

## **Introduction**

1. On 1<sup>st</sup> April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK. The PSIAS replace the CIPFA Code of Practice for Internal Auditors in Local Government in the UK and encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).
2. The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced. The requirements of the Standards are covered in this Internal Audit Charter & Code of Ethics. The Standards have been revised from 1 April 2016 to incorporate the mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing.
3. Internal Audit is provided for the Isle of Wight under a co-sourced arrangement.
4. **Authority**
5. The Accounts and Audit Regulations 2015 Section 5, define the requirement for an internal audit function within Local Government stating that:  
'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'

## **Responsibility**

6. The responsibility for maintaining an adequate and effective system of internal audit within Isle of Wight Council lies with the Director of Finance (S151 Officer).
7. The Chief Internal Auditor is responsible for effectively managing the internal audit activity in accordance with the '*Definition of Internal Auditing*', the '*Code of Ethics*' and '*the Standards*'.

## **Definitions**

8. In accordance with the PSIAS the definition of Internal auditing is;  
  
'Internal auditing 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'.

9. Internal Audit is not an extension or a substitute for good management although it can advise management on risk and control issues. It is the duty of management to operate adequate systems of internal control and risk management.
10. Internal Audit will consider the adequacy and effectiveness of the internal control framework which aid in supporting the Authority's vision.

### **Purpose and scope**

11. Internal Audit for the Isle of Wight will provide an Annual Internal Audit Opinion based on an objective assessment of the Authority's framework of governance, risk management and control. It will also provide advice and consultancy services at the specific request of the Authority, with the aim of improving governance, risk management and control whilst contributing to the overall Annual Opinion.
12. The Annual Internal Audit Opinion must incorporate;
  - The Opinion;
  - A summary of the work that supports the Opinion; and
  - A statement on conformance with PSIAS and the results of the quality assurance and improvement programme.
13. Internal Audit will not be restricted to the audit of financial systems and controls but will cover all operational and management controls. There are therefore no scope limitations, in that all of the Authority's activities fall within the remit of the Internal Audit; however consideration will always be given to the competency, qualification and experience of those auditors tasked with carrying out the individual assignments. For example Internal Audit will not make judgements or evaluations on care or academic assessments; equally it is not in the section's remit to give an opinion on the appropriateness of policy decisions.
14. Consultancy activities (i.e. advice, facilitation, counsel and training) the nature and scope of which will be agreed with the client and are intended to add value and improve the Council's governance, risk management and control processes without Internal Audit assuming responsibility.
15. Special reviews may be conducted at the request of Members, Chief Executive and the s151 Officer. Internal Audit may also conduct investigations as requested by the Investigation Steering Panel - ISP (consisting of the Monitoring Officer, s151 Officer (or Deputy), and the Chief Internal Auditor, provided such reviews (special or investigation) do not compromise its objectivity or independence.

16. Any impact on the Audit Plan must be assessed and, if necessary, the Plan reprioritised by the Chief Internal Auditor. Any significant changes must be reported to the Chief Executive, and s151 Officer as well as the Members of the Audit Committee in their next reporting cycle.
17. Fraud prevention and detection is the responsibility of managers. However if Internal Audit detects any suspected irregularities during the course of their activities they will report them to ISP. The Chief Internal Auditor may review the system for control weaknesses but any investigation will be under the direction of ISP.

### **Organisational Independence**

18. Internal Audit has no operational responsibilities for any financial systems, including system development and installation. It may however provide advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems.
19. The Chief Internal Auditor will be free from interference (although have due regard for the Authority's key objectives and risks and consult with Members and Officers charged with governance) when setting the priorities of the annual audit plan, for example; in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.
20. Internal Audit will have free and unfettered access to Senior Management, defined as s151 Officer, Chief Executive, Monitoring Officer and Directors. In addition Internal Audit will have free and unfettered access to the Leader of the Council and the Chair of the Audit Committee.

### **Responsibilities of Individual officers**

#### **Chief Internal Auditor**

21. The Chief Internal Auditor must ensure that:
  - (1) They identify the overall remit of audit activity
  - (2) They consult the Council's management and Audit Committee, to inform the annual programme of Internal Audit work.
  - (3) The agreed programme of works is completed.
  - (4) There are adequate arrangements in place to carry out monitoring the quality assuring of the provision of Internal Audit.
  - (5) In consultation with the co-sourced provider, ensure that Internal Audit complies with the PSIAS and Code of Ethics at all times.

