

NEATH Port Talbot COUNTY BOROUGH COUNCIL

INTERNAL AUDIT CHARTER

1. Introduction

- 1.1 The purpose of this charter is to define what Internal Audit is and explain its purpose, authority and responsibility.
- 1.2 For the purposes of internal audit activity the following terms are defined as follows:
 - “board” – the Audit Committee
 - “senior management” - Chief Executive, Corporate Directors and Heads of Service

2. Purpose, Scope & Authority

2.1 Purpose

The Public Sector Internal Audit Standards (PSIAS), last updated and revised in April 2017, 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*”

2.2 Scope

Financial Regulations 4.9.8 state that it is the responsibility of the Director of Finance & Corporate Services to ensure that internal auditors have the authority to a) access Authority premises at reasonable times; b) access assets, records, documents, correspondence and control systems; c) receive any information and explanation considered necessary concerning any matter under consideration; d) require any employee of the Authority to account for cash, stores or any other Authority asset under their control; e) access records belonging to third parties, such as contractors, when required; f) directly access the head of paid service, the executive and

Audit Committee; g) to ensure that effective procedures are in place to investigate promptly any fraud, irregularity or malpractice.

2.3 Authority

The authority for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”. The Accounts and Audit Regulations 1996 (SI 1996/590), regulation 5, more specifically require that a “relevant body shall maintain an adequate and effective system of internal audit of their accounting records and control systems”.

3. Objectives

3.1 Internal Audit’s main objectives are to:

- Provide a quality, independent and objective audit service that effectively meets the Council’s needs, adds value, improves operations and helps protect public resources
- Provide assurance to management that the Council’s operations are being conducted in accordance with external regulations, legislation, internal policies and procedures
- Provide advice and support to management to enable an effective control environment to be maintained
- Promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- Investigate allegations of fraud, bribery and corruption

4. Roles and responsibilities

4.1 Role of Internal Audit

To meet Internal Audit objectives, Internal Auditors are responsible for:

- Reviewing and assessing the soundness, adequacy and reliability of financial and non-financial management

- Reviewing and assessing the effectiveness of internal controls and making recommendations for improvement, where appropriate
- Reviewing and assessing procedures to check that the Council's assets and interests are adequately protected and risks are identified and effectively managed
- Checking for compliance with legislation, Council policies and procedures
- Promoting and assisting the Council in the effective use of resources
- Undertaking independent investigations into allegations of fraud and irregularities in accordance with Council policies and procedures and relevant legislation

4.2 Provision of the Internal Audit Function

The Internal Audit Function is provided "in house" and consists of the Audit Manager, 1 Senior Auditor, 4 Auditors and 2 Audit Assistants (8 people 7.02 FTE). The role of Head of Internal Audit is undertaken by the Head of Financial Services.

In his role as Head of Financial Services the Head of Internal Audit also has responsibility for the Authority's accountancy teams, payroll and exchequer services, revenues, housing benefits and financial assessments and the Authority's Court Deputy team. To maintain his independence in relation to the audit of other functions he has responsibility for he has no involvement in the scope, timing, or staffing of these audits other than to receive the final report in line with normal reporting arrangements.

4.3 Management Structure

Internal Audit is part of the Financial Services Division of the Finance & Corporate Services Directorate. However to ensure independence Internal Audit has the right of access to the Chief Executive and or the chair of Audit Committee should a situation warrant it.

4.4 Audit Manager's Responsibilities

- In managerial terms to the Head of Financial Services
- To manage and lead the Internal Audit Team
- For the performance of the Internal Audit Service
- Presenting the internal audit charter to the Chair of Audit Committee for approval
- Presenting and obtaining approval of the annual audit plan from Audit Committee
- Reporting quarterly to the Audit Committee on the work undertaken by the service
- Reporting to Audit Committee on any serious weaknesses found in the internal control systems and any instances where recommendations have not been acted upon
- Providing an annual audit opinion of the overall adequacy and effectiveness of the Council's internal control environment

5. Code of Ethics

- 5.1 The Internal Audit Service operates in accordance with the mandatory Public Sector Internal Audit Standards (PSIAS) 2013 by ensuring that all internal auditors conform to the Code of Ethics principles of integrity, objectivity, confidentiality and competency.
- 5.2 Internal Audit Staff are required to complete a declaration of interests on an annual basis and are aware of the need to make known any changes which may affect their declaration as and when the changes occur.

