

Internal Audit Charter

Introduction

In accordance with the Public Sector Internal Audit Standards (PSIAS) April 2013, the Head of Internal Audit must formally define the purpose, authority and responsibility of the internal audit service in an internal audit charter. The Head of Internal Audit must periodically review the internal audit charter and present it to senior management¹ and the Board² for approval. This document is the Internal Audit Charter for Leeds City Council (LCC) Internal Audit Service.

Definition of Internal Audit

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisations operation. 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.³

Purpose of Internal Audit: responsibilities and objectives

Internal Audit is an independent appraisal function established by the Council to objectively examine, evaluate and report on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. This extends to the entire control environment of the Council and not just its financial controls.

Internal Audit is a statutory requirement in local government. The Accounts and Audit (England) Regulations 2011 state that '*A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control*'(6(1)).

Internal Audit will review, appraise and report on:

- The efficiency, effectiveness and economy of financial and other management controls;
- The extent of compliance with, relevance and financial effect of established policies, plans and procedures;
- The extent to which the Council's assets and interests are accounted for and safeguarded from losses of all kinds arising from fraud and other offences; waste, extravagance and inefficient administration, poor value for money or any other cause;

¹ Senior management defined as Section 151 officer

² The Board defined as the Corporate Governance and Audit Committee

³ Definition of Internal Audit as per Public Sector Internal Audit Standards(PSIAS)

- The suitability and reliability of financial and other management data developed within the organisation.

Professionalism

Internal Audit will govern itself by adherence to the Public Sector Internal Audit Standards (April 2013) including the Definition of Internal Audit, the Code of Ethics and the Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance.

Internal Audit will adhere to LCC relevant policies and procedures and the LCC Internal Audit Quality Procedures Manual⁴.

Organisational Independence

The Head of Internal Audit must report to a level within the Council that allows Internal Audit to fulfil its responsibilities. Organisational independence is effectively achieved when the Head of Internal Audit reports functionally to the Corporate Governance and Audit Committee. The Head of Internal Audit will report functionally to the Corporate Governance and Audit Committee and administratively (i.e. day to day operations) to the Chief Officer Audit and Investment. Examples of functional reporting to the Corporate Governance and Audit Committee involve;

- Approving the internal audit charter;
- Head of Internal Audit having direct and unrestricted access to Corporate Governance and Audit Committee and its Chair;
- Receiving communications from the Head of Internal Audit on Internal Audits performance and activity.;

The Head of Internal Audit must also establish effective communication with, and have free and unfettered access to, the Section 151 officer and the Chief Executive.

The Head of Internal Audit will confirm to the Corporate Governance and Audit Committee the organisational independence of the Internal Audit Service on an annual basis as part of the Internal Audit Annual Report.

Independence and Objectivity

Internal Audit must be independent and internal auditors must be objective in performing their work and have an impartial, unbiased attitude and avoid any conflict of interest.

⁴ The Internal Audit Quality Procedures Manual has ISO:9001 accreditation and sets out standard operating procedures for all aspects of managing and undertaking Internal Audit work.

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed in the first instance to Head of Internal Audit and reported to Corporate Governance and Audit Committee and/or Section 151 officer as appropriate.

Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records/personnel/ premises and resource limitations, such as funding. In addition, internal auditors will:

- Not accept any gifts, hospitality, inducement or other benefit from employees, clients, suppliers or other third parties.
- Not use information obtained during the course of duties for personal gain.
- Disclose all material facts known to them.
- Ensure compliance with the Bribery Act 2012
- Refrain from assessing specific operations for which they were previously responsible.

Internal Audit will have no executive responsibilities. It is not an extension of, or a substitute for, the function of management. Responsibility for internal control rests fully with managers, who should ensure that arrangements are appropriate and adequate. It is for management to accept and implement audit recommendations or to accept the risk resulting from not taking any action.

Authority and Confidentiality

Internal Audit, with strict accountability for confidentiality and safeguarding records and information in accordance with LCC information governance policies, is authorised full, free, and unrestricted access to any and all of LCC records/personnel/premises(including those of partner organisations where appropriate), and other documentation and information that the Head of Internal Audit considers necessary to enable Internal Audit to meet its responsibilities. All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. Internal Audit shall have authority to:

- Enter any Council premises or land at all reasonable times
- Have access to all records, documents, data held on computer media, and correspondence relating to all transactions of the Council, or unofficial funds operated by an employee as part of their paid duties
- Require and receive such explanations as are necessary concerning any matter under examination
- Require any employee of the Council to produce cash, stores or any other property under their control, belonging to the Council or held as part of the employees duties
- In addition to the prescribed rights of access, internal Audit should seek to ensure that all material witnesses are interviewed in connection with any audit or

investigation. Material witnesses that are not Council employees should be approached and asked for their co-operation with the audit.

All records, documentation and information accessed in the course of undertaking Internal Audit activities are to be used solely for the conduct of these activities. The Head of Internal Audit and individual internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

Internal Audit will also have free and unrestricted access to the Corporate Governance and Audit Committee.

Scope of Internal Audit Work

Internal Audit acts as an assurance function providing an independent and objective opinion on the organisation's entire control environment by evaluating its effectiveness in achieving objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will:

- Undertake a continuous systematic and structured review to evaluate the soundness, adequacy and application of the Council's internal controls system
- Review arrangements for securing economy, efficiency and effectiveness in the use of resources
- Advise and, where appropriate, assist management to investigate suspected cases of fraud, corruption or irregularity
- Review and advise upon the development of systems
- Provide advice on financial systems, procedures, regulations, corporate governance issues and risk management
- Contribute to the Council's pursuit of best value
- Provide consultancy services both within and external to the Council. These may include but are not limited to financial review or health checks, Schools Financial Value Standard, representation on Boards etc.

Internal Audit Plan

At least annually, the Head of Internal Audit will submit to the Corporate Governance and Audit Committee an internal audit plan for review.. The internal audit plan will consist of a schedule of audits as well as resource requirements for the next financial year. The Head of Internal Audit will ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the internal audit plan. The plan will explain how Internal Audits resource requirements have been assessed. Where the Head of Internal Audit believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences will be brought to the attention of the Corporate Governance and Audit Committee.

The internal audit plan is dynamic in nature and reviewed and realigned on a regular basis to take account of new, emerging and changing risks and priorities. It will be based on a risk assessment that considers financial materiality and the business risk relating to corporate plan objectives, as well as any suspected or detected fraud, corruption or impropriety that has come to the attention of the Head of Internal Audit under his remit as laid out in the Council's Policy Statement on Fraud and Corruption, Whistleblowing Policy, Anti-bribery Policy and Anti-Money Laundering Policy.

Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care. Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities.

All Internal Auditors will hold a professional qualification or be training towards a professional qualification.

In addition, all internal auditors have a personal responsibility to undertake a programme of continuing professional development (CPD) to maintain and develop their competence. This is fulfilled through a combination of requirements set by professional bodies and through the Council's appraisal and development programme.

A Quality Assurance and Improvement Programme is maintained by Internal Audit to assist with the on-going improvement of Internal Audit performance.