

Appendix Three - Internal Audit Charter 2019

1. Introduction

This charter establishes the framework within which Manchester City Council's Internal Audit Service operates to best serve the Council and to meet its professional obligations under applicable professional standards.

The charter defines the purpose, authority and responsibility of internal audit activity, establishes the Internal Audit Service's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

It will be subject to periodic review by the Head of Audit and Risk Management (as the Chief Audit Executive) and presented to the Council's Senior Management and Audit Committee for approval.

Where the Internal Audit Service provides the internal audit function for other organisations external to the Council the purpose, authority and responsibility of internal audit activity for those organisations is set out in separate charters for those organisations.

2. Relevant regulations and interpretation

The requirement for an internal audit function in local government is set out in the Accounts and Audit Regulations 2015 ('the Regulations').

"Internal audit: 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." Regulation 5. (1) Accounts and Audit Regulations 2015.

The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government in the United Kingdom. CIPFA has published Public Sector Internal Audit Standards ('PSIAS'), which encompass the Mission of Internal Audit and the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing). These documents are therefore mandatory for internal audit in local government in the United Kingdom, and they are supplemented within PSIAS by additional public sector interpretation and guidance. CIPFA has also published a Local Government Advisory Note setting out sector-specific requirements for local government within the United Kingdom.

The Council Internal Audit Service operates in accordance with this mandatory definition, code, standards and advice.

Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the

administration of those affairs". In its Statement on the Role of the Chief Financial Officer in Local Government CIPFA has defined 'proper administration' as including compliance with the statutory requirements for accounting and internal audit. It also requires the director of financial resources to ensure an effective internal audit function is resourced and maintained.

3. Definitions

Both the Global Institute of Internal Auditors and PSIAS set out the following definition of internal auditing:

"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."

Global Institute of Internal Auditors, and Public Sector Internal Audit Standards, 2017

The Global Institute of Internal Auditors and PSIAS also refer to the 'board' and 'senior management' and PSIAS recognise that these terms need to be interpreted in the context of the Council's own governance arrangements.

PSIAS define the board as:

"The highest level of governing body charged with the responsibility to direct and/ or oversee the activities and management of the organisation. [...] 'Board' may refer to an audit committee to which the governing body has delegated certain functions."

Public Sector Internal Audit Standards, 2017

Within Manchester City Council the board is defined as the Audit Committee and senior management is defined as the Council's Senior Management Team ("SMT").

4. Responsibilities

The Regulations set out that the Council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk. The scope of internal audit's work includes:

- 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.

It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. PSIAS make clear that the provision of this assurance is

internal audit's primary role and that this requires the Head of Audit and Risk Management to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control.

This assessment will be supported by the identification, analysis, evaluation and documentation of sufficient information on each individual audit assignment, and the completion of sufficient assignments to support an overall opinion for the organisation as a whole. The scope of internal audit's work therefore encompasses all of the Council's functions and services and all of its activities.

The requirement to be independent and objective means that the Internal Audit Service cannot assume management responsibility for risk management, control or governance processes. However, the Internal Audit Service may support management by providing consultancy services. These are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control. They will also contribute to the overall assurance opinion.

Accountability for responses to Internal Audit advice and recommendations for action lies with senior management who either accept and implement advice or accept the risks associated with not taking action. Audit advice, including where the Internal Audit Service has been consulted about significant changes to internal control systems, is given without prejudice to the right of the Internal Audit Service to review and recommend further action on the relevant policies, procedures, controls and operations at a later date.

The Head of Audit and Risk Management will provide an annual report incorporating an overall opinion, a summary of the work that supports that opinion, and a statement of conformity with PSIAS and the results of the quality assurance and improvement programme (QAIP).

The Internal Audit Service's responsibilities are set out in PSIAS, and these are supported by detailed operational policies and procedures that are regularly reviewed and updated as necessary.

5. Independence and objectivity

The PSIAS define independence as “freedom from conditions that threaten the ability of the Internal Audit Service 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.

The Internal Audit Service remains independent of the Council's other functions and, with the exception of its support to management in relation to counter fraud and investigatory work, no member of the Internal Audit Service has any executive or operational responsibilities. Auditors are expected to deploy impartial and objective professional judgement in all their work, whether on audit work or investigations.

The Internal Audit Service's work programme and priorities are determined in consultation with 'management' and 'the Board', but remain a decision for the Head of Audit and Risk Management. The Head of Audit and Risk Management has direct access to and freedom to report in his own name and without fear or favour. He has opportunity to meet with the Chair of the Audit Committee at any time.

