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# *Internal Audit Charter*

**DRAFT**

Oxford City Council

April 2014

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## **Distribution List**

Members of the Audit and Governance Committee

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## About this charter

This Internal Audit Charter provides the framework for the conduct of the Internal Audit function in Oxford City Council and has been approved by the Audit and Governance Committee. It has been created with the objective of formally establishing the purpose, authority and responsibilities of the Internal Audit function.

Regular communication is essential to achieve effective co-operation. Heads of Service or other delegated members of Council Staff will be appointed for individual reviews to act as the first point of contact between Internal Audit and their area of responsibility, and to participate fully in the audit planning and reporting process. A timetable for the liaison and coordination of work is set out in Appendix 1. Internal Audit's performance against this will be reported quarterly to the Audit and Governance Committee.

## Definitions

Board	<p>The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation.</p> <p>Throughout this document, the term 'Board' refers to the Audit and Governance Committee.</p>
Audit and Governance Committee	<p>The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.</p>
Senior Management	<p>The individuals at the highest level of organisational management who have day-to-day responsibility for managing the organisation.</p> <p>Throughout this document, the term 'Senior Management' refers to the Executive Director – Organisational Development and Corporate Services.</p>
Chief Audit Executive	<p>Chief Audit Executive describes a person in a senior position responsible for effectively managing the internal audit activity. The specific job title of the Chief Audit Executive may vary across organisations.</p> <p>Throughout this document, the term 'Chief Audit Executive' refers to Head of Internal Audit and this role is fulfilled by Richard Bacon, PwC Partner.</p>

## Purpose

Internal Auditing is an independent, objective assurance and consulting activity designed to add value to and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. The function provides independent and objective evaluation of, and opinion on, the overall adequacy and effectiveness of the framework of governance, risk management and control in an economical, efficient and timely manner. This includes identification of risks and assessment of their management, and implementation of changes to strengthen the governance framework.

## Scope

All of Oxford City Council's activities (including outsourced activities) and legal entities are within the scope of Internal Audit. Internal Audit determines what areas within its scope should be included within the annual audit plan by adopting an independent risk based approach. Internal Audit does not necessarily cover all potential scope areas every year. The audit program includes obtaining an understanding of the processes and systems under audit, evaluating their adequacy, and testing the operating effectiveness of key controls.

Internal Audit can also, where appropriate, undertake special investigations and consulting engagements at the request of the Audit and Governance Committee, senior management and regulators.

The scope of work of Internal Audit is to determine whether the network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed;
- Interaction with the various governance groups occurs as needed;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the control process;
- Significant legislative or regulatory issues are recognised and addressed appropriately; and
- Opportunities for improving management control, profitability and the image may be identified during audits.

Notwithstanding Internal Audit's responsibilities to be alert to indications of the existence of fraud and weaknesses in internal control which would permit fraud to occur, the Internal Audit activity will not undertake specific fraud-related work.

Internal Audit will coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

## Authority

The Internal Audit function of Oxford City Council derives its authority from the Council through the Audit and Governance Committee. The Chief Audit Executive is authorised by the Audit and Governance Committee to have full and complete access to any of the organisation's records, properties and personnel. The Chief Audit Executive is also authorised to designate members of the audit staff to have such full and complete access in the discharging of their responsibilities, and may engage experts to perform certain engagements which will be communicated to management. Internal Audit will ensure confidentiality is maintained over all information and records obtained in the course of carrying out audit activities.

The Chief Audit Executive are not authorised to perform any operational duties; initiate or approve accounting records; and direct the activities of any employees, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the Internal Auditors.

## Responsibility

The Chief Audit Executive is responsible for preparing the annual audit plan in consultation with the Audit and Governance Committee and senior management, submitting the audit plan, internal audit budget, and resource plan for review and approval by the Audit and Governance Committee, implementing the approved audit plan, and issuing periodic audit reports on a timely basis to the Audit and Governance Committee and senior management.

The Chief Audit Executive is responsible for ensuring that the Internal Audit function has the skills and experience commensurate with the risks of the organisation. The Audit and Governance Committee should make appropriate inquiries of management and the Chief Audit Executive to determine whether there are any inappropriate scope or resource limitations.

It is the responsibility of management to identify, understand and manage risks effectively, including taking appropriate and timely action in response to audit findings. It is also management's responsibility to maintain a sound system of internal control and improvement of the same. The existence of an Internal Audit function, therefore, does not in any way relieve them of this responsibility.