- (6) They periodically review the Internal Audit Charter for adequacy and effectiveness.
- (7) Constructive working relationships are fostered and encouraged between auditors, auditees, managers, and external auditors.
- (8) A follow-up process to monitor and ensure that management actions have been effectively implemented and are undertaken promptly.
- (9) Where management has accepted a level of risk that may be unacceptable to the Authority, that the matter is discussed with the s151 Officer, Chief Executive and Monitoring Officer as relevant, or escalated to the Audit Committee to resolve.
- (10) They regularly report performance against plan to the Audit Committee and assist with their agenda.

#### Individual Auditors

22. All individual auditors must ensure that they:

- (1) Maintain an impartial and unbiased attitude and avoid any conflict of interest.
- (2) Possess the knowledge, skills and other competencies needed to perform their individual responsibilities and that they enhance those skills through continuing professional development.
- (3) Exercise due professional care at all times.
- (4) Assist management in establishing or improving risk management processes, without managing those risks.
- (5) Give adequate notice of the start of a planned audit
- (6) Develop and document a plan of each assignment detailing its objectives, scope and any limitations, timing and resource allocations.
- (7) Consider the objectives, risks, effectiveness of the control framework, value for money obtained, of the activity under review, when planning and setting the objectives of each assignment.
- (8) Develop and document a programme of works that achieves the audit objectives.
- (9) Document sufficient information on their identification, analysis and evaluation of risks and controls within the area of audit activities, i.e. that the evidence is reliable, factual and adequate.
- (10) Communicate their findings based on opinion ascertained from these evaluations, providing an overall conclusion/ assurance level, risk rating, recommendations (where relevant) and proposed action plans.
- (11) Communicate all findings in an accurate, objective, clear, concise, constructive, complete and timely manner in accordance with PSIAS.
- (12) Agree a plan of action with the Service to remedy control weaknesses
- (13) Maintain professional independence, objectivity, integrity and confidentiality
- (14) Inform the Chief Internal Auditor of any areas where they could have a conflict of interest which could impair or be perceived to impair their objectivity

- (15) Hold in safe custody any documents or property or other material obtained for audit use or investigation.
- (16) Act with due care to provide “reasonable” assurance on the adequacy of control
- (17) Foster good working relationships with auditees, external auditors and managers

#### s151 Officer

- 23. The s151 Officer has the authority to ensure that the provision of Internal Audit is sufficient to meet the s151 requirements.
- 24. The s151 Officer must ensure that:
  - (1) Any suspected irregularities are properly and appropriately investigated and action taken.
  - (2) S/he is satisfied that the Annual Audit Opinion assurance statement either on its own or as part of the Annual Governance Statement, reflects accurately the position of the control framework.
  - (3) Internal Audit and the Authority comply with their responsibilities as detailed within this Charter and Code of Ethics and Standards.
  - (4) Internal Audit is sufficiently resourced and is effective and in the event that it is not that this is raised with the s151 Officer and members of the Audit Committee.

#### Chief Executive

- 25. The Chief Executive carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

#### Members

- 26. The Members as the corporate body 'the board', have the responsibility to ensure that there is a current and effective Internal Audit function. These responsibilities are delegated to the Audit Committee and include ensuring that:
  - (1) The function complies with PSIAS.
  - (2) Internal Audit status is sufficient within the organisation, is independent organisationally and in its reporting and is free to set its priorities.
  - (3) There is an annual plans focused on the risk and control framework.
  - (4) Significant weaknesses identified by audit are addressed.
  - (5) Agreed actions are implemented.

### Auditees

27. All persons under the controls of IWC; staff, members, contractors, temporary and agency staff must ensure that:
- (1) They maintain a constructive approach to Internal Audit.
  - (2) Must present any cash, stores or any other authority asset under his or her control if requested to do so by an Auditor.
  - (3) Must ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
  - (4) Must ensure that auditors are provided with any information and explanations that they seek in the course of their work.
  - (5) They respond promptly and formally to audit reports within the agreed timescale
  - (6) They implement agreed actions and within an agreed timed action plan.

