

Internal Audit Charter

Mission

1. The mission of the Internal Audit Service is *“to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”*.

Statutory Role and Definition

2. The Council's Internal Audit function is provided by an in-house team.
3. The authority and requirement for an internal audit function derives from two pieces of legislation:
4. **Section 151 of the Local Government Act 1972**, requires that authorities ‘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 Financial Regulations (Constitution part 4 – Financial Regulations) state that the Chief Financial (s151) Officer has this responsibility (‘establishing an adequate and effective system of internal audit’).
5. The **Accounts and Audit Regulations 2015**, require that a relevant body must ‘evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance’. Any officer or member of a relevant body must, if required to do so for the purposes of internal audit, make available such documents, records & information, and explanations as are considered necessary by the internal auditors.
6. The objectives of the PSIAS are to:
 - define the nature of internal auditing within the UK public sector
 - set the basic principles for carrying out an internal audit in the 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 of the evaluation of internal audit performance and to drive improvement planning.
7. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:
 - Definition of Internal Auditing

- Core Principles for the Professional Practice of Internal Auditing
 - Code of Ethics, and
 - International Standards for the Professional Practice of Internal Auditing.
8. The Chartered Institute of Public Finance and Accountancy (CIPFA) has also developed an application note for the PSIAS. The application note sets out the proper practice for Internal Audit in local government.
 9. This Charter describes the purpose, authority, and principal responsibilities of the council's Internal Audit Service. Policies and practice guidance have been put in place to ensure all Internal Audit staff understand and comply with these Standards.

Internal Audit

10. For this Charter, Internal Audit refers to both the Internal Audit Service and Counter-Fraud Service.
11. Internal Audit provides independent and objective assurance on the adequacy and effectiveness of governance, risk, and controls. It achieves this through the competent application of systematic and disciplined processes, expertise, and insight. It reports its findings to management and the Audit Committee to promote and facilitate continuous improvement. In doing so, it may consider assurance from other internal and external providers.
12. PSIAS definition of Internal Auditing: *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.*
13. The 'three lines' model has been used within the County Council as the primary means to demonstrate structure, roles, responsibilities and accountabilities for decision making, risk, and control to achieve effective governance and assurance (Constitution part 4 – Code of Corporate Governance).

Scope of Internal Audit

14. All the Council's in-house systems and procedures fall within the remit of Internal Audit. It is the role of Internal Audit to review, appraise and report on the effectiveness and efficiency of financial and other management controls, including risk management, and corporate governance.
15. The scope of internal audit work will aim to cover all operational and management controls and is not restricted to the audit of systems and controls necessary to form an opinion on the financial statements.

16. The nature of assurance services provided to the organisation includes:

- a) assurance frameworks.
- b) review of controls within existing systems and systems under development.
- c) compliance with Council policy and procedures, including Financial Regulations.
- d) transactions testing to ensure accuracy of processing.
- e) IT audit.
- f) proactive fraud work.

17. The Head of Internal Audit, in consultation with all relevant stakeholders and considering audit risk assessment processes, will determine what work will be carried out by Internal Audit.

18. The work of Internal Audit is aligned with other assurance functions. Internal Audit will seek to place reliance on, or use the work of others, where there is confidence in the work carried out. This helps maximise the best use of the Internal Audit resource and other assurance functions of the Council.

Access

19. Subject to any legal or statutory obligations, Internal Audit has, by right, unrestricted access to all the Council's personnel, records, information, and assets that it considers necessary to fulfil its responsibilities, including those of partner organisations and third-party suppliers where contract terms include internal audit access rights. Management must also ensure that Internal Audit is provided with all information and explanations that it seeks in the course of its work.

20. In turn, Internal Audit will comply with any requests from the External Auditor for access to any information, files or working papers obtained or prepared during audit work that is required to discharge their responsibilities.

Reporting lines, Relationships, and Independence of Internal Audit

21. Internal Audit is part of the Corporate Services Directorate.

22. The PSIAS specifies that the Charter must define the terms 'Board' and 'Senior Management' for the purpose of internal audit activity. For the County Council, the 'Board' is the Audit Committee, and 'Senior Management' is the Corporate Leadership Team (CLT).

