

## **REVISED AUDIT SERVICES CHARTER**

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**Summary:** This report sets out the revised Audit Services Charter.

**Recommendation:** That Members approve the adoption of the revised Audit Services Charter.

### **1. BACKGROUND**

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) originally issued a guide to good practice in internal audit in 1999. In asking the question "What makes Internal Audit Effective?" it stated ... "The critical condition for effective Internal Audit is adequate status and independence within the organisation and the widest possible remit. The prerequisite is therefore visible and overt top-level support and commitment of resources. The organisation should be seen to listen to and act upon the advice of its Internal Auditors. It should invest the time, money and energy in ensuring its Internal Auditors perform and that their advice is sound."

"Specifically an organisation should ensure:

- (a) the objectives of Internal Audit are agreed at the highest level in the organisation, usually the main Board or its Audit Committee, and are clearly understood by all levels of management. Typically this is achieved by an Internal Audit Charter of terms of reference; "
- 1.2 The Council's Financial Regulations have always included a section on internal audit and an important part of internal audit's role is to provide assurance to the S.151 Officer (currently Head of Finance and Management Information Systems). However, the audit remit is wider than monitoring financial transactions and probity. All business activities involve taking risks and it is an essential part of good management to understand those risks and to control them. The real value of an independent internal audit section is in providing Members and management with the necessary degree of objectivity in assessing risks and the effectiveness of the policies and procedures used to manage them. Hence the need for a broader charter.
- 1.3 The original CIPFA guidance was incorporated in the Audit Services Charter approved by the Audit Committee in 2000 and it has subsequently been revised in line with the updated Code of Practice for Internal Audit in

Local Government, issued in December 2006. The Code additionally required internal audit's written terms of reference to include:

- the requirement for an annual audit opinion;
- an explanation of how internal audit's resource requirements will be assessed;
- how the Audit and Fraud Prevention Manager will form and evidence her opinion on the control environment; and
- how internal audit's work will identify and address local and national issues and risks.

## **2. REVISED AUDIT CHARTER**

- 2.1 The Audit Charter has now been revised to address a recommendation made by the external auditor, as part of the report on the Triennial Review of Internal Audit. The recommendation was:-

R1 The Audit Charter should be amended to include safeguards to ensure independence if or when internal audit staff take on operational roles and a description of procedures to follow or suggested arrangements to be applied when audit resources are limited.

- 2.2 The revised Audit Charter is shown at Appendix A - deletions shown with "strike-through" and additions in bold italics.

## **3. CONCLUSION AND RECOMMENDATION**

- 3.1 The revised Audit Charter clearly sets out the terms of reference for the Audit Services section, includes reference to the requirements of the revised Code of Practice for Internal Audit and addresses the recommendation made as part of the external auditor's report on the Triennial Review of Internal Audit.
- 3.2 It is recommended that the Audit Committee approve the revised Audit Services Charter.

**List of Appendices:** Appendix A Revised Audit Services Charter

**List of Background Documents:** Audit Commission report on the Triennial Review of Internal Audit (2009)

**Officers Consulted:** Corporate Team

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**1. Function**

Audit Services is an independent review function set up within the Council as a service to Members and all levels of management. The Audit and Fraud Prevention Manager is responsible for the effective review of all aspects of risk management and control throughout the Council's activities. In particular, Audit Services must provide assurances to the Head of Finance and Business Development ~~Development~~ **Management Information Systems**, as Section 151 Officer, as to the probity of financial transactions. The Accounts and Audit Regulations require that the Authority maintains an adequate and effective system of internal audit of the accounting records and of its system of internal control.

**2. Independence**

Audit Services is independent of the activities, which it audits, to ensure the unbiased judgments essential to its proper conduct and impartial advice to management. Auditors do not routinely undertake non-audit duties but where they do so, exceptionally, it is understood that they are not then functioning as auditors. ***The Auditor should not allow objectivity to be impaired when auditing an activity for which the Auditor has had authority or responsibility. The Auditor should declare an interest, so that alternative arrangements can be made for the audit.***

***Generally, any audit of transactions, where an Auditor or the Audit Manager has been involved as part of non-audit duties, will be undertaken by another member of the Audit Team and independently reviewed by an Auditor of sufficient qualifications and experience – with a peer review by another Audit Manager, if appropriate.***

***Organisational independence is maintained by the fact that the*** Audit and Fraud Prevention Manager reports to a Chief Officer, with direct access to the Chief Executive and the Chairman of the Audit Committee.

