

Draft - Internal Audit Charter

1. Introduction

1.1. The purpose of this charter is to define what Internal Audit is and explain its purpose, authority, and responsibility. The Charter establishes Internal Audit's position within the organisation, including the nature of the Internal Audit & Corporate Investigations Manager reporting relationship with the Corporate Governance & Audit Committee. It provides a framework for the conduct of the service and has been approved by SLT and the Corporate Governance & Audit Committee.

2. Definition

2.1. The definitions in the Public Sector Internal Audit Standard is:

“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisations operation. 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”.

2.2. Internal Audit is therefore an assurance function which primarily provides an independent and objective opinion to the Council and its governance arrangements and internal controls.

2.3. The Internal Audit Service does this by conducting an independent appraisal of all the Council's activities, financial and other. It provides a service to the whole of the Council and to all levels of management.

2.4. The PSIAS also includes a Mission for Internal Audit which is “To enhance and protect organisation value by providing risk-based and objective assurance, advice and insight.” The policies and processes established by the Internal Audit will work towards the delivery of this Mission. These include complying with the Core Principals for the Professional Practice of Internal Audit which are also set out in the PSIAS.

3. Requirement for Internal Audit

3.1. The legislation for an Internal Audit function originates 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”.

3.2. More precise requirements are set out in the Accounts and Audit Regulations 2015 which requires the council “to undertake and effective Internal Audit Service to evaluate the effectiveness of its risk

management, control and governance processes, taking into account public sector Internal Auditing standards or guidance”, This is reinforced in the Council’s Financial Regulations which states:

The Internal Audit Service will provide a continuous and independent appraisal and review of all internal control systems. It will objectively examine, evaluate and report upon the adequacy of such internal controls as a contribution towards value for money practices, the proper and efficient use of resources and to minimise the risk of irregularity. The findings and recommendations from each audit review shall be reported to the Corporate Governance & Audit Committee.

3.3. For Local Authorities the relevant standards are the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note (LGAN).

4. Objectives

4.1 The objective of the Internal Audit Section is to give assurance to the Council on the adequacy of its governance arrangements. The Key elements 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 departments policies and procedures and legislative requirements.
- 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 key policies such as the Code of Conduct, Financial Regulations and Anti-fraud and Bribery frameworks.

5. Scope and Authority of Internal Audit

5.1 All the Council’s activities, may be subject to review by Internal Audit. Internal Audit work will cover all the operational and management controls within the Council. 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.

5.2 The Internal Audit Service will consider the adequacy of the controls established by managers to secure propriety, economy, efficiency and effectiveness in all areas.

5.3 The Internal Audit Service may also conduct any special reviews, provide independent and objective services, such as consultancy and fraud related work as requested by Management. There will always be due consideration in planning this work to ensure that the Section maintains its objectivity and independence.

5.4. Internal Audit does not have responsibility for the prevention and detection of fraud or corruption. It is the responsibility of all Managers to ensure appropriate procedures are put in place to prevent and detect fraud. Internal Auditors and Corporate Investigations should, 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.

5.5. In line with the Council's Anti-fraud and Corruption Framework, the Internal Audit & Corporate Investigations Manager should be notified of all suspected or detected fraud or corruption within the Council. Where relevant the Internal Audit Section will advise and assist Managers in the investigation of the fraud and corruption.

6. Responsibility of Internal Audit

6.1 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 the managers within the authority who have responsibility for the development and maintenance of governance arrangements.
- comments made by the external auditors and other review agencies and inspectorates.

6.2. To assist with this, review the Internal Audit & Corporate Investigations Manager 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.

6.3 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 whole internal control system.
- to ascertain the extent to which the systems of internal control ensure compliance with current policies and procedures.
- to ascertain the extent to which assets and interests entrusted to or funded by the Council are properly controlled and safeguarded from losses arising from fraud, irregularity, or corruption.
- to ascertain that accounting and other information is reliable as a basis to produce accounts, and financial, statistical and other returns.
- to ascertain the integrity and reliability of financial and other information provided to management, including that used in the decision-making processes.
- to ascertain that systems of control are laid down and operate to promote the economic and efficient use of resources.
- to investigate, where appropriate, frauds or significant breaches of the internal control system.