23. The Head of Internal Audit has right of direct access to the Chief Financial (s151) Officer, Chief Executive, Deputy Chief Executive, Monitoring Officer, Directors, the Chairman of the Audit Committee, and Cabinet Members.

24. The Council's Financial Regulations set out the key financial roles of officers, including any regarding Internal Audit.

25. Internal Audit resources are deployed flexibly around the demands of the planning framework and the objectives of the County Council. Senior management are consulted regularly on the planning framework and the resultant audit work. This approach is agreed with the Chief Financial (s151) Officer and approved by the Audit Committee prior to the commencement of each financial year.

26. Most audit assignments are the subject of formal reports. The primary purpose of the audit report is to provide management with an opinion on the adequacy of the internal control system, and to inform them of significant audit findings and conclusions. Agreed actions to be taken as a result of audit findings are also recorded and it is the relevant Assistant Director's responsibility to ensure these are implemented. All agreed actions are subject to a follow-up review by Internal Audit and the outcomes reported to Audit Committee. The relevant Director / Chief Officer will receive a copy of the audit report.
27. The role of the Audit Committee in relation to Internal Audit is:
- a) to oversee its independence, objectivity, performance, and professionalism.
 - b) to support the effectiveness of the Internal Audit process.
 - c) to promote the effective use of Internal Audit within the assurance framework.
28. The Audit Committee's terms of reference, with regards to Internal Audit, state:
- a) ensuring Internal Audit complies with the Public Sector Internal Audit Standards.
 - b) approving the Internal Audit Charter.
 - c) approving the risk-based Internal Audit planning process, including Internal Audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
 - d) considering the annual report and update reports from the Head of Internal Audit on Internal Audit's work and performance during the year.
 - e) monitoring the counter-fraud strategy, actions, and resources, including reviewing the assessment of fraud risks and potential harm to the Council from fraud and corruption and issuing guidance and best practice advice regarding probity and ethics.
29. The Audit Committee cannot direct the work of Internal Audit.
30. At various meetings of the Audit Committee, Internal Audit report on a summary / sample of the work undertaken within the period since the last report. The report highlights the findings of audit work carried out and information that is of interest or needs to be brought to the attention of the Committee.
31. The end of year report provides a summary of the work of Internal Audit during the financial year, information on the performance of the section, and includes an opinion from the Head of Internal Audit on the overall adequacy and effectiveness of the control environment within the Council. This is timed to support the annual review of Corporate Governance and the production of the Annual Governance Statement.
32. Copies of individual Internal Audit reports which have resulted in an overall opinion of 'limited' or 'no' assurance are, in addition to the relevant Director, sent to the Chief Executive, Chief Financial (s151) Officer, Chairman and Vice Chairman of the Audit Committee, and to the relevant Cabinet Member(s).
33. Internal Audit's independence from the responsibilities of management is critical to its objectivity, authority, and credibility. Independence is established through accountability to the Audit Committee; unfettered access to people, resources, and data needed to complete its work; and freedom from bias or interference in the planning and delivery of the Internal Audit Service.
34. Internal Audit shall remain sufficiently independent of the activities that it audits to enable it to perform its duties in a manner that facilitates impartial and effective professional judgements and recommendations.

35. Internal Audit staff shall not develop nor install systems or procedures, prepare records, nor engage in any other activity which would normally be audited.
36. Except for the Counter-Fraud service, Internal Audit has no direct operational responsibility or authority over any of the activities it reviews. For Counter-Fraud, to safeguard independence, the scope of any Internal Audit work required on this area will be agreed with the Chief Financial (s151) Officer.
37. Every effort will be made to preserve objectivity by ensuring that all Internal Audit staff are free from any conflicts of interest and do not undertake any non-audit duties.
38. Internal Audit is involved in the determination of its priorities in consultation with those charged with governance (The Audit Committee). The Head of Internal Audit has direct access and freedom to report in his own name and without fear or favour to all officers and members.

