

Audit Committee – 25th February 2010

7. Internal Audit Charter

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Purpose of the Report

To obtain endorsement from members for the Internal Audit Charter.

Recommendation

That the Audit Committee review and formally approve the Internal Audit Charter as attached at pages 10-12.

Background

The internal audit service, provided by the South West Audit Partnership (SWAP), works to a charter that defines its roles and responsibilities and the roles and responsibilities of the District Council's managers. Best practice in corporate governance requires that the charter be reviewed and approved annually by the Audit Committee. The Charter was last reviewed by the Audit Committee at their meeting on 26th February 2009.

It should be noted that only minor changes, since the last review, have been made. The first amendment relates to staff previously employed in a different capacity within the Council who then become employed as auditors with SWAP. Previously it was agreed that the individual could not audit the area where they had been previously employed for 6 months. Following the triennial review of SWAP by the Audit Commission and a recommendation detailed in their report, this has now been increased to 12 months.

The other changes to the Internal Audit Charter are amendments to job titles.

Financial Implications

None.

Background Papers: Internal Audit Charter

Internal Audit Charter

Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within the South Somerset District Council, and to outline the scope of internal audit work.

Approval

This Charter was approved by the Audit Committee on 26 February, 2004 and the Council on 18 March, 2004 and is reviewed each year to confirm it remains accurate and up to date. It was last reviewed by the Audit Committee on 26 February, 2009.

Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership (SWAP) on a 5 year contract expiring on 31 March, 2010. This charter should be read in conjunction with the Trading Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the SWAP Partnership Board. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Partnership Board. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the Head of Finance in consultation with the Head of Internal Audit Partnership.

Role of Internal Audit

Internal audit 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.

Responsibilities of Management and of Internal Audit

Management

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Chief Executive and the Audit Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

Internal Audit

Internal audit is responsible for operating under the policies established by management in line with best practice.

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors. Internal Audit also complies with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

Internal audit is not responsible for any of the activities which it audits. Members of SWAP will not assume responsibility for the design, installation, operation or control of any procedures. Members of SWAP who have transferred in to the department from other areas of South Somerset District Council will not be asked to review any aspects of their previous department's work until twelve months has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

Status of Internal Audit in the Organisation

The Head of the Internal Audit Partnership is responsible to the SWAP Management Board and the Partnership Board. The Head of Internal Audit Partnership and the Group Auditor also report to the Assistant Director (Finance and Corporate Services), as Section 151 Officer, and reports to the Audit Committee as set out below.

Appointment or removal of the Head of Internal Audit Partnership is the sole responsibility of the Partnership Board.

Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. Members of SWAP engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of South Somerset District Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;

- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether South Somerset District Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- reviewing the operations of the council in support of the council's anti-fraud and corruption policy.
- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditors independence is not compromised
 - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
 - the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
 - management understand that the work being undertaken is not internal audit work.

Planning and Reporting

SWAP will submit to the Audit Committee, for information, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to a four-year strategic outlook for internal audit work, prepared in conjunction with management and agreed by them.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Director. SWAP will report at least two times a year to the Audit Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Assistant Director (Finance and Corporate Services), the Chief Executive Officer and to other relevant line management.

The Head of Internal Audit will submit an annual report to the Audit Committee providing an overall opinion of the status of risk and internal control within the council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Head of Internal Audit Partnership and the Group Auditor have the unreserved right to report directly to the Leader of the Council, The Chairman of the Audit Committee, the Chief Executive Officer or the External Audit Manager.

Revised February 2010
