

## AUDIT COMMITTEE – 9TH JUNE 2020

### Report of the Head of Strategic Support

#### Part A

#### ITEM 8 INTERNAL AUDIT CHARTER

##### Purpose of Report

To present the Internal Audit Charter to the Committee for approval.

##### Recommendation

The Committee is recommended to approve the Internal Audit Charter as appended to this report.

##### Reason

To conform with the requirements of the Public Sector Internal Audit Standards (PSIAS).

##### Policy Justification and Previous Decisions

The PSIAS came into effect on 1st April 2013, they apply to all internal audit service providers, whether in-house, shared services or outsourced. The PSIAS (Attribute Standard 1000) requires organisations to have an Internal Audit Charter that formally defines the purpose, authority and responsibility of the internal audit activity, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

##### Implementation Timetable including Future Decisions

The Charter is reviewed annually and presented to the Audit Committee for approval.

##### Report Implications

The following implications have been identified for this report.

##### *Financial Implications*

None.

##### *Risk Management*

There are no risks associated with this decision.

Background Papers:                      None

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## Part B

### Background

1. The Public Sector Internal Audit Standards (PSIAS) came into effect on the 1st April 2013. The standards are the result of collaboration between CIPFA and the Institute of Internal Auditors (IIA) to develop a set of internal audit standards applicable to all areas of the UK public sector. The Standards apply to all internal audit service providers, whether inhouse, shared services or outsourced.
2. CIPFA has also produced an Application Note as the sector –specific requirements for local government organisations. The PSIAS and the Local Government Application Note together supersede the 2006 CIPFA Code of Practice for Internal Audit in Local Government in the UK.
3. Although the PSIAS do not fundamentally differ to the Code, one additional requirement of the PSIAS is for the organisation to have an Internal Audit Charter. The Charter is defined in the PSIAS as: ‘a formal document that defines the purpose, authority and responsibility of the internal audit activity’.
4. In the public sector, the internal audit charter must also: a. define the terms ‘board’ and ‘senior management’ for the purposes of internal audit activity; b. cover the arrangements for appropriate resourcing; c. define the role of internal audit in any fraud-related work; and d. include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.
5. The ‘board’ is described as: “the governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting”. In a local authority it is the responsibility of the Chief Audit Executive (CAE) and the organisation to decide which group fulfils this definition and document this in the Charter. At their meeting of 30th April 2014, the Senior Management Team approved the CAE’s proposal for the fulfilment of this role to be undertaken by the Audit Committee.
6. The Charter is required to be approved by ‘senior management’ and the ‘board’, and thereafter reviewed annually by the Chief Audit Executive and presented for approval to both ‘senior management’ and the ‘board’. The Charter has been reviewed and updated to reflect the new Shared Internal Audit Service, and is attached as an appendix.

### Appendix:

Appendix – Internal Audit Charter (May 2020)



# INTERNAL AUDIT CHARTER

**Charnwood Borough Council**

**Version Control**

<b>Version No</b>	<b>Author</b>	<b>Date</b>
1.0	Lisa Marron Audit Manager	May 2020

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## 1 Introduction

- 1.1 The Accounts and Audit Regulations 2015 place a statutory duty on the Council to undertake an internal audit of the effectiveness of its risk management, control and governance processes. The Accounts and Audit Regulations 2015 also require that the audit takes into account public sector internal auditing standards or guidance.
- 1.2 The Public Sector Internal Audit Standards (PSIAS), Attribute Standard 1000, require that the purpose, authority and responsibility of the internal audit activity are formally defined in an internal audit charter (hereafter referred to as the Charter), consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing). The chief audit executive is required to periodically review the Charter and present it to senior management and the 'board' for approval. Final approval of the Charter resides with the 'board'.
- 1.3 The Charter establishes the Internal Audit activity's position within the Council, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.

## 2 Definitions

- 2.1 In line with the 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."

- 2.2 For the purpose of this charter the following definitions shall apply:

*The Board* – the governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At this Council this shall mean the Audit Committee.

*Senior Management* – those responsible for leadership and direction of the Council.

At this Council this shall mean the Senior Leadership Team.

*Chief Audit Executive* –the person in a senior position responsible for effectively managing the Internal Audit activity in accordance with the Internal Audit charter and the PSIAS. The Chief Audit Executive or others reporting to the Chief Audit Executive will have appropriate professional certifications and qualifications.

At this Council the Chief Audit Executive is the (Shared Service) Audit Manager.

### **3 Mission and Purpose of Internal Audit**

3.1 In line with the PSIAS the mission of Internal Audit is:

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

3.2 The purpose of Internal Audit is to review, appraise and report on the adequacy of risk management, control and governance processes across the Council.

### **4 Professionalism**

4.1 The Internal Audit activity will govern itself by adherence to the PSIAS. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Internal Audit activity's performance.

4.2 The service, and individual staff, will be governed by the Code of Ethics of the relevant professional bodies of which they are a member in addition to the Core Principles for the Professional Practice of Internal Auditing and the Code of Ethics from the International Professional Practices Framework. The Core Principles are:

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives and risks of the organisation.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organisational improvement.