Quality of Service and Due Professional Care

39. Internal Audit operates in accordance with standards of best practice applicable to internal audit; in particular, the PSIAS and Standards in Public Life's Seven Principles of Public Life (selflessness, integrity, objectivity, accountability, openness, honesty, and leadership).
40. The core principles, as set out in the PSIAS, taken as a whole, must be present and operating effectively for Internal Audit to be considered effective. These are:
 - 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.
41. Internal Audit operates a quality assurance framework which covers all areas of internal audit activity. An audit manual is maintained which outlines the key responsibilities of audit staff and defines the audit process.
42. Internal review of work standards is undertaken through a system of managerial review involving the Head of Internal Audit and / or Senior Auditor. This incorporates a review of all documentation and evidence, and the accuracy of the report.
43. Feedback is canvassed from managers responsible for activities under their control or within their responsibilities to obtain their satisfaction with the audit service provided.
44. A suite of performance indicators and targets has been developed to monitor the quality of the service provided, the results of which are reported in the annual report to the Audit Committee.

45. The Council's External Auditor keeps the performance of Internal Audit under review to ensure reliance can be placed on its work, where required (External Audit cannot direct the work of Internal Audit).
46. The PSIAS requires the Head of Internal Audit to maintain a quality assurance and improvement programme covering all aspects of the Internal Audit activity. This is done through internal assessments but also, at least once every five years, via an external assessment carried out by a qualified, independent assessor or assessment team.
47. The Head of Internal Audit will share the results of internal and external assessments with the Audit Committee annually.

Allocation of Internal Audit Resources

48. Internal Audit must be appropriately staffed in terms of numbers, qualification levels and experience. The Head of Internal Audit reports on the adequacy of resources to the Chief Financial (s151) Officer and the Deputy Chief Executive and, if necessary, to the Audit Committee.
49. The training and personal development needs of Internal Audit staff are established through a review process, and it is the responsibility of the Head of Internal Audit to ensure that Internal Audit staff receive the appropriate professional, technical and personal development training.
50. The Head of Internal Audit is responsible for appointing the staff within Internal Audit and will ensure that appointments are made to achieve the appropriate mix of qualifications, experience, and audit skills.

Specific Responsibilities

51. The Head of Internal Audit is responsible for the provision of a complete internal audit and counter-fraud service to the County Council. This includes:

Internal Audit

52. Providing an annual report to the Council's CLT and Audit Committee. The annual report will include:
 - An opinion on the effectiveness of the Council's governance, risk, and control framework (including reasons why this opinion was reached).
 - Any control weaknesses judged to be relevant to the development of the Annual Governance Statement.
 - A summary and evaluation of the results of internal audit work and information obtained from other assurance providers and the impact on the control environment.
 - An overall summary of the Internal Audit Service's performance and the results of the quality assurance framework.
 - A statement on conformance with the PSIAS.

53. To help achieve this, the Head of Internal Audit will compile an overall Audit Strategy showing how Internal Audit will be delivered – focusing on the critical activities and key risks facing the Council.

Counter-Fraud, Corruption and Bribery

54. Internal Audit does not have responsibility for the prevention nor detection of fraud, corruption, or bribery. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud, corruption, and bribery will be detected.
55. Managing the risk of fraud, corruption, and bribery is the responsibility of all management and Councillors. The Counter-Fraud Service can assist management in the effective discharge of this responsibility, including the investigation of suspected frauds and irregularities.
56. The Counter-Fraud Service also commits resources to proactive fraud work, which includes raising the awareness of fraud issues.
57. Internal Audit and Counter-Fraud staff will be alert in all their work, of whatever type, to risks and exposures that could allow fraud, corruption, or bribery.
58. To ensure the County Council embeds effective standards for countering fraud and corruption, the Head of Internal Audit ensures that the key principles, as set out in CIPFA's Code of Practice on Managing the Risk of Fraud, are followed. This supports good governance and demonstrates effective financial stewardship and strong public financial management.
59. The Head of Internal Audit must be informed of all suspected or detected fraud, corruption, or improprieties so they may be considered in terms of the adequacy of the relevant internal controls and be evaluated for the annual opinion on the control environment.
60. All cases will be dealt with in accordance with the Council's relevant policies and procedures (e.g., Anti-Fraud and Corruption Policy, Whistleblowing Policy, Anti-Bribery Policy, and Sanctions Policy).

