



Cyngor Castell-nedd Port Talbot
Neath Port Talbot Council

NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

26th November 2021

Report of the Chief Finance Officer – Huw Jones

Matter for Decision

Wards Affected:

All Wards

Updated Internal Audit Charter

Purpose of the Report

To provide Members with an updated Internal Audit Charter following the retirement of the former Director of Finance and Corporate Services on 31st October 2021.

Changes to Roles and Responsibilities

On 23rd April 2021 the Governance and Audit Committee approved an Internal Audit Charter for 2021/22. The Charter contained information regarding various roles and responsibilities in relation to the Internal Audit Service.

Following the retirement of the former Director of Finance and Corporate Services these roles and responsibilities have been updated.

Public Sector Internal Audit Standards require an Officer within the Council to be designated as 'Head of Internal Audit'. Prior to 31st October 2021 this designation sat with the Head of Finance. With effect from 1st November 2021 the Head of Finance role has been deleted, as determined by Council on 30th July 2021. As a result the role of Head of Internal Audit needs to be re-designated. With effect from 1st November 2021 the Head of Internal Audit role will be undertaken by the Chief Accountant –Technical and Governance.

The updated Internal Audit Charter reflects these changes.

Staffing

All staffing implications are detailed in this report.

Financial Impacts

No implications

Integrated Impact Assessment

There is no requirement to undertake an Integrated Impact Assessment as this report is for monitoring/information purposes.

Valleys Communities Impacts

No implications

Workforce Impacts

No implications

Legal Impacts

No implications

Risk Management Impacts

The work of Internal Audit is key in relation to ensuring compliance with internal controls. This work forms part of the Council's overall risk management arrangements.

Consultation

There is no requirement for external consultation on this item

Recommendation

That Members approve the revised Internal Audit Charter appended to this report.

Reasons for Proposed Decision

To ensure compliance with the Public Sector Internal Audit Standards.

Implementation of Decision:

The decision is proposed for implementation after the three day call in period

Appendices

Appendix 1 – Internal Audit Charter

List of Background Papers

None

Officer Contact:

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NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

INTERNAL AUDIT CHARTER

Introduction

The purpose of this charter is to define what Internal Audit is and explain its purpose, authority and responsibility.

For the purposes of internal audit activity the following terms are defined as follows:

- **“board” – the Governance & Audit Committee**
- **“senior management” - Chief Executive, Corporate Directors and Heads of Service**

Purpose, Scope & Authority

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”

Scope

Financial Regulations 4.9.8 state that it is the responsibility of the Chief Finance Officer to ensure that internal auditors have the authority to:

- **Access Authority premises at reasonable times**
- **Access assets, records, documents, correspondence and control systems**
- **Receive any information and explanation considered necessary concerning any matter under consideration;**
- **Require any employee of the Authority to account for cash, stores or any other Authority asset under their control**
- **Access records belonging to third parties, such as contractors, when required**
- **Directly access the Head of Paid Service, the Executive and Governance & Audit Committee**
- **To ensure that effective procedures are in place to investigate promptly any fraud, irregularity or malpractice.**

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 (Wales) Regulations 2014 Regulation 7, more specifically require that (1) a “relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control. (3) “A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.”

Objectives

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**

Roles and responsibilities

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**

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, 1 Fraud Officer and 2 Audit Assistants (9 people 8.18 FTE). The role of Head of Internal Audit is undertaken by the Chief Accountant Technical & Governance.

In her role as Chief Accountant the Head of Internal Audit also has responsibility the accountancy team responsible for producing the annual statement of account and all bank related matters, the insurance team and risk management. To maintain her independence in relation to the audit of other functions she has responsibility for she will have no involvement in the scope, timing, or staffing of these audits other than to receive the final report in line with normal reporting arrangements.

Management Structure

Internal Audit is part of the Chief Executive Directorate. However to ensure independence Internal Audit has unfettered access to the Chief Executive (Head of Paid Service) and or the chair of the Governance & Audit Committee should a situation warrant it.

Head of Internal Audit Responsibilities

- In managerial terms to the Chief Finance Officer
- Presenting the internal audit charter to the Governance & Audit Committee for approval.
- Presenting and obtaining approval of the annual plan (produced in conjunction with the Audit Manager) from the Governance & Audit Committee.

Appendix 1

- Reporting quarterly to the Governance & Audit Committee on the work undertaken by the service. Reports to committees within NPT are presented in the name of the relevant Chief Officer. Reports to the Governance & Audit Committee will be authored by the HIA in conjunction with the Audit Manager and the Chief Finance Officer will have no influence over their content.
- Reporting to Governance & Audit Committee on any serious weaknesses found in the internal control systems and any instances where recommendations have not been acted upon

Audit Manager's Responsibilities

- In managerial terms to the Chief Finance Officer
- To manage and lead the Internal Audit Team
- For the performance of the Internal Audit Service
- To lead on Whistleblowing investigations and investigations in relation to fraud, theft & malpractice.

Code of Ethics

The Internal Audit Service operates in accordance with the mandatory Public Sector Internal Audit Standards (PSIAS) 2013 updated in 2017 by ensuring that all internal auditors conform to the Code of Ethics principles of integrity, objectivity, confidentiality and competency.

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.

Each member of the Internal Audit Section receives a copy of the Code of Ethics and signs up to an annual declaration to confirm that they will work in compliance with the Code of Ethics as well as the Councils standards and policies such as the Code of Conduct. Where potential areas of conflict may arise during the year, the auditor will also be

required to disclose this. It is critical that all Auditors maintain high standards of integrity, independence, objectivity, confidentiality and competence.

Service Standards

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.

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 & Governance 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 Chief Finance Officer in his 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.

Reporting

Audit Reports

Audit reports:

- **Give an opinion of the service as at the time of the audit**
- **Provide an assurance rating of the service audited**
- **Detail the work carried out and subsequent recommendations together with management responses where applicable**

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 Governance & 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**

Quality Assurance

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.

External Review

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. The next review is due to be undertaken during January 2023.

Relationships

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.

Appendix 1

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.

The normal course of communication with Councillors will be via the Governance & Audit Committee which meets 4 times per year. The Head of Internal Audit and the Audit Manager have access to the Chair of Governance & Audit Committee outside of the normal meetings should this be required in the event of a serious issue coming to light.

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.

Fraud and irregularities

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.

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.

Updated: November 2021