### External Auditors

28. Internal Audit is expected to co-operate and regularly liaise with the external auditors to ensure an efficient and effective use of resources is achieved and unnecessary over-lapping of work is avoided.
29. The external auditors have a responsibility to assess whether the Internal Audit arrangements are adequate and will, where they are able, place reliance on Internal Audit work when forming their opinion on the Authority's accounts.

### Reporting Structure

30. On an annual basis the Chief Internal Auditor will present for review and approval any changes to the Internal Audit Charter and Code of Ethics and the annual audit plan of activities, including resource requirements and any perceived deficiencies to the Audit Committee, following consultation with the, s151 Officer, Chief Executive, Monitoring Officer, Directors and relevant members.
31. An update on progress and performance to the audit plan will be presented at each Audit Committee. This will include any significant risk exposure and control issues, including fraud and governance risks.
32. Where critical risks, or the audit is rated as high risk the entire report will be presented to the Audit Committee. All other findings will be summarised in a covering report.
33. It is for management to determine whether or not to accept the audit exceptions and to recognise and accept the risks of not taking action. They must formally respond giving reasons for their decisions, which will be presented to the Audit Committee to challenge if they so wish. Where action is proposed on critical/high risks but has not

been taken within a reasonable timeframe the matter will be escalated to the Audit Committee for resolution.

34. All reviews of the Annual Audit Plan will be presented for approval along with any significant consulting services not already included in the Audit Plan, prior to accepting the engagement.
35. Any issues of concern may be escalated at the Corporate Management Team as well as at the Audit Committee.

#### **Access to records and personnel**

36. All Internal Auditors have right of access to all premises, personnel, documents and information they consider necessary for the purpose of their reviews and to obtain such information and explanations from any employee as necessary concerning any matter under review/investigation.
37. All Internal Auditors also have the power to require any council employee, agent or Member to produce cash, equipment, computers or other Council property under their control. Internal Audit can retain or seize these items in order to protect the Council's interest, or to preserve evidence, if a suspected irregularity has occurred before considering whether to refer the issue to the Police. Consultation with the Investigation Steering Panel will be carried out in advance of contacting the Police where possible.

#### **Due Professional Care**

38. The Chief Internal Auditor must hold a professional qualification and current membership, CMIIA, CCAB or equivalent and be suitably experienced.
39. All Internal Auditors will have sufficient knowledge through training and continued professional development to carry out their duties including evaluating the risk of fraud; however it remains the responsibility of management to detect and manage fraud.
40. Any impairment either in fact or appearance on any individual auditor's independence or objectivity will be escalated to the s151 officer if the Chief Internal Auditor has been unable to resolve. Impairment may include, but is not limited to, personal conflict of interest, scope limitation, restrictions on access to records, personnel and properties and resource limitation, such as funding. A record will be made of any action taken.

#### **Quality Assurance & Improvement Programme**

41. The Chief Internal Auditor will develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activities in

consultation with the Council's co-sourced provider PwC. In order to achieve this, internal on-going supervision will be carried out after each audit.

42. The effectiveness of Internal Audit will be measured by;
- (1) Risks to the Authority are identified and mitigated by agreed actions being implemented re critical and high risk exceptions highlighted in Audit reviews.
  - (2) Compliance with the PSIAS and Code of Ethics
  - (3) External Auditors are able to rely on the work of Internal Audit when forming their opinion on the Authority's accounts.
  - (4) Satisfactory responses received from clients by means of end of year questionnaires.

#### **Management of Internal Audit Activities**

43. The Chief Internal Auditor will ensure that the work of Internal Audit is of value to the Authority. This will be achieved by ensuring that the work carried out achieves its purpose as included in this charter.
44. The priorities of Internal Audit will be determined annually using a risk based methodology and in consideration with the Authority's overall objectives. The risk-based approach will take into account the risk management framework and risk appetite levels along with each directorate's performance.
45. The Annual Audit Plan will be reviewed in response to changes in the Authority's risks, operations, systems and controls at least once during the year.

12<sup>th</sup> January 2018



This Charter and Code of Ethics are agreed by

.....  
Cllr Adrian Axford  
Chair of the Audit Committee

Date

.....  
Chris Ward  
s151 Officer

Date

.....  
Elizabeth Goodwin  
Chief Internal Auditor

Date

**Related Papers:**

Public Sector Internal Audit Standards and Code of Ethics 2016  
Accounts and Audit Regulations 2015