

Internal Audit Service

Internal Audit Charter 2021/22

1. Introduction

- 1.1 The Chief Internal Auditor is responsible for effectively managing the activity of the Internal Audit Service in accordance with this Charter. This Charter has been written in accordance with UK Public Sector Internal Audit Standards (PSIAS) and is the formal document that defines internal audit's purpose, authority and responsibility. The Charter also establishes internal audit's position within the organisation, including access to records, personnel and physical property.

2. Statutory Basis

- 2.1 Internal Audit is statutory service in the context of the Accounts and Audit Regulations (England) 2015, which states that:

“A relevant authority must 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.”

- 2.2 The Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note (LGAN) constitute proper practices to satisfy the requirements for larger relevant local government bodies set out in the Accounts and Audit Regulations 2015. The Charter has been reviewed to ensure it remains compliant with these requirements.

- 2.3 Section 151 of the Local Government Act 1972 states that every local authority should make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has the responsibility for the administration of these affairs (The Chief Financial Officer (CFO)). CIPFA has defined proper administration in that it should include 'compliance with the statutory requirements for accounts and internal audit'.

- 2.4 The CIPFA Statement on the Role of the Chief Financial Officer (CFO) states that the CFO must:

- Ensure an effective internal audit function is resourced and maintained;
- Ensure that the authority has put in place effective arrangements for internal audit of the control environment;
- Support internal audit arrangements; and

- Ensure the audit committee receives the necessary advice and information so that both functions can operate effectively.

2.5 This Internal Audit Charter recognises the mandatory nature of the PSIAS including the definition of Internal Auditing, the Mission of Internal Audit, the Code of Ethics and the Standards themselves.

3. Definition of Internal Auditing

3.1 The Council's Internal Audit Service has adopted the mandatory definition of internal auditing as set out in the common set of 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”

4. Mission of Internal Audit

4.1 The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation. The Council's Internal Audit Service has adopted the mission statement set out in the PSIAS:

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

5. Core Principles for the Professional Practice of Internal Auditing

5.1 The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective in achieving its mission, all the following 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 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.

6. Code of Ethics

6.1 The Code of Ethics, incorporated within PSIAS, is necessary and appropriate for the profession of internal auditors as it is founded on the trust placed in its objective assurance about risk management, control and governance. All internal auditors working for or providing a service to the Council must conform to the Code of Ethics as set out below. If internal auditors have membership of another professional body, then they must also comply with the relevant requirements of that body.

6.2 The Code of Ethics is based upon four principles relevant to the profession and practice of internal auditing and set out the rules of conduct that describe behaviour norms expected of internal auditors to guide their ethical conduct:

- Integrity
- Objectivity
- Confidentiality
- Competency

6.3 **Integrity:** The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement. All internal audit staff will:

- Perform their work with honesty, diligence and responsibility.
- Observe the law and make disclosures expected by the law and their profession.
- Not knowingly be a party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or the Council.
- Respect and contribute to the legitimate and ethical objectives of the Council.

6.4 **Objectivity:** Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. They will make a balanced assessment of all of the relevant circumstances and will not be unduly influenced by their own interests or the interests of others in forming judgements. All internal audit staff will:

- Not participate in any activity or relationship that may impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the Council.
- Not accept anything that may impair or be presumed to impair their professional judgement.
- Disclose all material facts known to them that, if not disclosed, may distort the reporting of the activities under review.

6.5 **Confidentiality:** Internal auditors will respect the value and ownership of the information they receive and will not disclose information without appropriate authority unless there is a legal or professional obligation to do so. All internal audit staff will:

- Be prudent in the use and protection of information acquired in the course of their duties.
- Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Council.

6.6 **Competency:** Internal auditors will apply the knowledge, skills and experience needed in the performance of their duties. All internal audit staff will:

- Engage only in those services for which they have the necessary knowledge, skills and experience.
- Perform their work in accordance with the International Standards for the Professional Practice of Internal Auditing.
- Continually improve their proficiency, effectiveness and the quality of the service they deliver.