**3. Role and Scope**

The role of Audit Services is to understand the key risks of the organisation and to examine and evaluate the adequacy and effectiveness of the system of risk management and internal control as operated by the organisation. National issues and risks will be identified through Audit Commission publications, the Chartered Institute of Public Finance (CIPFA) publications, CIPFA's on-line technical information service, attendance at the Cumbria Audit Group and attending audit seminars and training sessions. The assessment of business risks will be carried out jointly between management and Audit Services and will be endorsed by senior management. Audit Services, therefore, has unrestricted access to all activities undertaken in the organisation - to people, systems, documents and property - in order to review, appraise and report on:

- (a) the adequacy and effectiveness of the systems of financial, operational and management control and their operation in practice in relation to the business risks to be addressed;

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- (b) the extent of compliance with, relevance of, and financial effect of, policies, standards, plans and procedures established by Members and management and the extent of compliance with external laws and regulations, including reporting requirements of regulatory bodies;
- (c) the extent to which the assets and interests are acquired economically, used efficiently, accounted for and safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, poor value for money, fraud or other cause and that adequate business continuity plans exist;
- (d) the suitability, accuracy, reliability and integrity of financial and other management information and the means used to identify, measure, classify and report such information;
- (e) the integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud and loss of all kinds; and that the process aligns with the organisation's strategic goals;
- (f) the suitability of the organisation of the units audited for carrying out their functions, and to ensure that services are provided in a way which is economical, efficient and effective;
- (g) the follow-up action taken to remedy weaknesses identified by Audit Services, ensuring that good practice is identified and communicated widely;
- (h) the operation of the organisation's corporate governance arrangements.

Audit Services should be consulted about significant proposed changes in the business, the internal control system and the implementation of new systems.

Note: Audit Services will assist managers in the following:

- ensuring the success of the organisation;
- ensuring the effectiveness of internal control;
- ensuring the reliability of financial reporting;
- ensuring the absence of fraud or other irregularities, or that they are detected.

Nevertheless, the above are management's responsibilities.

**4. Resource Requirements**

An annual risk assessment of the Council's auditable activities will be undertaken to formulate an audit plan, based on the current number of approved audit posts. However, if it becomes apparent that additional audit staff resources are needed to provide effective audit coverage, then the Audit and Fraud Prevention Manager will submit a report to the Audit Committee and make a bid for additional resources

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via the budget process. This will include the necessity to outsource specialist computer audit.

***If audit resources reduce following approval of the annual audit plan, steps will be taken to prioritise the audit work and a report will be made to the Audit Committee to consider whether a revised audit plan should be approved or whether additional resources need to be brought in.***

All auditors require a PC and access to the Council's computerized systems.

**5. Reporting**

Audit Services reports regularly on the results of its work to the Audit Committee. The Audit and Fraud Prevention Manager is accountable to the Audit Committee for:

- (a) providing regular assessments of the adequacy and effectiveness of the organisation's systems of risk management and internal control based on the work undertaken by Audit Services;
- (b) reporting significant control issues and potential for improving risk management and control processes;
- (c) periodically providing information on the status and results of the annual audit plan and the sufficiency of Audit Services resources.
- (d) submitting an annual report giving an audit opinion on the Council's control environment. This will be based on the audit work undertaken during the year, following the annual risk assessment, and will include a review of corporate governance arrangements. The annual report must also refer to internal audit's compliance with the CIPFA Code of Practice for Internal Audit in Local Government, to performance against the approved audit plan and to customer satisfaction with the internal audit service.

**6. Responsibility**

The Audit and Fraud Prevention Manager is responsible for:

- (a) developing an annual audit plan based on an understanding of the significant risks to which the organisation is exposed;
- (b) submitting the plan to the Audit Committee for review and agreement;
- (c) implementing the agreed audit plan; and
- (d) maintaining a professional audit staff with sufficient knowledge, skills and experience to carry out the plan.

Approved by the Audit Committee 8 June 2000  
Revised by Audit Sub Group 7 June 2004  
Revised by Audit Committee 26 September 2007

**To be Revised by the Audit Committee 23 September 2009**