## **5 Scope of Internal Audit**

5.1 There are no restrictions placed upon the scope of Internal Audit's work. Internal Audit work will usually include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risk associated with areas under review and making proposals for improving the management of risks;
- appraising the effectiveness and reliability of the risk management framework and recommending improvements where necessary;
- assisting management and members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations and programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned; and
- reviewing the operations of the Council in support of the Council's Anti-Fraud and Corruption policy.

## **6 Authority of Internal Audit**

6.1 Internal Audit derives its authority from the Accounts and Audit Regulations 2015, this Charter and the Council's Constitution. Internal Audit staff have the authority to:

- enter any Council owned or occupied premises or land at all reasonable times (subject to any legal restrictions outside the Council's control);
  - have access at all times to the Council's records, documents and correspondence;
  - require and receive such explanations from any employee or member of the Council as he or she deems necessary concerning any matter under examination; and
  - require any employee or member of the Council to produce cash, stores or any other Council owned property under their control.
- 6.2 The Audit Manager shall have access to, and the freedom to report in his/her name to all boards, members or officers, as he/she deems necessary.
- 6.3 All employees and members are requested to assist the Internal Audit activity in fulfilling its roles and responsibilities.

## **7 Responsibility of Internal Audit**

- 7.1 The Chief Audit Executive will be responsible for maintaining an adequate and effective Internal Audit function. The Internal Audit function will operate in accordance with the Public Sector Internal Audit Standards.
- 7.2 Internal Audit will have the responsibility to review, appraise and report as necessary on:
- the adequacy and effectiveness and application of internal controls, governance and risk management processes and systems;
  - the extent of compliance with financial regulations and standing orders and approved policies and procedures of the Council plus the extent of compliance with external laws and regulation; and
  - the extent to which the Council's assets and interest are accounted for and safeguarded from losses of all kinds arising from waste, inefficient administration, poor value for money, fraud or other cause.

## **8 Reporting Lines**

- 8.1 Day to day management of the Internal Audit team will be performed by the Chief Audit Executive. The Chief Audit Executive reports to the Board for organisational purposes but will report significant audit

findings and audit progress directly to the Section 151 Officer. The Chief Audit Executive will keep the Section 151 Officer and the Board informed of progress and developments on a regular basis.

- 8.2 The Internal Audit team is employed by North West Leicestershire District Council and sits within the Legal and Commercial Services Team reporting to the Head of Legal and Commercial Services. The performance of Internal Audit is also monitored by Head of Strategic Support, who is the CBC contract manager and Monitoring Officer.
- 8.3 The Chief Audit Executive has free and unfettered access to the Chief Executive, Section 151 Officer, Monitoring Officer and Chair of the Audit Committee. The Chief Audit Executive will communicate and interact directly with the Board, including in and between Board meetings as appropriate.

## **9 Independence and Objectivity**

- 9.1 Internal Auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice. Internal Auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that Internal Auditors do not subordinate their judgement on audit matters to others.
- 9.2 To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the Internal Audit activity:
- retains no executive or operational responsibilities;
  - operates in a framework that allows unrestricted access to senior management and the Board;
  - reports in their own name;
  - rotates responsibilities for audit assignments (where possible) within the Internal Audit team;
  - completes individual declarations confirming compliance with rules on independence and conflicts of interest; and
  - has a planning process which recognises and addresses potential conflicts of interest through Internal Audit staff not undertaking an audit for at least two years in areas where they have had previous operational roles.

- 9.3 If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to senior management and the Board. The nature of the disclosure will depend upon the impairment.

## **10 Accountability**

- 10.1 The Chief Audit Executive shall be accountable to the Board and the S151 Officer for:
- providing, at least annually, an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control;
  - reporting significant issues related to the processes for controlling the activities of the Council and its affiliates, including recommendations and status of implementation of improvements;
  - periodically providing information on the status and results of the annual audit plan and the sufficiency of the Internal Audit's function's resources; and
  - co-ordination with other significant assurance functions.

## **11 Internal Audit Resources**

- 11.1 The Chief Audit Executive will be professionally qualified (CIMA, CCAB or equivalent) and have wide Internal Audit and management experience, reflecting the responsibilities that arise from the need to liaise with Members, senior management and other professionals, both internally and externally.
- 11.2 The Head of Strategic Support will provide the Chief Audit Executive with the appropriate resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the Internal Audit opinion.
- 11.3 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 audit plan.
- 11.4 The annual plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Audit Executive can propose an increase in audit resource or reduction in the coverage if insufficient resources are available.

## **12 Management Responsibilities**

12.1 An Internal Audit service can only be effective if it receives the full co-operation of management. By approving this Internal Audit Charter the Board and Senior Management are mandating management to co-operate with Internal Audit in the delivery of the service by:

- agreeing audit engagement plans no later than the agreed deadline, to include agreements on duration, scope, reporting and response;
- sponsoring each audit at senior management level;
- providing Internal Audit with full support and co-operation, including complete access to all records, data, property and personnel relevant to the performance of their responsibilities at all levels of operations, without unreasonable delay;
- responding to the draft internal report, including provision of management responses to recommendations, within the timescale requested by the audit team;
- implementing agreed management actions in accordance with the agreed timescales; and
- updating Internal Audit with progress made on management actions, informing Internal Audit of proposed changes and developments in processes and systems, newly identified significant risks and cases of a criminal nature.

