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Internal Audit Charter

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INTRODUCTION

The internal audit charter is a formal document that defines Internal Audit's purpose, authority and responsibility. The charter establishes Internal Audit's position within the organisation, including the nature of the Head of Audit's functional reporting relationship with the Audit Committee¹; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit's activities.

MISSION, DEFINITION & PURPOSE OF INTERNAL AUDIT

The Mission provided in the Public Sector Internal Audit Standards (PSIAS) is:

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

The definition provided in the PSIAS is:

"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."

Internal Audit is therefore an assurance function which primarily provides an independent and objective opinion to the Council on the overall adequacy and effectiveness of its framework of governance, risk management and control. Internal Audit does this by conducting an independent appraisal of all of the Council's activities, financial and otherwise. It provides a service to the whole of the Council and to all levels of management.

Internal Audit will work in accordance with the Core Principles for the Professional Practice of Internal Auditing as set out in the PSIAS:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused;
- Promotes organisational improvement.

STATUTORY REQUIREMENTS

The requirement for an Internal Audit function derives from local government legislation, including section 151 of the Local Government Act 1972 which requires that all Local Authorities must "make arrangements for the proper administration of their financial affairs". More specific requirements are set out in the Accounts and Audit Regulations 2015, which require the Council to "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."

This authority is reinforced in the Council's Financial Regulations and Procedure Rules.

¹ The Audit Committee will fulfil the roles and responsibilities of "The Board" for the purposes of the PSIAS.

INDEPENDENCE

The Internal Audit service will remain independent of the systems and procedures which are subject to its review. Internal Audit will also remain free from interference by any element of the Council and the scope of its work will not be restricted in any way.

To enable the auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations, Internal Audit staff will not be responsible for activities outside of Internal Audit's main responsibilities. All audit staff will act with due professional care ensuring that they are fair and objective, free from any conflicts of interest and abide by professional standards and guidelines.

In seeking to provide an independent and objective opinion it is accepted that, being located within the organisation, the Internal Audit function cannot be wholly independent of all management. Internal Audit's independence will therefore be achieved through its organisational status and from the fact that the Head of Audit has no other areas of responsibility other than the Internal Audit function.

The Head of Audit reports to the Chief Executive but has the right to report directly to the Executive Director (Finance & Customer Service) and Chief Finance Officer (s151 Officer), Monitoring Officer, Chair of the Audit Committee or External Auditor where it is deemed necessary. The Chief Executive has other areas of responsibility which may compromise their independence when these areas are subjected to audit, where this occurs the Head of Audit can invoke the right to report directly to others.

The Head of Audit will make the Audit Committee aware if the independence of Internal Audit is impaired or appears to be impaired. The nature of such a disclosure will depend upon the nature of the impairment.

Audit advice and recommendations, including where Internal Audit has been consulted about system, policy, procedure development or significant changes to the internal control systems, are given without prejudice to the right of Internal Audit to review and make further recommendations on the relevant policies, procedures, controls and operations at a later date.

The Internal Audit service determines its work priorities in consultation with Senior Management Team (ALT²) and the Audit Committee and the Head of Audit reports to the Audit Committee in relation to the delivery of the Internal Audit Plan, the Internal Audit Annual Report and periodic updates of Internal Audit work.

The Head of Audit is responsible for the content of all written reports produced by the service and has the right to report in his own name and offer an audit opinion without "fear or favour" to all officers and members and in particular to those charged with governance.

AUTHORITY & RIGHTS OF ACCESS

In order to perform their duties Internal Audit has the authority, supported by the Accounts & Audit Regulations 2015 and set out in the Council's Financial Regulations and Procedure Rules, to:

- access all Council premises at reasonable times;
- access all assets, records, documents, correspondence and control systems;
- receive any information and explanation considered necessary concerning any matter under consideration;
- require any employee of the Council to account for cash, stores or any other Council asset under his or her control;
- access records belonging to third parties, such as contractors, when required; and
- directly access the Chief Executive, Executive, Standards and Audit Committees.

² The Alliance Leadership Team will fulfil the roles and responsibilities of "senior management" for the purposes of the PSIAS.

Where necessary such unrestricted rights of access may be called upon and should be granted to Internal Auditors on demand and not subject to prior notice or approval. All employees are required to assist Internal Audit in fulfilling its roles and responsibilities.

