



# INTERNAL AUDIT CHARTER

## Version Control

Version No	Author	Date
1.2	Anna Wright Senior Auditor	September 2014
1.3	Lisa Cotton Senior Auditor	August 2015
1.4	Lisa Cotton Senior Auditor	August 2016

## Contents

1	Introduction	1
2	Definitions	1
3	Mission and Purpose of Internal Audit	2
4	Scope of Internal Audit	2
5	Authority of Internal Audit	3
6	Responsibility of Internal Audit	4
7	Reporting Lines	4
8	Independence and Objectivity	4
9	Accountability	5
10	Internal Audit Resources	6
11	Management Responsibilities	6
12	Advisory Work	7
13	Role of Internal Audit in Fraud-Related Work	8
14	Relationships	8
15	Standards of Internal Audit Practice	9
16	Quality Assurance	9
17	Records Retention	10
18	Review	10

## 1 Introduction

- 1.1 The Accounts and Audit Regulations 2015 place a statutory duty on the Council to undertake an internal audit of the effectiveness of its risk management, control and governance processes. The Accounts and Audit Regulations 2015 also require that the audit takes into account public sector internal auditing standards or guidance.
- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued revised Public Sector Internal Audit Standards (PSIAS) on 01 April 2016. The Standards require an Internal Audit Charter which is a formal document that defines the purpose, authority and responsibility of Internal Audit.
- 1.3 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 Board, 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 Board.

## 2 Definitions

- 2.1 As per the PSIAS, 'Internal Auditing is 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.'

- 2.2 For the purpose of this charter the following definitions shall apply:

*The Board* – 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. At this Council this shall mean the Audit and Governance Committee.

*Senior Management* – those responsible for leadership and direction of the Council. At this Council this shall mean the Corporate Leadership Team which is documented at Appendix A.

*Chief Audit Executive* – describes the person in a senior position responsible for effectively managing the Internal Audit activity in accordance with the Internal Audit charter and the PSIAS. The Chief Audit Executive or others reporting to the Chief Audit Executive will have appropriate professional certifications and qualifications. At this Council the Chief Audit Executive is the Senior Auditor.

### **3 Mission and Purpose of Internal Audit**

3.1 In line with the PSIAS the mission of Internal Audit is:

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”

3.2 In order to achieve this mission effectively Internal Audit has adopted the Core Principles for the Professional Practice of Internal Auditing:

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 Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to Internal Audit activity should lead to strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

3.4 This is achieved through Internal Audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

### **4 Scope of Internal Audit**

4.1 There are no restrictions placed upon the scope of Internal Audit's work. Internal Audit work will usually include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risk associated with areas under review and making proposals for improving the management of risks;

- appraising the effectiveness and reliability of the risk management framework and recommending improvements where necessary;
- assisting management and members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations and programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned; and
- reviewing the operations of the Council in support of the Council's Anti-Fraud and Corruption policy.

## **5 Authority of Internal Audit**

5.1 Internal Audit derives its authority from the Accounts and Audit Regulations 2015, this Charter and the Council's Constitution. The Financial Regulations, which are part of the Constitution, sets out that 'the Auditor shall have the authority to:

- a) enter any Council owned or occupied premises or land at all times (subject to any legal restrictions outside the Council's control);
- b) have access at all times to the Council's records, documents and correspondence;
- c) require and receive such explanations from any employee or member of the Council as he or she deems necessary concerning any matter under examination; and
- d) require any employee or member of the Council to produce cash, stores or any other Council owned property under their control.

- e) The Senior Auditor shall have access to, and the freedom to report in his/her name to all boards, members or officers, as he/she deems necessary.

## **6 Responsibility of Internal Audit**

- 6.1 Internal Audit will have the responsibility to review, appraise and report as necessary on:
  - a) the adequacy and effectiveness and application of internal controls and processes and systems;
  - b) the extent of compliance with Financial Regulations and Standing Orders and approved policies and procedures of the Council plus the extent of compliance with external laws and regulation;
  - c) the extent to which the Council's assets and interest are accounted for and safeguarded from losses of all kinds arising from waste, inefficient administration, poor value for money, fraud or other cause.

## **7 Reporting Lines**

- 7.1 Day to day management of the Internal Audit team will be performed by the Chief Audit Executive. The Chief Audit Executive reports to the Board for organisational purposes but will report significant audit findings and audit progress directly to the Head of Finance (Section 151 Officer). The Chief Audit Executive will keep the Head of Finance and the Board informed of progress and developments on a regular basis.
- 7.2 The Chief Audit Executive has a direct right of access to the Chief Executive, who carries out the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.
- 7.3 The Chief Audit Executive has direct access to the Council's Monitoring Officer where matters arising relate to the Chief Executive's responsibility, legality and standards.
- 7.4 Should the Chief Audit Executive not be satisfied with management's response to a given audit report then this will be highlighted to the Board and significant weaknesses escalated to the Head of Finance if they remain unresolved.

## **8 Independence and Objectivity**

- 8.1 Internal Auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice. Internal Auditors must maintain

an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that Internal Auditors do not subordinate their judgement on audit matters to others.

