

Internal audit charter



March 2016

contents

Introduction	1
Definition of internal auditing	1
Code of ethics	2
Independence and objectivity	2
Authority and confidentiality	3
Scope of internal audit	3
Fraud and corruption	5
Resourcing	5
Relationship with external audit	5
Compliance with PSIAS	6
Review of the charter	6

1. Introduction

- 1.1 Public Sector Internal Audit Standards (PSIAS) ref 1000 require that the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter. The Chief Audit Executive (CAE) must periodically review the charter and present it to senior management and the board for approval.
- 1.2. PSIAS requires that the charter should define the terms ‘board’ and ‘senior management’ for the purposes of the internal audit activity. With regard to this council the Audit Committee will act as the ‘board’ and in relation to ‘senior management’ this will be Corporate Leadership Team. The Group Manager, Corporate Services undertakes the role of CAE.
- 1.3 The charter establishes internal audit’s position within the council, including the nature of the CAE 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. Final approval of the charter resides with the board.
- 1.4 The charter must also:
 - Cover the arrangements for appropriate resourcing
 - Define the role of internal audit in any fraud-related work; and
 - Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities

2. Definition of internal auditing

- 2.1 PSIAS (section 3) defines internal auditing as 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. This definition is recognised in all relevant audit documentation.
- 2.2 In layman’s terms, internal audit is an arm of effective management. Management is responsible for internal control and establishing policies, procedures and processes to help the council achieve its objectives. Internal audit provide assurance as to the effectiveness of internal control. It is the objective of the internal audit service at Tewkesbury to add value to the audit process. This is achieved through the mix of audit work undertaken. In addition to the traditional assurance role, internal audit also undertake corporate improvement work. The section is also accessible and suitably placed within the council to provide consultancy and advice on corporate or operational issues. The ethos of internal audit is to help management achieve their objectives.

“A key determinant of the **effectiveness of internal audit** is that it is seen to remain free from interference in all regards.”

3. Code of ethics

- 3.1 The overall integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement. Internal Audit officers will have due regard to the Committee on Standards of Public Life’s ‘Seven Principles of Public Life’ and must comply to the code of ethics of any professional body where they are members.

4. Independence and objectivity

4.1. Organisational independence

- 4.1.1. The internal audit team is part of the Chief Executive’s Unit. This allows effective communication with and free and unfettered access to the Chief Executive. This fulfils the PSIAS requirement that the CAE must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. If the need arises, the CAE will also have unfettered access to the Chair of the Audit Committee. To develop effective communication with the chair, regular meetings are held to provide an update on internal audit activities. The Chair of the Audit Committee will also be involved within the performance appraisal of the CAE.
- 4.1.2. Organisational independence will also be effectively achieved through functional reporting to the Audit Committee. Examples of functional reporting include the approval of this charter, approval of the annual internal audit plan, receiving regular monitoring

reports on internal audit activity and the presentation of an annual report. The annual report will be timed to support the council’s Annual Governance Statement. Confirmation of internal audit’s organisational independence will be included in the annual report of the CAE.

- 4.1.3. A key determinant of the effectiveness of internal audit is that it is seen to remain free from interference in all regards. This shall include, but not limited to matters of audit selection, scope, procedure, frequency, timing or report content. To ensure this, internal audit will operate within a framework that allows unrestricted access to senior management and members, reporting in its own name and segregation from line operations.

4.2. Individual objectivity

- 4.2.1. Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest. On an annual basis an internal audit code of conduct form will be signed by each internal auditor to make them aware of their responsibilities such as impartiality, objectivity and any potential conflicts. Any potential conflict of interests will be identified when setting the scope for individual audit assignments. The CAE will consider the materiality of the conflict and if necessary take remedial action. For example, assigning the audit to another team member or contracting the audit work externally.

4.2.2. The CAE is also responsible for corporate services related functions. Responsibility for these operational areas is defined in the job description of the CAE. Assurance engagements for functions over which the CAE has responsibility must be overseen by a party outside the internal audit activity. For example, the Corporate Governance Group could oversee an audit of the council’s risk management arrangements.

4.3. **Responsibility of the board**

4.3.1. As per this charter the ‘board’ is defined as the Audit Committee. The responsibility of the board is defined within its terms of reference. Its key responsibility is to maintain an overview on the adequacy of the council’s governance, internal control and risk management processes.

5. **Authority & confidentiality**

5.1 Internal audit shall have full, free and unrestricted access to all council services, functions, premises, assets, employees, members and records that the CAE considers necessary to enable the internal audit service to meet its responsibilities. This is also defined within the council’s Financial Procedure Rules. The CAE is also a member of the council’s management team and therefore has the authority to raise any significant audit issues at a corporate group level.

5.2 All documentation and information accessed in the course of undertaking internal audit activities shall be used solely for that purpose. All internal audit staff, including contractors and external service 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.

6. **Scope of internal audit**

6.1. The scope of internal audit will extend to the entire control environment of the council. In order to turn this generic description into actual subjects for audit, a risk based approach is used when setting the annual audit plan. The format of the plan ensures there is adequate coverage of the control environment. Internal audit is only part of the council’s assurance framework so when setting the audit plan consideration will be given to ensuring that internal audit does not duplicate the work of other sources of assurance.

