

Merseyside Fire & Rescue Authority

Internal Audit Service Charter

Introduction

The purpose of this document is to formally define the purpose, authority and responsibility within which Liverpool City Council's Internal Audit Service operates to best serve the Fire Authority in accordance with the mandatory requirements of the Public Sector Internal Audit Standards (PSIAS) 2017. This document also describes our working arrangements and the standards of consultation we will undertake as part of our service to you.

The Internal Audit Charter will be subject to periodic review and reported to Senior Management¹ and The Board² for approval.

Definition of Internal Audit

Internal Audit is defined within PSIAS as 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.

Responsibilities of Officers and the Authority in Relation to Internal Audit

For the purpose of this Charter the following definitions apply:

- The Board is the Audit Committee - those charged with independent assurance on the adequacy of the Authority's risk management framework, the internal control environment and the integrity of financial reporting arrangements. This includes oversight of the internal audit function and its activity.
- Senior Management is the Senior Leadership Team (SLT) - those responsible for the leadership and the direction of the Fire Service. Senior Management are also responsible for ensuring that internal control, risk management, and governance arrangements are sufficient to address the risks facing the Service including the risk of fraud and corruption.
- Section 151 Officer - is the Director of Finance & Procurement who is responsible for: ensuring lawfulness and financial prudence of decision making; administration of financial affairs; contributing to corporate management; providing advice and giving financial information.

¹ The Board is defined as the Audit Committee.

- Monitoring Officer - the Monitoring Officer is responsible for maintaining the Constitution; ensuring lawfulness and fairness of decision making; proper officer access to information; advising whether executive decisions are within the budget and policy framework, complaints, including dealing with complaints relating to elected members. As such the Monitoring officer works closely with internal audit on governance matters.

Mission and Core Principles

The Mission of Internal Audit outlined within PSIAS is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

The Core Principles outlined within PSIAS, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively.

The Core Principles that underpin the delivery of the mission require internal audit functions to:

- Demonstrate integrity.
- Demonstrate competence and due professional care.
- Be objective and free from undue influence (independent).
- Align with the strategies, objectives, and risks of the organisation.
- Be appropriately positioned and adequately resourced.
- Demonstrate quality and continuous improvement.
- Communicate effectively.
- Provide risk-based assurance.
- Be insightful, proactive, and future focussed.
- Promote organisational improvement.

Objectives and Scope

Internal Audit will provide an independent and objective opinion to Merseyside Fire and Rescue Service on the adequacy and effectiveness of the control environment (comprising governance, risk management and internal control). It is management's duty to implement and maintain effective internal control systems within its area of responsibility. It is our role to advise management by reviewing and evaluating the effectiveness of those control systems.

The Chief Audit Executive (CAE)² has responsibility for the investigation of all alleged financial irregularities and Internal Audit will undertake fraud related work. Internal Audit officers will review referrals which they receive under this procedure, on a case by case basis and after initial enquiries may decide that an audit investigation is required or that an investigation should be undertaken by operational management. If urgent action is needed the matter will be referred to management directly.

² The Chief Audit Executive (CAE) is the Director of Audit

Internal Audit will also consider requests for consultancy work as long as there is no conflict.

Where an auditor has provided consultancy advice there is a procedure in place that is followed to limit any impairments to independence or objectivity.

Terms of Reference

The Accounts and Audit Regulations 2015 require that, '*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*' (5(1)).

At Merseyside Fire and Rescue Service our terms of reference are set out in Financial Regulations. In brief they enable us to carry out audits in any service area, with the right to access records, assets, personnel and premises to obtain information and explanations as required.

Financial Regulations also place responsibility on us for investigating fraud, corruption or other financial irregularity (unless otherwise directed by the Authority). Internal Audit must be notified of all instances of suspected or detected fraud, corruption or impropriety within the Authority.

Internal Audit will also respond to requests for consultancy work from the organisation in accordance with PSIAS. This is work that is advisory in nature with the aim of improving governance, risk management and control, but that is not necessarily assurance based. Consultancy work may be undertaken depending on resources, the high priority demands of opinion and fraud work and on whether the additional work will contribute to that opinion work.

Our objectives and methodologies are in line with those determined by PSIAS.

Independence, Accountability and Relationships

In order for our work to be effective, Internal Audit staff will remain independent of the activities they audit so that all conclusions and recommendations are, and are seen to be, based on impartial and professional judgements.

In accordance with PSIAS, to achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity the CAE must have direct and unrestricted access to Senior Management and the Board (Committee). The CAE has a functional reporting relationship with the Board and the Director of Finance & Procurement. In addition to this, the CAE has direct access, and freedom to report in her own name, without fear or favour, to all officers and members. This includes the Chief Fire Officer, Monitoring Officer, SLT, the Audit Committee and its Chair.

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Where Internal Audit staff have a perceived or real conflict of interest in undertaking a particular piece of work, this will be managed through the Internal Audit management and supervisory process. Staff are required to complete a regular register of interest return and to declare any potential conflict of interest when they are assigned a particular audit review and the work will then be reassigned to another auditor.

If independence or objectivity is impaired this will be disclosed in the first instance to the CAE and to Senior Management and the Board as appropriate.

