

# Internal Audit Charter

June 2016



Working together

### 1 Introduction

- 1.1 The Internal Audit Charter is a formal document that defines Internal Audit's purpose, authority and responsibility. The charter establishes Internal Audit's position within the organisation, including the nature of the Chief Internal Auditor's functional reporting relationship with the Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit's activities. It provides a framework for the conduct of the service and has been approved by the Council's Leadership Team and the Audit Committee<sup>1</sup>.
- 1.2 The requirement for an Internal Audit function derives 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". More specific requirements are set out in the Accounts and Audit Regulations 2015 which require the Council to "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". This is reinforced in the Council's Financial Regulations.

### 2 Purpose of Internal Audit

- 2.1 The definition provided in the Public Sector Internal Audit Standards (PSIAS) 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."*
- 2.2 Internal Audit is therefore an assurance function which primarily provides an independent and objective opinion to the Council on its governance arrangements and internal controls.
- 2.3 The Internal Audit Section does this by conducting an independent appraisal of all the Council's activities, financial and otherwise. 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 organisational value by providing risk-based and objective assurance, advice and insight."* The policies and processes established by Internal Audit will work towards the delivery of this Mission.

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<sup>1</sup> The term Audit Committee is used throughout the document - this will refer to the Audit & Governance Committee at Cannock Chase DC and the Audit & Accounts Committee at Stafford BC

### **3 Objectives of Internal Audit**

3.1 The objective of the Internal Audit Section is to give assurance to the Council on the adequacy of its governance arrangements. The key elements of this 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 departmental policies and procedures and legislative requirements; and
- 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 including input in to the key policies such as Financial Guidelines and Anti-fraud & Bribery Frameworks.

### **4 Scope & Authority of Internal Audit**

4.1 All of the Council's activities, regardless of funding source, may be subject to review by Internal Audit. Internal Audit work will cover all of 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.

4.2 The scope of audit work extends to services provided through partnership arrangements (including Shared Services). The Chief Internal Auditor will decide, in consultation with all parties, whether Internal Audit will conduct the work to derive the required assurance themselves or rely on assurance provided by other auditors. Where relevant, appropriate access rights will be negotiated and included in contracts and partnership agreements to ensure that Internal Audit can obtain access to the personnel and records within the partner organisation to obtain the necessary assurances.

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

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- 4.4 It is not the remit of the Internal Audit Section to question the appropriateness of policy decisions. However, the Section is required to examine the management arrangements of the Council by which such decisions are made, monitored and reviewed, how policies are applied by the Council and also compliance with agreed policies.
- 4.5 The Internal Audit Section 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. The impact of taking on additional work on the audit plan will be taken into account and where necessary reported to the Head of Governance and the Audit Committee for approval.
- 4.6 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 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.
- 4.7 In line with the Council's Anti-fraud and Corruption Framework, the Chief Internal Auditor should be notified of all suspected or detected fraud, corruption or impropriety within the Council. Where relevant the Internal Audit Section will advise and assist Managers in the investigation of the fraud and corruption.

### **5 Responsibility of Internal Audit**

- 5.1 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; and
  - comments made by the external auditors and other review agencies and inspectorates.
- 5.2 To assist with this review the Chief Internal Auditor 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.

- 5.3 In order to provide the required opinion the Internal Audit Section will undertake a programme of work on the advice of the Chief Internal Auditor. The programme of work 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 for the production of 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.
- 5.4 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.
- 5.5 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.

## **6 Statutory Requirement and Standards of Approach**

- 6.1 The work of the Internal Audit Section will be performed with due professional care and in accordance with the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS) and any subsequent guidance which updates or replaces these.

- 6.2 The Internal Audit Section will adopt a predominantly risk based systems approach to auditing in order 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.
- 6.3 All Internal Auditors working in Local Government are required to comply with 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.
- 6.4 The Internal Audit Section will work in accordance with the Core Principles for the Professional Practice of Internal Audit as set out in the PSIAS.
- 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.

