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central midlands audit partnership

# Internal Audit Charter

## Our Vision

Through continuous improvement, the central midlands audit partnership will strive to provide cost effective, high quality internal audit services that meet the needs and expectations of all its partners.

Richard Boneham  
Head of Governance & Assurance  
c/o Derby City Council  
Council House  
Corporation Street  
Derby  
DE1 2FS  
Tel. 01332 643280  
[richard.boneham@derby.gov.uk](mailto:richard.boneham@derby.gov.uk)

Adrian Manifold  
Audit Manager  
c/o Derby City Council  
Council House  
Corporation Street  
Derby  
DE1 2FS  
Tel. 01332 643281  
[adrian.manifold@centralmidlandsaudit.co.uk](mailto:adrian.manifold@centralmidlandsaudit.co.uk)



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## 1 Introduction

### 1.1 Background

- 1.1.1 This Charter provides partner organisations and stakeholders with a formally defined purpose, authority and responsibility of their Internal Audit activity as well providing arrangements for avoiding conflicts of interest.

It has been developed in accordance with the Public Sector Internal Audit Standards (PSIAS) which took effect from 1st April 2013 and demonstrates that the Central Midlands Audit Partnership is adhering with this Standard.

The PSIAS are based upon the Institute of Internal Auditors (IIA) mandatory guidance which includes a Definition of Internal Auditing, a Code of Ethics and the International Standards for the Professional Practice of Internal Auditing.

Each year, the Head of the Audit Partnership will, in consultation with the Operational Management Board, review this Charter, and submit any recommended amendments, to the Partnership Board for review and approval.

- 1.1.2 Annually the Head of the Audit Partnership will assess Internal Audit's compliance with PSIAS by completing the Compliance Checklist prepared by CIPFA. The results of this self assessment will be reported to the Partnership Board.

A Quality Assurance and Improvement Programme (QA&IP) will need to be in place requiring both internal and external assessments. The external assessment will be required at least every 5 years. The Head of the Audit Partnership is required to include a statement on the results of the QA&IP in the annual report. The external assessment must be carried out by a qualified and independent assessor from outside the organisation. It can be a full external evaluation or a self-assessment with independent external validation.

### 1.2 Content

- 1.2.1 This document will:

- Define the terms "Board" and Senior Management".
- Define the responsibilities and objectives of Internal Audit.
- Define the organisational independence of Internal Audit.
- Detail the reporting lines and relationships between Internal Audit and other internal and external parties.
- Define Internal Audit's remit in respect of the organisation's control environment.
- Identify Internal Audit's contribution to the review of the effectiveness of the control environment.
- Describe how the Head of the Audit Partnership will deliver annual audit opinions.
- Define the role of Internal Audit in relation to any fraud-related or consultancy work.
- Explain how Internal Audit's resource requirements will be assessed.
- Establish Internal Audit's right of access to all records, assets, personnel and premises, including those of customer organisations outside of the partnership, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

### 1.3 Definitions

- 1.3.1 PSIAS specify that the purpose and definition of Internal Audit is as follows:

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*“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.”*

- 1.3.2 The PSIAS require that this Charter must define the terms “Board” and “Senior Management” for the purposes of internal audit activity. The PSIAS defines the Board as:

*“The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically this includes an independent group of directors (e.g. a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the “board” may refer to the head of the organisation, “Board” may refer to an audit committee to which the governing body has delegated certain functions.”*

The following bodies shall be defined as the Board for each of the organisations where we provide their internal audit services:

Organisation	Board
<b>Derby City Council</b>	Audit & Accounts Committee
<b>South Derbyshire District Council</b>	Audit Sub-Committee
<b>Derby Homes</b>	Audit Committee
<b>Amber Valley Borough Council</b>	Governance & Audit Board
<b>Derbyshire Fire &amp; Rescue Service</b>	Governance & Performance Working Group

- 1.3.3 The PSIAS defines Senior Management as *“Those responsible for the leadership and direction of the Council.”*

The following bodies shall be defined as Senior Management for each of the organisations where we provide their internal audit services:

