

# INTERNAL AUDIT SERVICE

## INTERNAL AUDIT CHARTER

DUNCAN WILKINSON, HEAD OF INTERNAL AUDIT

MARCH 2016

# INTERNAL AUDIT CHARTER

## INTRODUCTION

This Charter sets out the purpose, authority and principal responsibilities of the Internal Audit Service for Milton Keynes Council.

The Charter has been prepared in accordance with the requirements of the Public Sector Internal Audit Standards and will be approved at least annually with any changes submitted to the Audit Committee and the Corporate Leadership Team.

## STATUTORY BASIS OF INTERNAL AUDIT

The statutory basis for internal audit in local government is provided in the Accounts and Audit Regulations 2011 which states that *a local authority shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practice*. The Council adopts this statutory requirement in its financial regulations and through this charter.

In addition to the above, the Director of Resources (s151 Officer) has a statutory duty under Section 151 of the Local Government Act 1972, to establish a clear framework for the proper administration of the local authority's affairs. To perform that duty the Section 151 Officer relies on, amongst other things, the work of the internal audit service to provide assurance for systems of internal control, financial management and other governance processes.

The standards for proper practice in relation to internal audit are laid down in the Public Sector Internal Audit Standards (PSIAS) applicable from April 2013. This charter ensures compliance with these professional standards.

## DEFINITION OF INTERNAL AUDIT

The recently published Public Sector Internal Audit Standards defines 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**.*

## PURPOSE

We will provide a robust high quality audit service that delivers honest, evidenced assurance.

Internal Audit will provide the public, Councillors and Council officers with confidence that Council operations are properly governed and controlled, risks are effectively managed and service delivery meets customer need. Where confidence is not possible the service will ensure that the implications and risks are understood to ensure proportionate action is taken. Internal Audit will be responsive to Department's needs and the risks to which the Council is exposed.

Internal Audit is not responsible for the control systems it audits. Responsibility for effective internal control rests with the management / executive of the Council.

## AUTHORITY

In accordance with the definitions of the Public Sector Internal Audit Standards, the Head of Internal Audit is the 'Assistant Director Audit & Risk, the Audit Committee are 'The Board' and the Council's Corporate Management Team (CMT) are 'Senior Management'.

In accordance with PSIAS, the Head of Internal Audit has personal, full responsibility for the operation and delivery of the Internal Audit function including the production and execution of the audit plan and subsequent audit activities. The annual audit plan will be agreed in consultation with relevant officers, the Audit Committee, and the CMT.

Internal Audit's authority is documented and defined within the Council's Constitution and Financial Regulations.

## ACCESS & CONFIDENTIALITY

Internal Audit has unrestricted access to all Council and partner records and information (whether manual or computerised systems), officers, cash, stores and other property, it considers necessary to fulfil its responsibilities. Internal Audit may enter Council property and has unrestricted access to all locations and officers without prior notice if necessary.

All Council contracts and partnerships shall contain similar provision for Internal Audit to access records pertaining to the Councils business held by contractors or partners.

All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities.

The Audit Committee (as the Board) shall be informed of any restriction unduly placed on the scope of Internal Audit's activities which in the opinion of the Head of Internal Audit prevent the proper discharge of IA functions.

The Head of Internal Audit and individual audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

## RESPONSIBILITIES

Directors and Heads of Service are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services and achieve approved objectives / policy.

The Head of Internal Audit is required to provide an annual opinion to the Council through the Audit Committee and the Annual Governance Statement, on the adequacy and effectiveness of the internal control system for the whole Council. In order to achieve this, the Internal Audit Service has the following objectives:

1. To provide a high quality, robust and independent / objective Internal Audit service
2. To provide a systematic evaluation of the effectiveness of, internal control and governance processes;
3. To carry out assurance and consultancy activities across all aspects of the Council on a risk assessed basis;
4. To provide assurance to management and the Audit Committee that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures;
5. To provide assurance to management and the Audit Committee on the integrity and reliability of the Council's financial and operating information, quality of performance management, safeguarding of assets, and the economic, effective and efficient use of resources;
6. To provide assurance that significant risks to the Council's objectives are being managed. This includes annually assessing the adequacy and effectiveness of the risk management process;
7. To provide clear and concise internal audit reports and agree actions to support management in implementing improvements to control and governance processes
8. To promote an anti-fraud culture within the Council and investigate all cases of suspected financial irregularity, fraud or corruption;
9. To co-ordinate with the work of the external auditors for audit planning and assisting the external auditors as required.

Internal Audit may also, where the resources and appropriate skills allow, provide additional services, including support to management, consultancy and investigative work. These services apply the professional skills of Internal Audit through a systematic and disciplined approach in line with the principles of the Council's Internal Audit Service and may contribute to the opinion that Internal Audit provides on the control environment.