6. Service Standards

6.1 What you can expect from us

All internal audit work complies with the mandatory Public Sector Internal Audit Standards.

Internal Auditors will, at all times, exercise due professional care, act with integrity and take a professional, reliable, independent and innovative approach to their work.

It is essential that Auditors are impartial so that when an audit opinion is given it is unbiased and based on the facts available. Should a situation arise where impartiality could be questioned then another Auditor will be assigned to undertake the audit. Where an Auditor was previously employed in a service area subject to audit then the Audit Manager will ensure that the Auditor concerned is not assigned audits in that area until at least 2 years have elapsed.

6.2 Annual Audit Plan

An annual audit plan is produced using a risk based methodology. During the planning process all Heads of Service are contacted and asked if there are any areas they wish to be included in the plan. The plan is then approved by the Audit Committee in March each year. The plan is flexible and includes a contingency to allow for a change in priorities, emerging risks, specific service requests and ad hoc projects. An allowance is also included every year to allow for any special investigations i.e. allegations of fraud, theft of malpractice to be investigated.

In addition to the work carried out in line with the annual audit plan the Audit Manager and Senior Auditor also act as administrators for the Authority's online banking system. This is not deemed by either the Director of Finance & corporate Services in role as Section 151 Officer, the Head of Internal Audit or the Audit Manager to impair independence or provide any conflict of interest as the duties undertaken on the system are of a "housekeeping" nature and no transactions are undertaken.

7. Reporting

7.1 Audit Reports

Audit reports:

- Give an opinion of the service as at the time of the audit
- Provide a risk rating of the service audited

- Detail the work carried out and subsequent recommendations together with management responses where applicable

7.2 Reporting Standards

Upon completion of the audit a draft report is issued to the service manager for agreement of findings and recommendations made. In accordance with professional standards a post audit review is carried out after an agreed period to ensure that agreed recommendations have been implemented.

Any agreed recommendations not implemented within a reasonable timescale will be reported to Audit Committee.

Internal Audit works to the reporting quality standards of:

- Draft report issued within 10 days of field work being completed
- Final report issued within 2 working days of draft report being agreed

8. **Quality Assurance**

8.1 Internal Review

An internal self-assessment of the effectiveness of internal audit will be undertaken by the Head of Internal Audit annually.

Audits are fully reviewed by senior internal audit staff upon completion of field work, in addition to this all draft reports are reviewed by the Audit Manager prior to issue.

The Head of Internal Audit also monitors/reviews a sample of internal audit work programmes, working papers and reports to provide reasonable assurance that the work conforms to the relevant professional standards.

8.2 External Review

External assessments of the internal audit service are conducted annually by the Council's external auditor.

It is also a requirement of the PSIAS that all internal audit services are subject to a fully independent review every 5 years by a qualified independent assessor from outside the Authority.

9. Relationships

- 9.1 Internal Auditors will treat all staff with respect, courtesy and professionalism at all times. Any confidential or sensitive issues raised with or reported to Internal Audit staff will be dealt with in an appropriate manner. Where issues are likely to cause embarrassment to or adversely affect the reputation of the Authority these will be raised with senior management promptly and dealt with as a priority.
- 9.2 Internal Auditors will ensure that they explain fully the purpose of the audit and the various stages the audit will follow. Internal Audit will agree with service managers the timing and scope of the audit prior to its commencement.
- 9.3 The normal course of communication with Councillors will be via the Audit Committee which meets 4 times per year. The Audit Manager has access to the Chair of Audit Committee outside of the normal meetings should this be required in the event of a serious issue coming to light.
- 9.4 Internal audit will liaise with the Authority's external auditors in order to build a co-operative and professional working relationship, eliminate duplication of effort and ensure appropriate sharing of information.

10. Fraud and irregularities

- 10.1 Internal audit is responsible for investigating and reporting on all instances of suspected fraud, malpractice and theft whether reported directly to them or via the Authority's Whistleblowing Policy.
- 10.2 The Authority also participates in the National Fraud Initiative data matching exercise and Internal Audit investigate a range of the matches and co-ordinates the response to those best dealt with by the service areas.

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