Organisation	Senior Management
<b>Derby City Council</b>	Chief Officer Group
<b>South Derbyshire District Council</b>	Senior Management Team
<b>Derby Homes</b>	Executive Team
<b>Amber Valley Borough Council</b>	Management Team
<b>Derbyshire Fire &amp; Rescue Service</b>	Senior Leadership Team

## 2 Attribute Standards

### 2.1 Responsibilities

- 2.1.1 The Responsible Financial Officer at each organisation has a statutory responsibility for the overall financial administration of the organisation's affairs and is responsible for maintaining an adequate and effective Internal Audit of the financial and other records, systems and procedures for control of the organisation's resources.
- 2.1.2 Internal Audit is responsible for:
- Checking that management's arrangements for the control of finance, stocks and assets are adequate.
  - Highlighting weaknesses in controls.
  - Checking that financial and other systems and procedures are sound.
  - Appraising the adequacy of procedures to secure economy, efficiency and effectiveness in the use of resources.
  - Offering advice and suggesting improvements which ensure the organisation obtains value for money.
  - Reviewing, on behalf of the Responsible Financial Officer, any new systems for maintaining financial records or records of assets or changes to such systems.
  - Investigating promptly any suspected fraud, theft, irregularity, improper use or misappropriation of the organisation's property or resources identified by or notified to the Head of the Audit Partnership.
  - Ensuring that issues raised by External Audit are brought to the attention of the relevant Board, and if appropriate to the relevant Chief Executive and to the relevant member body.
  - Providing consultancy services, such as training, facilitation where considered beneficial to the organisation's control environment.
  - Providing internal audit services to other external organisations on a contractual basis, with the agreement of the Partnership Board and where resources permit.
- 2.1.3 The relevant Board at each organisation the Partnership serves has the responsibility for overseeing all of these responsibilities in accordance with its own terms of reference.

### 2.2 Objectives

- 2.2.1 Internal Audit's objectives are as follows:
- Provide an assurance on the organisation's internal control system, and hence there is need to audit areas of financial and non-financial risk as this will encompass some of the key governance systems.
  - Audit the main financial systems and other systems related to possible material mis-statements, regardless of comparative risk.
  - Deliver risk based assurance on those controls that manage significant risks.
  - Fully comply with best practice as defined by PSIAS.
  - Better integrate the outcomes and other information gathered as part, of the internal audit process, with the risk management processes of each organisation.
  - Maintain ongoing effective relationships with the relevant External Auditors and deliver complimentary plans of work so as to deliver an efficient audit service collectively, for each organisation.
  - Ensure that appropriate resources, suitably experienced, and with skills to deliver the whole plan of work are maintained within Internal Audit.
  - Improve the efficiency and effectiveness of operations of the service.

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- Promote good corporate governance and control practices and contribute to a good governance culture.
- Work in a positive manner alongside clients, supporting them in the effective management of risk and service delivery.
- Contribute to embedding risk management throughout each organisation's processes.
- Contribute to the development and maintenance of an effective counter fraud culture within each organisation.

## 2.3 Independence

- 2.3.1 Internal Audit must be independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. As such, Internal Auditor staff have no operational responsibilities and report directly to management in the name of the Head of the Audit Partnership. With the exception of Information Governance, Insurance, Risk Management and Taxation functions at Derby City Council where the Head of the Audit Partnership has Line Management responsibilities. In these instances, reports will be issued to management in the name of the Audit Manager.
- 2.3.2 The Head of the Audit Partnership is free to report directly to each organisation's relevant Board on all Internal Audit matters.
- 2.3.3 The Head of the Audit Partnership is jointly managed by the Partnership's Operational Management Board and on a day-to-day basis by Derby City Council's Strategic Director – Resources who is also member of the Operational Management Board. This level of status within the organisational structure ensures that the Head of the Audit Partnership is sufficiently influential in the maintenance and development of each organisation's control environment.
- 2.3.4 Internal Audit has produced a policy which sets out principles for minimising and managing potential conflicts of interest for Internal Audit staff. The Head of the Audit Partnership maintains a register of annual declarations of interest and Auditor declarations are made in relation to each individual audit assignment. Auditors are required to refrain from involvement in assessing specific operations where they have had a previous responsibility or a personal relationship.
- 2.3.5 The Head of the Audit Partnership will confirm to each organisation's relevant Board at least annually, the organisational independence of the internal audit service.