8.2 To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the Internal Audit activity:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to senior management and the Board;
- reports in their own name;
- rotates responsibilities for audit assignments (where possible) within the Internal Audit team;
- completes individual declarations confirming compliance with rules on independence and conflicts of interest; and
- planning process recognises and addresses potential conflicts of interest through Internal Audit staff not undertaking an audit for at least two years in areas where they have had previous operational roles.

8.3 If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to senior management and the Board. The nature of the disclosure will depend upon the impairment.

8.4 To ensure the independence of the Chief Audit Executive is safeguarded and that remuneration and performance assessment is not inappropriately influenced by those subject to audit, the Chief Executive will both countersign and contribute to the feedback of the performance appraisal of the Chief Audit Executive. Feedback will also be sought from the Chair of the Audit and Governance Committee.

## **9 Accountability**

9.1 The Chief Audit Executive shall be accountable to the Board and the Head of Finance for:

- providing, at least annually, an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal 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's function's resources; and
- co-ordination with other significant assurance functions.

## **10 Internal Audit Resources**

- 10.1 The Chief Audit Executive will be professionally qualified (CIMA, CCAB or equivalent) and have wide Internal Audit and management experience, reflecting the responsibilities that arise from the need to liaise with Members, senior management and other professionals, both internally and externally.
- 10.2 The Head of Finance will provide the Chief Audit Executive with the appropriate resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the Internal Audit opinion.
- 10.3 The Chief Audit Executive will ensure that the Internal Audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit plan.
- 10.4 The annual plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Audit Executive can propose an increase in audit resource or reduction in the coverage if insufficient resources are available.

## **11 Management Responsibilities**

- 11.1 An Internal Audit service can only be effective if it receives the full co-operation of management. By approving this Internal Audit Charter the Board and Senior Management 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; and
- updating Internal Audit with progress made on management actions, informing Internal Audit of proposed changes and developments in processes and systems, newly identified significant risks and cases of a criminal nature.

11.2 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 Board 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 replace responsibility of those charged with governance from forming their own overall opinion on internal controls, governance arrangements, and risk management activities.

## **12 Advisory Work**

12.1 The Public Sector Internal Audit Standards (PSIAS) allows that Internal Audit may sometimes be more usefully focussed towards providing advice rather than assurance of 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 processes to the extent agreed upon with the Council;
- the scope of the consulting engagement has been clearly defined;
- the request has been approved by the Head of Finance;
- Internal Audit is considered to have the rights skills, experience and available resource;
- management understand that the work being undertaken is not Internal Audit work; and
- 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.

- 12.2 When performing consultancy services, the auditor must maintain objectivity and not take on a management responsibility.
- 12.3 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 Board.

### **13 Role of Internal Audit in Fraud-Related Work**

- 13.1 The primary responsibility for maintaining sound systems of internal control including arrangements to prevent and detect fraud and corruption lies with Senior Management. An annual programme of internal audits is designed to assist this process by highlighting areas where controls are inadequate or are not operating.
- 13.2 All cases of suspected fraud and/or irregularity should be reported to the Chief Audit Executive, with the exception of benefit fraud which should be reported to the Department of Work and Pensions. The Chief Audit Executive is responsible for initiating and overseeing all fraud investigations and for all subsequent follow up work to be completed. All fraud investigations will be conducted in accordance with the Council's Constitution, Anti-Fraud and Corruption Policy and the Confidential Reporting (Whistleblowing) Policy.

### **14 Relationships**

- 14.1 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 during the audit planning process. Timing of audit engagements will be in conjunction with management.

- **Relationships with External Audit**

Internal Audit have an established working relationship with the current external auditors which allows internal and external audit to 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. Periodic meetings take place and plans and reports shared.

- **Relationships with Regulators and Inspectors**  
The Chief Audit Executive and Internal Audit 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 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 required.

## **15 Standards of Internal Audit Practice**

- 15.1 This charter recognises the mandatory nature of the Institute of Internal Auditing (IIA) definition of Internal Auditing and Code of Ethics, and the Public Sector Internal Audit Standards (PSIAS).
- 15.2 The Internal Audit team comply with the revised Standards that came into effect on the 1<sup>st</sup> April 2016.

## **16 Quality Assurance**

- 16.1 The 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. The results are included in the Internal Audit Annual Report.

### **16.2 Internal Assessments**

All Internal Audit engagements are subjected to a thorough internal peer review of quality by the Chief Audit Executive, to ensure that its work meets the standards expected from the Internal Audit staff. For example, the internal file quality reviews 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 agreed methodology; and
- the conclusions are fully supported by our detailed work.

- 16.3 Internal Audit performance is also monitored in the following ways:

- quarterly progress reports to Audit and Governance Committee;
- quarterly customer satisfaction surveys; and
- monthly meetings with the Head of Finance.

**16.4 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 Head of Finance and the Audit and Governance Committee.

- 16.5 In April 2015 the first external assessment of how well Internal Audit complies with the Public Sector Internal Audit Standards was carried out by CIPFA. This assessment did not identify any significant gaps in compliance.

**17 Records Retention**

- 17.1 Audit engagement records will be retained for six years. This is in line with Local Government Association guidance.

**18 Review**

- 18.1 The Internal Audit Charter will be reviewed annually by the Chief Audit Executive and presented to Senior Management and the Board for approval if any changes are identified.

Corporate Leadership Team

