

INTERNAL AUDIT CHARTER

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1. INTRODUCTION

The Relevant Internal Audit Standard Setters (The Chartered Institute of Public Finance and Accountancy (CIPFA) for Local Government Bodies) have adopted a common set of mandatory UK Public Sector Internal Audit Standards (PSIAS) from 1 April 2013 (revised in April 2017).

The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.

This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function in accordance with the PSIAS.

The Charter will be reviewed and presented to the Audit and Standards Advisory Committee for final approval every two years, or more frequently in response to changes in the Standards.

2. PURPOSE

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework 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."

CIPFA state that a professional, independent and objective internal audit service is one of the key elements of good governance in local government.

An effective internal audit service will:

- understand the whole organisation, its needs and objectives;
- understand its position with respect to the organisation's other sources of assurance and plan its work accordingly;
- be seen as a catalyst for improvement at the heart of the organization;
- add value and assist the organisation in achieving its objectives, and
- be forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.

An important element of an effective internal audit service is compliance with standards and proper practices.

In a local authority, internal audit provides independent and objective assurance to the organisation, its Members, the Corporate Management Team and, in particular, to the Chief Financial Officer (CFO) to help them discharge their duties under section 151 (S151) of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations (2011) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides

independent assurance on the adequacy of the Council's governance, risk management and internal control systems. Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should '*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*'. CIPFA has defined '*proper administration*' in that it should include '*compliance with the statutory requirements for accounting and internal audit*'.

The CIPFA Statement on the *Role of the Chief Financial Officer in Local Government* states that the CFO must:

- ensure an effective internal audit function is resourced and maintained;
- ensure that the authority has put in place effective arrangements for internal audit of the control environment;
- support the authority's internal audit arrangements, and
- ensure that the Audit and Standards Advisory Committee receives the necessary advice and information, so that both functions can operate effectively.

The relationship between the Head of Internal Audit (HIA) and the Chief Finance Officer (CFO) is therefore of particular importance in local government.

3. AUTHORITY

The Internal Audit function has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Any officer obstructing the internal audit function may be subject to disciplinary action. Right of access to other bodies funded by the Council should be set out in the conditions of funding, and officers agreeing such conditions must ensure that such rights allow similarly unrestricted access.

The Internal Audit function will consider requests from the External Auditors for access to any information held by the service, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities.

The Internal Audit function is part of the resources Department. The HIA has a direct reporting line to the CFO with a 'dotted line' reporting line to the Chief Executive.

4. RESPONSIBILITY

The Council's HIA is required to provide an annual opinion to the Council and to the CFO, through the Audit and Standards Advisory Committee, on the overall adequacy and the effectiveness of the organisation's framework of governance, risk management and control. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources;
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures;
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes;
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process;
- To provide advice and support to management to enable an effective control environment to be maintained;
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud, and
- To investigate allegations of fraud, bribery and corruption, including whistle-blowing allegations.

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to records for the purposes of audit work and to ensure the authenticity of these documents.

Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Council in relation to third party operations (such as contractors and partners) where this has been included as part of the contract.

The HIA is responsible for ensuring that sufficient, appropriate resource is available to achieve the objectives set out above.

5. RISK MANAGEMENT

The Internal Audit function is responsible for maintaining the Council's Risk Management strategy and framework. This includes advice and guidance to services on best practice and collating and reporting risk information to key stakeholders.

6. FRAUD

The primary responsibility for the prevention and detection of fraud lies with management who are also responsible for the management of fraud risks. In support of this, internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest when performing their individual audits. They will also have sufficient knowledge to identify indicators that fraud or corruption may have been committed.

The HIA should be notified of all suspected or detected fraud, corruption or impropriety, to ensure that all potential fraud is investigated consistently in line with

the Council's Anti-Fraud and corruption strategy and Prosecution Policy to inform the annual internal audit opinion and the risk-based plan.

The HIA will deploy resources to investigate fraud or undertake ad hoc reviews as required in line with their professional judgement.

7. REPORTING

The UK PSIAS require the HIA to report to senior management and members. This is achieved in the following ways:

- The Internal Audit Strategy and Charter, and any amendments to them, are reported to Audit and Standards Advisory Committee;
- The annual Internal Audit Plan is compiled by the HIA taking account of the Council's Risk Management framework and after input from senior officers. It is then presented to Audit and Standards Advisory Committee for approval;
- The Internal Audit Budget is reported annually as part of the overall Council budget;
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the HIA) and the independence of internal audit will be reported annually to Audit Committee. The approach to providing resource is set out in the Internal Audit Strategy;
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to Audit and Standards Advisory Committee on a quarterly basis; and
- Results from Internal Audit's Quality Assurance Programme will be reported to the Audit and Standards Advisory Committee.

Any instances of non-conformance with the PSIAS will be reported to Audit and Standards Advisory Committee and will be included in the HIA's Annual Opinion.

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and at the follow up stage. Summary reports are also provided to the Audit and Standards Advisory Committee on a quarterly basis and high level reports provided on a quarterly basis. This includes the HIA's annual report which contributes to the assurances underpinning the Annual Governance Statement of the Council.

