

*Oxford City  
Council*

Internal Audit Charter

April 2013

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**Oxford City Council**

**Internal Audit Charter**

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## **1. Internal Audit Charter**

The Internal Audit Charter is a formal document that defines the Internal Audit activity's purpose, authority and responsibility. The Internal Audit Charter establishes Internal Audit's position within the organisation, including the nature of the Chief Audit Executive's functional reporting relationship with the Audit and Governance Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities. Final approval of the Internal Audit Charter resides with the Audit and Governance Committee.

## **2. Mission**

The Internal Audit function's main purpose is to provide independent, objective assurance and advisory services designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve 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 Oxford City Council ("OCC" or "the Council") 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. The Chief Audit Executive's opinion is a key element of the framework of assurance that the Executive Director – Organisational Development and Corporate Services needs to inform the completion of the Annual Governance Statement.

## **3. Scope of work**

The scope of work of Internal Audit is to determine whether the Council's 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 Council's control process;
- Significant legislative or regulatory issues impacting the Council are recognised and addressed appropriately; and
- Opportunities for improving management control, profitability and the Council's image may be identified during audits. They will be communicated to the appropriate level of management.

Our scope of work may include audit activity both within OCC and on functions that OCC has delegated or contracted out, where OCC remains accountable for the expenditure involved.

Where other external assurance providers (such as Ernst & Young LLP) and internal assurance providers may have undertaken relevant assurance and audit work, Internal Audit will seek to rely on the work of these other assurance providers where professional standards would make it appropriate to do so.

## 4. Authority of Internal Audit

Internal Audit derives its authority from those authorising this Charter to provide a free and unfettered ability to plan and undertake audit assignments deemed necessary to fulfil its purpose, and have a right of direct access to the Chair of the Audit and Governance Committee in doing so.

To enable the service to discharge its duties fully, the Chief Audit Executive and his Internal Audit staff are authorised to:

- Have unrestricted access to all functions, records, property, and personnel;
- Have full and free access to the Audit and Governance Committee;
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and
- Obtain the necessary assistance of personnel in units of the Council where they perform audits, as well as other specialised services from within or outside the Council.

The Chief Audit Executive and his Internal Audit staff are not authorised to;

- Perform any operational duties for the Council or its affiliates;
- Initiate or approve accounting transactions; and
- Direct the activities of any Council employee, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the Internal Auditors.

## 5. Responsibility

The Chief Audit Executive and staff of the Internal Audit function have a responsibility to:

### *Plan*

- Develop a flexible annual strategy and audit plan using a risk-based methodology, including any risks and concerns identified by management, and submit that strategy and plan, as well as periodic updates, to the Executive Director – Organisational Development and Corporate Services and the Audit and Governance Committee for review and approval;
- The plan, which mainly comprises a series of audits, will have sufficient description of the rationale and basis for audit selection as to enable the members of the Audit and Governance Committee to challenge the content, focus and adequacy. This should include OCC's objectives and risks, the audit universe (topic areas which make up the business activities and may be selected for review), assurances over key risks from other mechanisms, and consideration of regulatory requirements;
- Agree significant changes to the plan with the Executive Director – Organisational Development and Corporate Services and the Audit and Governance Committee;

### *Act*

- Implement the annual strategy by assessing third party assurance sources and conducting audits in accordance with the approved plan, and relevant professional standards and policies;
- Track status of outstanding management actions and provide regular updates to the Audit and Governance Committee, including escalation of overdue items of significant risk;
- Evaluate and assess areas of significant change;
- Assist, as needed, in the investigation of significant suspected fraudulent activities within the organisation and notify management and the Audit and Governance Committee of the results;

### *Report*

- Agree a reporting protocol with the Audit and Governance Committee, to include the basis for grading reported issues and audit opinions, timescales for completing reports and reviews (including expectations and associated escalation procedures), and the format for all reports. The reporting protocol should also include agreements on, and the timescales for, following up audit reports and tracking issues raised and their clearance;
- Issue periodic reports to management and the Audit and Governance Committee summarising results of Internal Audit activities;
- Consider the scope of work of Ernst & Young LLP and other assurance providers for the purpose of providing optimal assurance coverage;

### *Communicate*

- Communicate regularly with Internal Audit stakeholders and customers to ensure that changes in the business, its activities and the control environment are factored into the Internal Audit strategy and plan where appropriate;
- During audits, raise significant issues for the attention of line management as soon as identified, and discuss all draft reports with the auditee before publication to confirm facts and incorporate management responses; and

### *Perform*

- Keep the Executive Director – Organisational Development and Corporate Services and the Audit and Governance Committee informed as to the performance of the Internal Audit service.

