

Meeting: Corporate Governance Committee

Date: 15th March 2017

Subject: Internal Audit Charter

Report by: The Treasurer

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For: Decision

1. Purpose

The purpose of this report is to inform the Corporate Governance Committee about: -

- a) additions to the Public Sector Internal Audit Standards (the PSIAS)
- b) a revised Combined Fire Authority Internal Audit Charter containing the aforementioned additions

2. Recommendations

The Corporate Governance Committee is asked to recommend approval by the Combined Fire Authority (CFA) of the revised Internal Audit Charter

3. Executive Summary

3.1 The 'Relevant Internal Audit Standard Setters' (RIASS) in the UK (for which CIPFA represents Fire Authorities), adopted from 1 April 2013 a common set of Public Sector Internal Audit Standards (the PSIAS). The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors (IIA Global) International Professional Practices Framework (IPPF).

3.2 The PSIAS require that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter (the Charter), and the Head of Internal Audit Service (HoIAS) must periodically review the Charter and have it approved.

4. Report Detail

The Public Sector Internal Audit Standards (the PSIAS)

4.1 The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced. The objectives of the PSIAS are to:

- a) Define the nature of internal auditing within the UK public sector.
- b) Set principles for carrying out internal audit in the UK public sector.

- c) Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisation processes and operations.
- d) Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

4.2 Common terms found throughout the PSIAS need to be interpreted in the context of differing governance arrangements at each organisation. For the CFA, the term 'board' has been interpreted as the Corporate Governance Committee (the Committee). The term 'senior management' has been interpreted as the Chief Fire and Rescue Officer, the Monitoring Officer and the Treasurer (the Officers).

4.3 Internal audit activity is currently outsourced to Leicestershire County Council's Internal Audit Service. For so long as that relationship exists, the PSIAS term 'chief audit executive' has been interpreted as the County Council's Head of Assurance Services acting in the capacity of Head of Internal Audit Service (HoIAS).

Additions to the PSIAS 2016

Following changes to the IPPF in 2015, two additions to the PSIAS were adopted from 1 April 2016, namely the Mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing.

4.4 The Mission of Internal Audit articulates what the internal audit activity aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission. The PSIAS define the Mission of internal audit as, '*To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight*'

4.5 The Core Principles, taken as whole, point to an effective internal audit function i.e. what 'good' internal audit looks like. The Principles are: -

- 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.

4.6 The HoIAS is confident that both the Mission of Internal Audit and the Core Principles align to the current approach to providing the internal audit function at the CFA. Nevertheless, there is planned revised additional guidance and examples of how achievement can be demonstrated, but this is not likely to be issued until April 2017.

4.7 Further changes to the IPPF were implemented in January 2017 and they will be reflected in a further update to the PSIAS later in this year.

The Internal Audit Charter for the CFA

4.8 The Charter establishes the internal audit function's position within the CFA, including the nature of the HoIAS' functional reporting relationship with the Corporate Governance Committee (the Committee); authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the Charter resides with the CFA. The original Internal Audit Charter for the CFA was recommended by the former Overview and Scrutiny Committee on 18th March 2015 for approval by the CFA.

4.9 Providing a formal, written Charter is important to managing the provision of internal audit activity by LCCIAS. The Charter provides a recognised statement for review and acceptance by the designated Officers and the Committee and for approval by the CFA. It also facilitates a periodic assessment by the HoIAS of the adequacy of the internal audit activity's purpose, authority and responsibility and whether LCCIAS continues to be adequate and accomplish its objectives.

4.10 In this first revision of the Charter, the HoIAS has taken account of the additional requirements of the PSIAS and amendments to the Accounts and Audit Regulations (2015). The revised Charter has 8 distinct sections: -

<u>Section</u>	<u>Content</u>
1	Introduction
2	Mission of Internal Audit (new)
3	Purpose (PSIAS definition of the internal audit activity)
4	The Core Principles (new)
5	Definitions (including the Board and Senior Management)
6	Authority (afforded to the internal audit activity) (updated)
7	Responsibility (of the Committee, Senior Management & the HoIAS)
8	The scope of the internal audit activity

4.11 The Internal Audit Charter is included as the **Appendix**.

5. Report Implications / Impact

5.1 *Legal (including crime and disorder)*

None

5.2 *Financial (including value for money, benefits and efficiencies)*

The determination of resource to undertake internal audit activity is referred to at various points throughout the Charter.

5.3 *Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)*

Internal Audit provides reassurance that effective internal control procedures are in place. Internal Audit reports are used to inform the Treasurer, Monitoring

Officer and the Chief Fire and Rescue Officer of the detailed findings of the audit and highlight actions that are required to safeguard the CFA's interests.

5.4 ***Staff, Service Users and Stakeholders (including the Equality Impact Assessment)***

None

5.5 ***Environmental***

None

5.6 ***Impact upon Our Plan Objectives***

The CFA's Strategic Objective 4 is the attainment of efficiency and the provision of a value for money service. The provision of internal audit assists both effective and efficient management and good corporate governance. It also externally validates the CFA's progress in this area.

6. **Background Papers**

Internal Audit Charter (Overview and Scrutiny Committee Report - 18th March 2015)

7. **Appendices**

The Internal Audit Charter