6.4 Managers, and not Internal Audit, have ultimate responsibility for ensuring that internal controls throughout the Council are adequate and effective. 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.

6.5 Responsibility for the response to advice and recommendations of Internal Audit lies with management, who either accept and implement the advice or formally reject it accepting the risks involved in doing so. Internal Audit advice and recommendations are given without prejudice to the right of Internal Audit to review and offer an opinion on the relevant policies, procedures and operations at a later stage.

7. Statutory Requirements and Standards

7.1 The work of the Internal Audit Section will be performed with due professional care and in accordance with the Accounts and Audit Regulations 2015 (as amended), the Public Sector Internal Audit Standards 2017, CIPFA's Local Government Application Note and any subsequent guidance which updates or replaces these.

7.2. The Internal Audit Section will adopt a risk-based systems approach to auditing to meet its primary objective of reviewing the governance arrangements of the Council. In undertaking its work, the Section will:

- identify all elements of control systems on which it is proposed to place reliance.
- evaluate those systems, identify inappropriate or inadequate controls, and recommend improvement in procedures or practices.
- provide advice on the management of risk, predominantly but not exclusively surrounding the design, implementation, and operation of systems of internal control.
- produce clear reports that provide management with an opinion on the soundness, adequacy, and application of internal controls.
 - ascertain that those systems of internal control are designed and operate to achieve the most economic, efficient, and effective use of resources.
 - draw attention to any apparently uneconomical or unsatisfactory results flowing from decisions, practices, or policies.
 - contribute to the general management and conduct of business through the provision of expertise on appropriate working-groups and participation in ad-hoc exercises, subject to adequate resources being available in the audit plan; and
- liaise with External Auditors.

7.3. All Internal Auditors working in Local Government are required to comply with the Nolan Principles (Seven Principles of Public Life) of Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, Leadership, and 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. The PSIAS Code of Ethics covers 4 principles, Integrity, Objectivity, Confidentiality and Competency. Compliance with the Code of Ethics will be monitored as set out in the QAIP.

7.4. The Internal Audit Service will also work in accordance with the Core Principles for the Professional Practice of Internal Audit as set out in the PSIAS. These are set out below:

- 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.

8. Independence of Internal Audit

8.1 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.

8.2. 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 Audits main responsibilities. All Audit & Corporate Investigations 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.

8.3 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 Internal Audit & Corporate Investigations Manager has alternative reporting lines which can be used if necessary to report information.

8.4. The Internal Audit & Corporate Investigations Manager reports to the Divisional Manager – Financial Services but has the right to report directly to the s151 Officer; Chief Executive; Monitoring Officer; Chair of the Corporate Governance & Audit Committee or External Auditor where it is deemed necessary. The Divisional Manager – Financial Services has other areas of responsibility which may compromise their independence when these areas are subjected to audit, where this occurs the Internal Audit & Corporate Investigations Manager will look to report significant issues directly to the Director of Corporate Services.

8.5. The Internal Audit & Corporate Investigations Manager will make the Corporate Governance & Audit Committee aware if the independence of Internal Audit Service is compromised or appears to be compromised.

8.6. Internal Audit staff are often consulted during system, policy, or procedure development. This is a good practice as it enables comments to be made on potential control weaknesses and tries to ensure that systems, policies, or procedures are adequate prior to being introduced. However, this does not preclude Internal Audit staff from reviewing and making comments for improvements during routine audits or other reviews where they were consulted during the system, policy, or procedure development stage.

8.7. The Internal Audit Service determines its work priorities in consultation with the Divisional Manager – Financial Services, Senior Leadership Team, the s151 Officer and the Corporate Governance & Audit Committee.

8.8. The Internal Audit & Corporate Investigations Manager reports to the Corporate Governance & Audit Committee in relation to the delivery of the

Internal Audit Plan, the Internal Audit Annual Report, and periodic updates of Internal Audit work.

8.9. The Internal Audit & Corporate Investigations Manager is responsible for the content of all written reports produced by the Section. The Internal Audit & Corporate Investigations Manager has the right to report in his own name and offer an audit opinion without “fear or favour” to all officers and members and to those charged with governance at the Council.