Where other external assurance providers (such as Ernst & Young, OFSTED, CSCI, CQC) and internal assurance providers may have undertaken relevant assurance and audit work, Internal Audit will seek to rely on the work of these other assurance providers where professional standards would make it appropriate to do so

## **INTERNAL AUDIT REPORTING LINES**

To provide for independence the day to day management of the Internal Audit Service is undertaken by the Head of Internal Audit who reports to the Audit Committee. This accords with the Public Sector Internal Audit Standards which requires the Head of Internal Audit to report to the very top of the organisation.

The Head of Internal Audit has direct and unrestricted access to the MKC Chief Executive, Resources Director (S151 Officer), Directors, External Audit, Audit and / or Scrutiny Committees at her discretion, including private meetings with the Chair of the Audit Committee.

## **PROFESSIONALISM**

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards;
- All Council Policies and Procedures;
- Professional standards and Code of Ethics required by auditor's respective professional bodies;
- Internal Audit Strategy, Charter and Audit Manual; and
- All relevant legislation

In addition to the above the Head of Internal Audit will also comply with the requirements set out in CIPFA's "The Role of the Head of Internal Audit in Public Service Organisations".

## RESOURCING

It is a requirement, and the Head of Internal Audit's responsibility, that the audit team will be appropriately staffed in terms of numbers, professional qualifications, skills and experience to enable them to fulfil their responsibilities and achieve their objectives. Resources will be effectively deployed to achieve the approved risk based plan. If the in house team does not have the resource or skills to undertake specific work this will be outsourced. The adequacy, or otherwise, of resources will be reported to the audit Committee.

## INDEPENDENCE & OBJECTIVITY

Independence is essential to the effectiveness of the internal audit service; so it will remain free from interference in all regards. This shall include, but not be limited to matters of audit selection, scope, procedure, frequency, timing or report content.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments. In addition to the ethical requirements of the various professional bodies, each auditor is required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest and declare any potential 'conflict of interest' on allocation of an audit. Any potential impairments to independence or objectivity will be declared prior to accepting any work.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgment. Where auditors have previously been involved in any of these activities or consultancy work they will be prohibited from auditing those areas for at least 2 years. Audits are rotated within the team to avoid over-familiarity and complacency

The Head of Internal Audit will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit service.

## INTERNAL AUDIT REPORTING

### Internal Audit Reports

A written report will be prepared and issued following the conclusion of each internal audit engagement, including follow up audits; unless in the opinion of the Audit Services Manager a written report is unnecessary.

Each report will:

- provide an evidenced opinion on the adequacy of the governance, risk and control processes;
- identify inadequately addressed risks and non-effective control processes;
- detail agreed actions including explanation for any corrective action that will not be implemented;
- provide management's response and timescale for corrective action
- provide management's explanations for any risks that will not be addressed
- Identify individuals responsible for implementing agreed actions

Senior Management shall ensure that agreed corrective actions are introduced.

All audits and follow ups receiving a weak or limited audit opinion will be highlighted to the CMT, the Audit Committee and Cabinet. Regular reports to the Audit Committee shall highlight each weak / limited report until controls have been restored to satisfactory levels at least.

Reports will be published on the internet within 2 months of completion, in accordance with the Freedom of Information Act 2000.

### Reporting to the Audit Committee

The Head of Internal Audit will provide regular update reports to the Audit Committee to advise on the progress in completing the audit plan, the outcomes of each internal audit engagement, and any significant risk exposures and control issues identified during audit work.

The Head of Internal Audit will also provide an annual report giving an opinion on the overall adequacy and effectiveness of the control environment which will be timed to support the Council's Annual Governance Statement.

In addition the Audit Committee will:

- approve any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken
- approve, but not direct, changes to the audit plan
- be informed of results from the quality assurance and improvement programme

- be informed of any instances of non-conformance with the Public Sector Internal Audit Standards.

## QUALITY ASSURANCE

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of:

- ongoing performance monitoring;
- an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards;
- an external assessment at least once every five years by a suitably qualified, independent assessor;
- a programme of Continuous Professional Development (CPD) for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies;
- the Head of Internal Audit holding a professional qualification (current Head of Internal Audit is a member of CIMA) and being suitably experienced;
- encouraging, and where appropriate acting on, Customer feedback



Available in audio, large print,  
Braille and other languages

**Tel 01908 257914**

[www.milton-keynes.gov.uk/internal-audit/](http://www.milton-keynes.gov.uk/internal-audit/)

**Milton Keynes Council**

Civic Offices  
1 Saxon Gate East  
Milton Keynes  
MK9 3EJ

T 01908 257914

F 01908 252238

E [internal.audit@milton-keynes.gov.uk](mailto:internal.audit@milton-keynes.gov.uk)