## 2.4 Reporting Lines & Relationships

- 2.4.1 The Section 151 Officers from each partner organisation, along with the Head of the Audit Partnership, will form the Operational Management Board. As host authority, Derby City Council's Strategic Director – Resources has line management responsibilities for the Head of the Audit Partnership.
- 2.4.2 The Head of the Audit Partnership reports to the relevant Board of each organisation on the following:
- The planned programme of internal audit work for the year.
  - Progress in implementing the planned audit programme, including a report following the year-end.
  - The findings of each audit to a degree of detail to be determined by each Board.
  - Progress made in implementing agreed actions arising from internal audits.
- 2.4.3 Internal Audit endeavours to work with the relevant External Auditor and share plans so as to avoid potential duplication of work and to deliver an effective corporate assurance service to each organisation. Internal Audit regularly liaises with the External Auditor.

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External Audit's joint approach with Internal Audit is based upon the Audit Commission's "managed audit" concept. A managed audit involves co-ordination of the work of External and Internal Audit to ensure that audit resources are deployed with the greatest efficiency. Wherever possible and if appropriate, this entails External Audit placing reliance on the work of Internal Audit. Their audit fee is set on the assumption that they can rely upon Internal Audit work in a number of key areas.

- 2.4.4 To maintain a co-operative relationship with management, Internal Audit consults with management on audit work both at the annual planning stage and prior to commencing the assignment. This ensures that the timing of the audit is not inconvenient and the scope of the work is not inappropriate.

## 2.5 Internal Audit Remit

- 2.5.1 Internal Audit's remit encompasses the entire control environment of each organisation. This extends to all of the controls and procedures (financial or otherwise) in operation in all services provided by each organisation. Currently, the section provides Internal Audit services to Amber Valley Borough Council, Derbyshire Fire & Rescue Service, St Benedict's School Academy, St George's School Academy and Liversage Trust on a contractual basis.

## 2.6 Review of Control Environment

- 2.6.1 Annually, the Head of the Audit Partnership produces an Audit Strategy which defines the approach that will be used to manage the following:
- How the service is delivered.
  - The provision to the organisation, through the relevant Board of an overall opinion each year on the organisation's risk management, control and governance, to support the Annual Governance Statement.
  - Audit of the organisation's risk management, control and governance systems through audit plans in a way which affords suitable priority to the organisation's objectives and risks.
  - The identification of audit resources required to deliver an audit service which meets required professional standards.
  - The relative allocation of resources between assurance, fraud related and consultancy services provided by Internal Audit.
- 2.6.2 The Head of the Audit Partnership also produces a risk based Audit Plan to deliver the Audit Strategy. The Annual Audit Plan is developed with due regard to the information produced by each organisation's risk and performance management systems in order that audit resources may be targeted at areas of greatest risk to the organisation. It is primarily based on Internal Audit's own risk assessment of each organisation's whole control environment. It is in part based on subjective judgment, but modelling techniques are also used to ensure that the approach is systematic. Stakeholders are consulted on the contents of the Audit Plan.

The Audit Plan is a flexible document and it is inevitably subject to some changes during the year as a result of emerging issues deemed as a high risk, the need to divert audit resources to investigation work and changes in staffing resources available for audit work.

## 2.7 Resources

- 2.7.1 Internal Audit must be appropriately resourced to meet its objectives. It should have appropriate numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives and audit standards.

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The Head of the Audit Partnership is CIPFA qualified and has over 20 years Local Government Internal Audit experience. The Head of the Audit Partnership is responsible for recruiting appropriate staff and ensuring that job descriptions and person specifications reflect the needs of the service.