6.2. Where key systems are being operated, or provided, to the council by other organisations, the CAE will agree with management, whether internal audit conduct the work to derive the required assurance on the adequacy of internal controls, or rely on the opinions of other auditors. Where appropriate, dialogue will be sought with the CAE of the respective organisation.

“To avoid any conflict of interest, it is made clear from the outset that **management must take ownership** of the resolution.”

6.3. To ensure there is adequate coverage when putting the annual plan together, the plan consists of both assurance and consultancy type work:

Corporate governance

These are key frameworks that contribute to the effectiveness of the council's governance arrangements. Internal audit will work closely with the Council's Monitoring Officer to help facilitate the completion of the Annual Governance Statement.

Corporate improvement

In addition to traditional assurance work, internal audit can collectively identify performance, control and risk issues and proactively help to resolve them. To avoid any conflict of interest, it is made clear from the outset that management must take ownership of the resolution, for example, formulation or update of a policy or strategy

Work on fundamental financial systems

Although internal audit reports directly to the Chief Executive, the service maintains a close relationship with the Group Manager, Finance and Asset Management (S151 Officer). The work of internal audit aids the S151 Officer in ensuring there are adequate arrangements for the proper administration of the council's financial affairs. The audit of the financial systems helps give assurance regarding the accuracy of financial information and helps external audit form an opinion on the overall statement of accounts. Audits will not necessarily be undertaken on an annual basis but as a minimum will be

carried out every 2 years on a cyclical programme.

Service areas

An adequate range of other systems and service unit audits will need to be included to give additional credibility to the comprehensiveness of the opinion provided on the control environment. These will be identified using a risk based assessment.

Consultancy and advice

Supporting the assurance work, we need to be best placed to offer advice on key corporate projects and keep abreast of emerging issues. For this purpose, internal audit are represented on key corporate groups and are also accessible to management to provide advice and consultancy on any ad hoc issues that may arise.

Follow up reviews

This is an important element of audit work and will provide assurance to management and members as to whether audit recommendations have been successfully implemented.

External work

Internal audit will consider the undertaking of external assignments provided this does not have an adverse effect on the annual plan. Any risks to undertaking assurance work for third parties will be carefully considered by the CAE prior to accepting any such engagement. Examples of such work could include work for town and parish councils or other local authorities.

7. Fraud and corruption

- 7.1. Managing the risk of fraud and corruption is the responsibility of management. This responsibility is defined within the council’s anti fraud and corruption strategy. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal auditors will be alert in all their work to risks and exposures that could allow fraud or corruption.
- 7.2. The CAE should be informed of all suspected or detected fraud, corruption or theft so that he can consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for his opinion on the internal control environment. Internal audit may be requested by management to assist with fraud related work and will work closely with the council’s Monitoring Officer and Group Manager, Finance and Asset Management when any fraud type issue arises. Internal audit’s role in investigating any improprieties is defined within the council’s fraud and corruption strategy.

8. Resourcing

- 8.1. The internal audit service is provided through an in-house team of two officers. These officers report to the CAE. The team sits within the Chief Executive Unit and therefore has a direct reporting line to the Chief Executive. This is recognised as good practice.

- 8.2. The annual plan is aligned to the establishment of two officers and this resource is deemed sufficient to ensure the coverage and effectiveness of internal audit activity. The remit of internal audit is not just related to financial control and therefore it is essential the skills mix within the team reflects this wider responsibility. Where necessary, to ensure an effective and credible audit service is provided then resources from external providers will be considered if it is deemed the audit team do not possess the required skills and knowledge. The employment of any external provider would be notified to the Audit Committee.
- 8.3. The CAE is responsible for ensuring that the resources of the internal audit section are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby it was the opinion these resources were insufficient, this would be formally reported to the Chief Executive, and, to the Audit Committee.

9. Relationship with external audit

- 9.1. Both internal audit and external audit have a commitment to work together to ensure resources are effectively and efficiently deployed. The two meet regularly to support a cooperative, professional working relationship, share relevant information and coordinate the overall audit effort.

9.2. We will tell each other of any significant issues which arise as soon as practicable, and of any changes or delays in agreed areas of reliance. We will also liaise during the planning stage of producing annual audit plans to ensure the timing and scope of our work makes the most of coverage and avoids duplication. External audit will have full and free access to all internal audit documentation.

Graeme Simpson

Group Manager –Corporate Services (Chief Audit Executive)

March 2016

10. Compliance with PSIAS

10.1. It is a requirement of PSIAS that an independent review must be commissioned at least once every five years by a qualified assessor. The purpose of the review is to give assurance that internal audit are operating in compliance with PSIAS. The timing, scope and appointment of the assessor will be reported to Audit Committee for approval.

11. Review of the charter

11.1. The charter will be reviewed annually by the CAE. The charter will be brought back to the Audit Committee for formal approval every three years, unless there is a significant change arising from the annual review.

Graeme Simpson
Group Manager
Corporate Services (Chief Audit Executive)