## **6. Reporting lines**

Day to day management of the Internal Audit team will be performed by the Chief Audit Executive. The Chief Audit Executive reports to the Council's Audit and Governance Committee for organisational purposes but will report significant audit findings and audit progress directly to the Executive Director – Organisational Development and Corporate Services as appropriate. The Chief Audit Executive will keep the Executive Director – Organisational Development and Corporate Services and the Audit and Governance Committee informed of progress and developments on a regular basis. The Chief Audit Executive has a direct right of access to the Executive Director – Organisational Development and Corporate Services 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 the Audit and Governance Committee and significant weaknesses escalated to the Executive Director – Organisational Development and Corporate Services if they remain unresolved.

## **7. Independence and objectivity**

To provide for the independence of Internal Audit, its personnel report to the Chief Audit Executive, who reports functionally to the Audit and Governance Committee and administratively to the Executive Director – Organisational Development and Corporate Services in a manner outlined in the section below on 'Accountability'.

The Chief Audit Executive will include as part of his reports to the Audit and Governance Committee a regular report on Internal Audit progress against the Internal Audit plan and, at least annually, the organisational independence of the Internal Audit function.

## 8. Accountability

The Chief Audit Executive, in the discharge of his duties, shall be accountable to the Audit and Governance Committee and the Executive Director – Organisational Development and Corporate Services for:

- Providing, at least annually, an objective evaluation of, and opinion on, the overall adequacy and effectiveness of OCC's framework of governance, risk management and control;
- Reporting significant issues related to the processes for controlling the activities of the Council and its affiliates, 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;
- Co-ordination with other significant assurance functions.

## 9. 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 the Executive Director – Organisational Development and Corporate Services and the Audit and Governance Committee are mandating management to co-operate with Internal Audit in the delivery of the service by:

- Agreeing Terms of Reference no later than the agreed deadline, to include agreements on duration, scope, reporting and response;
- Sponsoring each audit at Head of Service level;
- Providing Internal Audit with full support and co-operation, including complete access to all records, data, property and personnel relevant to the performance of their responsibilities at all levels of operations, without unreasonable delay;
- Responding to the draft internal report, including provision of management responses to recommendations, within the timescale requested by the audit team;
- Implementing agreed management actions in accordance with the agreed timescales;
- Updating Internal Audit with progress made on management actions, informing Internal Audit of proposed changes and developments in process and systems, newly identified significant risks and cases of a criminal nature.

The Audit and Governance Committee is responsible for appointing the Chief Audit Executive. The Executive Director – Organisational Development and Corporate Services 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 the Executive Director – Organisational Development and Corporate Services and the Chair of the Audit and Governance Committee.

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.

## 10. Advisory work

Public Sector Internal Audit Standards (“PSIAS”) allow that Internal Audit effort may sometimes be more usefully 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 within OCC, providing:

- The objectives of the Consulting engagement address governance, risk management and control processes to the extent agreed upon with the OCC;
- The request has been approved at Executive Director 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 advisory assignment will be agreed with the sponsor, will be documented within the assignment plan, and reported to the Audit and Governance Committee.

## 11. Relationships

The Chief Audit Executive and Internal Audit staff are involved in a wide range of relationships and the quality of those relationships impact on the quality of the audit function and the effective delivery of that function.

- **Relationships With Management**

The Chief Audit Executive and Internal Audit staff will maintain effective relationships with managers of the Council. Regular meetings will be held with key stakeholders and management will be consulted with in the audit planning process. Timing of audit work will be in conjunction with management.

- **Relationships With External Auditors**

Internal Audit and Ernst & Young LLP have an established working relationship where internal and external audit can rely on each other’s work, subject to the limits determined by their responsibilities, enabling them to evaluate, review and only re-perform where necessary. Regular meetings will be held and plans and reports shared.

- **Relationships With Regulators And Inspectors**

The Chief Audit Executive and his staff will take account of the results and reports from any inspections when planning and undertaking Internal Audit work. Where appropriate the Chief Audit Executive will establish a dialogue with representatives of the appropriate inspection agencies.

- **Relationships With Elected Members**

The Chief Audit Executive will establish a working relationship with members, in particular with members of the Audit and Governance Committee. The Chief Audit Executive has the opportunity to meet with the Chair of the Audit and Governance Committee if desired.

## 12. Standards of Internal Audit Practice

This charter recognises the mandatory nature of the IIA definition of Internal Auditing and code of ethics, and the Public Sector Internal Audit Standards (PSIAS).