Each year Internal Audit staff receive an appraisal and are measured against the skills and competencies framework described in CIPFA's Excellent Internal Auditor publication. This is used to identify the training and development needs of individuals.

- 2.7.2 Nonetheless, Internal Audit has finite resources which can be deployed to meet the Annual Audit Plan. Where the Head of the Audit Partnership considers available resources do not balance with the organisation's Internal Audit requirements, he will take a report to the relevant Board suggesting proposed solutions.

When the in-house resources or skills cannot meet each organisation's or our external clients demand for control assurance or advice, Internal Audit has a long-standing arrangement with an external provider whereby additional resources can be readily available.

## 2.8 Audit Opinion

- 2.8.1 The Head of the Audit Partnership will provide a written report to those charged with governance which gives an opinion on the overall adequacy and effectiveness of each organisation's internal control environment.

Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of financial and other management controls. The overall audit opinion is based on the work undertaken by internal audit.

The reporting of the incidence of significant control failings or weaknesses is also covered in the progress reports to the relevant Board on Internal Audit's progress against the Annual Audit Plan.

In preparing the overall opinion, the Head of the Audit Partnership reviews all audit activity carried out during the previous Audit Plan year. Each individual audit undertaken contains a control rating (opinion) on the adequacy and effectiveness of controls in place to mitigate the risks identified. 4 levels of "assurance rating" are given for each audit review, ranging from "Comprehensive" through to "None". Where weaknesses in control are identified, an action plan is agreed with management. Progress with these agreed actions is monitored by Internal Audit through follow up audit work.

The Head of the Audit Partnership uses the individual control ratings from the audits conducted in the Audit Plan year and the progress with agreed actions to form the overall opinion.

When presenting the opinion, the Head of the Audit Partnership also identifies where reliance has been placed on work by other assurance bodies.

## 2.9 Anti-Fraud / Consultancy Work

- 2.9.1 Managing the risk of fraud and corruption is the responsibility of management, *but* In accordance with the each organisation's internal rules, Internal Audit will promptly investigating any suspected fraud, theft, irregularity, improper use or misappropriation of property or resources on behalf of the relevant Responsible Financial Officer.

The Head of the Audit Partnership should also be specifically mentioned in each organisation's Anti-Fraud and Corruption Strategy, Fraud Response Plan and Confidential Reporting Code (Whistleblowing Policy) as a point of contact for anyone who suspects a fraud has been committed.

Although Internal Audit does not have responsibility for the prevention or detection of fraud and corruption, it has taken steps to develop proactive anti-fraud and corruption initiatives. Internal Audit uses internal data matching to enhance and build upon the National Fraud Initiative exercise and seeks to develop a corporate approach to addressing fraud across the organisation.

- 2.9.2 Internal Audit may be asked by clients to conduct consultancy work. Acceptance of the assignment will be dependant on available resources, the nature of the assignment and any potential impacts on assurances.

The role of Internal Audit in a consultancy assignment is to provide advice, facilitation and support to management who retain the responsibility for the ultimate decisions taken within the area under review.

### 2.10 Authority (Rights of Access) & Confidentiality

- 2.10.1 As representatives of the relevant Responsible Financial Officer, all Internal Audit staff have authority to:

- Enter at all reasonable times any of the organisation's premises or land.
- Have access to all records, documents and correspondence relating to any financial and other transactions of the organisation, and the management of its risks.
- Require and receive explanations as necessary about any matter under examination.
- Require any employees of the organisation to produce cash, stores or any other of the organisation's property under their control.

For the avoidance of doubt, the authority detailed above relates to any other establishment operated within the organisation's financial accounts.

In relation to rights of access, Internal Audit staff are expected to have a personal responsibility to observe the highest standards of confidentiality and personal integrity during the course of their work.

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The central midlands audit partnership was formed to provide shared internal audit services to local authorities in the region. CMAP currently provides audit services to two District Councils, a Unitary Council, a Housing ALMO and a Fire Authority and welcomes further public sector partners or clients from within the region.

