

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

20 MARCH 2023

INTERNAL AUDIT CHARTER

Report of the Head of Internal Audit

1.0 PURPOSE OF THE REPORT

- 1.1 To seek member approval for the Internal Audit Charter for the new North Yorkshire Council.

2.0 BACKGROUND

- 2.1 The Accounts and Audit Regulations 2015 places a statutory duty on the Council to maintain an effective internal audit of its risk management, control and governance processes taking account of relevant public sector internal audit standards and guidance.
- 2.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) is responsible for setting standards for proper practice for local government internal audit. CIPFA has adopted Public Sector Internal Audit Standards (PSIAS)¹ compliant with the Institute of Internal Auditors' (IIA) International Standards. The PSIAS and CIPFA's local government application note for the standards represent proper practice for internal audit in local government.
- 2.3 One requirement of PSIAS is that the purpose, authority and responsibility of internal audit should be formally defined in an Internal Audit Charter. The Head of Internal Audit must prepare and periodically review the Charter, and arrange for it to be approved by the "board". For the Council, the Audit Committee fulfils the responsibilities of the "board" in relation to internal audit standards and activities.

3.0 THE INTERNAL AUDIT CHARTER

- 3.1 The Internal Audit Charter establishes internal audit's position within the Council, including the nature of the Head of Internal Audit's reporting relationship with senior management and this committee. It also authorises access to records, personnel and physical properties relevant to the performance of audit engagements; and defines the scope of internal audit activities.
- 3.2 The charter sets out how internal audit at North Yorkshire Council will be provided in accordance with proper practice. A copy of the draft Internal Audit charter for North Yorkshire Council is included in **Appendix 1**. If approved this will replace the existing North Yorkshire County Council Charter.

¹ The PSIAS were adopted jointly by relevant internal audit standard setters across the public sector.

4.0 **RECOMMENDATION**

4.1 Members are asked to approve the Internal Audit Charter.

M A THOMAS
Head of Internal Audit

3 March 2023

BACKGROUND DOCUMENTS

None

Report prepared by Stuart Cutts (Veritau – Internal Audit) and presented by Max Thomas (Head of Internal Audit).

Veritau - Assurance Services for the Public Sector
County Hall
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North Yorkshire Council Internal Audit Charter

1 Introduction

- 1.1 There is a statutory duty on the Council to undertake an internal audit of the effectiveness of its risk management, control and governance processes. The Accounts and Audit Regulations 2015 also require that the audit takes into account public sector internal auditing standards or guidance. The Chartered Institute of Public Finance and Accountancy (CIPFA) is responsible for setting standards for proper practice for local government internal audit.
- 1.2 CIPFA has adopted Public Sector Internal Audit Standards (PSIAS)¹ compliant with the Institute of Internal Auditors' (IIA) International Standards. The PSIAS and CIPFA's local government application note for the standards represent proper practice for internal audit in local government. This charter sets out how internal audit at North Yorkshire Council will be provided in accordance with this proper practice.
- 1.3 The charter should be read in the context of the wider legal and policy framework which sets requirements and standards for internal audit, including the Accounts and Audit Regulations, the PSIAS and application note, and the Council's constitution, regulations and governance arrangements.

2 Definitions

- 2.1 The standards include reference to the roles and responsibilities of the "board" and "senior management". Each organisation is required to define these terms in the context of its own governance arrangements. For the purposes of the PSIAS these terms are defined as follows at North Yorkshire Council.

"Board" – the Audit Committee fulfils the responsibilities of the board in relation to internal audit standards and activities.

"Senior Management" – in the majority of cases, the term senior management in the PSIAS should be taken to refer to the Corporate Director of Resources in their role as Chief Finance Officer. This includes all functions relating directly to overseeing the work of internal audit. In addition, senior management may also refer to the Chief Executive and Council directors (either individually or collectively as the Council's Management Board) in relation to standards requirements for:

- internal audit to have direct and unrestricted access to senior management for reporting purposes
- consulting on risks affecting the Council for audit planning purposes
- approving the release of information arising from audit work to any third party.

¹ The PSIAS were adopted jointly by relevant internal audit standard setters across the public sector.

2.2 The standards also refer to the “chief audit executive”. This is taken to be the Head of Internal Audit (Veritau).

3 Application of the standards

3.1 In line with the PSIAS, the mission of internal audit at North Yorkshire Council is:

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

3.2 The Council requires that the internal audit service aspires to achieve the mission through its overall arrangements for delivery of the service. In aiming to achieve this, the Council expects that the service:

- 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

3.2 The PSIAS defines internal audit as follows.

“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.”

