

Internal Audit Charter

This Charter sets out the purpose, authority and responsibility of the Council’s Internal Audit function, in accordance with the mandatory UK Public Sector Internal Audit Standards.

The Charter will be reviewed annually and presented to the General Purposes & Audit Committee for approval.

Purpose

The Institute of Internal Auditors’ International Professional Practices Framework (IPPF) defines internal audit 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.”

In a local authority internal audit provides independent and objective assurance to the organisation, its Members, the Executive Leadership Team (ELT)¹ and in particular to the Chief Financial Officer to help him discharge his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council’s financial affairs.

In addition, the Accounts and Audit Regulations (2015) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council’s risk management, control and governance processes.

The Institute of Internal Auditors (IIA) defines assurance as “services that involve the internal auditor’s objective assessment of evidence to provide opinions or conclusions regarding an entity, operation, function, process, system, or other subject matters. The nature and scope of an assurance engagement are determined by the internal auditor”.

Mission and Core Principles

The IPPF’s overarching “Mission” for Internal Audit services is: “...to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”.

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

- Demonstrate integrity;
- Be objective and free from undue influence (independent);

¹ Fulfil the role of senior management - Public Sector Internal Audit Standards

- 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-focused; and
- Promote organisational improvement.

Authority

The Internal Audit function has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Internal audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge its responsibilities.

Responsibility

The Council's Director of Governance², is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the General Purposes & Audit Committee³, on the adequacy and the effectiveness of the internal control system for the whole Council. In order to achieve this, the Internal Audit function 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
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.

² Fulfils the role of the Chief Audit Executive – Public Sector Internal Audit Standards

³ Fulfils the role of the board – Public Sector Internal Audit Standards

- 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. To this end, all Council workers have a responsibility to notify the Director of Governance of all instances of suspected or detected fraud or impropriety, as this may inform the annual audit opinion and the internal audit plan.
- To investigate allegations of fraud, bribery and corruption

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

The remit of Internal Audit covers the entire control environment of the organisation. Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Council in organisations in which it has a significant controlling interest, such as Local Authority Trading Companies. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

Internal Audit may undertake consulting activities. The Institute of Internal Auditors (IIA) defines consulting as “Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.”

Reporting

The UK Public Sector Internal Audit Standards require the Director of Governance to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Executive Leadership Team (ELT) directly or via the Governance Board (GB) and then presented to General Purposes & Audit Committee (GPAC) for formal approval annually.
- The annual Internal Audit Plan is compiled by the Director of Governance taking account of the Council's risk framework and after input from members of ELT and other senior officers. It is then presented to ELT, GB and GPAC annually for noting and comment.

- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Director of Governance) and the independence of internal audit will be reported annually to the GPAC. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to the GB and the GPAC on a quarterly basis.
- 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 GPAC.
- Results from internal audit's Quality Assurance and Improvement Programme will be reported to GPAC.
- The appointment or removal of the Director of Governance must be reported to and approved by ELT.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to the GB and the GPAC and will be included in the Director of Governance's annual report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

Independence

The Director of Governance has free and unfettered access to the following:

- Chief Financial Officer
- Chief Executive
- Chair of the General Purposes & Audit Committee (GPAC)
- Monitoring Officer
- Any other member of the Executive Leadership Team

The Director of Governance is line managed by the Executive Director of Resources. His independence is further safeguarded by ensuring that his annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the GPAC contribute to, and/or review the appraisal of the Director of Governance.

All Council and contractor staff in the Governance Service are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed. Auditors are also frequently rotated to prevent over-familiarity or complacency which could influence objectivity.

In addition, both the Council and the audit contractor have stringent procedures in place relating to the acceptance of gifts and hospitality and the prevention of bribery.

To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months. Nor will any member of audit staff be involved in any audit work for any area in which they have had operational responsibility within the past 12 months.

The Director of Governance has, in addition to internal audit, responsibility for anti-fraud, elections, customer contact and business support. Arrangements will be made to ensure that internal audits of these areas are scoped and reported upon independently of the Director of Governance.

Due Professional Care

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards (2016);
- The CIPFA Local Government Application Note (LGAN);
- The codes of ethics for any professional body that internal auditors are members of;
- All Council Policies and Procedures
- All relevant legislation

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.

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 Director of Governance is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced. The Director of Governance will ensure that the internal audit service has access to an appropriate range of knowledge, skills, personal attributes, qualifications, experience and competencies required to perform and deliver its responsibilities.