7. Principles of Public Life

7.1 Internal audit staff will also have regard to Nolan's Seven Principles of Public Life in the course of their duties. The seven principles are:

- **Selflessness:** Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.
- **Integrity:** Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.
- **Objectivity:** In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
- **Accountability:** Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
- **Openness:** Holders of public office should be as open as possible about all decisions and actions they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
- **Honesty:** Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

- **Leadership:** Holders of public office should promote and support these principles by leadership and example.

8. Purpose, Authority and Responsibilities

8.1 Purpose

8.1.1 Internal Audit Service is a managerial control primarily responsible for objectively examining, evaluating and reporting upon the adequacy of the internal control environment as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit is one of a number of assurance providers that contribute to the Council's corporate assurance framework.

8.1.2 The purpose of the Internal Audit Service is to deliver a risk-based audit plan in a professional and independent manner to allow the Chief Internal Auditor to provide the Council with an opinion on the level of assurance it can place upon the risk management, internal control and governance environments, and to make recommendations for continuous improvement in these areas. This opinion will be set out in the Internal Audit Annual Report to the Audit and Standards Committee and supports the Council's Annual Governance Statement which accompanies the Annual Statement of Accounts.

8.1.3 To this end the Internal Audit Service is required to review, appraise and report upon:

- The soundness, adequacy and application of accounting, financial and other operational controls.
- The extent of compliance with established policies, plans and procedures, statute and regulations.
- The extent to which the Council's assets and interests are properly accounted for and safeguarded from losses of all kinds including fraud, bribery, corruption, other offences, waste, extravagance, inefficient administration, poor value for money or other cause.
- The suitability and reliability of financial and other operational information.
- The economy, efficiency and effectiveness with which resources are utilised.
- Whether operations are being carried out as planned and objectives and goals are being met.
- The investigation of instances of fraud, bribery, corruption and irregularities.

8.1.4 Other objectives include:

- Supporting the Section 151 Officer (Chief Finance Officer) in discharging his statutory duties for ensuring proper administration of the Council's financial affairs.

- Championing good governance by helping to improve the Council's risk management, control and governance processes by providing management with timely advice and guidance.
- Supporting the Audit and Standards Committee in fulfilling its governance responsibilities as detailed in the Committee's terms of reference set out in the Council's Constitution.
- Supporting Officers and Councillors in identifying and understanding exposure to risk and providing advice on control design, techniques and strategies.
- Working with other assurance and review bodies to ascertain the extent to which reliance can be placed on the work of other auditors and inspectorates to maximise assurance and the effectiveness of audit resources available.
- Helping to promote a strong counter fraud culture across the Council, through the development and effective implementation of the Council's Counter Fraud and Corruption Strategy and Anti-Money Laundering policy.
- Providing quality services through the highest standards of professional practice, quality assurance systems and investment in staff.
- Be future focused and to continually add value to the organisation.

8.2 Authority

- 8.2.1 The Internal Audit Service is an assurance function established by the Council under the requirements of the Accounts and Audit Regulations 2015. Article 9 of the Council's Constitution outlines the role of the Audit and Standards Committee. Delegated responsibility to maintain an adequate and effective internal audit of the Council's accounting records and control systems rests with the Strategic Director, Resources and Digital as set out in the Council's Constitution (Delegations to Individual Managers, Article 13).
- 8.2.2 The scope of Internal Audit Service activity allows for unrestricted coverage of the Council's control environment, which includes all its operations, resources, services and responsibilities in relation to other bodies. The Chief Internal Auditor, in consultation with the Chair of the Audit and Standards Committee, the Strategic Director, Resources and Digital, other Strategic Directors and Service Directors will have the freedom to determine the priorities for Internal Audit Service activity.
- 8.2.3 The Chief Internal Auditor will carry out a systematic review and evaluation of all aspects of the internal control environment through consideration of the Council's risk register and consultation with senior managers and the Council's External Auditor. This enables the Chief Internal Auditor to prepare a three-year risk-based plan, covering all areas of the Council and to provide purpose and direction in this process. This plan will be linked to a statement of how the Internal Audit Service will be delivered and developed in accordance with this Charter and the Council's overall objectives.

