk assessment, which may be derived from the Council's Risk management arrangements.

6.2 The Assistant Director of Audit, ICT and Procurement where appropriate, will seek to use the results of the Council's Risk management assessments to inform the scope of internal audit work to be undertaken. Where the results are not judged to be of sufficient quality or scope to allow their use, then the scope of Internal Audit work shall be based upon a risk assessment undertaken by Internal Audit itself.

6.3 The internal audit coverage will embrace the entire control environment of the Council, and will extend to all areas of the Council and its controlled entities.

6.4 Particular attention will be given to any aspects of the control environment affected by significant changes to the Council's risk environment.

6.5 Adequate internal audit of the Council's accounting records and of its system of internal control will be carried out in accordance with Accounts and Audit England Regulations 2015.

6.6 Internal Audit provides advice and practical support to service management in investigating fraud. Any allegation of fraud and corruption received is followed-up in accordance with the agreed procedures of the Anti-Fraud and Corruption Policy and Disciplinary Procedures.

6.7 Allegations arise through Council Policy requirement that where there is detection of fraud or corruption by employees they must report it and the Whistle Blowing Policy which is intended to encourage employees to raise serious concerns. The Council also participates in the biennial National Fraud Initiative.

7. Audit Plan

7.1 An audit plan providing for the review of significant operations of the Council, based on an assessment of risk pertaining to the achievement of Council objectives, shall be prepared for the approval of the Managing Director and Strategic Director, Finance and Corporate Services, and the consideration of the Council's Audit Committee.

8. Audit Reports

8.1 Reports on individual audit activity will be made on a timely basis.

8.2 Reports will also be submitted to the respective Strategic Director and as appropriate to the Audit Committee, in summary form, by the Assistant Director of Audit, ICT and Procurement. The reports will contain significant findings and issues arising from the internal audit work undertaken.

8.3 The Assistant Director of Audit, ICT and Procurement will submit an annual report to the Audit Committee timed to support the Annual Governance Statement which includes:

- An annual Internal Audit Opinion on the adequacy of the control environment.
- A summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance bodies).
- A statement on conformance with UK PSIAs and the results of the Internal Audit Quality Assurance and Improvement Programme.

9. Audit Standards

9.1 Internal auditing standards shall be consistent with the UK PSIAs. Compliance with these will be assessed through a 'Quality Assurance and Improvement Programme' (QAIP).

Internal Audit has documented quality control procedures which are currently subject to review as a result of the introduction of the UK PSIAs.

The current QAIP comprises:

- A system of quality controls and the Internal Audit Manual.
- Lead auditors reviewing finished audit report files for quality compliance.
- Analysis of the results of the debrief process carried out for all audit assignments.
- Analysis of customer feedback from individual jobs.
- Feedback from directors following regular Relationship Management review meetings.
- Utilising External Audit's review of Internal Audit.
- A periodic self-assessment using the checklist provided in the Local Government Advisory Note supporting the UK PSIAs.
- A comprehensive external assessment to be carried out as a minimum every five years.

10. Relationships

10.1 The internal audit function, as part of an effective process of service delivery, shall maintain good and effective working relationships with its clients and with those charged with responsibility for partner organisations.

10.2 It shall also maintain effective working relationships with the Audit Committee or its equivalent, the Managing Director, the Strategic Director, Finance and Corporate

Services, the Monitoring Officer, the External Auditor, other inspection and agency teams, and the Council's Members, management and employees.

10.3 Where the Council has partnership arrangements, the Assistant Director of Audit, ICT and Procurement will ensure that there is effective and efficient control environment which takes account of the governance, risk and control framework of the partner body, and that the risks associated with such an arrangement are subject to internal audit review. Suitable protocols will be set in place where these safeguard the Council's interests for effective internal audit.

10.4 Where there are incidents of fraud the Assistant Director of Audit, ICT and Procurement will advise or intervene as appropriate in ensuring that there is suitable involvement with the Police or other agencies and will seek to maintain effective working relationship with them.

11. Ethical Standards

11.1 Internal Auditors will behave at all times in accordance with the highest ethical standards and shall comply with the Council's Code of Conduct.

11.2 Where there are possible conflicts of interests in its undertaking of any individual audit or series of audits, individual auditors should bring such matters to the attention of their line manager in accordance with good practice.

11.3 Internal Auditors shall at all times fully comply with the requirement of the UK PSIAS in respect the ethical standards within it.

12. Contributions to Achieving Corporate Objectives

12.1 To provide optimum benefit to the organisation, internal audit should work in partnership with management to improve the control environment and assist the organisation in achieving its objectives. This partnership must operate in such a way as to ensure that legal requirements and those of the UK PSIAS are met.

