

# FAREHAM

## BOROUGH COUNCIL

### Report to Audit and Governance Committee

**Date:** 11 March 2019

**Report of:** Head of Finance and Audit

**Subject:** INTERNAL AUDIT CHARTER AND STRATEGY

#### SUMMARY

The report presents a revised Internal Audit Charter for approval, which has been updated to reflect the latest Public Sector Internal Audit Standards which came into effect from April 2017. This sets out the purpose, authority and responsibilities of the internal audit activity.

This report also presents a revised Internal Audit Strategy for approval. This document sets out the proposed nature and the extent of work that the Internal Audit Service will deliver in order to support the Annual Head of Audit Opinion, and the requirements of the Charter.

*The Audit and Governance Committee's areas of responsibility for Internal Audit are:-*

- a) to approve the internal audit charter.
- b) to approve the internal audit plan, including internal audit's resource requirements, the use of external suppliers of audit services, and the approach to using other sources of assurance.
- c) to approve significant interim changes to internal audit plan and resource requirements.
- d) to make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
- e) to consider reports from the head of internal audit on internal audit's performance, including conformance to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.

#### RECOMMENDATION

It is recommended that the revised Internal Audit Charter and Internal Audit Strategy, as attached as Appendix A and Appendix B be approved.

## INTRODUCTION

- a) The latest Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2017. They are recognised as the professional standards for Local Government Internal Audit Services and now incorporate the Institute of Internal Audit International Standards.
- b) Standard 1000 requires us to set out the purpose, authority and responsibilities of the internal audit activity in an **Internal Audit Charter**. This forms a support document to the Council's Financial Regulations.
- c) Standard 2010 requires us to link our annual audit plan to a strategic statement of how the internal audit service will be delivered and developed in accordance with the Internal Audit Charter and how it links to the organisational objectives and priorities. This information is contained in the Council's **Internal Audit Strategy** which received a fundamental review in March 2015.
- d) The Strategy is now required to be refreshed every 3 years. This report therefore presents a refreshed version of the Charter and Strategy, particularly to meet the requirements in the latest Standards.

## INTERNAL AUDIT CHARTER

- e) The proposed new Charter is attached as [Appendix A](#). The key changes that have been made are as follows:
  - (a) Updating the mandatory requirements, mission and definitions to match those in the Accounts and Audit Regulations for 2015, and the new standards. This includes:
    - Removal of the requirement to carry out an annual review of the effectiveness of internal audit;
    - Adoption of the Mission and Core Principles defined in the latest Standards.
  - (b) Redefining the Senior Management at the Council as the Chief Executive's Assurance Group.
  - (c) Recognising the new role of the Head of Finance and Audit as the lead support officer for the Audit and Governance Committee.
  - (d) Outlining the arrangements in place to maintain independence despite the dual roles of the Head of Finance and Audit. (section 8.1)
  - (e) Inclusion of the 5 areas of evaluation expected of internal auditors. (section 5.4)
  - (f) Recognising the role that the Internal Audit Team are now starting to take in helping with the implementation of recommendations. (section 9.5)
  - (g) Reference made to the matrix of audit assurances for Hampshire partnerships which seeks to highlight where the work of one council's audit team can be used by other teams in Hampshire. (section 10)

## INTERNAL AUDIT STRATEGY

- f) The proposed revised Strategy is attached as [Appendix B](#). It seeks to deliver the

maximum assurance and value-added work within current budget constraints. The headline proposals contained in the Strategy are as follows:

- (a) **4 Groups of Assurance Work** – The Annual Head of Audit’s Opinion takes into account the findings from: 1) individual audit opinion work, 2) wider audit work and, 3) other assurances available from audit providers. The Strategy also now recognises the assurances that are provided from the Head of Finance and Audit’s involvement in activity that creates a general organisation awareness.
- (b) **Minimum Audit Level** – Following the updated benchmarking of the number of individual audit assignments there is no proposal to move away from the minimum of 20 discrete pieces of opinion or wider work being delivered a year. However, the minimum of audit days will increase from 173 days a year to 180 days a year, based on the increased level of expenditure by the Council.
- (c) **High Risk Audits** – The opinion on all fundamental financial systems will continue to be refreshed every 3 years. Audit areas that are considered to be inherently High Risk will be given an audit opinion at least every 5 years. There has been an increase in these from 13 to 25. The plan each year will also include computer audit work and corporate level audit work.
- (d) **Wider Audit Work** – Resources will continue to be allocated to *wider audit work* which seeks to get to the root cause of issues and help develop solutions. This work is often delivered in conjunction with other services.
- (e) **Resourcing** – Bought in resources will be used to mainly deliver the individual opinion work to maintain independence. However, the in-house team will support the delivery of this work. In-house resources will also be used to deliver the wider audit work.

## **RISK ASSESSMENT**

- g) There are no significant risk considerations in relation to this report

## **CONCLUSION**

- h) The revised Internal Audit Charter and Internal Audit Strategy should meet the requirements of both the Public Sector Internal Audit Standards and the managers of this Council.

## **Appendices:**

Appendix A – Revised Internal Audit Charter 2019 (separate attachment)

Appendix B – Draft Internal Audit Strategy 2019 (separate attachment)

**Background Papers:** None

## **Reference Papers:**

The Accounts and Audit (England) Regulations 2015 (SI 2015-234)

Chartered Institute of Public Finance and Accountancy (CIPFA) 2017 – Public Sector Internal Audit Standards.

**Enquiries:**

For further information on this report please contact Elaine Hammell. (Ext 4344)