12.2 Whilst the annual Internal Audit report is a key element of the assurance framework required to inform the Annual Governance Statement, there are also a number of other sources from which those charged with governance should gain assurance. The level of assurance required from Internal Audit will be agreed with the Board at the beginning of the year and presented in the annual Internal Audit plan (and subsequent agreed amendments). As such, the annual Internal Audit opinion does not replace responsibility of those charged with governance from forming their own overall opinion on internal controls, governance arrangements, and risk management activities.

## **13 Consulting and Advisory Work**

13.1 The Public Sector Internal Audit Standards (PSIAS) allows that Internal Audit may sometimes be more usefully focussed towards providing advice rather than assurance of core controls. Where appropriate, Internal Audit will act in a consultancy/advisory capacity by providing guidance and advice for strengthening the control environment, providing:

- the objectives of the consulting/advisory engagement address governance, risk management and control processes to the extent agreed upon with the Council;
- the scope of the consulting/advisory engagement has been clearly defined;
- Internal Audit is considered to have the rights skills, experience and available resource;
- management understand that the work being undertaken is not Internal Audit work; and
- Internal Audit's involvement will not constitute a conflict of interest in respect of maintaining an independent stance, and Internal Audit will not assume a management role in providing this advice.

13.2 When performing consultancy/advisory services, the auditor must maintain objectivity and not take on a management responsibility.

13.3 The Chief Audit Executive is responsible for ensuring that all requests are reviewed in accordance with the above criteria and for making the final decision. The role which Internal Audit will assume on any particular advisory assignment will be agreed with the sponsor, will be documented within the assignment plan, and reported to the Board.

## **14 Role of Internal Audit in Fraud-Related Work**

14.1 The primary responsibility for maintaining sound systems of internal control including arrangements to prevent and detect fraud and corruption lies with senior management. An annual programme of internal audits is designed to assist this process by highlighting areas where controls are inadequate or are not operating.

14.2 All fraud investigations will be conducted in accordance with the Council's Constitution, Anti-Fraud and Corruption Policy and the Confidential Reporting (Whistleblowing) Policy.

14.3 All cases of suspected fraud and/or irregularity should also be reported to the Chief Audit Executive, with the exception of benefit fraud which should be reported to the Department of Work and Pensions. This is to ensure that appropriate action is taken and to enable the Chief Audit Executive to fully answer External Audit queries relating to the International Standard on Auditing (ISA) 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements".

## **15 Relationships**

15.1 The Chief Audit Executive and Internal Audit staff are involved in a wide range of relationships and the quality of those relationships impact on the quality of the audit function and the effective delivery of that function.

- **Relationships with Management**

The Chief Audit Executive and Internal Audit staff will maintain effective relationships with managers of the Council. Regular meetings will be held with key stakeholders and management will be consulted with during the audit planning process. Timing of audit engagements will be in conjunction with management.

- **Relationships with External Audit**

Internal Audit have an established working relationship with the current external auditors which includes periodic meetings and plans and reports are shared.

- **Relationships with Regulators and Inspectors**

The Chief Audit Executive and Internal Audit staff will take account of the results and reports from any inspections when planning and undertaking Internal Audit work. Where appropriate the Chief Audit Executive will establish a dialogue with representatives of the appropriate inspection agencies.

- **Relationships with Elected Members**

The Chief Audit Executive will establish a working relationship with members, in particular members of the Audit Committee. The Chief Audit Executive has the opportunity to meet with the Chair of the Audit Committee if required.

## **16 Quality Assurance**

16.1 The Public Sector Internal Audit Standards require that the audit function is subject to a quality assurance and improvement programme that must include both internal and external assessments. The results are included in the Internal Audit Annual Report.

### **16.2 Internal Assessments**

All Internal Audit engagements are subjected to a thorough internal peer review of quality, to ensure that its work meets the standards expected from the Internal Audit staff. For example, the internal file quality reviews cover the following:

- the work is planned and undertaken in accordance with risks associated with areas under review;
- sampling is undertaken in accordance with the agreed methodology; and

- the conclusions are fully supported by detailed work.

16.3 Internal Audit performance is also monitored in the following ways:

- quarterly progress reports to the Board and senior management;
- customer satisfaction surveys following each audit;
- regular meetings with the S151 Officer; and
- regular meetings with the Head of Strategic Support.

16.4 **External Assessments**

An external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Chief Audit Executive will discuss options for the assessment with senior management including the S151 Officer and the Board.

**17 Records Retention**

17.1 Audit engagement records will be retained for six years. This is in line with Local Government Association guidance.

**18 Review**

18.1 The Internal Audit Charter will be reviewed annually by the Chief Audit Executive and presented to Senior Management and the Board for approval if any significant changes are identified.