The Internal Audit service will comply with any requests from External Auditors for access to any information, files or working papers obtained or prepared during audit work that they need in order to discharge their responsibilities.

OBJECTIVES OF INTERNAL AUDIT

The objective of the Internal Audit service is to give assurance to the Council on the adequacy of its governance arrangements. The key elements of this are:

- to provide advice and support to ensure an effective control environment is maintained including completeness, reliability and integrity of financial, performance, risk and other management information and the methods for safeguarding assets;
- to contribute to the achievement of corporate objectives by recommending improvements in control and performance of the systems established to ensure compliance with corporate and departmental policies and procedures and legislative requirements; and
- to provide advice and guidance to ensure Managers have developed effective arrangements to promote appropriate ethics and values within the Council and arrangements to prevent and detect fraud and corruption. This will include input into the key policies such as Financial Regulations and Procedure Rules and Counter-fraud and Corruption Strategy.

SCOPE

All of the Council's activities, regardless of funding source, may be subject to review by Internal Audit as Internal Audit's remit allows for unrestricted coverage of the Authority's entire control environment taking into account the Authority's assurance and monitoring mechanisms, including risk management arrangements, for achieving the Council's objectives. This does not imply that all systems will be subjected to review in any given year, but that all systems will be included in the audit planning process and hence be considered for review following the assessment of risk.

The scope of audit work extends to services provided through partnership arrangements and necessary assurances will be derived either directly or by seeking reliance on assurances provided by others. Where relevant, appropriate access rights will be negotiated and included in contracts and partnership agreements to ensure that Internal Audit can obtain access to the personnel and records within the partner organisation to obtain the necessary assurances.

It is not the remit of the Internal Audit service to question the appropriateness of policy decisions. However, the service is required to examine the management arrangements of the Council by which such decisions are made, monitored and reviewed, how policies are applied by the Council and also compliance with agreed policies.

The Internal Audit service may also conduct special reviews, providing independent and objective services such as consultancy and fraud related work as requested by Management. Due consideration will be given when planning this work to ensure that the service maintains its objectivity and independence. The impact of any additional work outside of the audit plan will be taken into account and where necessary reported to the Chief Executive and the Audit Committee.

Internal Audit does not have responsibility for the prevention and detection of fraud or corruption. It is the responsibility of all Managers to manage the risk of fraud by ensuring appropriate procedures are put in place to prevent and detect fraud. Internal Auditors will however, be alert in all their work to risks and exposures that could allow fraud or corruption to occur and to any indications that fraud or corruption may have been occurring. Audit procedures alone, even when

performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit will investigate any suspected fraud and corruption arising from their work and may also be requested by management to assist with the investigation of suspected fraud and corruption.

In line with the Council's Counter-fraud and Corruption Strategy, the Head of Audit should be notified of all suspected or detected fraud, corruption or impropriety within the Council. Where relevant the Internal Audit service will advise and assist Managers in the investigation of fraud and corruption.

RESPONSIBILITIES

The Council has a responsibility for conducting, at least annually, a review of the effectiveness of the governance arrangements and producing an Annual Governance Statement. The review of the effectiveness of the governance arrangements is informed by:

- the work of the internal auditors;
- information from managers within the Authority who have responsibility for the development and maintenance of governance arrangements; and
- comments made by the external auditors and other review agencies and inspectorates.

To assist with this review the Head of Audit will produce an annual internal audit report summarising the areas that have been subject to Internal Audit review in the year. This annual report will include an opinion, based on the areas examined, on whether the Council's governance arrangements, including those for economy, efficiency and effectiveness, are adequate and have been properly applied in the year.

In order to provide the required opinion the Internal Audit service will undertake a programme of work which will aim to achieve the following objectives:

- to appraise the soundness, adequacy and application of the Council's system of internal control;
- to determine the reliability and integrity of financial and other information including that used in decision making, and the methods used to identify, measure, classify and report such information;
- to ascertain the extent to which the systems of internal control ensure compliance with established policies and procedures;
- to ascertain the extent to which the assets and interests of the Council are properly controlled and safeguarded from loss;
- to appraise the economy, efficiency and effectiveness with which resources are employed;
- to investigate fraud and irregularities or significant breaches of the internal control system, where appropriate.

