

**Manchester City Council  
Report for Information**

**Report To:** Audit Committee - 19 November 2015

**Subject:** Internal Audit Charter

**Report of:** City Treasurer / Head of Audit and Risk Management

---

**Summary**

This report advises on a change being made to comply with the new Public Sector Internal Audit Standards (PSIAS) which were introduced with effect from 1 April 2013. Internal Audit's Terms of Reference are being replaced with an Internal Audit Charter.

**Recommendations**

Members are requested to consider and comment on the Internal Audit Charter.

---

**Wards Affected:**

All

---

**Contact Officers:**

Richard Paver City Treasurer 234 3564  
E-mail [richard.paver@manchester.gov.uk](mailto:richard.paver@manchester.gov.uk)

Tom Powell Head of Internal Audit and Risk Management 234 5273  
E-mail [t.powell@manchester.gov.uk](mailto:t.powell@manchester.gov.uk)

**Background documents (available for public inspection)**

Internal Audit Terms of Reference

## **Internal Audit Charter**

### **Introduction**

- 1.1 The Chartered Institute for Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 established expected professional standards for internal audit in local government. The Code was replaced with effect from 1 April 2013 with the Public Sector Internal Audit Standards (PSIAS) to be adopted across the public sector. The PSIAS define standards against which the quality of internal audit is assessed and are supported by a Local Government Application Note. In order to comply with the PSIAS requirements Internal Audit has reviewed its Terms of Reference.

## **2. Internal Audit Charter**

- 2.1 The PSIAS replaced the CIPFA Code requirement for an Internal Audit Terms of Reference with a requirement for an Internal Audit Charter, although some of the content is similar. The PSIAS state the Charter should refer to:
- Recognition of the mandatory nature of the PSIAS.
  - Internal Audit's responsibilities, objectives and independence including accountability, reporting lines and relationships and arrangements for avoiding conflict of interest in non-audit activities.
  - Definitions of the scope of Internal Audit activities, the terms 'board' and 'senior management' and the role of Internal Audit in counter fraud work.
  - The role of Audit Committee and statutory officers with regard to internal audit.
  - Internal Audit's remit across the control environment and rights of access to records, assets, personnel and premises.

- 2.2 The new Internal Audit Charter is presented here at appendix one.

## **3 Recommendations**

- 3.1 Members are requested to consider and comment on the Internal Audit Charter.

## **Appendix One**

### **Internal Audit Charter**

#### **1 Introduction**

- 1.1 This Charter sets out roles, responsibilities, accountabilities and governance structures concerning the operation of internal audit in Manchester City Council (the Council). It establishes Internal Audit's compliance with the UK Public Sector Internal Audit Standards (PSIAS), introduced with effect from 1 April 2013. The Standards encompass mandatory elements of the Global Institute of Internal Auditors International Professional Practices Framework and apply to all public sector internal audit service providers, whether in-house, shared or outsourced. A CIPFA Local Government Application Note sets sector-specific requirements for the application of the PSIAS in local government organisations.

#### **2 Definitions**

- 2.1 For the purpose of this Charter the following definitions of PSIAS terms apply within the Council:
- Internal Audit - 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives of bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'
  - Audit Committee - 'The Board'
  - City Treasurer - 'Senior Management'
  - Head of Audit and Risk Management - 'Chief Audit Executive'

#### **3 Authority And Accountability**

- 3.1 The Council's Constitution sets out Internal Audit's constitutional role and rights of access to all records, properties, physical assets and explanations from Officers in the course of its assignments. These rights are accompanied by accountability for confidentiality and safeguarding of records and information. Internal Audit has unrestricted access to senior management and to the Audit Committee, and will work with officers who are requested to assist it in fulfilling its roles and responsibilities.
- 3.2 The Head of Audit and Risk Management leads the Section, reporting to the City Treasurer and supporting the discharge of responsibilities for the administration of financial affairs under Section 73 of the Local Government Act 1985. The Head of Audit and Risk Management has direct access to the Audit Committee Chair, attends all meetings, reports on internal audit activity and advises on the adequacy and effectiveness of Council systems of governance, risk management and internal control. The provisions in this

document enable the Head of Audit and Risk Management to deliver an annual opinion on the Council's systems of governance, risk management and internal control.

#### **4 Independence And Objectivity**

- 4.1 The PSIAS define independence as "freedom from conditions that threaten the ability of the internal audit activity to carry out its responsibilities in an unbiased manner". To assist Internal Audit to carry out the role and constructively challenge senior managers of the Council, the Head of Audit and Risk Management holds a sufficiently senior position in the Council. Internal Audit independence is confirmed in the Annual Review of Effectiveness of the System of Internal Audit and Audit Committee approves, but does not direct, the annual audit plan.
- 4.2 Independence is primarily a state of mind and is developed by the training and development approach. Auditors challenge, on the basis of objective evidence, decisions, policies or practices they consider inappropriate or in need of improvement, no matter who is involved in decision making. It is essential for Council officers and Members to recognise Internal Audit's role and responsibilities and accept audit comment and advice in this spirit, giving a reasoned response if they take a different view.
- 4.3 Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activities or processes audited. They make a balanced assessment of relevant circumstances and are not unduly influenced in forming judgments by their own interests or others.
- 4.4 Objectivity and independence in the provision of advice and guidance are maintained, and conflicts of interest avoided, as decision making remains with service managers. Auditors have no operational responsibility for, or authority over, activities audited and also submit declarations of interest annually, including 'nil' returns.