8.2.4 Financial Regulations grant Internal Audit the authority to:

- Enter all Council premises and land at reasonable times;
- Access all records, documents, data and correspondence relating to all transactions of the Council, or unofficial funds operated by an employee as part of their duties;
- Receive all explanations as are necessary concerning any matter under examination
- Require any employee of the Council to produce cash, stores or any other property under their control belonging to the Council or held as part of the employee's duties.

8.2.5 Such rights of access extend beyond the Council to other bodies, including:

- Organisations to whom the Council has given grants;
- Organisations with whom the Council contracts; and
- Partner organisations in any schemes for which the Council has responsibility as the accountable body.

8.2.6 This will be affected by incorporating these audit requirements into appropriate agreements with external bodies. Where required assurances based on the work of the Internal Audit Service may be provided to such a respective body, this will take the form of a written assurance from the Chief Internal Auditor detailing the objectives of the internal audit activity undertaken and a conclusion on the assessment of the internal control environment.

8.2.7 The main determinant of the effectiveness of the Internal Audit Service is that it is seen to be independent. To ensure this, the Internal Audit Service will operate in a framework that allows direct reporting to the Strategic Director, Resources and Digital and free and unfettered access to all senior management, the Chief Executive, Monitoring Officer and Councillors, including the Chair of the Audit and Standards Committee. The Chief Internal Auditor reports on an administrative basis to the Service Director, Commercialisation and Improvement.

8.2.8 For the purposes of compliance with PSIAS within the Council, the Audit and Standards Committee is designated as the "Board" and Strategic and Service Directors are designated as "Senior Management".

8.3 Responsibilities

8.3.1 The Internal Audit Service will perform all audit work in accordance with PSIAS and the prescribed local procedures as outlined within the Council's Internal Audit Manual, giving due recognition to the mandatory basis of the PSIAS. Auditors will carry out their duties in compliance with the standards and the Code of Ethics detailed within

them. In addition to the Annual Internal Audit Report, the Chief Internal Auditor will report progress against the annual audit plan to the Audit and Standards Committee on a quarterly basis. This will include details of any significant weaknesses identified in internal controls and the results of the Chief Internal Auditor's Quality Assurance and Improvement Programme which assesses compliance with PSIAS.

- 8.3.2 The Internal Audit Service will have no responsibilities over the activities that it audits beyond the furnishing of recommendations and advice to management on associated risks and controls.
- 8.3.3 The existence of the Internal Audit Service does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered way. Management is expected to implement all agreed audit recommendations by the agreed date and each audit will be followed up to assess the extent to which this has happened.
- 8.3.4 Arrangements are in place with Strategic Directors and Service Directors to inform the Internal Audit Service of changes in Council systems and procedures on an ongoing basis.
- 8.3.5 Every effort will be made to preserve objectivity by ensuring that all Internal Audit Service employees are free from any conflicts of interest and do not undertake any non-audit duties other than those for the demands of the Service.
- 8.3.6 Internal auditors will not be allocated to assurance reviews in areas where they have had responsibility for, or have undertaken and significant advice and consultancy work, within the previous 12 months.
- 8.3.7 As the Chief Internal Auditor also has responsibility for corporate risk management and counter fraud, arrangements are made for any audit work to be carried out in these areas by a suitably experienced and qualified auditor. In these cases the Chief Internal Auditor will remove themselves from the review process of those audits and all findings and draft reports will be shared at their conclusion with both the Chief Internal Auditor and the Strategic Director, Resources and Digital in order to apply the necessary safeguards as set out in the PSIAS standard 1112 where the Chief Audit Executive has roles beyond Internal Auditing.

9 Resourcing of Internal Audit

- 9.1 The Chief Internal Auditor assesses resource requirements and draws up the Audit Plan by considering the following:
 - The Council's priorities;
 - The level of risk, taking into account such areas as materiality, complexity, potential for fraud and sensitivity;

- Consultation with senior managers and the External Auditor;
- Changes in legislation;
- The scope of planned external audit work; and
- The implications of external inspection reports.