Managers are responsible for ensuring that adequate internal control arrangements exist in relation to the risks facing their Services. They are also responsible for ensuring that staff are aware of processes and procedure rules required to operate the control systems. This responsibility includes the duty to continuously review internal controls and ensure that they remain suitable in design and effective in operation. The existence of Internal Audit does not diminish the responsibility of management to establish and maintain systems of internal control to ensure that activities are conducted in a secure, efficient and effective manner.

Management can assist the process of Internal Audit by:

- providing access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work;
- giving information and explanations that are sought in the course of their work;
- commenting on and inputting to the audit plan and the terms of reference for each review to ensure attention is focussed on areas of greatest risk or concern;
- early notification of plans for change, including new operational systems and processes;

- considering and responding promptly to recommendations in audit reports, either accepting and implementing recommendations or formally rejecting it and therefore accepting the risks involved in doing so;
- ensuring agreed actions arising from audit recommendations are carried out in a timely and efficient fashion;
- notifying the s151 Officer / Head of Audit immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the Authority's property or resources. Pending investigation and reporting, the Director should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration; and
- acting in line with the Authority's disciplinary procedures.

OBJECTIVITY & CONFIDENTIALITY

Internal Auditors must demonstrate the highest level of professional objectivity in gathering, evaluating and communicating information about the function or process being examined. They must make a balanced assessment of all relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

All Internal Auditors working in Local Government are required to comply with the Code of Ethics contained in PSIAS in addition to any requirements placed on them by the Council or any other Professional Body that they are members of.

All records, documentation and information accessed in the course of undertaking Internal Audit activities shall be used solely for that purpose. The Head of Audit and individual Internal Auditors (including contractors and external providers performing work on behalf of Internal Audit) are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

Whilst Audit Reports are confidentially directed to the recipients named, they are subject to the provisions of the Freedom of Information Act and, as such, may be required to be made publicly available upon request. Before responding to any request to make Audit Reports publicly available, or otherwise making them publicly available, the Head of Audit should be consulted and where necessary elements of the report can be redacted. Similarly, Audit Reports, or extracts from them, should not be included in, or appended to, any Council Report, nor should they be quoted as a background paper to any Committee Report without firstly consulting with the Head of Audit.

INTERNAL AUDIT RESOURCES

The Council has a duty to provide sufficient resources to allow an adequate and effective Internal Audit service to be provided. Where it is felt that the resources are inadequate to meet the objectives of the Internal Audit service, the Head of Audit will formally report this to the Chief Executive and s151 Officer, and, if the position is not resolved, to the Audit Committee.

Internal Audit must be appropriately staffed in terms of numbers, qualification levels and experience, having regard to its objectives and to the PSIAS. The Head of Audit will hold a relevant professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. The s151 Officer will be involved in the recruitment of the Head of Audit.

The Head of Audit is responsible for ensuring that Internal Auditors receive appropriate training and experience to fulfil their duties and that levels of professional competence are maintained via the use of continual professional development.

Where necessary, access to appropriate specialists from other departments or external sources should be made available to the Internal Audit service to assist in any audit, project or investigation requiring detailed specialist knowledge.

INTERNAL AUDIT MANAGEMENT

The Head of Audit is responsible for the day-to-day management of the Internal Audit service and fulfils the requirements of the “Chief Audit Executive” role required by the PSIAS. The Head of Audit will:

- prepare an audit plan to review all relevant areas, and will update this plan if required to take account of changes in Council priorities and risks. The audit plan will be submitted to the Audit Committee annually for approval;
- produce detailed audit programmes setting out the scope and objectives of each audit assignment, timescales and reporting arrangements;
- ensure that work is completed to high standards in accordance with relevant professional standards;
- ensure that a written audit report is produced for each assignment, giving an assurance opinion on the adequacy of the control environment and identifying actions to address any weaknesses;
- ensure that audit reports are formally discussed with relevant Managers, an action plan is completed to reflect agreed actions and comments are recorded relating to each audit recommendation, together with the timescale for completion and the responsible officers. If a recommendation is not agreed by the Manager, this must also be stated;
- ensure that follow-up work is undertaken to monitor the implementation of agreed management actions;
- establish and maintain effective relationships with managers of all levels and obtain feedback from them on the effectiveness of the service;
- establish and maintain effective relationships with the External Auditors;
- develop and maintain a quality assurance and improvement programme covering all aspects of Internal Audit activity.