#### **5 Responsibilities**

##### ***Internal Audit***

- 5.1 The prime purpose of internal audit is to assure Members and senior managers over the adequacy and effectiveness of the Council's governance framework, risk management and internal control. This is achieved by working with managers to assess and improve arrangements by undertaking audit assignments, providing assurance and making appropriate recommendations for change. Internal Audit may also provide advice and guidance to managers on specific issues subject to the availability of skills and resources. The scope of internal audit's work includes:
- All Council systems, processes, policies, plans and procedures;

- Use and safeguarding of resources and assets, including data;
- Governance and risk management processes;
- Commissioning and procurement
- Projects and programmes; and
- Counter Fraud, including investigation of allegations of fraud and corruption.

### ***Audit Committee***

5.2 The system of internal audit includes Audit Committee's role, particularly receipt and evaluation of assurance opinions. Terms of Reference are set out in the Constitution, Part 4 Section B. The Audit Committee includes two independent members, in line with CIPFA good practice and there is a development and training process.

5.3 Key responsibilities include:

- Approval of the Annual Accounts and Treasury Management Strategy;
- Consideration of External Audit reports;
- Consideration of the review of the effectiveness of the system of internal control and the Annual Governance Statement;
- Oversight of the effectiveness of the control environment including risk management, counter-fraud and anti-corruption arrangements; and
- Review of the Council's internal audit programme and assurance reports, as appropriate, from the Head of Audit and Risk Management.

### ***Statutory Officers***

5.4 The roles and responsibilities, including delegated functions, of the Head of Paid Service, Monitoring Officer and Treasurer are set out in the Council's Constitution, Part 3, Section D 'Scheme of Delegation of Functions to Chief Officers'.

### ***External Audit***

5.5 Internal Audit works actively with the external auditor to maximise the value obtained from the total audit resource available. In addition to its financial statements work, External Audit provide assurance over Internal Audit's approach and coverage.

### ***Counter Fraud***

5.6 Managers are responsible for preventing and detecting fraud and corruption, managing associated risks through effective internal control and investigating fraud. Internal Audit is responsible for developing the Counter Fraud Strategy including raising fraud awareness across the Council, investigating allegations

and assisting managers with investigations and carrying out proactive fraud detection exercises. Suspicions of fraud or corruption may be reported directly to the Head of Audit and Risk Management under Whistleblowing and Anti-fraud and Corruption policies. Decisions to refer matters to the police rest with the Head of Audit and Risk Management in consultation with the Treasurer and relevant senior managers.

## **6 Professionalism**

- 6.1 Compliance with the PSIAS and its associated Code of Ethics promotes an ethical, professional culture. Internal Audit officers are subject to the Council's Code of Conduct for Employees and associated policies and are governed by the ethical codes of professional bodies to which they belong. Auditors hold or are studying for accounting or internal audit qualifications and maintain professionalism through a career grade scheme and continuing professional development.
- 6.2 Internal Audit conducts an annual self-assessment against the PSIAS, including an evaluation of the effectiveness of service activity and performance. A formal quality assurance, feedback and improvement programme informs a plan of continuous improvement. The key measurable is delivery of the audit plan within the year and assignment performance is managed through key performance measures, agreed with CIPFA, AGMA and Core Cities to support benchmarking.

## **7 Resources and Audit Planning**

- 7.1 The Service is structured in client and risk based teams whose portfolios mirror Council directorates and key risk areas to support effective client relationships and better understanding of needs.
- 7.2 In line with PSIAS requirements Internal Audit has an Audit Strategy and an annual, risk-based audit plan is produced for a period of one year giving assurance over the Council's internal control, governance and risk management systems. The plan is developed through an assessment of risk and assurance needs and is sufficiently flexible to reflect changing organisational risks and priorities. It is submitted to the Treasurer and Audit Committee for review and approval and the Head of Audit and Risk Management reports periodically any resource limitations or significant deviation from the approved plan.

## **8 Monitoring And Reporting**

### *Assignments*

- 8.1 A written report is prepared and issued by the Head of Audit and Risk Management following the conclusion of internal audit assignments. The report includes management's response and any actions necessary regarding the findings and recommendations. Internal audit outputs and assurances are reported in summary to the Audit Committee.

*Monitoring Reports*

8.2 In-year the Head of Audit and Risk Management reports to Audit Committee on:

- Progress against plan including any necessary changes;
- Significant control issues identified; and
- Outstanding recommendations from previous audit reports.

*Annual Assurance Report*

8.3 The Head of Audit and Risk Management prepares an annual report for Audit Committee which includes:

- Summary of audit work carried out in the year;
- Achievement against plan; and
- An overall annual opinion on the adequacy and effectiveness of the systems of Governance, Risk Management and Internal Control. This is a source of evidence for the Council's Annual Governance Statement.

*Annual Review of the Effectiveness of the System of Internal Audit*

8.4 The Accounts and Audit Regulations 2011 require an annual review of the effectiveness of the Council's system of internal audit to be considered as part of its governance assurance processes, including the Annual Governance Statement. The report demonstrates that there is an effective system of internal audit including a policy framework, internal audit function, Audit Committee and effective management engagement.

**9 Review**

9.1 The Head of Audit and Risk Management will periodically review and update this Charter.