WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

16 JANUARY 2017

1. **INTERNAL AUDIT CHARTER – ANNUAL REVIEW**

   Report of the Audit Manager [Sandwell MBC].

   RECOMMENDED

   THAT the existing Internal Audit Charter be subject to its next annual review.

2. **PURPOSE OF REPORT**.

2.1 To ask the Committee to review the Internal Audit Charter.

3. **BACKGROUND**

   There is a statutory requirement for internal audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards'. The Internal Audit Charter reflects this and was first approved by the Audit Committee in January 2014. It was last reviewed in January 2016, and is now due for its next annual review. The Charter has been updated to reflect the introduction of a Mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing added to the latest version of the Public Sector Internal Audit Standards.

4. **EQUALITY IMPACT ASSESSMENT**

   In preparing this report an initial Equality Impact Assessment is not required and has not been carried out. The matters contained in this report will not lead to and/or do not relate to a policy change.

5. **LEGAL IMPLICATIONS**

   The Accounts and Audit Regulations Act states that a relevant body must "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices".

6. **FINANCIAL IMPLICATIONS**

Implementation of the recommendation will be undertaken within existing resources.

BACKGROUND PAPERS

None

Peter Farrow
Audit Services and Risk Management Manager, Sandwell MBC

Internal Audit Charter

Definition of internal auditing

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.

Mission of internal audit

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Core Principles for the Professional Practice of Internal Auditing

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement

Authority and standards



Internal audit is a statutory service in the context of the Accounts and Audit Regulations (Amendment)(England) 2015. Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Financial Officer to have responsibility for those arrangements

The Local Government, England and Wales, Accounts and Audit Regulations 2015 states 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".* These Standards have been adopted by the Fire Authority's internal audit section.

Internal audit have the right of access to all records, assets, personnel and premises, including those of partner organisations, and has the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

Throughout the Public Sector Internal Audit Standards, reference is made to the terms 'Chief Audit Executive', 'board' and 'senior management'. For the purposes of this Charter, the 'Chief Audit Executive' is defined as the Audit Services Manager the 'board' as the Audit Committee and 'senior management' as the senior managers within the Fire Authority.

Scope and objectives of internal audit activities

The scope of work of internal audit is to determine whether the Fire Authority's risk management, control, and governance processes are adequate and effective in order to ensure that:

- Key risks are identified and managed;
- Key financial, managerial, and operating information is accurate, reliable, and timely;
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the Fire Authority's control process; and
- Key legislative and regulatory issues impacting the Fire Authority are identified and addressed appropriately.

Internal audit's remit extends to the entire control environment of the Fire Authority and not just financial controls.

Where other internal or external 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.

Responsibilities

Internal audit has a responsibility to:

- Provide a cost effective and value added full internal audit service;
- Develop a flexible annual audit plan using a risk-based methodology;
- Implement the annual audit plan;
- Track status of outstanding management actions;
- Provide regular updates on the work of internal audit to the Audit Committee and where appropriate, senior officers;

- Assist, as needed, in the investigation of significant suspected fraudulent activities within the organisation; and
- Work with the External Auditor (currently Grant Thornton) and other review bodies to share assurance and minimise duplication.

Organisational independence

Internal audit is involved in the determination of its priorities in consultation with those charged with governance. The Audit Services Manager has direct access and freedom to report in his own name to all officers and Members and particularly to those charged with governance. If required the Audit Services Manager may request to meet privately with the Audit Committee.

Internal audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.

Objectivity is presumed to be impaired when individual auditors review any activity in which they have previously had operational responsibility. If individual auditors are extensively consulted during system, policy or procedure development, and independence could be seen as being compromised, or if they have had previous operational roles, they will be precluded from reviewing and making comments during routine or future audits, for the remainder of that financial year and for the following financial year after their involvement.

Accountability, reporting lines and relationships

The Audit Services Manager reports on an administrative basis to the Strategic Enabler - Finance and Resources, and reports functionally to the Audit Committee, and other senior management. The Audit Services Manager also, where appropriate, works closely with the Monitoring Officer. An Annual report will also be produced and presented to the Audit Committee which will include an ‘opinion’ from the Audit Services Manager on the adequacy and effectiveness of internal control, risk management and governance within the Fire Authority.

A written report will be prepared by internal audit for every internal audit review. The report will be subject to an internal quality review before being issued to the responsible officer and, where appropriate, will include an ‘opinion’ on the adequacy of controls in the area that has been audited. The responsible officer will be asked to respond to the report in writing. The written response must show what actions have been taken or are planned in relation to each recommendation. Accountability for the response to the advice and recommendation of internal audit lies with management, who either accept and implement the advice or formally reject it.

The full role and responsibilities of the Audit Committee are detailed in their terms of reference, which are based on the model provided by CIPFA in their “Audit Committees – Practical Guidance for Local Authorities”.

Internal audit resourcing

Internal audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience. Internal auditors need to be properly trained to fulfill their responsibilities and should maintain their professional competence.

The Strategic Enabler - Finance and Resources is responsible for the appointment of the Audit Service and the Audit Services Manager, who must be suitably qualified and experienced. The Audit Services Manager is responsible for appointing all of the other staff to internal audit and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.

The Audit Services Manager is responsible for ensuring that the resources of internal audit are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby it was concluded that resources were insufficient, this must be formally reported to the Strategic Enabler - Finance and Resources, and if the position is not resolved, to the Audit Committee.

Fraud

Managing the risk of fraud is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal audit does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Internal audit may be requested by management to assist with fraud related work.

The Fire Authority's Financial Regulations require that all suspected irregularities are reported to the Audit Services Manager.

Advisory work

The Public Sector Internal Audit Standards allow that internal audit effort may, where considered to have the right skills, experience and available resource, sometimes be more usefully focused towards providing advice rather than assurance over key controls. Any such internal audit involvement in consultancy and advisory work, would only take place where it would not constitute a conflict of interest in keeping an independent stance. Any significant additional consulting services will be approved by the Audit Committee beforehand.

Review of the internal audit charter

This charter will be reviewed annually by the Audit Services Manager and the Audit Committee.