INTERNAL AUDIT PLAN

The work of the Internal Audit service is based on the delivery of a risk based annual Audit Plan and is conducted on a predominantly risk based systems audit approach. The Head of Audit prepares a new Audit Plan each year in line with the requirements of the PSIAS and this is presented to the Audit Committee for approval.

The Audit Plan is derived from all of the areas that have been identified for review (the audit universe). Internal Audit undertakes a risk assessment of the audit universe based on an established best practice risk scoring model which takes into account a number of criteria including corporate strategic risks and risks identified from other sources of external and internal assurance. The Audit Plan is then determined based on the outcome of this process.

Within the annual Audit Plan the Head of Audit will balance several key requirements. These include:

- the performance targets for the service;
- the need to ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control, on which the external auditors will place reliance;
- the need to appropriately review all other strategic and operational systems;
- having a contingency allowance to deal with unplanned work which may arise in the year including special investigations and consultancy.

Achievement of the Audit Plan is a key priority for the Service. The Head of Audit will continually monitor the completion of the Annual Audit Plan. Where the Audit Plan is not being achieved the Head of Audit will be responsible for identifying the reasons for this and where possible take the necessary corrective action.

REPORTING ACCOUNTABILITIES

The Head of Audit reports to the Chief Executive but has the right to report directly to the Executive Director (Finance & Customer Service) and Chief Finance Officer (s151 Officer) and Chief Finance Officer, Monitoring Officer, Chair of the Audit Committee or External Auditor where it is deemed necessary. The Statutory Officers will support the work of Internal Audit and provide the necessary backing to ensure that key weaknesses are addressed and recommendations implemented and support Internal Audit's position in upholding good governance within the Council. Statutory Officers should also ensure that the Internal Audit service is provided with all necessary advice, explanations and information needed for them to effectively carry out their role.

The Head of Audit will present the annual audit plan to members of the Audit Committee for approval. Regular reports outlining progress against the Internal Audit Plan and summarising the assurances given for completed audits will also be presented to the Audit Committee.

An annual report will be presented to the Audit Committee summarising the work undertaken throughout the year and providing an overall opinion on the Council's internal control environment. This report is a key source of assurance for the Council's Annual Governance Statement (AGS). The report will:

- disclose any qualifications to that opinion together with the reasons for the qualification;
- draw attention to any issues judged relevant to the preparation of the Annual Governance Statement;
- compare work actually undertaken with the work planned and summarise performance of the Internal Audit service against its performance targets.

A written report will be prepared for every internal audit review and actions agreed with the relevant Manager. The report will be issued to the responsible Manager, Head of Service, Director and Chief Finance Officer. The report includes an 'opinion' on the adequacy of controls in the area that has been audited. Every Internal Audit Report is subject to a regular follow-up in accordance with the Audit Service's formalised follow-up system, in order to ascertain whether the action stated by management in their response to the report has been implemented by the agreed due dates. Failure to agree or implement fundamental recommendations will be reported to the s151 Officer, Chief Executive and the Audit Committee as appropriate.

The Head of Audit will report to the s151 Officer any serious weaknesses or significant fraud identified from the course of Internal Audit work or reported to Internal Audit. The matter may also be reported to the Chief Executive, the external auditors and the Audit Committee as appropriate.

QUALITY ASSURANCE & IMPROVEMENT PROGRAMME

The Head of Audit will develop and maintain a Quality Assurance and Improvement Programme (QAIP) in accordance with PSIAS. The QAIP will form the basis of the annual review of the system of internal audit as required by the PSIAS. For Internal Audit services operating in Local Government proper practice is now deemed to be PSIAS plus the Local Government Application Note (LGAN).

The QAIP will show conformance with PSIAS/LGAN requirements and will offer explanations where conformance with PSIAS/LGAN is not achieved. An action plan may be developed as a result of the QAIP to achieve or improve levels of conformance. The outcome of the review and any resulting action plan will be reported to the Audit Committee and a statement regarding conformance with the PSIAS will be included in the Internal Audit Annual Report.

An independent external review of Internal Audit will be carried out as part of the QAIP at least once every five years.

Where non-conformance with PSIAS/LGAN impacts on the overall scope or operation of Internal Audit activity the nature of the impact will be disclosed to the Audit Committee. Serious deviations from conformance will need to be considered for inclusion in the Council's Annual Governance Statement.