- 9.2 The staffing structure of the Internal Audit Service comprises of professional accountant, accounting technician and trainee posts with a mix of specialisms to reflect the varied workload of the Service. Where the Chief Internal Auditor considers there to be insufficient resources to deliver an effective audit plan this will be drawn to the attention of the Strategic Director, Resources and Digital and the Chair of the Audit and Standards Committee immediately.
- 9.3 As far as practical, the Internal Audit Service will not participate in the day-to-day operation of any systems of internal control. Where this is unavoidable then the auditor in question will not perform audit work in the same area for a minimum of 12 months thereafter. Any conflicts of interest relating to a respective area must be notified in advance to the Chief Internal Auditor. The Chief Internal Auditor maintains a record of all declared interests from Internal Audit staff and regular training sessions will be carried out to remind staff of the Code of Ethics. If any impairment to objectivity or independence does occur, then these will be disclosed to appropriate parties depending on the nature of the impairment; with significant breaches being reported to the Audit and Standards Committee.
- 9.4 Employees within the Internal Audit Service will be expected to contribute to the general management and conduct of the Council's business through membership of working groups and participation in ad hoc exercises.
- 9.5 At the request of the Strategic Director, Resources and Digital, appropriate specialists from other Services should be made available to participate in any audit or review requiring specialist knowledge.
- 9.6 The Chief Internal Auditor will carry out a continuous review of the development and training needs of all audit personnel and will arrange in-service training delivered through both internal and external courses.
- 9.7 Internal Audit maintains its awareness of national and local issues through membership and subscription to professional bodies such as CIPFA's Better Governance Forum, Technical Information Service, Finance Advisory Network, the Institute of Internal Auditors and through regular liaison with external audit.
- 9.8 The Service will keep abreast of best audit practice by adhering to CIPFA's and the IIA's practice advisories and practice guides, where applicable, as well as networking with other internal audit service providers.

9.9 In this regard the Service considers trends and emerging issues that could impact on the organisation.

10 **Scope of Audit Work**

10.1 Internal Audit's role applies to all functions and services for which the Council is responsible, including those delivered by partners where appropriate.

10.2 In addition to the regular review of all key systems of internal control which forms the majority of assurance work, Internal Audit will:

- Respond to requests for support, advice and guidance on implementing and / or improving best practice control procedures for current and new systems.
- Provide support, advice and guidance on risk and controls to staff involved in the design and implementation of new systems and processes.
- Provide assistance on key projects, including attendance on project boards, and conduct specialist consultancy and value for money reviews. The scope of the work is agreed with management and is subject to having the necessary resources, skills and ensuring suitable assurance over Internal Audit's independence and objectivity. Consultancy work will be assessed by the Chief Internal Auditor for its impact on the internal control environment and the potential added value in terms of the Council achieving its legitimate and ethical objectives. Any significant advice and consultancy work that may be considered to impact on the independence of the Internal Audit Service will be reported to the Audit and Standards Committee for approval.
- Be alert in all its work to risks and exposure that could allow fraud and corruption to occur and to any indications that a fraudulent or corrupt practice may be occurring.
- Review controls where a potential fraud has been detected / reported to provide assurance that the alleged fraudulent activity is unable to continue and to prevent a reoccurrence.
- Determine the most appropriate course of action by which fraud and irregularities should be investigated in accordance with the Council's Counter Fraud and Corruption Policy.

10.3 It must be noted that whilst Internal Audit will promote the Council's Counter Fraud Policy to deter and prevent fraud, for example participating in the National Fraud Initiative, it does not have responsibility for the prevention and detection of fraud and corruption. Internal Audit cannot guarantee that fraud or corruption will be detected

in its work. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud, bribery and corruption will be detected. Managing the risk of fraud and corruption is the responsibility of all service managers.

- 10.4 The Chief Internal Auditor has provision in the Audit Plan to allow for the investigation of fraud, bribery and corruption and the Council's Financial Regulations, Fraud and Corruption Policy and Statement on the Prevention of Bribery require him to be notified of all suspected or detected fraud, corruption or impropriety. The Chief Internal Auditor will assess the potential impact of such cases on the internal control environment.

Date of next Review - April 2022.