The Internal Audit team comply with the standards that came into effect on 1 April 2013.

### **13. Quality assurance**

Public Sector Internal Audit Standards require that the Audit Function is subject to a quality assurance and improvement programme that must include both internal and external assessments.

#### Internal assessments

All of PwC's Internal Audit engagements are subjected 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 the PwC's methodology
- The conclusions are fully supported by our detailed work undertaken.

#### External assessments

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 the Executive Director – Organisational Development and Corporate Services and the Audit and Governance Committee.

**This charter is authorised within Oxford City Council:**

**Executive Director – Organisational Development and Corporate Services**

Jackie Yates

**Audit and Governance Committee Chair**

Councillor Mike Rowley

**With the agreement of:**

**Chief Audit Executive**

Richard Bacon

Presented to Audit and Governance Committee April 2013

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## Appendix 1

### PwC Internal Audit Team

#### The team

The core team who will be involved in the planning, delivery and management of the audit work are as follows. A brief description of the role of each team member is provided.

The core team will be supported by a team of PwC auditors and technical specialists as needed.

#### Richard Bacon

Chief Audit Executive



- Key contact for the Chief Executive and the Chair of the Audit and Governance Committee
- Co-ordinate and oversee delivery of all services and activities under the contract for OCC – proactively build relationship with management and stakeholders
- Setting our annual programme of work, for approval by the Chief Executive and Audit and Governance Committee
- Attend Audit and Governance Committee when required, including delivery of the annual Internal Audit opinion
- Strategic deployment of PwC resources to meet OCC needs
- Drive innovation, consistency and cash savings across PwC delivery resource
- Performance of senior team members
- Quality review all final draft/final reports and all final terms of reference.

#### Chris Dickens

Chief Internal Auditor



- Maintain our strategic relationship with Executive Director – Organisational Development and Corporate Services
- Maintain day to day contact with the Head of Finance & Section 151 Officer
- Lead our core auditors and project manage, as required, key experts into the Internal Audit plan
- Responsible for team members' performance
- Co-ordinate activities and delivery of team across the country to ensure value for money is achieved
- Attend Audit and Governance Committee.

#### Richard Vialard

Contract Manager



- Maintain day to day contact with the Head of Finance & Section 151 Officer and core finance team
- Responsible for the day to day delivery of our core services and activities
- Engagement Manager on the value enhancement reviews we perform
- Scope terms of reference for audits and review/quality assure project fieldwork performed by team
- Brief team members about Oxford City Council and issues relevant to specific projects
- Project manage delivery of agreed audit assignments
- Production of progress reports for the contract as a whole.

#### Natalie Ingles

Team Manager



- Responsible for the day to day delivery of our core services and activities
- Engagement manager on the value protection reviews
- Maintain day to day contact with the Financial Accounting Manager
- Scope terms of reference for audits and review/quality assure project fieldwork performed by team
- Brief team members about Oxford City Council and issues relevant to specific projects
- On support for audit fieldwork

The contact details for the team are as follows:

<b>Name</b>	<b>E-mail</b>	<b>Mobile Phone</b>
Richard Bacon	richard.f.bacon@uk.pwc.com	07973 198707
Chris Dickens	chris.dickens@uk.pwc.com	07720 427215
Richard Vialard	richard.vialard@uk.pwc.com	07809 755784
Natalie Ingles	natalie.ingles@uk.pwc.com	07841 564016

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## Appendix 2

### 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 4 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 3 weeks</b> before the start of audit fieldwork.
Draft scope issued to Audit Sponsor for agreement. <sup>2</sup>	Internal Audit	<b>No less than 2 weeks</b> before the start of audit fieldwork
Audit Sponsor agreement of scope	Audit Sponsor	<b>No less than 1 weeks</b> before the start of 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</b> after completion of fieldwork
<b>Audit reporting</b>		
Initial draft report issued to Audit Sponsor and other agreed key stakeholders	Internal Audit	<b>No more than 2 weeks</b> after exit meeting
Audit Sponsor confirmation as to 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 Sponsor	<b>No more than 2 weeks after receipt of initial draft report.</b> A revised report will then be issued within 1 week
<b>Management Responses</b>		
Management Responses	Audit Sponsor	<b>No more than 1 week</b> after issue of revised

<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.

Protocol	Responsible	Timescale
Audit sponsor provides: <ul style="list-style-type: none"> <li>• Management responses, including responsible officers for implementation and deadlines, to audit recommendation</li> <li>• Overall conclusion for inclusion within executive summary of the report</li> </ul>		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>

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