**7 Independence of Internal Audit**

- 7.1 The Internal Audit Section 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.
- 7.2 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 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.
- 7.3 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 Chief Internal Auditor has no other areas of responsibility other than the Internal Audit function.
- 7.4 The Chief Internal Auditor reports to the Head of Governance but has the right to report directly to the s151 Officer, Chief Executive/Managing Director, Monitoring Officer, Chair of the Audit Committee or External Auditor where it is deemed necessary. The Head of Governance has other areas of responsibility which may compromise their independence when these areas are subjected to audit, where this occurs the Chief Internal Auditor can invoke the right to report directly to others.
- 7.5 The Chief Internal Auditor will make the Audit Committee aware if the independence of Internal Audit is impaired or appears to be impaired. The nature of such a disclosure will depend upon the nature of the impairment.
- 7.6 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.
- 7.7 The Internal Audit Section determines its work priorities in consultation with Leadership Team, the s151 Officer and the Audit Committee.
- 7.8 The Chief Internal Auditor reports to the Audit Committee in relation to the delivery of the Internal Audit Plan, the Internal Audit Annual Report and periodic updates of Internal Audit work.

- 7.9 The Chief Internal Auditor is responsible for the content of all written reports produced by the Section. The Chief Internal Auditor has the right to report in his own name and offer an audit opinion without “fear or favour” to all officers and members and in particular to those charged with governance at the Council.

## **8 Authority and Rights of Access**

- 8.1 In order 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/Managing Director, Chair of the Audit Committee, Leader of the Council and External Auditors, where it is deemed necessary.

These powers are supported by the Accounts & Audit Regulation 2015.

- 8.2 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.
- 8.3 All employees are required to assist Internal Audit in fulfilling its roles and responsibilities.
- 8.4 The Internal Audit Section 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 in order to discharge their responsibilities.



**9 Objectivity & Confidentiality**

- 9.1 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.
- 9.2 All records documentation and information accessed in the course of undertaking Internal Audit activities shall be used solely for that purpose. The Chief Internal Auditor and individual Internal Auditors (including contractors and external providers performing work on behalf of Internal Audit) are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.
- 9.3 All Internal Audit reports are confidential however they may be requested under the freedom of information legislation. The Chief Internal Auditor must be consulted before making the report available under the Freedom of Information Act and where necessary elements of the report can be redacted.
- 9.4 The Chief Internal Auditor 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.

**10 Internal Audit Resources**

- 10.1 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 Section, the Chief Internal Auditor in conjunction with the Head of Governance, will formally report this to the s151 Officer, Chief Executive/Managing Director and the Audit Committee.
- 10.2 The staffing structure of the section will comprise a mix of professional and technician posts in order to provide a wide knowledge and skills base. The Chief Internal Auditor will hold a relevant professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. The s151 Officer will be involved in the recruitment of the Chief Internal Auditor.
- 10.3 The Chief Internal Auditor 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.
- 10.4 Where necessary access to appropriate specialists from other departments or external sources should be made available to the Internal Audit Section to assist in any audit or investigation requiring detailed specialist knowledge.

**11 Internal Audit Management**

11.1 The Chief Internal Auditor is responsible for the day-to-day management of the Internal Audit Section and fulfils the requirements of the “Chief Audit Executive” role required by the PSIAS. The Chief Internal Auditor 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 plans will be presented to the Audit Committee annually;
- produce 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;
- monitor the work of the Audit Committee and consider, where appropriate, whether changes need to be made to the Internal Audit Plan as a result of the issues arising from the work of the Audit Committee.
- 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: and
- develop and maintain a quality assurance and improvement programme covering all aspects of Internal Audit Activity.

**12 The Internal Audit Plan**

- 12.1 The work of the Internal Audit Section is based on the delivery of a risk based Audit Plan and is conducted on a predominantly risk based systems audit approach. The Section prepares a new Audit Plan each year in line with the requirements of the PSIAS.
- 12.2 The Audit Plan is derived from all of the areas that have been identified for review following an assessment of the risks relating to each area.
- 12.3 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 inherent in the potential areas for audit review based on a number of criteria adapted from a risk scoring model developed by the Institute of Internal Auditors.
- 12.4 Each area of activity is scored across a range of criteria which include income, expenditure, complexity of regulations, sensitivity of the system, and known issues/weakness.
- 12.5 The resulting scores are banded into three risk categories
- High
  - Medium; and
  - Low.
- 12.6 The risk scores are reviewed each year. The review results in some scores increasing, some decreasing and some remaining unchanged. This in turn has an affect on 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.
- 12.7 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.
- 12.8 Discussions will be held with all members of Leadership Team 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 relevant member of Leadership Team.
- 12.9 The Internal Audit Plan is presented to the Audit Committee for approval, usually in March each year.
- 12.10 Items included on the Internal Audit Plan will be split into 3 categories:
- Key Finance Systems – these are the major finance systems of the Council, e.g. Council Tax, Payroll, General Ledger.