Management is responsible for fraud prevention and detection. As Internal Audit performs its work programs, it will be observant of manifestations of the existence of fraud and weaknesses in internal control which would permit fraud to occur or would impede its detection.

## Independence

Internal Audit staff will remain independent of the business and they shall report to the Chief Audit Executive who, in turn, shall report functionally to the Audit and Governance Committee and administratively to the Executive Director Organisational Development and Corporate Services.

Internal Audit staff shall have no direct operational responsibility or authority over any of the activities they review. Therefore, they shall not develop nor install systems or procedures, prepare records or engage in any other activity which they would normally audit. Internal Audit staff with real or perceived conflicts of interest must inform the Chief Audit Executive, then the Audit and Governance Committee, as soon as these issues become apparent so that appropriate safeguards can be put in place.

## Professional competence and due care

The Internal Audit function will perform its duties with professional competence and due care. Internal Audit will adhere to the Definition of Internal Auditing, Code of Ethics and the Standards for the Professional Practice of Internal Auditing that are published by the Institute of Internal Auditors.

Internal Audit will also adhere to the requirements of the Public Sector Internal Audit Standards (PSIAS).

## Reporting and monitoring

At the end of each audit, the Chief Audit Executive or designee will prepare a written report and distribute it as appropriate. Internal Audit will be responsible for appropriate follow-up of audit findings and recommendations. All significant findings will remain in an open issues file until cleared by the Chief Audit Executive or the Audit and Governance Committee.

The Audit and Governance Committee will be updated regularly on the work of Internal Audit through periodic and annual reports. The Chief Audit Executive shall prepare reports of audit activities with significant findings along with any relevant recommendations and provide periodic information on the status of the annual audit plan.

The Chief Audit Executive reports to the Audit and Governance Committee for organisational purposes but will report significant audit findings and audit progress directly to Senior Management. The Chief Audit Executive has a direct right of access to Senior Management as and when required.

Should the Chief Audit Executive not be satisfied with management's response to a given audit report then this will be highlighted to Senior Management initially and subsequently the Chair of the Audit and Governance Committee where these are not resolved.

Periodically, the Chief Audit Executive will meet with Senior Management to discuss internal audit matters.

The performance of Internal Audit will be monitored through the implementation of a Quality Assurance and Improvement Programme, the results of which will be reported periodically to Senior Management and the Audit and Governance Committee.

Public Sector Internal Audit Standards ("PSIAS") include both internal and external assessments.

All of PwC's Internal Audit Engagements are subject to a thorough internal peer review of quality by PwC, to ensure that its work meets the standards expected from its staff. For example, the internal file quality reviews undertaken by PwC cover the following:

- All work undertaken is in accordance with PSIAS;
- The work is planned and undertaken in accordance with risks associated with areas under review;
- Sampling is undertaken in accordance with PwC methodology; and

- The conclusions are fully supported by our detailed work undertaken.

An external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Chief Audit Executive will discuss options for the assessment with Senior Management and the Audit and Governance Committee.

## Accountability

The Chief Audit Executive, in the discharge of their duties, shall be accountable to the Audit And Governance Committee and Senior Management for:

- Providing, at least annually, an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the framework of governance, risk management and control;
- Reporting significant issues related to the processes for controlling activities, including recommendations and status of implementation of improvements;
- Periodically providing information on the status and results of the annual audit plan and the sufficiency of the Internal Audit function's resources; and
- Co-ordination with other significant assurance functions.

## Management responsibilities

An Internal Audit service can only be effective if it receives the full co-operation of management. By approving this Internal Audit Charter Senior Management and the Audit and Governance Committee are mandating management to co-operate with Internal Audit in the delivery of the service in accordance Appendix 1 Communication Protocol to this document.

The Audit and Governance Committee is responsible for appointing the Chief Audit Executive. Senior Management is responsible for the performance management of the Chief Audit Executive. Instances of late responses to reports, and agreed actions not being implemented will be escalated to Senior Management initially and subsequently the Chair of the Audit and Governance Committee where these are not resolved.

Whilst the annual Internal Audit report is a key element of the assurance framework required to inform the Annual Governance Statement, there are also a number of other sources from which those charged with governance should gain assurance. The level of assurance required from Internal Audit will be agreed with the Audit and Governance Committee at the beginning of the year and presented in the annual Internal Audit plan (and subsequent agreed amendments). As such, the annual Internal Audit opinion does not supplant responsibility of those charged with governance from forming their own overall opinion on internal controls, governance arrangements, and risk management activities.