12.2 Internal audit provides an independent and objective opinion to the organisation on the overall adequacy and effectiveness of the organisations framework of governance, risk management and control. It may also undertake consulting services at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources.

13. Resources and Prioritisation

13.1 Internal Audit will endeavour to maintain an effective number of staff to undertake the required workload, supported by effective systems of operation. We will apply staff in the most effective way in accordance with their experience and skills and in accordance with the UK PSIAS.

13.2 Internal Audit's annual planning process sets out clearly the range of work it expects to do. Internal Audit activity can be broadly split into two categories, namely value protection and value enhancement.

- Value Protection

This refers to the assurance we provide on the Council's internal control and governance arrangements. This includes our work on assessing the

management of the key risks currently facing the Council. For 2015/16, our programme of work will be significantly influenced by the Council's previous failings in Children's Services and the wider governance failures as referenced in the CGI report. Value Protection also includes mandatory work on fundamental financial systems that helps the s.151 officer to fulfil his statutory responsibilities for proper financial administration and control.

- Value Enhancement

This refers to our work on supporting the continuous improvement with regard to its corporate and service performance, delivering savings and more efficient ways of working as part of Council's Medium Term Financial Planning and, providing assurance on new significant change projects and systems developments, and helping with providing assurance on future plans and strategies.

13.3 Given the urgent need for the Council to secure major improvements in certain core services and develop its corporate capacity and future governance arrangements, the primary focus of our work in 2015/16 will be directed more towards the Value Protection category.

13.4 Other work includes:

- Follow-up Work, 'Responsive' Work

This work includes responding to internal requirement to carry out investigations and give advice, and work to follow-up on the implementation of recommendations.

- Work for External Bodies

There is also some work arising that does not fall into these headings such as income earning work for external bodies such as audit work for academy schools.

13.5 The quantum of work is identified following a full assessment of risks across the Council and after taking into account other forms of assurance available to oversee and mitigate some risks identified (for example external audit work or improvement board activities).

13.6 Internal Audit prepares a plan of work each year. Resources to deliver the plan of work, in terms of the level of resources and the skills required, are identified at the planning stage of the audit. Both the Assistant Director of Audit, ICT and Procurement and the Strategic Director Finance and Corporate Services will satisfy themselves at the start of the year that there is sufficient resources in place at least to deliver the plan and to give an opinion on the Council's system of internal control at the end of the year, and to ensure some coverage in other necessary areas in accordance with the UK PSIAS.

13.7 Where there are any deficiencies arising in resources at any stage, the Assistant Director of Audit, ICT and Procurement and Strategic Director Finance and Corporate Services will, firstly, try to provide additional audit support to the section. Where it becomes necessary to limit the amount of work it is possible for the Service to do, work for external parties, risk related work, follow up and responsive work will be reduced.

13.8 Internal Audit annually carries out a review of the skills within the team and any development needs, linked to operational requirements. Training and development is prioritised to reflect the needs of the service and individuals. This enables the service to maintain appropriate expertise for the delivery of the audit plan and strategy and to continuously adapt to new developments.

14. Fraud and Corruption

14.1 Managing the risk of fraud and corruption is the responsibility of management; Internal Audit will assist management in the effective discharge of this responsibility.

14.2 Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have the responsibility for the prevention or detection of fraud and corruption. Internal Audit will, however, be alert in all their work to risks and exposures that could allow fraud and corruption.

14.3 In line with Financial Regulations, whenever any matter arises that involves, or is thought to involve irregularities concerning cash, stores or other property of the council or any suspected irregularity in the exercise of the functions of the council, including bequests, trust and client monies, it must be immediately brought to the attention of the respective Director. Where the irregularity is thought to involve fraud, corruption or impropriety the Director must ensure that the matter is reported to the Assistant Director, Audit, ICT and Procurement. If the irregularity or suspected irregularity involves theft or suspected theft of assets, it must also be referred to the Police. In addition where a break-in is suspected, the Police must be informed immediately.

15. Review of the Effectiveness of Internal Audit

15.1 The Accounts and Audit Regulations 2015 which maintain the requirement for an effective internal audit function and state that:

A relevant authority must, each financial year—

(a) conduct a review of the effectiveness of the system of internal control

15.2 Internal Audit will continue to provide assurance on the effectiveness of the function through the annual reporting process.

16. Definition of Consulting Services

16.1 The UK PSIAS defines consulting services as follows: "Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training."

16.2 The UK PSIAS requires that approval must be sought from the Board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement (Standard 1130.) Within RMBC any such significant requests will be submitted to the Audit Committee for approval.

17. Review of the Internal Audit Charter, Strategy and Terms of Reference

17.1 In accordance with the mandatory requirements of the UK PSIAS, the Internal Audit Charter, Strategy & Terms of Reference will be reviewed on an annual basis and, where appropriate, presented to the Audit Committee for approval.