

Internal audit charter



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contents

Introduction	1
Definition of internal auditing	1
Objective of internal audit	1
Core principles	2
Code of ethics	3
Independence and objectivity	3
Authority and confidentiality	4
Scope	4
Overall opinion	6
Resourcing	7
Relationship with external audit	7
Compliance with PSIAS	8
Review of the charter	8

1. Introduction

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.

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 Management Team. The Head of Corporate Services undertakes the role of CAE.

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.

The charter must also:

- Cover the arrangements for appropriate resourcing
- Define the role of internal audit in any fraud-related work
- Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities; and
- Define the nature of assurance services and consulting services provided by internal audit

2. Definition of internal auditing

PSIAS (section 4) 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.

3. Objective of internal audit

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. **To provide optimum benefit to the council, internal audit will work in partnership with management to improve the control environment and assist the organisation in achieving those objectives.** This is achieved through the mix of audit work; assurance work, corporate improvement work and consultancy and advice, whether this is ad hoc or through project related work. **The objective supports the ‘Mission of Internal Audit’ which is defined within section 3 of the PSIAS as ‘To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight’.**

4. Core principles for the professional practice of internal auditing

The principles, taken as a whole, articulate internal audit effectiveness. For internal audit to be considered effective, all principles should be present and operating effectively. The application of the principles will help internal audit achieve its mission. The principles are;

Principle	Examples of applying the principle
<ul style="list-style-type: none">• Demonstrates integrity	<ul style="list-style-type: none">• Confidentiality of work undertaken.• Building trust with clients.• Compliance with requirements of relevant professional body.• Compliance with rules and procedures of the council.
<ul style="list-style-type: none">• Demonstrates competence and due professional care.	<ul style="list-style-type: none">• Quality assured work.• Works towards professional qualification.• Training and development.
<ul style="list-style-type: none">• Is objective and free from undue influence.	<ul style="list-style-type: none">• Ensure there is no conflict of interest.• Factuality of audit findings.• Safeguard arrangements in relation to CAE role.
<ul style="list-style-type: none">• Aligns with the strategies, objectives, and risks of the organisation.	<ul style="list-style-type: none">• Risk based audit plan.• Consideration of risks within corporate risk register.• ICT risk assessment.
<ul style="list-style-type: none">• Is appropriately positioned and adequately resourced.	<ul style="list-style-type: none">• Independently located within the council's structure.• Adequate staff resource to deliver the audit plan.• Direct reporting line to senior management.
<ul style="list-style-type: none">• Demonstrates quality and continuous improvement.	<ul style="list-style-type: none">• Delivery of quality assurance and improvement actions.
<ul style="list-style-type: none">• Communicates effectively.	<ul style="list-style-type: none">• Client satisfaction feedback.• Clear and concise planning engagement.• Quality of audit reporting and recommendations.• Assurance to Audit Committee.
<ul style="list-style-type: none">• Provides risk- based assurance.	<ul style="list-style-type: none">• Categorisation of audit opinions and recommendations.• Audit work linked to corporate objectives.• Auditing 'what matters'.
<ul style="list-style-type: none">• Is insightful, proactive, and future- focused.	<ul style="list-style-type: none">• Participates within professional networks.• Horizon scanning of internal and external audit related activity.• Corporate improvement days.
<ul style="list-style-type: none">• Promotes organisational improvement.	<ul style="list-style-type: none">• Implementation of audit recommendations.• Corporate improvement days allocated within the audit plan.• Consultancy and advice on corporate projects.

5. Code of ethics

The overall integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement. When undertaking their work, internal auditors will demonstrate integrity, objectivity, confidentiality and competency. 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.

6. Independence and objectivity

Organisational independence

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.

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.

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 of team members from line operations.

Individual objectivity

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 of 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.

It is not uncommon, given the financial challenges facing local government, that a CAE will have operational responsibility for other service areas. At Tewkesbury, the CAE has responsibility for services such as ICT,

Customer Services, Human Resources together with responsibility for corporate frameworks such as risk management and project management.

PSIAS standard 1112 requires that where responsibilities of the CAE fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity. In practical terms, at Tewkesbury Borough Council, where an audit is to be undertaken in a service area which is managed by the CAE then key aspects of the audit will be reviewed and signed off by the Head of Finance and Asset Manager (HFAM). The relevant internal audit officer will report direct to the HFAM for the purpose of approving documentation such as the audit assignment brief, draft report and proposed recommendations. The CAE, as the client, will have opportunity to provide comments but final approval rests with the HFAM. This approach is endorsed by the Corporate Governance Group. In cases where an audit is being undertaken in any of these areas, then the CAE will ensure that any managerial responsibilities for these services and corporate functions are exercised objectively and with integrity so that all audit opinions are reported accurately, openly and transparently.

Responsibility of the board

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.

7. Authority & confidentiality

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 strategic level.

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

8. Scope of internal audit

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 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.

“The audit of the financial systems helps **give assurance** regarding the accuracy of financial information”.

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 ensure there is adequate coverage when putting the annual plan together, the plan consists of both assurance and consultancy type work. Assurance work is, for the purpose of this charter, defined as the undertaking of audits within the audit plan. An opinion is reached on the adequacy of the internal control environment relating to that individual audit and this opinion is reported to management and the Audit Committee. Consultancy work is, for the purpose of this charter, defined as advisory and related client service activities, the nature and scope of which are agreed with the client. This can include general advice, being part of a project team, sitting on corporate groups or undertaking corporate improvement work. The plan can be broadly split over the following themes;

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 and undertake, where appropriate governance related audits. **A key area of governance is the council's risk management framework. The emerging risk register and specifically, the corporate risks contained within the register will also inform**

the internal audit plan.

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 Head of 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.

In terms of horizon work, as described within the charter, internal audit are ideally positioned within the council to keep abreast of emerging issues. With regards to national issues, the team are members of the Midland Internal Auditor's group, subscribe as members to the Institute of Internal Auditors (IIA) and receive regular updates from organisations such as Chartered Institution of Public Finance and Accountancy (CIPFA).

9. Overall opinion

As set out in the PSIAS, para 2450, the CAE must provide an annual report to the board which must include;

- **An annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework**
- **A summary of the audit work from which the opinion is derived, and**
- **A statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme**

The basic aim of every internal audit report should be to give an opinion on the risk and controls of the area under review, building up to the annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

A fundamental part of the work undertaken by internal audit is the follow up of audit recommendations to ensure that management actions have been effectively implemented. Days are allocated within the audit plan for this work and the outcome is reported to each Audit Committee. The committee has the remit to call in any officer to explain where recommendations remain unimplemented. All audit opinions and the results of follow up work, particularly the need to escalate any outstanding recommendations and/or adverse audit opinions are also considered by corporate management team on a quarterly basis.

Fraud and corruption

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.

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 Head of Finance and Asset Management when any fraud type issue arises. Internal audit’s role in investigating fraud related issues is defined within the council’s anti-fraud and corruption strategy.

10. Resourcing

The internal audit service is provided through an in-house team of two full time equivalent 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.

The audit plan is aligned to the available staff resource 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.

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.

11. Relationship with external audit

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.

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 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.

12. Compliance with PSIAS

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.

13. Review of the charter

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

Head of Corporate Services
(Chief Audit Executive)

June 2018

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Head of Corporate Services
(Chief Audit Executive)