Consulting Engagements

61. Consulting engagements are generally advisory in nature. They are generally performed at the specific request of management. Work may include providing advice on new systems & emerging risks, training, and representation on Boards and Groups.
62. The nature and scope of consulting engagements are subject to agreement with management. They should assist management in meeting the objectives of the organisation without undermining the key principles of independence and objectivity. Internal Audit should not assume management responsibility.
63. Consulting engagements should only be performed where resources and skills exist.
64. The Head of Internal Audit has final responsibility for the content of consulting engagements, and prioritisation of such work will be risk assessed through the audit planning process.
65. For most consulting engagements, no assurance opinion will be provided but the outcome of this work will be reported to the Audit Committee in so far as it impacts on the Council's governance, risk, and control environment.

Risk Management

66. Internal Audit is not responsible for managing the Council's risks, which is the responsibility of management. However, Internal Audit supports management in making its assessment of risk. Internal Audit will also share information gathered during its work with management to enhance management's understanding of the risks to the Council and the financial and operational controls in place to manage them.

External Work

67. Internal Audit provides assurances to parties outside the Council. Such assurance can fall under the following categories:
- a) Work under contract.
 - b) Government grant sign-off.
 - c) Other grant sign-off.
68. Approval is sought from the Chief Financial (s151) Officer before entering any significant engagement.
69. The nature and extent of work for external clients is kept under review to ensure:
- a) it does not impinge on the audit work carried out for the council.
 - b) there is no conflict of interest or impairment of independence arising from this work.
70. The level and extent of external work is also reported in the approval of the 'audit planning process' paper to the Audit Committee and the Head of Internal Audit's annual report.

The Head of Internal Audit

71. The Head of Internal Audit holds a professional qualification (Chartered Institute of Public Finance & Accountancy) and is suitably experienced in internal audit and counter-fraud work.
72. The PSIAS requires the Head of Internal Audit to report to the top of the organisation and this is done in the following ways:
- The Internal Audit planning process and Charter is approved by the Deputy Chief Executive, Chief Financial (s151) Officer and Monitoring Officer before being approved by the Audit Committee.
 - The Head of Internal Audit holds periodic meetings with the Cabinet Member responsible for Finance.
 - The Head of Internal Audit holds periodic liaison meetings with the Chairman and Vice Chairman of the Audit Committee.
 - The Head of Internal Audit holds meetings on an individual basis, or collectively, with all members of the Audit Committee, including the Independent Member, upon request.
 - Performance and delivery of Internal Audit and counter-fraud work and any significant risks and control issues arising are reported independently to the Deputy Chief

Executive, Chief Financial (s151) Officer and Monitoring Officer and the Audit Committee on a regular basis.

- Results of the annual review on the effectiveness of Internal Audit (including outcomes of Quality Assurance & Improvement Programme audits) are reported to the Corporate Leadership Team and the Audit Committee.
- The Internal Audit budget is reported to Full Council for approval annually as part of the Council's overall budget. The Head of Internal Audit will draw to the attention of the Deputy Chief Executive, Chief Financial (s151) Officer, Monitoring Officer, and the Audit Committee any resourcing issues that potentially impact on the effectiveness of the Internal Audit function.
- The Chairman of the Audit Committee provides the Council with an annual report on the work of the Audit Committee and the effectiveness of Internal Audit.
- The Head of Internal Audit has unfettered access to the Chief Executive, Deputy Chief Executive, Chief Financial (s151) Officer, Monitoring Officer, Directors, and the Audit Committee, as required.

Approval and Validity of the Charter

73. The Head of Internal Audit will review the Charter annually to ensure that it is relevant to the demands and responsibilities of Internal Audit and that it supports and links to the Council's corporate priorities.
74. The Charter will be presented to senior management and the Audit Committee on a biennial basis for approval, or sooner if any significant changes occur.

Peter Frost, Head of Internal Audit & Counter Fraud