3.3 North Yorkshire Council acknowledges the mandatory nature of this definition and confirms that it reflects the purpose of internal audit at the Council. The Council also requires that the service be undertaken in accordance with the code of ethics and standards set out in the PSIAS. To provide optimum benefit, the Council requires that internal audit works in partnership with management to improve the control environment and to help the organisation achieve its objectives.

4 Scope of internal audit activities

- 4.1 The scope of internal audit work will encompass the Council's entire control environment², comprising its systems of governance, risk management, and control.
- 4.2 The scope of audit work also extends to services provided through partnership arrangements, irrespective of what legal standing or particular form these may take. The Head of Internal Audit, in consultation with all relevant parties and taking account of audit risk assessment processes, will determine what work will be carried out by the internal audit service, and what reliance may be placed on the work of other auditors.

5 Responsibilities and objectives

- 5.1 The Head of Internal Audit is required to provide an annual report to the Audit Committee. The report will be used by the Committee to inform its consideration of the Council's annual governance statement. The report will include:
- the Head of Internal Audit's opinion on the adequacy and effectiveness of the Council's framework of governance, risk management, and control
 - any qualifications to the opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity)
 - any particular control weakness judged to be relevant to the preparation of the annual governance statement
 - a summary of work undertaken to support the opinion including any reliance placed on the work of other assurance bodies
 - an overall summary of internal audit performance and the results of the internal audit service's quality assurance and improvement programme
 - a statement on conformance with the PSIAS (including the code of ethics and standards) and the results of the quality assurance and improvement programme.
- 5.2 To support the opinion the Head of Internal Audit will ensure that an appropriate programme of audit work is undertaken. In determining what work to undertake the internal audit service should:
- adopt an overall strategy setting out how the service will be delivered in accordance with this Charter
 - draw up an indicative risk-based programme of work on an annual basis following consultation with the Audit Committee and senior management.

² For example the work of internal audit is not limited to the review of financial controls only.

The programme of work will also reflect the requirements of the Charter, the strategy, and proper practice

- update the programme of work throughout the year to reflect emerging risks, changes to priorities and the need to appropriately schedule work
- consider trends and emerging issues that may impact the organisation.

5.3 In undertaking this work, the responsibilities of the internal audit service will include:

- providing assurance to the board and senior management on the effective operation of governance arrangements and the internal control environment operating at the Council³
- objectively examining, evaluating and reporting on the probity, legality and value for money of the Council's arrangements for service delivery
- reviewing the Council's financial arrangements to ensure that proper accounting controls, systems and procedures are maintained and, where necessary, make recommendations for improvement
- helping to secure the effective operation of proper controls to minimise the risk of loss, the inefficient use of resources and the potential for fraud and other wrongdoing
- acting as a means of deterring all fraudulent activity, corruption and other wrongdoing; this includes conducting investigations into matters referred by councillors, officers, and the public and reporting findings of those investigations to the relevant officers and councillors as appropriate for action
- advising the Council on relevant counter fraud and corruption policies and measures.

5.4 The Head of Internal Audit will ensure that the service is provided in accordance with proper practice as set out above and in accordance with any other relevant standards – for example Council policy and legal or professional standards and guidance.

5.5 In undertaking their work, internal auditors should have regard to:

- the mission of internal audit, core principles, and standards as set out in the PSIAS and reflected in this charter
- the code of ethics in the PSIAS⁴
- the codes of any professional bodies of which they are members
- standards of conduct expected by the Council

³ Where third parties place reliance on the assurance provided then they do so at their own risk.

⁴ Veritau has adopted its own code of ethics which fulfil the requirements of the PSIAS.

- the Committee on Standards in Public Life's *Seven Principles of Public Life*.

6 Organisational independence

- 6.1 It is the responsibility of corporate directors and service managers to maintain effective systems of risk management, internal control, and governance. Auditors will have no responsibility for the implementation or operation of systems of control and will remain sufficiently independent of the activities audited to enable them to exercise objective professional judgement.
- 6.2 Audit advice and recommendations will be made without prejudice to the rights of internal audit to review and make further recommendations on relevant policies, procedures, controls and operations at a later date.
- 6.3 The Head of Internal Audit will put in place measures to ensure that individual auditors remain independent of areas they are auditing for example by:
- rotation of audit staff
 - ensuring staff are not involved in auditing areas where they have recently been involved in operational management, or in providing consultancy and advice⁵.