9. Authority and Rights of Access

9.1. To perform their duties Internal Audit has the authority, as set out in the Council’s Financial Regulations, to:

- enter at all reasonable times, any Council premises or land.
- have access to all records, documents, correspondence, and computer systems relating to the Council and its activities.
- require and receive such explanations as necessary concerning any matter under examination.
- require any employee of the Council to produce records, cash, stores, or any other Council property under their control, necessary to carry out their duties.
- have the right to direct access to the s151 Officer; Chief Executive; Chair of the Corporate Governance & Audit Committee, Leader of the Council and External Auditors, where it is deemed necessary. These powers are supported by the Accounts and Audit Regulation 2015.

9.2. Where necessary such rights of access may be called upon and should be granted to Internal Auditors on demand and not subject to prior notice or approval.

9.3. All employees are required to assist Internal Audit in fulfilling its roles and responsibilities.

9.4. 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 the audit work that they need to discharge their responsibilities.

10. Objectivity and Confidentiality

10.1. 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.

10.2. All records, documentation and information accessed while undertaking Internal Audit activities shall be used solely for that purpose.

The Internal Audit & Corporate Investigations Manager and individual Internal Auditors are responsible and accountable for maintaining the confidentiality of the information they receive during their work.

10.3. All Internal Audit reports are confidential and written for management however they may be requested by the public under freedom of information legislation. The Internal Audit & Corporate Investigations Manager must be consulted before making the report available under the Freedom of Information Act and where necessary elements of the report can be redacted.

10.4. The Internal Audit & Corporate Investigations Manager should also be consulted before any Internal Audit Report or extracts from it are included in a committee report or released to any other party and subject to applicable exemptions under the Act, apply redactions where required.

11. Internal Audit Resources

11.1. 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 Internal Audit & Corporate Investigations Manager in conjunction with the Divisional manager – Financial services, will formally report this to the s151 Officer, Chief Executive, and the Corporate Governance & Audit Committee.

11.2. The staffing structure of the section will comprise a mix of professional and technician posts to provide a wide knowledge and skills base.

11.3. The Internal Audit & Corporate Investigations Manager should hold a relevant professional qualification or be suitably qualified by experience. The s151 Officer has the right to be involved in the recruitment and selection of the Internal Audit & Corporate Investigations Manager.

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

11.5. 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 or investigation requiring detailed specialist knowledge.

12. Internal Audit Management

12.1. The Internal Audit & Corporate Investigations Manager 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 Internal Audit & Corporate Investigations Manager will:

- prepare an audit plan to review all relevant areas, and to update the plan regularly to account for changes in Council priorities and risks. The plan will be presented to the Corporate Governance & Audit Committee annually in March, and any subsequent changes will be reported to Committee at the quarterly progress reports.
- manage a portfolio of work for each auditor to achieve the annual audit plan.
- ensure the issue of an Audit Brief for each assignment undertaken setting out the scope and objectives of the work, timescales and reporting arrangements.
- ensure that relevant testing is carried out on which sound judgements can be based.
- ensure that work is undertaken, completed, and issued in a timely manner.
- ensure that a written report is produced for each assignment giving an opinion on the control environment and identifying actions to address any weaknesses.
- ensure that follow-up work is undertaken, where appropriate, to monitor the implementation of agreed management actions.
- ensure that all audit work is completed to high standards in accordance with relevant professional standards.
- establish and maintain effective relationships with managers of all levels and obtain feedback from them on the work of the section including the use of user satisfaction surveys.
- establish and maintain effective relationships with the External Auditors.
- monitor the effectiveness of the service delivered to clients and compliance with relevant standards.
- undertake an annual review of the development and training needs of Internal Audit employees and arrange for appropriate training to be provided to address the needs where possible.
- develop and maintain a quality assurance and improvement programme (QAIP) covering all aspects of Internal Audit Activity.

13. The Internal Audit Plan

13.1. The work of the Internal Audit Service is based on the delivery of a risk-based Audit Plan and is conducted on a predominantly risk-based systems audit approach. The Service prepares a new Audit Plan each year in line with the requirements of the PSIAS.