- Assurance Functions – These are functions which provide the Council with information about how well other systems are operating e.g. risk management, performance management and budget monitoring.
- Operational Audits – These are the functions of the Council which provide a service to the public or ensure that the Council functions operate e.g. Grounds Maintenance, Housing Allocations and Food Safety Inspections.

12.11 In addition to the main Internal Audit Plan a separate IT Audit plan is produced and reported to the Audit Committee. This will cover the key technical IT areas.

### **13 Other Operational Work**

13.1 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 Chief Internal Auditor.
- **Special Investigations** – These are more detailed reviews into control failures, suspected breaches of financial regulations, fraud & 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. Due to limited capacity in the team it is now rare for specific VFM Reviews to be carried out by Internal Audit. (However Internal Audit does have consideration to VFM factors during planned audit work and in the making of recommendations.)

**14 Reporting Lines**

- 14.1 The Chief Internal Auditor reports to the Head of Governance for line management purposes. However, alternative reporting lines are available to the Chief Internal Auditor where these are deemed necessary as set out in 7.4.
- 14.2 The Chief Internal Auditor 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.
- 14.3 The Chief Internal Auditor will present the annual audit plan to members of Leadership Team, the s151 Officer and the Audit Committee. This plan will be approved by the Audit Committee.
- 14.4 An annual report will be presented to the Audit Committee covering the work of the Internal Audit Section at the conclusion of the year. 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.
- 14.5 The Chief Internal Auditor 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 Audit Committee.
- 14.6 The Internal Audit Section will produce a written report for all assignments addressed to the Service Lead Officer (normally the relevant member of Leadership Team although it could be a Service Manager where there is no Head of Service).
- 14.7 The Chief Internal Auditor will be responsible for reviewing the implementation of recommendations. At the Chief Internal Auditor's discretion the failure to implement fundamental recommendations or a significant number of recommendations will be reported to the s151 Officer, Monitoring Officer, Chief Executive/Managing Director, relevant member of Leadership Team and the Audit Committee as appropriate.
- 14.8 The Chief Internal Auditor will report to the s151 Officer any serious weaknesses or significant fraud identified from the course of Internal Audit work or reported to Internal Audit. The matter may also be reported to the Chief Executive/Managing Director, Monitoring Officer, relevant member of Leadership Team, the External Auditors and the Audit Committee as appropriate.

**15 Quality Assurance and Improvement Programme**

- 15.1 The Chief Internal Auditor will develop and maintain a Quality Assurance and Improvement Programme (QAIP) in accordance with PSIAS.

- 15.2 The QAIP will form the basis of the annual 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).
- 15.3 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 as a result 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.
- 15.4 An independent external review of Internal Audit will be carried out as part of the QAIP at least once every five years. The Head of Governance and/or s151 Officer will act as sponsor to agree the scope and nature of the external review with the Chief Internal Auditor and the external reviewer.
- 15.5 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 Audit Committee. Serious deviations from conformance will need to be considered for inclusion in the Council's Annual Governance Statement.

## **16 Relationship With Elected Members**

- 16.1 The Head of Governance and the Chief Internal Auditor will maintain a working relationship with the Chair and other members of the Audit Committee. Where necessary the Chief Internal Auditor will have direct access to the Chair of the Audit Committee.
- 16.2 Unless stated elsewhere, the Audit Committee will fulfil the roles and responsibilities of "The Board" for the purposes of the PSIAS.

## **17 Relationship with Senior Management**

- 17.1 The members of Leadership Team will fulfil the role of "Senior Management" as defined in the PSIAS. The Chief Internal Auditor will work to maintain an on-going relationship with all members of Leadership Team.
- 17.2 A written report will be produced for each assignment and presented to the relevant member of Leadership Team. This report will:-

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- 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.

17.3 The Internal Audit Plan, Quarterly progress reports and the Annual Audit report will be circulated to Leadership Team by e-mail prior to being submitted to the Audit Committee.

### **18 Relationship with Statutory Officers**

18.1 Internal Audit will maintain a close relationship with the Statutory Officers of the Authority (Head of Paid Service, s151 Officer and Monitoring Officer).

18.2 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. Statutory Officers should also ensure that the Internal Audit Section is provided with all necessary advice, explanations and information needed for them to effectively carry out their role.

18.3 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.

### **19 Review of the Internal Audit Charter**

19.1 The Chief Internal Auditor will regularly review the Audit Charter and any revision will be presented to the Leadership Team and Audit Committee for approval.

Last Updated June 2016