

INTERNAL AUDIT CHARTER

1.0 Background

- (a) Section 151 of the Local Government Finance Act 1972 requires that 'every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs'. The Council has designated this statutory responsibility to the Operational Director – Finance. As such, the Operational Director – Finance is the statutory officer responsible for ensuring that the Council's internal audit arrangements conform to the Public Sector Internal Audit Standards, which represent mandatory proper practice for internal audit in local government.
- (b) The Public Sector Internal Audit Standards require that the purpose, authority and responsibility of the internal audit activity are formally defined in an internal audit charter. The provisions contained within Section 6.2 of Finance Standing Orders shall therefore constitute the Council's Internal Audit Charter.
- (c) The purpose of the Internal Audit Charter is to:
- Define the purpose, authority and responsibility of Internal Audit;
 - Establish the position of Internal Audit within the Council and its reporting lines;
 - Authorise access to records, personnel and physical property relevant to the performance of the audit work; and
 - Define the scope of internal audit activities.

1.1 Definitions

The Public Sector Internal Audit Standards require that the following terms are defined in respect of the internal audit function:

Internal Auditing:	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.
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The Board:	The Business Efficiency Board has delegated responsibility for overseeing the work of Internal Audit. The powers and duties of the Business Efficiency Board are set out in Appendix 4 of Chapter 8 of the Council Constitution.
Senior Management:	The Chief Executive and members of the Council's Management Team.
Chief Audit Executive:	The Divisional Manager – Audit, Procurement & Operational Finance.

1.2 Purpose of Internal Audit

- (a) The Accounts and Audit Regulations 2015 (Regulation 5 (1)) require that local authorities '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'.
- (b) Internal Audit will therefore evaluate and contribute to the improvement of risk management, control and governance processes using a systematic and disciplined approach.
- (c) Internal audit work will also seek to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

1.3 Core Principles for the Professional Practice of Internal Auditing

The Public Sector Internal Audit Standards outline ten core principles for the provision of an effective internal audit:

- 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

1.4 Professionalism and Ethics

- (a) Internal audit activity is governed by adherence to the Public Sector Internal Audit Standards. This guidance constitutes principles of fundamental requirements for the professional practice of internal auditing and for the evaluating the effectiveness of internal audit activity.
- (b) The Chief Audit Executive is responsible for managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Audit Executive must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.
- (c) The Public Sector Internal Audit Standards contain a Code of Ethics, which is mandatory for all persons involved in internal audit activity in the public sector.
- (d) Internal auditors are also governed by the Code of Ethics of the relevant professional bodies of which they are a member, and all codes and policies operated by the Council.
- (e) All internal auditors are required to complete and sign a 'Code of Ethics and Declarations of Interest Statement' on an annual basis.
- (f) Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life, information on which can be found at www.public-standards.gov.uk.

1.5 Independence and Objectivity

- (a) Internal audit activity must be independent and internal auditors must be objective in performing their work. In order to achieve this, internal audit activity shall operate in a framework that allows:
 - Internal auditors to be free from operational responsibilities, thereby ensuring independence from the activities audited;
 - The Chief Audit Executive to have direct and unrestricted access to senior management and the Board;
 - The Chief Audit Executive to have the freedom to report in his or her name to all officers and members.
- (b) The Chief Audit Executive is responsible for ensuring the organisational independence of internal audit activity and shall report and explain to the Business Efficiency Board on how any potential impairment to independence or objectivity will be managed.

- (c) Assurance engagements for functions over which the Chief Audit Executive has responsibility must be overseen by a party outside the internal audit activity. Internal auditors shall also have direct access to senior management, if required, to report any concerns relating to functions over which the Chief Audit Executive has responsibility.