13.2. The Audit Plan is derived from areas that have been identified for review following an assessment of the risks relating to each area. This is referred to as the “Audit Universe”.

13.3. Account is taken of the risks identified in the Council’s strategic risk register and from other sources of assurance such as external inspections

and performance management information. Internal Audit also undertakes its own assessment of the risks.

13.4. Each area of activity is analysed across a range of criteria which include income, expenditure, complexity of regulations, sensitivity of the system, and any known weakness.

13.5. The resulting scores are banded into three risk categories High, Medium, and Low.

13.6. The risk scores are reviewed each year. The review results in some scores increasing, some decreasing and some remaining unchanged. This in turn influences the risk category assigned to each area, for example a medium risk this year could become a high risk or a low-risk next year.

13.7. Once the risk scores have been updated the audits are ranked in accordance with the risk scores and this is compared to the resources available within the Section to determine the areas that can be reviewed in the year. The Section will usually review all High-Risk areas and a selection of Medium-Risk areas each year.

13.8. Discussions will be held with all Divisional Managers each year to obtain input into the identification of the Audit Universe and in the compilation of risk scores. In addition, views on the timings of reviews will also be sought from the Senior Leadership Team.

13.9. Where emerging risks become apparent or the Council is going through a major period of change the Internal Audit & Corporate Investigations Manager can determine, in consultation with the Divisional Manager – Financial Services and/or the s151 Officer, whether the focus of the Audit Plan should be based on the emerging risks and update the Audit Universe assessment of the risk as appropriate.

13.10. The Internal Audit Plan is presented to the Corporate Governance & Audit Committee for approval, usually in March each year.

14. Other Operational Work

14.1. In addition to the delivery of the Internal Audit Plan and following-up the implementation of recommendations made the section also carries out some other operational work. The main types of other operational work are categorised as follows:

Ad-Hoc Advice – this is the answering of queries from managers and other employees normally relating to the application of financial regulations, corporate policies, or other procedures. These are normally small pieces of work taking less than 2 hours to complete.

Consultancy – consultancy work is something which is a bit more detailed than the provision of ad hoc advice and will take longer to

complete. Consultancy work usually comes from a request from management for Internal Audit to look at an area or provide more detailed advice. Typical examples include – review of changes to processes to ensure adequate controls are built into the system or a review of a minor control failure. Consultancy assignments can range from half a day to several weeks work and require the approval of the Internal Audit & Corporate Investigations Manager.

Special Investigations – These are more detailed reviews into control failures, suspected breaches of financial regulations, fraud and corruption offences or other disciplinary offences which involve the misuse of Council assets.

Value-for-Money (VFM) Reviews – These are specific reviews to determine whether Council processes and systems are providing value for-money. Specific VFM reviews do not happen very often however, does consider VFM factors during planned audit work, and the making of recommendations.

Fraud & Irregularities – Divisional Managers / Line Managers are responsible for managing risk to prevent fraud and irregularity, waste of resources etc. Internal Audit will assist Divisional Managers / Line Managers to effectively manage these risks. However, no levels of control can guarantee that fraud will not occur even when the controls are performed on a day-to-day basis.

Where there is evidence or reasonable suspicion that a fraud or irregularity has occurred that this must be reported immediately to Internal Audit. All cases will be dealt with in accordance with the Council's Constitution.

15. Reporting Lines

15.1 The Internal Audit & Corporate Investigations Manager reports to the Divisional Manager – Financial Services for line management purposes. However, alternative reporting lines are available to the Internal Audit & Corporate Investigations Manager where these are deemed necessary as set out in 8.4.

15.2. The Internal Audit & Corporate Investigations Manager will report to the Audit Committee on the section's performance in terms of the Internal Audit Plan and the reporting of the outcome of the work including the issuing of an annual report and opinion.

15.3. The Internal Audit & Corporate Investigations Manager will present the Annual Audit Plan to members of SLT the s151 Officer and the Audit Committee. This plan will be approved by the Corporate Governance & Audit Committee.

15.4. An Annual Report will be presented to the Audit Committee covering the work of the Internal Audit & Corporate Investigations Section. This report will also be a key source of assurance for the Council's Annual Governance Statement (AGS) and must be presented no later than the meeting at which the AGS is considered and approved.

