

Internal Audit Charter

1. Mission

- 1.1 The mission of the Internal Audit Service is “to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”.

2. Statutory Role and Definition

- 2.1 The Council’s Internal Audit function is provided by an in-house team.
- 2.2 The authority and requirement for an internal audit function derives from two pieces of legislation.
- 2.3 **Section 151 of the Local Government Act 1972** requires that authorities ‘make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs’. The Financial Regulations (Constitution part 4 - Financial Regulations) state that the Director of Finance (s151) Officer has this responsibility (‘establishing an adequate and effective system of internal audit’).
- 2.4 The **Accounts and Audit Regulations 2015**, require that a relevant body must ‘evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance’. Any officer or member of a relevant body must, if required to do so for the purposes of internal audit, make available such documents, records & information, and explanations as are considered necessary by the internal auditors
- 2.5 The objectives of the PSIAS are to:
- define the nature of internal auditing within the UK public sector
 - set the basic principles for carrying out an internal audit in the public sector
 - establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
 - establish the basis of the evaluation of internal audit performance and to drive improvement planning.

- 2.6 The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:
- Definition of Internal Auditing
 - Core Principles for the Professional Practice of Internal Auditing
 - Code of Ethics, and
 - International Standards for the Professional Practice of Internal Auditing.
- 2.7 The Chartered Institute of Public Finance and Accountancy (CIPFA) has also developed an application note for the PSIAS. The application note sets out the proper practice for Internal Audit in local government.
- 2.8 This Charter describes the purpose, authority, and principal responsibilities of the council's Internal Audit Service. Policies and practice guidance have been put in place to ensure all Internal Audit staff understand and comply with these Standards.

3. Internal Audit

- 3.1 Internal Audit provides independent and objective assurance on the adequacy and effectiveness of governance, risk, and controls. It achieves this through the competent application of systematic and disciplined processes, expertise, and insight. It reports its findings to management and the Audit & Governance Committee to promote and facilitate continuous improvement. In doing so, it may consider assurance from other internal and external providers.
- 3.2 PSIAS definition of Internal Auditing: 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.

4. Scope of Internal Audit

- 4.1 All the Council's in-house systems and procedures fall within the remit of Internal Audit. It is the role of Internal Audit to review, appraise and report on the effectiveness and efficiency of financial and other management controls, including risk management, and corporate governance.
- 4.2 The scope of internal audit work will aim to cover all operational and management controls and is not restricted to the audit of systems and controls necessary to form an opinion on the financial statements.

- 4.3 The nature of assurance services provided to the organisation includes:
- a. assurance frameworks.
 - b. review of controls within existing systems and systems under development.
 - c. compliance with Council policy and procedures, including Financial Regulations.
 - d. transactions testing to ensure accuracy of processing.
 - e. Confirming grant funding has been spent in accordance with grant determination(s)
 - f. IT audit.
 - g. proactive fraud work.

5. Access

- 5.1 Subject to any legal or statutory obligations, Internal Audit has, by right, unrestricted access to all the Council's personnel, records, information, and assets that it considers necessary to fulfil its responsibilities, including those of partner organisations and third-party suppliers where contract terms include internal audit access rights. Management must also ensure that Internal Audit is provided with all information and explanations that it seeks in the course of its work.
- 5.2 In turn, Internal Audit will comply with any requests from the External Auditor for access to any information, files or working papers obtained or prepared during audit work that is required to discharge their responsibilities.

6. Reporting lines, Relationships, and Independence of Internal Audit

- 6.1 Internal Audit is part of the Directorate of Resources.
- 6.2 The PSIAS specifies that the Charter must define the terms 'Board' and 'Senior Management' for the purpose of internal audit activity. For the Council, the 'Board' is the Audit & Governance Committee, and 'Senior Management' is the Corporate Management Team (CMT).
- 6.3 The Head of Audit has right of direct access to the Director of Finance (s151) Officer, Chief Executive, Monitoring Officer, Executive Directors, and the Chair of the Audit & Governance Committee.
- 6.4 The Council's Financial Regulations set out the key financial roles of officers, including any regarding Internal Audit.

- 6.5 Internal Audit resources are deployed flexibly around the demands of the planning framework and the objectives of the Council. Senior management are consulted regularly on the planning framework and the resultant audit work. This approach is agreed with the Director of Finance (s151) Officer and approved by the Audit and Governance Committee prior to the commencement of each financial year.
- 6.6 Most audit assignments are the subject of formal reports. The primary purpose of the audit report is to provide management with an opinion on the adequacy of the internal control system, and to inform them of significant audit findings and conclusions. Agreed actions to be taken as a result of audit findings are also recorded and it is the relevant Assistant Director's responsibility to ensure these are implemented. All agreed actions, relating to 'limited' or 'no-assurance' opinions are subject to a follow-up review by Internal Audit and the outcomes reported to the Audit & Governance Committee. The relevant Executive Director / Assistant will receive a copy of the audit report.
- 6.7 The role of the Audit & Governance Committee in relation to Internal Audit is:
- a. to oversee its independence, objectivity, performance, and professionalism.
 - b. to support the effectiveness of the Internal Audit process.
 - c. to promote the effective use of Internal Audit within the assurance framework.
- 6.8 The Audit & Governance Committee's terms of reference¹, with regards to Internal Audit, state:
- a. ensuring Internal Audit complies with the Public Sector Internal Audit Standards
 - b. approving the Internal Audit Charter.
 - c. approving the risk-based Internal Audit planning process, including Internal Audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
 - d. considering the annual report and update reports from the Head of Audit on Internal Audit's work and performance during the year.
 - e. monitoring the counter-fraud strategy, actions, and resources, including reviewing the assessment of fraud risks and potential harm to the Council from fraud and corruption and issuing guidance and best practice advice regarding probity and ethics.