1.6 Scope of Internal Audit

- (a) The Chief Audit Executive is responsible for providing a continuous internal audit. The scope of assurance services to be provided shall extend to the entire governance, risk management, and internal processes of the Council, comprising financial and non-financial systems.
- (b) The Chief Audit Executive will develop an annual internal audit plan based on an understanding of the significant risks to which the Council is exposed.
- (c) Assurance services will only be provided to parties outside the Council with the prior agreement of the Business Efficiency Board.
- (d) The nature of any planned consultancy or advisory services to be provided shall be set out in the annual audit plan. The Chief Audit Executive will seek approval from the Business Efficiency Board for any significant additional consulting services, prior to accepting the engagement.
- (e) The role of Internal Audit in fraud-related work is set out in the following Council documents:
- Standing Orders relating to Finance
 - Anti-Fraud, Bribery and Corruption Policy
 - Fraud Response Plan
 - Whistleblowing Policy
- (f) Managing the risk of fraud and corruption is the responsibility of management. However, if requested, Internal Audit may assist with the investigation of suspected fraud and corruption. Internal auditors shall also consider the risk of fraud and corruption when planning and undertaking all audit engagements.
- (g) It is a requirement of section 11.1 of Finance Standing Orders that any officer or Member shall immediately report to the Head of Internal Audit, either directly or through line management, any circumstances which suggest the possibility of financial irregularity, loss, fraud or corruption. The circumstances will be outlined to the Strategic Director – Enterprise, Community and Resources, Operational Director – Finance, Operational Director – Legal and Democratic Services (Monitoring Officer) and Chief

Executive to decide what action is necessary by way of investigation and report.

1.7 Resourcing of Internal Audit

- (a) The Chief Audit Executive is responsible for assessing the Council's internal audit resource requirements. The Business Efficiency Board shall be informed of proposed solutions should there be an imbalance between resource availability and requirement.
- (b) The Chief Audit Executive will ensure that the Internal Audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the Council's internal audit requirements.

1.8 Authority of Internal Audit

- (a) Internal auditors shall be empowered to:
 - Enter any Council premises or land at all reasonable times;
 - Have access to all records, documents, data and correspondence relating to Council business, and any unofficial funds operated by an employee as part of their duties;
 - Require any employee of the Council to provide such explanations, information or other assistance concerning any matter under examination as part of any audit engagement;
 - Require any employee of the Council to produce cash, stores, or any other property under his or her control.
- (b) These rights of access apply equally to partner organisations that have links with, or provide services on behalf of the Council (e.g. voluntary aided schools), where the Council has a statutory or contractual entitlement to exercise such right. These rights shall be included in all contractual arrangements entered into with such organisations.

1.9 Reporting

- (a) The findings and agreed action plans from each internal audit engagement shall be reported to the:
 - Appropriate service manager(s)
 - Appropriate Strategic Director, Operational Director and Divisional Manager
 - Operational Director – Finance
 - Strategic Director – Enterprise, Community & Resources
 - Chief Executive
 - External Audit

- (b) The internal audit function forms part of the Finance Department in the Enterprise, Community & Resources Directorate. The Chief Audit Executive reports directly to the Operational Director – Finance.
- (c) The Chief Audit Executive also reports functionally to the Business Efficiency Board. The reporting arrangements include:
- Regular progress reports summarising the outcomes of internal audit work and any significant risk exposures and control issues, including fraud risks, governance issues, value for money issues and any other matters considered relevant;
 - An annual report that provides an overall internal audit opinion on the Council's control environment. This will form one of the sources of assurance that support the Council's Annual Governance Statement.

1.10 Quality Assurance & Improvement Programme

- (a) The Public Sector Internal Audit Standards require a Quality Assurance & Improvement Programme (QAIP) to be developed and maintained that covers all aspects of internal audit activity.
- (b) The Chief Audit Executive is responsible for ensuring that the QAIP conforms to the requirements of the Public Sector Internal Audit Standards and provides reasonable assurance to key stakeholders that Internal Audit:
- Performs its work in accordance with the Internal Audit Charter;
 - Operates in an effective and efficient manner;
 - Is adding value and continually improving the service provided.
- (c) The Chief Audit Executive will communicate to senior management and the Board on the QAIP. This will include reporting progress against any improvement plans and on the results of ongoing internal and external assessments.

1.11 Review

- (a) The Internal Audit Charter will be reviewed annually as part of the review of the Council Constitution.
- (b) Any proposed changes to the Internal Audit Charter will be presented to the Business Efficiency Board for consideration.