

**SHEFFIELD CITY COUNCIL**  
**INTERNAL AUDIT CHARTER**

**APRIL 2017**

**Definition and Objectives**

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operation. 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.

**Internal Audit Standards**

The Public Sector Internal Auditing Standards (PSIAS) govern the operation of the internal audit function and adherence to the standards, which include the definition of Internal Auditing and the Code of Ethics, as well as the attribute and performance standards are mandatory.

Sheffield City Council's Internal Audit team has been externally assessed (January 2017) and the conclusion reached was that the service **generally conforms** to the requirements of the Standards.

Any non-compliance identified will be reported to the Audit and Standards Committee in the Annual Report.

**Purpose, Authority and Responsibility**

Internal Audit forms part of Finance and Commercial Services in the Resources Portfolio. The Senior Finance Manager (Internal Audit) reports to the Head of Strategic Finance (Deputy S151 Officer), who in turn reports to the Interim Director of Finance and Commercial Services, who in turn reports to the Executive Director of Resources (Section 151 Officer).

The Senior Finance Manager (SFM) is the designated 'Chief Audit Executive', as defined in the Public Sector Internal Auditing Standards. 'The Board' is defined as the Audit and Standards Committee and 'Senior Management' is defined as the Executive Management Team.

There are defined Terms of Reference for the Audit and Standards Committee to outline their responsibilities in relation to Internal Audit. These can be found on the SCC Website.

The Head of Strategic Finance and Senior Finance Manager report to the Audit and Standards Committee on at least a quarterly basis. There are a number of standard items reported including the annual audit plan, an annual opinion on the standard of

internal control within the authority and regular updates on the implementation of high opinion audit report recommendations.

Internal Audit has the right to access all records, personnel and physical properties, including those of partner organisations as deemed necessary. This includes the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

### **Independence and Objectivity**

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations. The finance managers (Internal Audit) and internal auditors have no operational responsibilities.

The PSIAS standards do recognise that given the reducing resources available to local authorities, some cross-management will occur and in these cases arrangements for avoiding conflicts of interest need to be established.

In November 2016, the Senior Finance Manager (Internal Audit) was given management responsibility for the External Funding Team. The External Funding team are a compliance team responsible for the Council wide co-ordination, challenge and control of all revenue and capital grant funding. It is therefore possible to see the synergies between the roles and responsibilities of the two teams. A working protocol has been established to outline the safeguards that have been implemented to prevent any perceived or actual conflicts of interest in the role of the Senior Finance Manager. This is attached at appendix 2.

Should the need arise the SFM can report directly to the Executive Director Resources, or the Chief Executive. Reports can also be made to the Chair of the Audit and Standards Committee, or any Audit and Standards Committee member if required.

The SFM will confirm to the Audit and Standards Committee on an annual basis, within the Annual Report, the organisational independence of the Internal Audit Service.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance.

The scope for Internal Audit is the control environment comprising risk management, control and governance. This effectively includes all of the council's operations, resources, services and responsibilities in relation to other bodies. This description shows the very wide potential scope of Internal Audit. In order to turn this generic description into actual subjects for audit, a risk assessment methodology is applied that allows all high-risk subjects to be identified. The council's fundamental financial systems are subject to a degree of inspection on an annual basis, whilst Internal Audit also identifies other financial and non-financial systems and functions as important areas for review. Internal Audit does not undertake Consultancy work

however the team will provide advice and guidance to management as required about new systems and processes.

Management are asked to contribute to the planning process, however the tactical work plan and its contents are entirely the responsibility of Internal Audit. The plan is ratified by the Audit and Standards Committee annually each April.

In September each year, the work plan is further reviewed to ensure Internal Audit resources continue to be targeted at areas of highest perceived risk. This can result in changes to the agreed work plan. Internal Audit will report back to the September or November Audit and Standards Committee meeting if these changes amount to 15% of the total audits in the plan.

Internal auditors will maintain an impartial, unbiased attitude and avoid any conflicts of interest in the performance of audit assignments.

Accountability for the implementation of recommendations made by Internal Audit lies with management, who either accept and implement the advice or formally reject it. A report is made to the Audit and Standards Committee of any 'high priority' recommendations that have been rejected by management.

### **Code of Ethics**

All our internal auditors must conform to the mandatory Code of Ethics (see Appendix 1). The code promotes an ethical culture in a profession founded on the trust placed in its objective assurance about risk management, control and governance.

The Code of Ethics includes 2 essential components – The Principles and Rules of Conduct (which are an aid to interpreting the principles into practical applications).

### **Statutory Role**

Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which states:

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.

Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—

- (a) make available such documents and records; and
- (b) supply such information and explanations;

As are considered necessary by those conducting the internal audit.

The statutory role is recognised and endorsed within the Council's Financial Regulations, which provides the authority for Internal Audit to access officers,

members, documents and records and to require information and explanation as necessary.

Further the regulations state that:

A relevant authority must, each financial year—

- (a) conduct a review of the effectiveness of the system of internal control; and
- (b) prepare an annual governance statement;

On an annual basis, the Chief Audit Executive will report to the Audit and Standards Committee giving an overall opinion on the effectiveness of the control environment.

### **Internal Audit Resources**

Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the standards.

The Senior Finance Manager and Head of Strategic Finance are responsible for appointing the staff of the Internal Audit section and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.

The Head of Strategic Finance is responsible for ensuring that the resources of the Internal Audit section are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby he concluded that resources were insufficient, he must formally report to the Section 151 Officer.

Internal auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme. An annual Performance Development Review is undertaken for all internal audit staff, and any training and developments needs are identified and recorded.