15.5. The Internal Audit & Corporate Investigations Manager will monitor and report on the work of the team on a regular basis. Regular reports outlining progress against the Internal Audit Plan and summarising the assurances given for completed audits will be presented to the Corporate Governance & Audit Committee.

15.6. The Internal Audit Service will produce a written report for all assignments to the relevant Divisional Managers, Senior Manager or a member of the Senior Leadership Team or the Chief Executive.

15.7. The Internal Audit & Corporate Investigations Manager will be responsible for reviewing the implementation of recommendations. The Audit Committee will be informed of the results of all Internal Audit work carried out to follow-up recommendations.

15.8. The Internal Audit & Corporate Investigations Manager will follow up the failure to implement fundamental recommendations or a significant number of recommendations will be reported to the s151 Officer, Senior Leadership Team, Chief Executive, Monitoring Officer, Divisional Managers, and members of the Corporate Governance & Audit Committee.

15.9. The Internal Audit & Corporate Investigations Manager will report to the s151 Officer any serious weaknesses or significant fraud identified from the course of Internal Audit work or reported to the Internal Audit Service. The matter may also be reported to the Chief Executive, Monitoring Officer, relevant member of the Senior Leadership Team, the External Auditors, and the Corporate Governance & Audit Committee where necessary.

16. Quality Assurance and Improvement Programme

16.1 The Internal Audit & Corporate Investigations Manager will develop and maintain a Quality Assurance and Improvement Programme (QAIP) in accordance with PSIAS.

16.2. The QAIP will form the basis of the review of the system of Internal Audit as required by the PSIAS. For Internal Audit Sections operating in Local Government proper practice is now deemed to be PSIAS plus the Local Government Application Note (LGAN).

16.3. 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 because 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.

16.4. An independent external review of Internal Audit will be carried out as part of the QAIP at least once every five years. The Divisional Manager or s151 Officer will support the external review and agree the scope and nature of the external review with the Internal Audit & Corporate Investigations Manager and the external reviewer.

16.5. 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 Corporate Governance & Audit Committee. Serious deviations from conformance will need to be considered for inclusion in the Council's Annual Governance Statement.

17. Relationship with Elected Members

17.1. The Divisional Manager – Financial Services and the Internal Audit & Corporate Investigations Manager will maintain a working relationship with the Chair and other members of the Corporate Governance & Audit Committee. The Internal Audit & Corporate Investigations Manager will have direct access to the Chair of the Corporate Governance & Audit Committee where necessary.

17.1. Unless stated elsewhere, the Corporate Governance & Audit Committee will fulfil the roles and responsibilities of “The Board” for the purposes of the PSIAS.

18. Relationships with Senior Management

18.1. Members of the Senior Leadership Team will fulfil the role of “Senior Management” as defined in the PSIAS. The Internal Audit & Corporate Investigations Manager will work to maintain an on-going relationship with all members of the Senior Leadership Team.

18.2. A written report will be produced for each assignment and presented to the relevant Divisional Manager. This report will: -

- include an overall opinion on the adequacy of the internal control environment for the area under review.
- identify any areas of weaknesses in the control environment and risks which have not been addressed.
- make recommendations for the necessary improvements needed to address the weaknesses identified.
- detail management's response and timescales for corrective action to be taken.

18.3. The progress reports and the Annual Audit report will be circulated to the Senior Leadership Team prior to being submitted to the Corporate Governance & Audit Committee.

19. Relationships with Statutory Officers

19.1. Internal Audit will maintain a close relationship with the Statutory Officers of the Authority (Head of Paid Service, s151 Officer and Monitoring Officer) and others with Assurance or Governance responsibilities.

19.2. 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. The 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.

19.3. The "Role of the Chief Financial Officer in Local Government" guidance document produced by CIPFA places a direct responsibility on the s151 Officer "to support the Council's Internal Audit arrangements" and to ensure that they are "effectively resourced and maintained" to comply with the Accounts and Audit Regulations.

20. Review of the Internal Audit Charter

20.1. The Internal Audit & Corporate Investigations Manager will review the Audit Charter and any revision will be presented to the Corporate Governance & Audit Committee for approval.

Updated November 2023