



INTERNAL AUDIT CHARTER

Adopted: 22 November 2017

TRIM: 237543.2017



INTERNAL AUDIT CHARTER

1. NAME

Internal Audit Charter

2. INTERPRETATION

For the purpose of this Charter:

- a) ARIC means the Audit, Risk and Improvement Committee;
- b) CEO means the Chief Executive Officer of Council;
- c) Council means the Liverpool City Council;
- d) HARI means the Head of Audit, Risk and Improvement who is Council's Chief Audit Executive;
- e) Internal Audit means Council's Internal Audit unit. (This unit may be supplemented as required by outsourced contract internal audit services.)

3. MISSION

- 3.1 The mission of Internal Audit is to provide an independent, objective assurance and consulting activity designed to add value and improve Council's operations. It helps Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 3.2 Internal Audit is managed by the Head of Audit, Risk and Improvement who is the designated Chief Audit Executive within Council. The HARI is the responsible position within Council for internal audit activities, as defined in the International Standards for the Professional Practice of Internal Auditing (Standards) issued by the Institute of Internal Auditors.

4. BACKGROUND

- 4.1 This charter is a formal statement of purpose, authority and responsibility for an Internal Audit function within Council by:
 - a) Establishing Internal Audit within Council and recognising the importance of such an independent and objective service to Council;
 - b) It sets out the legal and operational framework under which Internal Audit will operate;
 - c) It authorises the HARI to promote and direct a broad range of internal audits across Council and, where permitted, external bodies.
- 4.2 Council has established an Internal Audit team in accordance with the Guidelines issued under section 23A of the *Local Government Act 1993* to:
 - a) Evaluate and report on the adequacy and effectiveness of the systems of management controls and related procedures;
 - b) Provide management at all levels of the Council with timely, independent and objective views, assisting them in the discharge of their responsibilities by providing analyses, appraisals, recommendations and advice;

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- c) Assess performance against Council and industry standards, identify opportunities for improvements and provide recommendations with emphasis on greater operational efficiency, effectiveness and economy.

5. ROLE AND AUTHORITY

- 5.1 The HARI is authorised to direct a comprehensive program of internal audit work in the form of reviews, previews, consultancy advice, evaluations, appraisals, assessments and investigations of functions, processes, controls and governance frameworks in the context of the achievement of business objectives.
- 5.2 In accordance with clause 5.1, all staff members of Internal Audit are authorised to have full, free and unrestricted access to all functions, property, personnel, records, information, accounts, files and other documentation, as necessary for the conduct of their work.

6. OBJECTIVITY, INDEPENDENCE AND ORGANISATIONAL STATUS

- 6.1 Objectivity requires an unbiased mental attitude. As such, all Internal Audit staff shall perform internal audit engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Further, it requires Internal Audit staff not to subordinate their judgment on internal audit matters to that of others.
- 6.2 To facilitate this approach, Internal Audit shall have independent status within Council, and for this purpose shall be responsible directly through the HARI to the ARIC and administratively to the CEO.
- 6.3 Internal Audit shall be independent of the activities reviewed, and therefore shall not undertake any operating responsibilities outside internal audit work. Neither shall Internal Audit staff have any executive or managerial powers, authorities, functions or duties except those relating to the management of Internal Audit. Internal Audit staff and contractors shall report to the HARI any situations where they are of the opinion that their objectivity may be impaired. Similarly, the HARI should report any such situations to the ARIC.
- 6.4 The work of Internal Audit does not relieve Council staff from their accountability to discharge their responsibilities. All Council staff are responsible for risk management and the operation and enhancement of internal control. This includes responsibility for implementing remedial action endorsed by management following an internal audit.
- 6.5 Internal Audit shall not be responsible for operational activities on a daily basis, or in the detailed development or implementation of new or changed systems, or for internal checking processes.

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7. ORGANISATION

- 7.1 The HARI will report functionally to the ARIC and administratively (that is, for day to day operations) to the CEO.
- 7.2 Whenever practicable, at least one independent member of the ARIC shall be a member of any selection panel for the appointment of the HARI. Any recommendation for appointment of the HARI should be referred to the ARIC for consultation prior to the approval of the appointment by the CEO.
- 7.3 The members of the ARIC shall receive from the CEO an annual report relating to the performance and evaluation of the Internal Audit function and of the HARI.
- 7.4 The HARI should only be replaced by the CEO, after appropriate consultation with the members of the ARIC.

8. SCOPE OF WORK

- 8.1 The scope of services provided by Internal Audit shall encompass includes:
- a) Examination and evaluation of the adequacy and effectiveness of systems of internal control, risk management, governance, and the status of ethical behaviour;
 - b) Ascertaining conformity with the guiding principles for councils, as set out in section 8A of the *Local Government Act 1993*;
 - c) Assessment of the economic and efficient use of resources;
 - d) Examination of compliance with Council policies, procedures, plans and legislation;
 - e) Assessment of the reliability and integrity of information;
 - f) Assessment of the safeguarding of assets;
 - g) Enterprise risk management;
 - h) Assessment of system security; and
 - i) Council management requests for audits and relate activities, as directed by the CEO, except where such behaviour is deemed unlawful.
- 8.2 The scope of work may include:
- a) **Assurance services:** Objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for Council. Examples may include financial, performance, operational, compliance, system security, and due diligence engagements;
 - b) **Consulting services:** Advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve Council's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

9. INTERNAL AUDIT METHODOLOGY

- 9.1 Internal Audit shall use the most appropriate methodology for each internal audit engagement, depending on the nature of the activity and the pre-determined parameters for the engagement. Normally, internal audits will include:

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- a) Planning;
- b) Reviewing and assessing risks in the context of the audit objectives;
- c) Examination and evaluation of information;
- d) Communicating results;
- e) Following up on implementation of audit recommendations.