### **Engagement Planning**

For each audit assignment, internal auditors will develop and document a plan including the objectives of the review, the scope, timing and resource allocations. In planning the assignment, auditors will consider, in conjunction with auditees, the objectives of the activity being reviewed, significant risks to the activity and the adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model.

### **Reporting Accountabilities**

A written report will be prepared by the appropriate auditor for every internal audit review. The report includes an opinion on the adequacy of controls in the area that has been audited.

The draft report will be discussed with the auditees and a response obtained for each recommendation stating their agreement/ non agreement to each recommendation and timeframe for implementation. The draft final report will include these management responses and acceptance to the audit recommendations and will be issued to the auditee and relevant Director/Head of Service for final agreement. The auditee and Director/Head of Service have 7 days to reply to the draft final report before it is issued as final.

Internal Audit reports, assigned a high or medium-high opinion are subject to a follow-up, arranged in order to ascertain whether the action stated by management and their response to the report has been implemented.

Internal Audit reports assigned a high opinion are circulated in full to all members of the Audit and Standards Committee.

### **Fraud and Corruption**

Managing the risk of fraud and corruption 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 or corruption. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Arrangements are in place for Internal Audit to be informed of all suspected or detected fraud, corruption or improprieties. Internal Audit may be requested by management to assist with fraud related work.

Updated April 2017.

**Code of Ethics**

**Appendix 1**

**1) Integrity**

Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal Auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility;
- 1.2 Shall observe the law and make disclosure expected by the law and the profession;
- 1.3 Shall not knowingly be a part to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation;
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

**2) Objectivity**

Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balance assessment of all the relevant circumstances and are not unduly influence by their own interest or by others in forming judgements.

Rules of Conduct

Internal Auditors;

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement;
- 2.3 Shall disclose all material facts know to then that, if not disclosed, may distort the reporting of activities under review.

**3) Confidentiality**

Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal auditors;

3.1 shall be prudent in the use and protection of information acquired in the course of their duties;

3.2 shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation;

**4) Competency**

Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal auditors;

4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience;

4.2 Shall perform internal auditing services in accordance with the International Auditing Standards for the Professional Practice of Internal Auditing.

4.3 Shall continually improve their proficiency and effectiveness and quality of their service.

**Internal Audit and External Funding – Working Protocol****Appendix 2**

As of the 14<sup>th</sup> November 2016, the SFM, Internal Audit was given responsibility to oversee the management of the External Funding team.

Internal Audit is an independent appraisal function designed to add value and improve an organisation's operation. 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.

The External Funding team are a compliance team responsible for the Council wide co-ordination, challenge and control of all revenue and capital grant funding. The objective of the team is to maximise appropriate grant funding for the City whilst minimising any associated financial or reputational risks.

Given the functions of the two teams it is possible to see synergies in the work undertaken. It is hoped that by combining the teams, some resilience would be created to assist in managing peaks in workload. This is particularly relevant for the year-end period.

**Independence**

The PSIAS stipulates that Internal Audit should remain organisationally independent from the delivery of services. The standards do recognise that given the reducing resources available to local authorities, some cross-management will occur and in these cases arrangements for avoiding conflicts of interest need to be established.

The safeguards introduced are as follows:

The audit review of the external funding processes/procedures will be undertaken by the Resources Team within Internal Audit. To avoid any possible conflicts, and to maintain transparency, the outcome from this review will be reported directly by the Audit Manager to the Head of Strategic Finance, thus bypassing the Senior Finance Manager with responsibility for managing External Funding.

With reference to grants that need Internal Audit sign-off, historically, these grants have come from CYPF and Place or Communities, therefore these grants would be reviewed by the respective Internal Audit teams to ensure compliance with the terms and conditions. Given that the External Funding team is also checking compliance, the SFM will review the work performed by external funding officers and then sign off the grants as usual. This will reduce some of the planned time used by Internal Audit reviewing grant claims.



### **Reporting requirements**

The Finance Manager, EFT will report functionally to the SFM, Internal Audit. The FM does however liaise regularly with the Head of Strategic Finance, the Heads of Finance Business Partner Teams and the Head of Business Development who has responsibility for the Capital Programme. Should any concerns arise regarding the performance of the SFM, Internal Audit, the FM can report these directly to one of the Heads of Service within Finance.

If the EFT Finance Manager has any concerns re the inappropriate or fraudulent use of a grant, these can be report directly to the SFM, Internal Audit or the Fraud Team Manager, Stephen Bower.

As stated above the outcomes of any Internal Audit reviews undertaken on the EFT team will be reported directly to the Head of Strategic Finance.

### **Management responsibilities**

The budgets for the External Funding Team and the Internal Audit team will remain as separate business units. The Senior Finance Manager will however be responsible for monitoring and forecasting both.

Similarly, performance targets for both teams will be reported upwards to the Head of Strategic Finance and then the Director of Finance and Commercial Services.

The Senior Finance Manager will be responsible for undertaking the PDR's for the Finance Managers in both the Internal Audit and External Funding teams.

### **Possible sharing of Staffing Resources**

The skills required to conduct internal audits are similar to those required to check compliance with the terms and conditions of grant funding, and as a result there is the potential for internal auditors and finance officers within EFT to work across the 2 teams. This will need to be managed carefully to ensure that transparency is maintained and there are no conflicts to the independence of internal auditors.

Time recording systems have been in operation in Internal Audit for 18+ years and do provide a wealth of management information about productivity and resource requirements. Time recording processes will be introduced for 2017/18 with the aim of tracking and monitoring peaks in workflow in the EFT team.

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