¹ Audit & Governance Committee terms of reference to be updated in light of the new CIPFA guidance

- 6.9 The Audit & Governance Committee cannot direct the work of Internal Audit.
- 6.10 At various meetings of the Audit & Governance Committee, Internal Audit report on a summary / sample of the work undertaken within the period since the last report. The report highlights the findings of audit work carried out and information that is of interest or needs to be brought to the attention of the Committee.
- 6.11 The end of year report provides a summary of the work of Internal Audit during the financial year, information on the performance of the section, and includes an opinion from the Head of Audit on the overall adequacy and effectiveness of the control environment within the Council. This is timed to support the annual review of Corporate Governance and the production of the Annual Governance Statement.
- 6.12 Copies of individual Internal Audit reports which have resulted in an overall opinion of 'limited' or 'no' assurance are, in addition to the relevant Director, sent to the Director of Finance (s151) and to the Audit & Governance Committee as an attachment to the quarterly update report.
- 6.13 Internal Audit's independence from the responsibilities of management is critical to its objectivity, authority, and credibility. Independence is established through accountability to the Audit & Governance Committee; unfettered access to people, resources, and data needed to complete its work; and freedom from bias or interference in the planning and delivery of the Internal Audit Service.
- 6.14 Internal Audit shall remain sufficiently independent of the activities that it audits to enable it to perform its duties in a manner that facilitates impartial and effective professional judgements and recommendations.
- 6.15 Internal Audit staff shall not develop nor install systems or procedures, prepare records, nor engage in any other activity which would normally be audited.
- 6.16 Except for Internal Audit, the Corporate Investigations and Insurance teams the Head of Audit has no direct operational responsibility or authority over any of the activities it reviews. For Corporate Investigations and Insurance, to safeguard independence, the scope of any Internal Audit work required on this area will be agreed with the Director of Finance (s151) Officer. Preserving independence would be achieved either through the auditor reporting directly to S151 officer or commission an external review
- 6.17 Every effort will be made to preserve objectivity by ensuring that all Internal Audit staff are free from any conflicts of interest and do not undertake any non-audit duties.
- 6.18 Internal Audit is involved in the determination of its priorities in consultation with the Audit & Governance Committee. The Head of Audit has direct access and freedom to report in his own name and without fear or favour to all officers and members.

7. Quality of Service and Due Professional Care

- 7.1 Internal Audit operates in accordance with standards of best practice applicable to internal audit; in particular, the PSIAS and Standards in Public Life's Seven Principles of Public Life (selflessness, integrity, objectivity, accountability, openness, honesty, and leadership).
- 7.2 The core principles, as set out in the PSIAS, taken as a whole, must be present and operating effectively for Internal Audit to be considered effective. These are:
- 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.
- 7.3 Internal Audit operates a quality assurance framework which covers all areas of internal audit activity. An audit manual is maintained which outlines the key responsibilities of audit staff and defines the audit process.
- 7.4 Internal review of work standards is undertaken through a system of managerial review involving the Head of Audit and / or Principal Auditor. This incorporates a review of all documentation and evidence, and the accuracy of the report.
- 7.5 Feedback is canvassed from managers responsible for activities under their control or within their responsibilities to obtain their satisfaction with the audit service provided.
- 7.6 A suite of performance indicators and targets has been developed to monitor the quality of the service provided, the results of which are reported in the annual report to the Audit & Governance Committee.
- 7.7 The Council's External Auditor keeps the performance of Internal Audit under review to ensure reliance can be placed on its work, where required (External Audit cannot direct the work of Internal Audit).

- 7.8 The PSIAS requires the Head of Audit to maintain a quality assurance and improvement programme covering all aspects of the Internal Audit activity. This is done through internal assessments but also, at least once every five years, via an external assessment carried out by a qualified, independent assessor or assessment team.
- 7.9 The Head of Audit will share the results of internal and external assessments with the Audit & Governance Committee annually.

8. Allocation of Internal Audit Resources

- 8.1 Internal Audit must be appropriately staffed in terms of numbers, qualification levels and experience. The Head of Audit reports on the adequacy of resources to the Director of Finance (s151), the Corporate Management Team and, if necessary, to the Audit & Governance Committee.
- 8.2 The training and personal development needs of Internal Audit staff are established through a review process, and it is the responsibility of the Head of Audit to ensure that Internal Audit staff receive the appropriate professional, technical and personal development training.
- 8.3 The Head of Audit is responsible for appointing the staff within Internal Audit and will ensure that appointments are made to achieve the appropriate mix of qualifications, experience, and audit skills.