7 Accountability, reporting lines, and relationships

- 7.1 Internal audit services are provided under contract to the Council by Veritau⁶. Staff undertaking internal audit work are employed directly by Veritau. The Corporate Director of Resources acts as client officer for the contract and is responsible for overall monitoring of the service.
- 7.2 In its role in providing an independent assurance function, Veritau has direct access to councillors and senior managers and can report uncensored to them as considered necessary. Such reports may be made to:
- the Council, Executive, or any committee (including the Audit Committee)
 - the Chief Executive
 - the Corporate Director of Resources (Chief Finance Officer)
 - the Monitoring Officer
 - any other corporate director or service manager.

⁵ auditors will not be used on internal audit engagements where they have had direct involvement in the area within the previous 12 months

⁶ The contract is with Veritau Limited – a company part owned by the Council. Veritau refers to the group of companies, including Veritau Limited, who provide assurance services to North Yorkshire and other councils and public sector organisations.

- 7.3 The Corporate Director of Resources (Chief Finance Officer) has specific responsibilities for ensuring that the Council has effective systems of risk management and internal control. The role includes a responsibility to ensure that the Council has put in place arrangements for effective internal audit. In recognition of the importance of the relationship between the Chief Finance Officer and internal audit (recognised in the standards), a protocol has been drawn up setting out the relationship between them. This is included in appendix 1.
- 7.4 The Head of Internal Audit will report independently to the Audit Committee on:
- the proposed allocation of audit resources
 - any significant risks and control issues identified through audit work
 - their annual opinion on the Council's control environment.
- 7.5 The Head of Internal Audit will informally meet in private with members of the Audit Committee, or the committee as a whole as required. Meetings may be requested by committee members or the Head of Internal Audit.
- 7.6 The Audit Committee will oversee (but not direct) the work of internal audit. This includes commenting on the scope of internal audit work and approving the annual audit plan. The committee will also protect and promote the independence and rights of internal audit to enable it to conduct its work and report on its findings as necessary⁷.

8 Fraud, consultancy services and non-audit services

- 8.1 The primary role of internal audit is to provide audit assurance services to the Council. However, the service is also required to undertake fraud investigation and other consultancy work to add value and help improve governance, risk management and control arrangements.
- 8.2 The prevention and detection of fraud and corruption is the responsibility of corporate directors and service managers. However, all instances of suspected fraud and corruption must be notified to Veritau, who will agree the course of action to be taken in consultation with the relevant corporate director and other advisors (for example human resources). Where appropriate, cases of suspected fraud or corruption will be investigated by Veritau.
- 8.3 Veritau also carry out other consultancy related work where this is of value to the Council. This is generally at the request of Council officers. It includes, for example, advice on designing efficient and effective processes. The scope of consulting work will be agreed with the relevant corporate director or service manager. Consulting work will only be carried out where it represents good

⁷ The relationship between internal audit and the Audit Committee is set out in more detail in appendix 2.

value, there are sufficient resources and skills within Veritau to undertake the work, and where it does not compromise the assurance role or the independence of internal audit. Details of all significant consultancy assignments completed will be reported to the Audit Committee.

- 8.4 Where Veritau provides non-audit services (for example information governance), appropriate safeguards will be put in place to ensure audit independence and objectivity are not compromised. These safeguards include the work being performed by a separate team with different line management arrangements. Separate reporting arrangements will also be maintained. The Head of Internal Audit will report any instances where audit independence or objectivity may be compromised to the Corporate Director of Resources and the Audit Committee. The Head of Internal Audit will also take steps to limit any actual or perceived impairment that might occur (for example by arranging for the audit of these services or functional activities to be overseen externally).

9 Resourcing

- 9.1 As part of the audit planning process the Head of Internal Audit will review the resources available to internal audit, to ensure that they are appropriate and sufficient to meet the requirement to provide an opinion on the Council's control environment. Where resources are judged to be inadequate or insufficient, recommendations to address the shortfall will be made to the Corporate Director of Resources and to the Audit Committee.

10 Rights of access

- 10.1 To enable it to fulfil its responsibilities, the Council gives internal auditors employed by Veritau the authority to:
- enter all Council premises or land, at any reasonable time
 - have access to all data, records, documents, correspondence, or other information - in whatever form - relating to the activities of the Council
 - have access to any assets of the Council and to require any employee of the Council to produce any assets under their control
 - be able to require from any employee or Member of the Council any information or explanation necessary for the purposes of audit.
- 10.2 Corporate directors and service managers are responsible for ensuring that the rights of Veritau to access premises, records, and personnel are preserved, including where the Council's services are provided through partnership arrangements, contracts or other means.

11 Review

- 11.1 This charter will be reviewed periodically by the Head of Internal Audit. Any recommendations for change will be made to the Corporate Director of Resources and the Audit Committee, for approval.

