

## AUDIT CHARTER

### 1 Definition and Purpose of Internal Audit

- 1.1 The Public Sector Internal Audit Standards (PSIAS) provide the following definition of Internal Audit.

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

- 1.2 The PSIAS is mandatory for Internal Audit in local government, and Internal Audit is a statutory function as outlined in the Accounts and Audit Regulations 2015 which require each local authority to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices.
- 1.3 The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

### 2 Scope of Internal Audit Work

- 2.1 The scope of Internal Audit activities encompasses, but is not limited to, objective examination of evidence for the purpose of providing independent assessments to the Governance and Ethics Committee and management on the adequacy and effectiveness of governance, risk management and control processes for the Council. Internal Audit assessments cover the following:-

- Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed.
- The level of compliance with procedures, policies, regulations and legislation.
- The results of operations and programmes are consistent with established goals and objectives.
- Operations and programmes have been established to enable compliance with policies, procedures, laws and regulations.
- A review of the value for money processes, systems and units within the Authority.
- Information and the means used to identify, measure, analyse and classify and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and appropriately protected.

- 2.2 Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.
- 2.3 The existence of an Internal Audit function does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in an efficient, secure and well ordered manner within the Authority.

### **3 Other Types of Audit Work**

- 3.1 As required under the Council's Ant-Fraud and Corruption Policy, Financial Rules of Procedure and HR Disciplinary Procedures, Internal Audit should be notified of any suspected cases of fraud/corruption. Internal Audit will be responsible for carrying out any investigations into such cases as deemed appropriate after consultation with the Council's S151 Officer (Executive Director - Resources) and Monitoring Officer (Service Director - Strategic Support).
- 3.2 Internal Audit may carry out work of an advisory nature (consultancy work), where their expertise in control and risk mitigation has been requested by a service/client. The nature and scope of such work is intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility for the overall design and implementation. Examples include counsel, advice, facilitation and training.

### **4 Core Principles and Professional Practices of Internal Auditing**

- 4.1 The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively:-
- 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.
- 4.2 Internal auditors in UK public sector organisations must conform to the Code of Ethics set out in the PSIAS. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.
- 4.3 Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.
- 4.4 The Internal Audit team will govern itself by ensuring adherence to the requirements of the PSIAS. The Audit team will regularly confirm compliance with the standards in reports to senior management and the Governance and Ethics Committee, and include a statement to this effect in each audit engagement report issued.

### **5 Authority**

- 5.1 Internal Audit reports to the Service Director, Strategy and Governance. However, Internal Audit is also accountable to the Governance and Ethics Committee (the "Board" in PSIAS terms) for the delivery of assurance in relation to the Council's system of internal control.
- 5.2 The Audit Manager is the designated Chief Audit Executive in PSIAS terms. The Audit Manager reports functionally to the Governance and Ethics Committee and has a direct reporting line to the Service Director, Strategy and Governance who is the Council's Monitoring Officer and is a full member of the Council's senior management team, Corporate Board.
- 5.3 To establish, maintain, and assure that the Council's Internal Audit Team has sufficient authority to fulfil its duties the Governance and Ethics Committee will:-
- a) Approve the Internal Audit Charter;
  - b) Approve the risk-based internal audit plan and level of resources;
  - c) Receive communications from the Audit Manager on the Internal Audit team's performance compared to the plan and any other related matters;
  - d) Make appropriate inquiries of management and the Audit Manager to determine whether there is inappropriate scope or resource limitations relating to audit work.
- 5.4 The Audit Manager will have direct access to the Governance and Ethics Committee Chairman and the Chief Executive.
- 5.5 The Governance and Ethics Committee authorises the Internal Audit team to:-

- a) Have full, free and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any audit, subject to accountability for confidentiality and safeguarding of records and information.
- b) Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- c) Obtain assistance from the necessary personnel of the Council, as well as other specialised services from within or outside of the Council in order to complete the audit engagement.

### **6 Independence and Objectivity**

- 6.1 Internal Audit as a function will remain independent of the Authority's operational activities, and its auditors will undertake no operational duties. Accordingly internal auditors will not implement internal controls, develop procedures, initiate or approve transactions external to Internal Audit, or engage in any other activity that may impair their judgement. This will allow auditors to perform duties in a manner which facilitates impartial and effective professional judgements and avoids conflict of interest.
- 6.2 The scope of Internal Audit allows for unrestricted coverage of the Authority's activities and access to all staff, records and assets deemed necessary in the course of the audit.
- 6.3 Accountability for the response to advice and recommendations made by Internal Audit lies with the management of the Authority. Management can accept and implement advice and recommendations provided or formally reject them. Internal Audit is not responsible for the implementation of recommendations or advice provided.
- 6.4 The Audit Manager will ensure that the Internal Audit team remains free from all conditions that threaten the ability of the internal auditors to carry out their responsibilities in an unbiased manner. The Audit Manager will confirm to the Governance and Ethics Committee at least annually the organisational independence of the Internal Audit team.
- 6.5 The Audit Manager will disclose to the Governance and Ethics Committee any interference and related implications in determining the scope of internal audit work, carrying out the audit or reporting the results.

### **7 Reporting**

- 7.1 All audit assignments will be the subject of a formal report written by the appropriate auditor. The majority of reports will include an 'opinion' on the adequacy of controls in the area that has been audited (exceptions being Compliance Checks and Advisory Reviews).
- 7.2 A follow-up review will be undertaken where the overall opinion of a report is 'Weak' or 'Very Weak'. Where a 'Satisfactory' opinion is given then a follow up may be carried out if felt necessary, by either management or Internal Audit. The follow up will ascertain whether actions stated by management in response to the audit report have been implemented in order to provide assurance that the control framework is now effective, or flag up concerns where it is considered this is not the case.
- 7.3 Internal Audit will prepare quarterly reports for senior management and the Governance and Ethics Committee regarding:-
- a) The Internal Audit team's purpose, authority and responsibility;
  - b) The Internal Audit team's plan and performance relative to the plan;
  - c) The Internal Audit team's conformance with the PSIAS;
  - d) Significant risk exposures and control issues, including fraud risks, governance issues and other issues requiring attention;
  - e) Results of audit work;
  - f) Resource requirements;
  - g) Any response from management which is considered unacceptable compared with the associated risk.

### **8 Quality Assurance and Improvement of the Internal Audit Service**

- 8.1 The Internal Audit team will maintain a quality assurance and improvement programme that covers all aspects of Internal Audit work. The program will include an evaluation of the Internal Audit Team's conformance with the PSIAS. The program will also assess the efficiency and effectiveness of the Internal Audit Team and identify opportunities for improvement.
- 8.2 The Audit Manager will communicate to senior management and the Governance and Ethics Committee on the quality assurance and improvement programme. This will include the results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent Assessor from outside the Council.

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**9 Resourcing of the Internal Audit Team**

- 9.1 The Audit Manager is responsible for ensuring that the audit team is adequately resourced in order to be able to provide an informed annual opinion on the council's Internal Control framework.
- 9.2 Where the Audit Manager has concerns over the level of audit resource this is formally flagged up with senior officers and members as part of submission of the draft Audit Plan for approval and progress monitoring reports.