

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 21 SEPTEMBER 2016

Title of report	INTERNAL AUDIT CHARTER AND RECOMMENDATIONS REVIEW
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Purpose of report	<p>To allow Members of the Audit and Governance Committee to review and approve the recently updated Internal Audit Charter.</p> <p>To inform Members of the Audit and Governance Committee of the proposed changes to the categories of Internal Audit recommendations.</p>
Reason for Decision	To comply with the Public Sector Internal Audit Standards.
Council Priorities	Value for Money
Implications:	
Financial/Staff	None
Link to relevant CAT	None
Risk Management	None
Equalities Impact Assessment	Not Applicable
Human Rights	None
Transformational Government	Not Applicable
Consultees	Interim Director of Resources

Background papers	Public Sector Internal Audit Standards
Recommendations	<p>THAT THE AUDIT AND GOVERNANCE COMMITTEE:</p> <p>1. APPROVE THE UPDATED INTERNAL AUDIT CHARTER.</p> <p>2. RECEIVE AND COMMENT ON THE PROPOSED CHANGES TO THE CATEGORIES OF INTERNAL AUDIT RECOMMENDATIONS.</p>

1.1 INTRODUCTION

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the purpose, authority and responsibility of the internal audit activity must be formally set down in an internal audit charter. This charter must be reviewed periodically by the Chief Audit Executive (the Senior Auditor at this Council) and then presented to senior management and the Audit Committee for approval. This report sets out the results of the August 2016 review of the Charter.
- 1.2 The report also sets out the rationale for the Senior Auditors' proposal to introduce a fourth category of recommendation.

2. TERMS OF REFERENCE

- 2.1 Section 3 of Part 3 of the Constitution sets out the Terms of Reference of the Audit and Governance Committee, as set out at the extract below:
'To act as the Authority's Audit Committee, to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to be responsible for the financial reporting process.'
- 2.2 Particular statements in the Terms of Reference that refer to Internal Audit include:
'd) Approve (but not direct) Internal Audit's strategy and plans and monitor performance
e) Review summary Internal Audit reports and the main issues arising, and seek assurance that action has been taken where necessary
f) Receive the annual report of Internal Audit'.

3. INTERNAL AUDIT CHARTER

- 3.1 Our Charter was produced in September 2014 and was formally approved by the respective Audit and Governance Committee Members. It was reviewed with minor changes and approved again in September 2015.
- 3.2 The PSIAS were updated in April 2016. Two changes have been made, the first is to introduce a mission statement for Internal Audit "To enhance and protect organisational value by providing risk-based and objective assurance, advice and

insight”. The second change is in relation to adopting the 10 Core Principles for the Professional Practice of Internal Auditing. These are that Internal Audit:

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives and risks of the organisation.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organisational improvement.

- 3.3 The Internal Audit Charter is attached as Appendix 1 and has been updated to reflect these changes and other minor amendments such as removal of reference to the Benefit Fraud Investigation Team at the Revenues and Benefits Partnership as this no longer exists.

4. INTERNAL AUDIT RECOMMENDATION CATEGORIES

- 4.1 Internal Audit is as committed to its own continuous improvement as it is that of the Council. With this in mind the Senior Auditor has identified an opportunity to improve the clarity and impact of internal audit recommendations. There is no prescribed or best practice approach to defining the priority of recommendations as it is for the Chief Audit Executive to determine the most appropriate approach for their organisation.
- 4.2 The current approach is detailed in Table 1 below. The recommendation definitions all relate to the particular system that is being audited. Whilst this helps to ensure that service managers give appropriate attention to recommendations it does not help Senior Managers or Councillors identify where there is an issue which could have a significant impact on the Council as a whole, not just the service being audited. It is for this reason that the Senior Auditor proposes introducing a new category of recommendation ‘critical’.

Table 1 Current Priority of Recommendations

Level	Definition
High	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Medium	Recommendations which, although not fundamental to the system, provide scope for improvements to be made,
Low	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
Advisory	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

- 4.3 The 'critical' category would only be used for issues of a very serious nature which could have a wider impact than just the service under review. The Senior Auditor does not consider it appropriate to reorder the current priority of recommendations downwards, for example reserve 'high' priority recommendations for these types of issues, as this would be likely to dilute the impact of the other recommendations in the eyes of management, as their severity might not be properly acknowledged within a particular service area.
- 4.4 The Senior Auditor also proposes to remove 'immediate' from the high priority definition. Target dates are agreed for each recommendation and consideration is given to the amount of time and resources that may be required to properly address the issue. It is not always possible to resolve an issue immediately regardless of the risk associated and whilst agreed target dates reflect this, the current definition can cause confusion. Internal Audit will continue to follow up all high and medium priority recommendations, as well as any critical ones.
- 4.5 Table 2 sets out the proposed new approach.

Table 2 Proposed Priority of Recommendations

Level	Definition
Critical	Recommendations which are of a very serious nature and could have a critical impact on the Council, for example to address a breach in law or regulation that could result in material fines/consequences.
High	Recommendations which are fundamental to the system and require attention to avoid exposure to significant risks.
Medium	Recommendations which, although not fundamental to the system, provide scope for improvements to be made,
Low	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
Advisory	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.