

INTERNAL AUDIT CHARTER



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1. Introduction

The purpose of the Audit Charter is to define what Internal Audit is and explain its purpose, role and activities.

The standards for the work of an Internal Audit section are laid down in the Public Sector Internal Audit Standards which came into effect on 1st April 2013. The objectives of these standards are to:

- Define the nature of internal auditing within the UK public sector;
- Set basic principles for carrying out internal audit in the UK 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 for the evaluation of internal audit performance and to drive improvement planning.

2. Definitions

The definition of an internal audit function is:

“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.”

The “Board” is the Audit and Governance Committee.

“Senior Management” are the Heads of Service who are members of the Corporate Management Team.

3. Requirement for Internal Audit

The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities “*make arrangements for the proper administration of their financial affairs*”. The Accounts and Audit Regulations 2006 more specifically require that a “*relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.*”

4. Management and Internal Audit

It is the responsibility of Management to establish an operating environment which is controlled, efficient and effective. Internal Audit is one element of control within the operating environment.

Internal Audit does not relieve management of its responsibility for maintaining effective control and risk management. It is, however, that element of the control environment specifically established to effectively appraise the effectiveness of control. It can then reassure management when control is adequate and identify and report inadequate control to enable the appropriate action to be taken to strengthen it before any serious breakdown occurs.

5. Independence and Objectivity

Internal Audit is an independent unit within Financial Services. To ensure its independence the Internal Audit Manager has right of access to the Chief Executive and/or the Leader of the Council should circumstances warrant such. In addition, there is a right of access to all Members of the Council as a matter of last resort.

Every effort will be made to retain the independence and objectivity of the team by not carrying out any non-audit activities. However if any member of the Internal Audit team is required to carry out any non-audit activity then it will be ensured that they do not carry out an audit review which would mean they would be reviewing work that they carried out themselves.

6. Role and Objectives

The role of Internal Audit is to:

- review and assess the soundness, adequacy and reliability of financial, management and performance systems and data;
- review and assess the effectiveness of internal controls and make recommendations to improve these where appropriate;
- review and assess procedures to check that the Council's assets and interests are adequately protected and risks are identified and effectively managed;
- check for compliance with legislation, Council policies and procedures;
- promote and assist the Council in the effective use of resources;

- undertake consultancy work with departments where appropriate;
- undertake independent investigations regarding allegations of fraud and irregularity in accordance with Council policies and procedures and relevant legislation.

The objectives of Internal Audit are to:

- provide a high quality effective Internal Audit service that meets the needs of the Council;
- support and help embed corporate governance requirements and risk and business continuity management throughout the Council.
- help identify areas for improvement.
- offer advice and assurance on achieving effective internal controls.
- comply with professional internal auditing standards (Public Sector Internal Audit Standards).
- Assist the Section 151 Officer in the discharge of their responsibilities.

7. Scope

The scope of the Internal Audit function allows for unrestricted coverage of all the activities across the authority.

The work of the function will include:

Governance – audit reviews testing the adequacy of the internal control environment.

Consultancy – carrying out special assignments requested by senior management. However this is only carried out where resources all and is not carried out to the detriment of governance reviews.

Fraud and irregularities – special investigations will be carried out to review reports of frauds and irregularities. These will be carried out in accordance with the Special Investigations procedures.

Advice – the members of the Internal Audit function will give advice to officers as part of their day duties when carrying out reviews or when specifically approached.

8. Assurance

Much of the work of Internal Audit is carried out to provide assurance to Management on the overall adequacy and effectiveness of controls operating within the system. However the most that the Internal Audit service can provide is "reasonable" assurance that there are no major weaknesses in the framework of internal control. The performance of internal audit work is not, and should not be taken as, a substitute for management's responsibilities for the application of sound management practices. It should be emphasised that the responsibility for a sound system of internal controls, and the prevention and detection of fraud and irregularities, rests with management. The work of Internal Audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity.