9. Specific Responsibilities

- 9.1 The Head of Audit is responsible for the provision of a complete internal audit and counter-fraud service to the Council. This includes:

Internal Audit

- 9.2 Providing an annual report to CMT and the Audit & Governance Committee. The annual report will include:
- An opinion on the effectiveness of the Council's governance, risk, and control framework (including reasons why this opinion was reached).
 - Any control weaknesses judged to be relevant to the development of the Annual Governance Statement.
 - A summary and evaluation of the results of internal audit work and information obtained from other assurance providers and the impact on the control environment.
 - An overall summary of the Internal Audit Service's performance and the results of the quality assurance framework.
 - A statement on conformance with the PSIAS.

- 9.3 To help achieve this, the Head of Audit will compile an overall Audit Strategy showing how Internal Audit will be delivered - focusing on the critical activities and key risks facing the Council.

Counter-Fraud, Corruption and Bribery

- 9.4 Internal Audit does not have responsibility for the prevention nor detection of fraud, corruption, or bribery. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud, corruption, and bribery will be detected.
- 9.5 Managing the risk of fraud, corruption, and bribery is the responsibility of all management and Councillors. The Corporate Investigations Team can assist management in the effective discharge of this responsibility, including the investigation of suspected frauds and irregularities.
- 9.6 The Corporate Investigations Team also commits resources to proactive fraud work, which includes raising the awareness of fraud issues.
- 9.7 Internal Audit and Investigation staff will be alert in all their work, of whatever type, to risks and exposures that could allow fraud, corruption, or bribery.
- 9.8 To ensure the Council embeds effective standards for countering fraud and corruption, the Head of Audit ensures that the key principles, as set out in CIPFA's Code of Practice on Managing the Risk of Fraud, are followed. This supports good governance and demonstrates effective financial stewardship and strong public financial management.
- 9.9 The Head of Audit must be informed of all suspected or detected fraud, corruption, or improprieties so they may be considered in terms of the adequacy of the relevant internal controls and be evaluated for the annual opinion on the control environment.
- 9.10 All cases will be dealt with in accordance with the Council's relevant policies and procedures (e.g., Anti-Fraud and Corruption Policy, Whistleblowing Policy, and Money Laundering Policy).

10. Consulting Engagements

- 10.1 Consulting engagements are generally advisory in nature. They are generally performed at the specific request of management. Work may include providing advice on new systems & emerging risks, training, and representation on Boards and Groups.
- 10.2 The nature and scope of consulting engagements are subject to agreement with management. They should assist management in meeting the objectives of the organisation without undermining the key principles of independence and objectivity. Internal Audit should not assume management responsibility.

- 10.3 Consulting engagements should only be performed where resources and skills exist.
- 10.4 The Head of Audit has final responsibility for the content of consulting engagements, and prioritisation of such work will be risk assessed through the audit planning process.
- 10.5 For most consulting engagements, no assurance opinion will be provided but the outcome of this work will be reported to the Audit & Governance Committee in so far as it impacts on the Council's governance, risk, and control environment.

11. Risk Management

- 11.1 Internal Audit is not responsible for managing the Council's risks, which is the responsibility of management. However, Internal Audit supports management in making its assessment of risk. Internal Audit will also share information gathered during its work with management to enhance management's understanding of the risks to the Council and the financial and operational controls in place to manage them.

12. The Head of Internal Audit

- 12.1 The Head of Audit holds a professional qualification and is suitably experienced in internal audit and counter-fraud work.
- 12.2 The PSIAS requires the Head of Internal Audit to report to the top of the organisation and this is done in the following ways:
 - The Internal Audit planning process and Charter is approved by the Corporate Management Team and Director of Finance (s151, before being approved by the Audit & Governance Committee.
 - The Head of Audit holds periodic meetings with the Lead Member responsible for Finance.
 - The Head of Internal Audit holds periodic liaison meetings with the Chair of the Audit & Governance Committee.
 - The Head of Internal Audit holds meetings on an individual basis, or collectively, with all members of the Audit & Governance Committee, upon request.
 - Performance and delivery of Internal Audit and counter-fraud work and any significant risks and control issues arising are reported independently to the Corporate Management Team and the Audit & Governance Committee on a regular (quarterly) basis.

- Results of the annual review on the effectiveness of Internal Audit (including outcomes of Quality Assurance & Improvement Programme audits) are reported to the Corporate Management Team and the Audit & Governance Committee.
- The Head of Internal Audit has unfettered access to the Chief Executive, Director of Finance (s151) Officer, Monitoring Officer, Executive Directors, and the Audit & Governance Committee, as required.

13. Approval and Validity of the Charter

- 13.1 The Head of Internal Audit will review the Charter annually to ensure that it is relevant to the demands and responsibilities of Internal Audit and that it supports and links to the Council's corporate priorities.
- 13.2 The Charter will be presented to senior management and the Audit & Governance Committee on a biennial basis for approval, or sooner if any significant changes occur.