**Relationship between the Corporate Director of Resources
(the Chief Finance Officer) and internal audit**

In recognition of the statutory duties of the Council's Corporate Director of Resources (the Corporate Director), this protocol has been adopted to form the basis for a sound and effective working relationship between the Corporate Director and internal audit.

- (i) The Head of Internal Audit (HoIA) will seek to maintain a positive and effective working relationship with the Corporate Director.
- (ii) Internal audit will review the effectiveness of the Council's systems of control, governance, and risk management and report its findings to the Corporate Director (in addition to the Audit Committee).
- (iii) The Corporate Director will be asked to comment on those elements of internal audit's programme of work that relate to the discharge of their statutory duties. In devising the annual audit plan and in carrying out internal audit work, the HoIA will give full regard to the comments of the Corporate Director.
- (iv) The HoIA will notify the Corporate Director of any matter that in the HoIA's professional judgement may have implications for the Corporate Director in discharging their statutory responsibilities.
- (v) The Corporate Director will notify the HoIA of any concerns that they may have about control, governance, or suspected fraud and corruption and may require internal audit to undertake further investigation or review.
- (vi) The HoIA will be responsible for ensuring that internal audit is provided in accordance with proper practice.
- (vii) If the HoIA identifies any shortfall in resources which may jeopardise the ability to provide an opinion on the Council's control environment, then they will make representations to the Corporate Director, as well as to the Audit Committee.
- (viii) The HoIA will report to the Corporate Director (and the Audit Committee) any instances where internal audit independence or objectivity is likely to be compromised, together with any planned remedial action.
- (ix) The HoIA will report to the Corporate Director (and the Audit Committee) any instances where audit work has not conformed to the code of ethics or the standards. This includes the reasons for non-conformance and the possible impact on the audit opinion.
- (x) The Corporate Director will protect and promote the independence and rights of internal audit to enable it to conduct its work effectively and to report as necessary.

Relationship between the Audit Committee and internal audit

- 1 The Audit Committee plays a key role in ensuring that the Council maintains a robust internal audit service and it is therefore essential that there is an effective working relationship between the Committee and internal audit. This protocol sets out some of the key responsibilities of internal audit and the Committee.
- 2 The Audit Committee will seek to:
 - (i) raise awareness of key aspects of good governance across the Council, including the role of internal audit and risk management
 - (ii) ensure that adequate resources are provided by the Council to ensure that internal audit can satisfactorily discharge its responsibilities
 - (iii) protect and promote the independence and rights of internal audit to conduct its work properly and to report on its findings as necessary.
- 3 Specific responsibilities in respect of internal audit include the following.
 - (i) Oversight of, and involvement in, decisions relating to how internal audit is provided.
 - (ii) Approval of the internal audit charter.
 - (iii) Consideration of the annual report and opinion of the Head of Internal Audit (HoIA) on the Council's control environment.
 - (iv) Consideration of other specific reports detailing the outcomes of internal audit work.
 - (v) Consideration of reports dealing with the performance of internal audit and the results of its quality assurance and improvement programme.
 - (vi) Consideration of reports on the implementation of actions agreed as a result of audit work and outstanding actions escalated to the Committee in accordance with the approved escalation policy.
 - (vii) Approval (but not direction) of the indicative annual internal audit work programme.
- 4 In relation to the Audit Committee, the HoIA will:
 - (i) attend its meetings and contribute to the agenda
 - (ii) ensure that overall internal audit objectives, workplans, and performance are communicated to, and understood by, the Committee
 - (iii) provide a summary of internal audit work as part of the agreed work programme of the Committee, and an annual opinion on the Council's

Appendix 2

- control environment (reports will include details of unmitigated risks or other issues that need to be considered by the Committee)
- (iv) consider whether anything arising from the work of the Committee requires changes to be made to the priorities for internal audit work
 - (v) highlight any shortfall in the resources available to internal audit or any instances where the independence or objectivity of internal audit work may be compromised (and make recommendations to address these to the Committee)
 - (vi) report any significant risks or control issues identified through audit work which the HoIA feels necessary to specifically report to the Committee – this includes risks which management are failing to address but which the HoIA considers are unacceptable for the Council
 - (vii) report any actual or attempted interference in the performance or reporting of internal audit work
 - (viii) participate in the Committee's review of its own remit and effectiveness
 - (ix) discuss the outcomes of the quality assurance and improvement programme, and consult with the board on how external assessment of the internal audit service will be conducted (required once every five years).
- 5 The HoIA will informally meet in private with members of the Audit Committee, or the committee as a whole as required. Meetings may be requested by committee members or the HoIA.