The external auditors will review the work of the Internal Audit service and will decide whether the work can be relied on. Their opinion is published annually in their Annual Audit Letter.

9. The Audit Strategy and Plan

The strategy for Internal Audit forms part of the Strategic Audit Planning process (currently an annual risk based audit plan) and the Service and Financial Plan. The strategy should communicate the contribution that Internal Audit makes to the organisation and should include:

- objectives and outcomes;
- how the Internal Audit Manager will form and evidence their opinion on the control environment to support the Annual Governance Statement.
- how Internal Audit's work will identify and address significant local and national issues and risks;
- how the service will be provided (i.e. internally or externally);
- the resources and skills required to deliver the strategy.

The strategy should be approved by the Audit and Governance Committee.

Internal audit assignments are performed in accordance with an annual audit plan. The plan is a prioritised schedule of assignments, based on an assessment of risk, to be performed during the course of the financial year. The plan is developed and maintained by the Internal Audit Manager and requires the approval

of the Corporate Management Team with the endorsement of the Council.

Internal Audit's resource requirements will be assessed as part of the annual Service and Financial Plan.

10. Working Practices

Internal Audit's remit extends to the entire control environment of the Council. Accountable managers are to allow Internal Audit unrestricted access to Council premises to interview staff, observe operations and examine records to allow them to fulfil their responsibilities. In addition, Internal Audit shall receive such explanations as are necessary concerning any matter under examination and require any employee of the Council to produce cash, stores or any other Council property under their control.

Internal Audit has an obligation to respect the confidentiality of information to which they are privileged to have access in the course of their work.

The procedures to be followed for carrying out an audit review are laid down in the Internal Audit manual and the Internal Audit Manager will review the work carried out against the procedures and feedback to the auditor. The results of Customer Satisfaction Surveys will also be reviewed by the Internal Audit Manager.

The Internal Audit function will work to an annual plan of assignments agreed in discussion with both senior management and the Audit and Governance Committee. These assignments will include a mixture of audit reviews and consultancy work designed to assist management to ensure best working practices and controls are considered early when designing new systems.

The objective of each review is to provide assurance to management on the overall adequacy and effectiveness of controls operating within the system. At the end of the year the Internal Audit Manager will report an overall opinion of the control environment based on the work carried out during the year.

11. Reporting

The Internal Audit Manager will report to the Audit and Governance Committee as follows:

- presenting and obtaining approval of the Annual Audit Plan;
- reporting annually the section's compliance with the Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 self assessment; (from April 2013

compliance with the Public Sector Internal Audit Standards will be reported).

- reporting annually on the performance and effectiveness of the internal audit service;
- reporting quarterly on work undertaken by the section including any fraud and irregularity work;
- seeking approval for any changes and additions to the audit plan throughout the year;
- reporting any serious weaknesses found in the internal control systems and any instances where corrective action has not been taken by the Head of Service concerned;
- reporting any instances where responses to audit reports (draft and final) have not been received, and where agreed Audit recommendations have not been actioned, within an acceptable timescale.

The Internal Audit Manager is required to deliver an annual audit opinion to the Section 151 officer to support the Annual Governance Statement based on the work carried out by the section that year.

12. Relationships with Elected Members

The Internal Audit Manager must establish and maintain good working relationships and channels of communication with members. This should be achieved by regularly attending the Audit and Governance Committee meetings and responding to any issues raised by Councillors, especially those who are members of the Audit and Governance Committee.

The Internal Audit Manager should have the opportunity to meet privately with the members of the Audit and Governance Committee if appropriate.

13. Code of Ethics

Internal Auditors have a separate code of ethics to which they must adhere. These are set by the Relevant Internal Audit Standard Setters in the Public Sector Internal Audit Standards. This authority holds a separate document "Code of Ethics for Internal Auditors".

In addition internal auditors must have regard to the Seven Principles of Public Life which the Committee of Standards of Public Life believes should apply to all the public services. These 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 the decisions and actions that 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.