The independence of the Head of Audit and Risk Management is further safeguarded by ensuring that his remuneration and performance assessment are not inappropriately influenced by those subject to audit.

All auditors make an annual declaration of their interests and update this during the year as necessary, and where any auditor has a real or perceived conflict of interest this is managed to maintain the operational independence of the service as a whole. If independence or objectivity are impaired in fact or appearance, then the nature of the impairment is disclosed as appropriate. The Head of Audit and Risk Management makes an annual declaration that the internal audit function is operationally independent.

6. Reporting lines and relationships

The Head of Audit and Risk Management reports the performance and outcomes of audit work to 'management' and 'the board' and reports organisationally to the City Treasurer.

The Head of Audit and Risk Management has access to all 'management' including the Monitoring Officer and Chief Executive.

The Head of Audit and Risk Management has regular access to the chair of the Audit Committee and reports to their meetings as set out in the Committee terms of reference.

SMT and the Audit Committee are responsible for approving the annual audit plan.

The Head of Audit and Risk Management, the Internal Audit Service as a whole, and the Council adhere to the requirements of CIPFA's Statement on the Role of the Head of Internal Audit.

The Internal Audit Service and the external auditor liaise on the planning and outcomes of respective audit work to share assurance opinions and avoid the duplication of work.

7. Access to information

The Internal Audit Service has the right of unrestricted and direct access to the Council's records (however held), assets, premises and officers. In entering into partnership arrangements with external organisations the council ensures that the same rights of audit access apply to partners' records, assets, premises and officers. The Internal Audit Service has the authority to obtain all such information and explanations as it considers necessary to fulfil its responsibilities.

Internal auditors respect the value and ownership of information they receive and the reports they produce, and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. They are prudent in the use and protection of information acquired in the course of their duties and shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the Council's legitimate and ethical objectives.

8. Internal Audit Resources

The Council has taken the strategic decision to provide its internal audit service largely in-house and is committed to providing a service that meets the best quality standards. However, the Head of Audit and Risk Management and Council has decided that, to meet the requirement that assignments are performed with proficiency and due professional care, it will obtain additional support where specialist knowledge is required. All such work remains under the direction and authority of the Head of Audit and Risk Management.

The City Treasurer ensures that internal audit resources are sufficient to meet its responsibilities and achieve its objectives. If the Head of Audit and Risk Management or the Audit Committee considers that the level of audit resources in any way limits the scope of internal audit, or prejudices the ability of the Internal Audit Service to deliver a service consistent with its statutory and related requirements, they will advise the Council accordingly.

Nonetheless, the Internal Audit Service has finite resources and its workforce is therefore deployed to meet an annual audit plan that pays regard to the relative risks accepted, and levels of assurance required, by the Council.

The Council performance and development process is applicable to all staff within the Internal Audit Service, which supports continuous staff performance appraisal and development.

9. Quality Assurance and Improvement

The Head of Audit and Risk Management operates a quality assurance and improvement programme (QAIP) that both monitors the on-going performance of internal audit activity and periodically assesses the Internal Audit Service's compliance with PSIAS. This includes both internal and external assessments.

The results of the quality assurance and improvement programme including any areas of non-conformance with PSIAS are reported annually to SMT and the Audit Committee.

10. Non-audit work: Investigations and counter-fraud services

PSIAS recognise that the Internal Audit Service may go beyond the work needed to meet its assurance responsibilities and provide services to support management, including consultancy services or assistance with the investigation of suspected fraud or corruption. Such services apply the professional skills of internal audit and contribute to the overall assurance opinion.

The Internal Audit Service manages the Council's whistle-blowing arrangements including provision of a helpline and, where appropriate investigates instances of suspected or actual fraud, corruption or impropriety. It also facilitates participation in the National Fraud Initiative, which matches data from Council information systems with information held by other bodies to identify potentially fraudulent activity.

The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

The Head of Audit and Risk Management should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for his opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.

11. Non-audit Work: Risk, Insurance and Health and Safety

The Head of Audit and Risk Management is responsible for the leadership and management of the Council's Risk and Resilience, Insurance and Claims; and Health and Safety Services. To avoid actual, potential or perceived conflicts of interest, planned audit activity in these areas is led by the Audit Manager and reported to the City Treasurer, SMT and Audit Committee without any oversight or influence by the Head of Audit and Risk Management.