



Internal Audit & Risk Internal Audit Charter

November 2018



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Internal Audit Charter

1 Introduction

- 1.1 This Charter defines Internal Audit's purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS). It establishes Internal Audit's position within the Council, including functional reporting relationships with the Audit Committee (referred to in the PSIAS as "the Board"), authority to access records, personnel and physical properties relevant to the performance of the engagements, and defines the scope of the Internal Audit Activity.
- 1.2 The Charter has been agreed with senior management (Corporate Management Team) and was approved by the Audit Committee on 13th January 2014.
- 1.3 The Charter will be subject to periodic review by the Head of Internal Audit and Risk, in consultation with senior management and significant revisions will be presented to the Audit Committee for approval.

2 Statutory Role

- 2.1 The authority for the internal audit function is derived from statute. The requirement for an Internal Audit function for local authorities is set out in section 151 of the Local Government Act 1972, which 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 these affairs". The Director of Resources has this responsibility within the Council.
- 2.2 Regulation 6 of the Accounts and Audit Regulations 2011 more specifically requires that:

"A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices".

The Director of Resources has sought to achieve this through the establishment of an efficient and effective Internal Audit Service.
- 2.3 There is a statutory requirement for Internal Audit to work in accordance with "proper audit practices". Internal Audit will seek to fulfil its role through adherence to the mandatory Public Sector Internal Audit Standards (PSIAS) which were effective from 1st April 2013 (and any subsequent revisions thereto).
- 2.4 The Council recognises that all officers of internal audit shall, in relation to the activities of the Council and as required by the Council's Constitution:
 - Have access to physical properties relevant to the performance of engagements, and
 - Be supplied with any documentation, records (either paper or electronic) or explanations of transactions requested by them.

3. Purpose

- 3.1 Internal Audit is defined by the 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”.
- 3.2 In a local authority Internal Audit provides independent and objective assurance to the organisation, its Members, senior management and the Director of Resources. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council’s governance, risk management and internal control systems.
- 3.3 PSIAS articulates the Mission of Internal Audit as” To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.” Within the Council, the overall aim of Internal Audit is:
“To deliver a risk based audit plan in a professional, independent manner, to provide the Council with an opinion on the level of assurance it can place upon the internal control environment, and to make recommendations to improve it, that are proportionate and demonstrably add value and support the delivery of the Council’s vision to its customers”.
- 3.4 PSAIS set out 10 core principles that should be present and operating effectively in order that the Mission is achieved. These are set out at Appendix D.
- 3.5 The Terms of Reference of Internal Audit are summarised within the Code of Financial Governance (section 5.4).

4. Responsibilities, Scope and Objectives

- 4.1 Internal Audit and Risk supports the Council in its vision and strategic priorities, which sets the Council’s focus over the coming years.
- 4.2 The Head of Internal Audit and Risk is required to provide an annual opinion to the Council and to the Director of Resources, through the Audit Committee, on the adequacy and the effectiveness of the internal control system for the whole Council and all its operations.
- 4.3 The scope of internal audit as set out in the Constitution, includes reviewing, appraising and reporting on the following:
 - The soundness, adequacy and application of internal controls;
 - The safeguards for council assets and interests from losses of all kinds arising from theft, fraud, waste, extravagance, inefficient management, poor value for money or any other cause;
 - The suitability and reliability of financial and other management data; and
 - Compliance with rules, legislation, policy and procedures.

4.4 In order to deliver this, Internal Audit has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures
- To provide a systematic disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes (more details of the nature of this work is set out on Appendix A).
- To provide assurance that significant risks to the Council's objectives are being managed
- To provide advice and support to management to enable an effective control environment to be maintained
- To promote an anti fraud, anti bribery and anti corruption culture within the Council to aid the prevention and detection of fraud, and
- To investigate allegations of fraud, bribery and corruption (with the exception of benefits fraud, which is investigated by the Benefits Team).

4.5 In addition to delivering the agreed audit plan, Internal Audit also carry out special reviews or assignments where requested by management, which fall outside the approved work plan and for which a contingency is included within the audit plan.