8. FOLLOW UP

Internal Audit will monitor progress in implementing audit recommendations against agreed targets for implementation. Progress will be reported to management and to the Audit and Standards Advisory Committee on a regular basis. Where progress is unsatisfactory, or management fail to provide a satisfactory response to follow up requests, Internal Audit will report accordingly.

9. AUDIT AND STANDARDS ADVISORY COMMITTEE

PSIAS require that the term 'board' be defined as "The highest level of governing body charged with responsibility to direct and oversee the activities and management of the organisation". The term 'Board' refers to the Audit and Standards Advisory Committee to which Full Council has delegated its authority. The term 'Senior Management' refers to the Council Management Team.

There are agreed protocols with audit clients regarding the planning, conduct and reporting of audit work. Internal Audit reports incorporate recommendations that are ranked together with associated risks and a level of assurance to the Council. Specific work to confirm that agreed recommendations, particular those of an assessed high risk, continues to form part of the Audit Plan which further helps to both provide necessary assurances and assess the effectiveness of audit work. In accordance with these agreed protocols, progress and outturn reports are submitted to Audit and Standards Advisory Committee, showing actual performance against the Audit Plan and any significant issues arising from audit findings.

10. INDEPENDENCE

The HIA has free and unfettered access to the following:

- CFO (S151);
- Chief Executive;
- Chair of Audit and Standards Advisory Committee;
- Monitoring Officer; and
- Any other member of the Senior Management Team.

There are periodic Governance Meetings diarised between the Chief Executive, HIA, CFO and Monitoring Officer to ensure governance remains high on the agenda in Brent.

The independence of the HIA is further safeguarded by ensuring that their annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that the Chair of Audit and Standards Advisory Committee reviews the appraisal of the HIA.

All Council and contract staff within the Audit and Investigation Service are required to make an annual 'declaration of interest' to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

In addition, any internal audit staff will:

- not accept any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties;
- not use information obtained during the course of duties for personal gain;
- disclose all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements; and
- ensure compliance with the Bribery Act 2010.

Internal Audit may also provide consultancy services, such as providing advice on designing and implementing new systems and controls. However, any significant consulting activity not already included in the Audit Plan and which might affect the level of assurance work undertaken will be reported to Audit Committee. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

11. DUE PROFESSIONAL CARE

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics (Appendix A);
- Seven Principles of Public Life - Nolan Principles (Appendix B);
- UK Public Sector Internal Audit Standards (PSIAS);
- All Council Policies and Procedures, and
- All relevant legislation.

Internal Audit is subject to a Quality Assurance (QA) Programme that covers all aspects of internal audit activity. This consists of

- A QA Questionnaire sent out at the completion of each audit and follow up of issues arising where required;
- Annual self-assessment of the service and its compliance with the UK PSIAS; and
- Ongoing internal performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. The HIA is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

12. SERVICE DELIVERY

The Audit and Investigations Service will be delivered by the Council's in-house team and the Internal Audit contracted partner under the direction of the Council's HIA.

Internal Audit will work in partnership with the Council's management and staff; strategic partners; and other internal and external assurance providers, to ensure that benefits are maximised and best practice is shared.

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with the Council Management Team, Operational Directors, Heads of Service and other relevant officers;
- The Council's risk registers;
- The Council's assurance map;
- Outputs from other assurance providers;
- Benchmarking with other local authorities; and
- Requirements as agreed in the joint working protocol with External Audit.

The HIA will review risk registers for all Departmental Management Teams and, where necessary, attend face to face meetings as part of the annual planning process to ensure that management views and suggestions are taken into account when producing the audit plan. The audit plan will be provided to management for comment prior to presentation to the Audit and Standards Advisory Committee for approval.

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and in summary to Audit Committee. This includes the HIA's Annual Opinion which contributes to the assurances underpinning the Annual Governance Statement of the Council.

Appendix A – Chartered Institute of Internal Auditors – Code of Ethics

CODE OF ETHICS

The Code of Ethics states the principles and expectations governing the behaviour of individuals and organisations in the conduct of internal auditing. It describes the minimum requirements for conduct, and behavioural expectations rather than specific activities.

INTRODUCTION TO THE CODE OF ETHICS

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession 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.

A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about governance, risk management, and control.

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The Institute's Code of Ethics extends beyond the Definition of Internal Auditing to include two essential components:

- Principles that are relevant to the profession and practice of internal auditing.
- Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

APPLICABILITY AND ENFORCEMENT OF THE CODE OF ETHICS

This Code of Ethics applies to both entities and individuals that perform internal audit services.

Breaches of the Code will be evaluated and administered according to The Council's disciplinary procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member can be liable for disciplinary action.

CODE OF ETHICS – PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

2. Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

3. Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

4. Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

RULES OF CONDUCT

1. Integrity

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organisation.

2. Objectivity

Internal auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.

- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

4. Competency

Internal auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

Appendix B – The Seven Nolan Principles of Public Life

The 'Seven Principles of Public Life' apply to all in the public service. These are:

Selflessness: Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

Integrity: Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

Objectivity: In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability: Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness: Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty: Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership: Holders of public office should promote and support these principles by leadership and example.

Author: Head of Internal Audit and Investigations

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