10. CONDUCT OF INTERNAL AUDIT STAFF

10.1 Internal Audit staff shall:

- a) Conduct themselves in a professional manner;
- b) Conduct their activities in a manner consistent with the concepts expressed in the Standards and the Code of Ethics and Council's Code of Conduct.

11. REPORTING ARRANGEMENTS

11.1 The HARI shall at all times report to the CEO and the ARIC. At each ARIC meeting, the HARI shall submit a report summarising all audit activities undertaken during the period, indicating:

- a) Internal Audit engagements completed or in progress;
- b) Outcomes and/ or actions taken on Internal Audit projects.

11.2 On completion of each Internal Audit engagement, Internal Audit shall issue a report to management detailing the objective and scope of the audit, and resulting issues based on the outcome of the audit. Internal Audit shall seek from the responsible manager and director an agreed and endorsed action plan outlining remedial action to be taken, along with an implementation timetable and person responsible. Responsible members of Council staff shall have a maximum of ten working days to provide written management responses and action plans in response to issues and recommendations contained in Internal Audit reports prior to finalisation.

11.3 A final audit report will be issued by the HARI to the CEO. The CEO will endorse and sign the accompanying letter issuing the final audit report. Responsible members of Council staff are required to action items in Council's electronic audit action tracking system (Promapp). The CEO will review the implementation of the audit recommendations and/ or alternative courses of action that were taken to address the audit findings and recommendations on a quarterly basis.

11.4 The HARI shall make available all Internal Audit reports to the ARIC. However, the work of Internal Audit is solely for the benefit of Council and is not to be relied on or provided to any other person or organisation, except where this is formally authorised by the ARIC or the HARI.

11.5 In addition to the normal process of reporting on work undertaken by Internal Audit, the HARI shall draw to the attention of the ARIC all matters that, in the opinion of the HARI, warrant reporting in this manner.

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- 11.6 The HARI will meet “in-camera” at least annually with the ARIC without the presence of Council management.

12. PLANNING REQUIREMENTS

- 12.1 Internal Audit uses a risk-based rolling program of internal audits to establish an annual Internal Audit Plan to reflect a program of audits over a 12 month period. This approach is designed to be flexible, dynamic and timely in order to meet the changing needs and priorities of Council.
- 12.2 The HARI shall prepare an annual Internal Audit Plan for review and approval by the ARIC, showing the proposed areas for audit. The annual Internal Audit Plan shall be based on an assessment of the goals, objectives and business risks of Council, and shall also take into consideration any special requirements of the ARIC and shall consult the CEO and Council directors.
- 12.3 The HARI has discretionary authority to adjust the Internal Audit Plan as a result of receiving special requests from management to conduct reviews that are not on the plan, with these to be approved at the next meeting of the ARIC.

13. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

- 13.1 The HARI shall oversee the development and implementation of a quality assurance and improvement program for Internal Audit, to provide assurance that internal audit work conforms to the Standards and is focused on continuous improvement.

14. COORDINATION WITH EXTERNAL AUDIT

- 14.1. The HARI shall periodically consult with the external auditor to discuss matters of mutual interest, to coordinate audit activity, and to reduce any duplication of audit effort.

15. REVIEW OF THE INTERNAL AUDIT CHARTER

- 15.1 The HARI shall periodically review this charter to ensure that it remains up to date and reflects the current scope of internal audit work.

16. EVALUATION OF INTERNAL AUDIT

- 16.1 Internal Audit shall be subject to an independent quality review at least every five years. Such review shall be in line with the Standards of Professional Practice in Internal Audit and be commissioned by the CEO and reported to the ARIC.

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17. CONFLICTS OF INTEREST

- 17.1 Internal auditors are not to provide audit services for work for which they may previously have been responsible. While the Standards provide guidance on this point and allow this to occur after 12 months, each instance should be carefully assessed.
- 17.2 When engaging internal audit contractors, the HARI shall take steps to identify, evaluate the significance, and manage any perceived or actual conflicts of interest that may impinge upon internal audit work.
- 17.3 Instances of perceived or actual conflicts of interest by the HARI or Internal Audit staff and contractors are to be immediately reported to the CEO by the HARI by means of a signed declaration of interest form.
- 17.4 Any changes to this charter will be endorsed by the ARIC and approved by Council.

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ENDORSED BY

Audit, Risk and Improvement Committee 20 October 2017

AUTHORISED BY

Council Resolution

EFFECTIVE FROM

22 November 2017

DIRECTORATE RESPONSIBLE

Office of the Chief Executive Officer (Internal Audit)

REVIEW DATE

22 November 2019

VERSION

Version	Amended by	Date	Changes Made	TRIM Number
1	Council Resolution	22 March 2010	Incorporated	183428.2009
2	Council Resolution	17 June 2015	Complete review	128846.2015
3	Council Resolution	29 March 2017	Change of Committee name	083354.2017
4	Council Resolution	22 November 2017	Complete review	237543.2017

REFERENCES

Division of Local Government: Internal Audit Guidelines 2010

Institute of Internal Auditors: The International Standards for the Professional Practice of Internal Auditing

Liverpool City Council: Audit, Risk and Improvement Committee Charter

Liverpool City Council: Code of Conduct

Liverpool City Council: Code of Conduct Procedures

Liverpool City Council: Councillor Access to Information and Interaction with Staff Policy

Liverpool City Council: Ethical Governance: Conflicts of Interest Policy