4.6 The Head of Internal Audit and Risk cannot be expected to give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control within their area of responsibility. They should ensure that appropriate and adequate control and risk management processes, control systems, accounting records, financial processes and governance arrangements exist without depending on internal audit activity to identify weaknesses.

4.7 The delivery of the Internal Audit Service is in accordance with the Internal Audit Engagement Protocol (previously known as the Internal Audit Charter).

5. Independence and Accountability

5.1 Internal Audit will remain independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.

5.2 The Head of Internal Audit and Risk has direct free and unfettered access and freedom to report in his/her own name and without fear or favour to all officers and members, particularly to those charged with governance (including the Chief Executive and the Chair of the Audit Committee). Accountability for the response to the advice and recommendations of Internal Audit lies with management to either accept and implement the advice or formally reject it. Reviews will be assigned to auditors and rotated between the various audit managers in order to ensure independence in their reviews and maximisation of skills.

- 5.3 **The Head of Internal Audit and Risk has responsibility for facilitation and co-ordination of risk management activity across the Council, but has no role beyond this and remains independent of the implementation of controls to manage risks identified. An independent external audit of the risk management arrangements is carried out on a regular basis in accordance with the risk-based plan.**
- 5.4 **The Head of Internal Audit and Risk has responsibility for the Anti-fraud and Corruption Strategy, but Internal Audit remains independent of the services where counter fraud controls are operating and independent of the Corporate Fraud function who investigate customer related fraud. Additionally, Internal auditors are required to declare any personal interests which may impact on their objectivity and these are factored into audit planning.**
- 5.5 Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee. To maintain independence, any audit staff involved in significant consulting activity will not be directly involved in the audit of that area for at least 12 months, or their involvement will be managed by someone independent of the consultancy activity.

6. Due Professional Care

- 6.1 The Internal Audit function is bound by the following standards:
- Institute of Internal Auditor's International Code of Ethics (see Appendix B)
 - Seven Principles of Public Life (Nolan Principles) – (see www.public-standards.gov.uk)
 - UK Public Sector Internal Audit Standards
 - All Council Policies and Procedures
 - All relevant legislation.

7. Quality Assurance

- 7.1 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.
- 7.2 A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. The Head of Internal Audit and Risk is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

7.3 Internal Auditors are expected to:

- Exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity,
- Apply confidentiality as required by law and best practice, and
- Obtain and record sufficient audit evidence to support their findings and recommendations.

7.4 The Head of Internal Audit and Risk develops and maintains a set of performance indicators that are reported to the Director of Resources and the Audit Committee.

8. Reporting

8.1 The UK Public Sector Internal Audit Standards require the Head of Internal Audit and Risk to report at the top of the organisation and this is done in the following way:

8.2 Internal Audit and Risk report their findings in writing to appropriate officers, as agreed in the audit brief, against four assurance opinions (**Substantial**, Adequate, Limited and No Assurance). These are detailed at Appendix C. The Head of Internal Audit and Risk sets standards for reporting and makes arrangements for their review and approval before issue.

8.3 The Head of internal Audit and Risk reports regularly to the Director of Resources and at least three times a year to the Audit Committee on progress against the Annual Audit plan and other issues of concern in respect of the control environment and emerging issues. The Audit Committee meets at least four times a year and has an agreed work plan for the year. In addition, the Head of Internal Audit and Risk produces an Annual Report to the Director of Resources and Audit Committee on the main issues raised by Internal Audit during the year and on the performance of Internal Audit. In particular, the Annual Report:

- Includes an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control Discloses any qualification to that opinion, together with the reasons for the qualifications
- Presents a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies
- Draws attention to any issues that the Head of Internal Audit and Risk considers relevant to the preparation of the Annual Governance Statement
- Compares the work actually undertaken against the work that was planned
- Summarises the performance of Internal Audit against its performance measures, and
- Comments on compliance with the Public Sector Internal Audit Standards and communicates the results of the Internal Audit quality assurance and improvement programme.

8.4 As required by the PSIAS any significant consulting activity not already included in the Audit Plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee.