## Advisory work

Public Sector Internal Audit Standards ("PSIAS") allow that Internal Audit effort may sometimes be more usually focused towards providing advice rather than assurance over core controls. Where appropriate, Internal Audit will act in a consultancy capacity by providing guidance and advice for strengthening the control environment, providing:

- The objectives of the Consulting engagement address governance, risk management and control process to the extent agreed upon;
- The request has been approved at Senior Management level;
- Internal Audit is considered to have the right skills, experience, and available resource;
- Internal Audit's involvement will not constitute a conflict of interest in respect of maintaining an independent stance, and Internal Audit will not assume a management role in providing this advice.

When performing consulting services, the auditor must maintain objectivity and not take on management responsibility.

The Chief Audit Executive is responsible for ensuring that all requests are reviewed in accordance with the above criteria and for making the final decision. The role which Internal Audit will assume on any particular

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advisory assignment will be agreed with the sponsor, will be documented within the assignment plan and reported to the Audit and Governance Committee.

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This charter is authorised within Oxford City Council:

**Executive Director: Organisational Development and Corporate Services** – Jackie Yates

**Audit and Governance Committee Chair** – Councillor James Fry

With the agreement of:

**Chief Audit Executive** – Richard Bacon

Presented to the Audit and Governance Committee 24 April 2014

## Appendix 1 – Communication protocol

Protocol	Responsible	Timescale
<b>Audit planning:</b> <i>These timescales may be amended with the agreement of the Audit Sponsor <sup>1</sup></i>		
Audit Sponsor contacted	Internal Audit	<b>No less than 5 weeks</b> before the start of audit fieldwork
Meeting between Audit Sponsor and Internal Audit to agree scope of review	Internal Audit and Audit Sponsor	<b>No less than 4 weeks</b> before the start of audit fieldwork
Draft scope issued to Audit Sponsor and Head of Service for agreement <sup>2</sup>	Internal Audit	<b>No less than 3 weeks</b> before the start of audit fieldwork
Audit Sponsor and Head of Service agreement of scope	Audit Sponsor and Head of Service	<b>No less than 2 weeks</b> before the start of audit fieldwork
<b>Audit fieldwork and closure</b>		
Exit meeting to confirm matters arising from the audit	Internal Audit and Audit Sponsor	<b>No more than 1 week after completion of fieldwork</b>
<b>Audit reporting</b>		
Initial draft report issued to Audit Sponsor, Head of Service, Executive Director, Head of Finance, Executive Director Organisational Development and Corporate Services, and other agreed key stakeholders	Internal Audit	<b>No more than 2 weeks</b> after exit meeting
Audit Sponsor confirmation as the material accuracy of the initial draft report, or highlighting of accuracy issues to be discussed/amended	Audit Sponsor	<b>No more than 1 week</b> after receipt of report
If required, clearance meeting to resolve material factual accuracy issues and discuss management responses	Internal Audit and Audit Sponsor	<b>No more than 2 weeks</b> after receipt of initial draft report. A revised report will then be issued within 1 week
<b>Management responses</b>		
Audit Sponsor provides: <ul style="list-style-type: none"> <li>Management responses, including responsible officers for implementation and deadlines, to audit recommendation; and</li> <li>Overall conclusion for inclusion within executive summary of the report.</li> </ul>	Audit Sponsor	<b>No more than 1 week</b> after issue of revised report following clearance meeting. If a clearance meeting is not required, management responses will be provided 2 weeks after confirmation of material accuracy of initial draft report by audit sponsor.
<b>Report finalisation</b>		
Report finalised, and circulated	Internal Audit	<b>No more than 1 week</b> after final draft report has been issued
<b>Actions</b>		
Implementation of recommendations in line with agreed report	Audit Sponsor	<b>In line with agreed report</b>

<sup>1</sup> The audit sponsor, is typically, the Head of Service or other delegated member of Council Staff.

<sup>2</sup> The scoping document will confirm key audit milestone dates for the fieldwork and reporting stages of the audit and represents a contract of agreement between the audit sponsor and Internal Audit.



In the event that, pursuant to a request which Oxford City Council has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the “Legislation”), Oxford City Council is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. Oxford City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC, Oxford City Council discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for Oxford City Council and solely for the purpose and on the terms agreed with Oxford City Council in our engagement letter. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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