The PSIAS contain a Code of Ethics which is mandatory for all internal auditors in the public sector. Staff will be reminded of the need to comply with the Code on an annual basis. Individual staff are also required to adhere to the Codes of Ethics of their professional bodies where appropriate. As Internal Auditors working in the public sector we also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.

It is our intention to build robust working relationships with both Senior Management and the Board in order that we can work in conjunction with them to determine how we may best achieve our objectives and to strengthen the control environment of the organisation.

In addition we aim to foster a close working relationship with the Authority's external auditors and other review bodies to avoid duplication and to increase the effectiveness of our work. Any assurances obtained from third parties will be considered in terms of how they contribute to our understanding of the effectiveness of the Authority's system of internal control.

Authority

As stated in Financial Regulations, Internal Audit has authority to:

- a. *'Access Authority premises at reasonable times.*
- b. *Access all assets, records, documents, correspondence and control systems.*
- c. *Receive any information and explanation considered necessary concerning any matter under consideration.*
- d. *Require any employee of the Authority to account for cash, stores or any other Authority asset under his or her control.*
- e. *Access records belonging to third parties, such as contractors, when required.*
- f. *Directly access the Chief Fire Officer, the Authority and its members'.*

This confirms the statutory requirement of the Accounts and Audit Regulations 2015 that, *'Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit – (a) make available such documents and records; and (b) supply such information and explanations; as are considered necessary by those conducting the internal audit (5(2)).*

Any such records, documentation and information will solely be used for the conduct of audit activity and will be accessed and stored with due regard for data protection and security.

Determining a Programme of Internal Audit Work

Internal Audit's work will be determined in line with the objectives of the Authority and by considering the assurance and monitoring mechanisms for achieving the organisation's objectives.

A risk-based plan is developed annually and shared with key stakeholders. The risk-based plan comprises initially of core elements of audit work that are mandated each year. This includes audits of the key financial systems, reviewing corporate governance arrangements to inform the Annual Governance Statement, any grant certifications and reactive fraud work.

Once these core elements of the plan and follow up reviews are accounted for, the remaining audit resource is directed at undertaking audit work in the most high-risk areas, informed by our documented, ongoing risk assessment. These areas of work are determined and continually re-assessed throughout the year based on the ever-changing risk profile of the Authority. Periodic updates are provided to Senior Management and the Board of such work planned and undertaken. This is in line with the PSIAS that require the CAE to, *'review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programme, systems, and controls.'*

During the planning process the CAE will determine both the numbers of staff required to complete the planned work and the appropriate level of staff required to undertake each audit. Prior to the agreement of the audit plan the CAE will report to the Director of Finance & Procurement any shortfall in the resources available.

The CAE must be satisfied that there are sufficient resources to enable the delivery of the annual audit opinion on the adequacy and effectiveness of the Authority's control environment. This opinion is an important element of the Authority's review of the effectiveness of its control environment as required by the Accounts and Audit Regulations 2015. This is a fundamental element of the governance framework.

Working Arrangements and Protocol

In the case of any investigation referred to us, we will generally advise the relevant Senior Manager at the outset of the estimated completion date of the investigation. In the event of the investigation becoming more protracted than initially envisaged we will advise the relevant senior manager concerned as to the reasons for this, and the revised estimated completion date.

If an audit exercise or investigation extends over several weeks or longer, we will periodically provide a brief update of progress to the appropriate senior manager Audit Contact.

Internal Audit has a Privacy Notice in place in accordance with the General Data Protection Regulation (GDPR) and the Data Protection Act 2018. This outlines the arrangements in place by which we collect and process data, and the types of information we may collect. It also outlines how the information will be used, how it will be stored and for how long it will be retained.

Reporting Arrangements

We will formally report at the conclusion of each audit exercise or investigation. If a report contains particularly complex issues, we will share it in draft with the manager or appropriate senior staff involved.

We include with each report an action plan listing the recommendations made in the report. We ask you to return pro-formas to us by the date shown, signifying acceptance, or otherwise, of recommendations and the date of implementation. This is a key element in ensuring recommendations are agreed, and action is taken to implement them.

We provide periodic summaries of our main activities to Senior Management and the Board. Where a no assurance opinion is given for an audit this will be reported to both the Board and Authority as soon as possible. Where a limited opinion is given, the Board require an update from the service area within three months of the audit report being issued.

Quality and Professionalism

All audit work is carried out in line with best practice and professional standards in accordance with PSIAS. This includes the Definition of Internal Audit, the Code of Ethics and the Standards. These standards are a mandatory requirement for internal audit activity within the public sector.

Internal Audit operates a system of quality assurance that is governed by the Quality Assurance and Improvement Programme (QAIP) in accordance with PSIAS. The results of this Programme are reported to Senior Management and the Board in the annual report to support that our audit activity has complied with PSIAS.

All Internal Audit staff have regular performance reviews based on the CIPFA audit skills and competencies framework and the service is committed to a policy of staff development with an emphasis on professional training.

There are regular reviews of working practices including benchmarking against other Internal Audit services through the Core Cities and North-West Heads of Audit groups. In addition we actively seek feedback from internal and external clients through our customer survey questionnaires.