9. Internal Audit Resources

- 9.1 Internal Audit will be appropriately staffed in terms of numbers, qualifications and experience, having regard to its objectives and to the standards within which it is required to operate.
- 9.2 The Head of Internal Audit and Risk is responsible for ensuring that the resources of the internal audit section are sufficient to meet its responsibilities and achieve its objectives. They will also ensure that the appropriate mix of qualifications, experience and audit skills exist within the unit.
- 9.3 If a situation arose whereby internal audit resources were insufficient, the Head of Internal Audit and Risk will discuss this with the Director of Resources, and the Audit Committee.
- 9.4 Internal Auditors will maintain their professional competence through an appropriate ongoing development programme.
- 9.5 It may be necessary, from time to time, to buy in either agency staff or sub-contractors, of a suitable quality.
- 9.6 Each auditor will be provided with adequate resources to fulfil their role, including hardware, software, training and access to any information required.

10. Fraud and Corruption

- 10.1 Audit procedures alone, even when performed with due professional care, cannot guarantee the detection of fraud or corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. The Internal Audit Team will include auditors with fraud investigation skills, and will continue to actively participate in the National Fraud Initiative (NFI). Management may request Internal Audit to undertake fraud and special investigations.
- 10.2 In accordance with the Council's Anti Fraud and Corruption Strategy (including Anti Bribery) Members, officers, and staff must report any allegations of fraud to Internal Audit or other appropriate officer, such as the Chief Executive, Director of Resources, or Monitoring Officer.
- 10.3 Internal Audit proactively raises awareness on anti fraud matters. The team is tasked with ensuring that appropriate counter fraud and corruption actions are taken in line with the National Fraud Authority's (NFA) Fighting Fraud Locally Initiative and other relevant national campaigns.

NATURE OF WORK

The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

Promoting appropriate ethics and values within the organisation

Ensuring effective organisational performance management and accountability

Communicating risk and control information to appropriate areas of the organisation

Coordinating the activities of and communicating information among the Audit Committee, external and internal auditors and management.

The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

Risk Management

- Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:
- Organisational objectives support and align with the organisation's mission:
- Significant risks are identified and assessed
- Appropriate risk responses are selected that align risks and their mitigation with the organisation's risk appetite
- Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages risk.

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

Control

The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance operations and information systems regarding the:

- Achievement of the organisation's strategic objectives
- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations and programmes
- Safeguarding of assets, and
- Compliance with laws, regulations, policies, procedures and contracts.

In accordance with the PSIAS, most individual audits are undertaken using the risk based systems audit approach, the key elements of which are listed below:

- Identify and record the objectives, risks and controls
- Establish the extent to which the objectives of the system are consistent with higher level corporate objectives
- Evaluate the controls in principle to decide whether or not they are appropriate and can be relied upon to achieve their purpose
- Identify any instances of over and under control
- Determine whether an appropriate strategy to test the effectiveness of controls, i.e. through compliance and/or substantive testing.
- Arrive at conclusions and produce a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.

Public Sector Internal Auditing Standards – Code of Ethics

Internal auditors in UK public sector organisations must conform to the Code of Ethics within the Standards. If individual internal auditors have membership of another professional body, then he or she must also comply with the relevant requirements of that organisation.

There are four principles in the Code of Ethics:

1. **Integrity** – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
2. **Objectivity** – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
3. **Confidentiality** – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
4. **Competency** – Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.

Internal auditors who work in the public sector must also have regard to the Seven Principles of Public Life (Nolan Principles).

Audit Opinions

Assurance is work carried out by Internal audit to support the Annual Internal Audit Opinion. The definitions of the opinions given are set out below:

Substantial Assurance	Adequate Assurance	Limited Assurance	No Assurance
Good controls	Adequate controls	Limited controls	Inadequate controls
Low risk of not meeting objectives	Medium/Low risk of not meeting objectives	Medium risk of not meeting objectives	High risk of not meeting objectives
Low risk of fraud, negligence, loss, damage to reputation	Medium/Low risk of fraud, negligence, loss, damage to reputation	Medium risk of fraud, negligence, loss, damage to reputation	High risk of fraud, negligence, loss, damage to reputation
<i>Level of Assurance: High</i>	<i>Level of Assurance: Medium</i>	<i>Level of Assurance: Medium/Low</i>	<i>Level of Assurance: Low</i>

Core Principles for the Professional Practice of Internal Auditing

The Core Principles, 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.

- 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