



Internal Audit Charter

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1. Introduction

In accordance with the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), and the Public Sector Internal Audit Standards (PSIAS), the purpose, authority and responsibility of the internal audit function must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing).

The Charter is a formal document that establishes the position of Internal Audit within the Council; authorises access to records, personnel and physical properties relevant to the performance of audit engagements; and defines the scope of internal audit activities.

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

2. Definitions

The PSIAS requires that the terms 'Board' and 'Senior Management' are interpreted in the context of the governance arrangements for each organisation. For the purposes of this Charter, the following definitions apply:

The Board	<p>The governance group charged with independent assurance on the adequacy of the Council's governance, risk management and internal control environment (including the integrity of financial reporting).</p> <p>The term 'Board' refers to the Council's Audit and Standards Committee, which also meets as the Audit and Standards Advisory Committee with additional independent members.</p>
Senior Management	<p>Those responsible for the leadership and direction of the Council.</p> <p>This refers to the Council Management Team (CMT) and respective Department Management Teams (DMT).</p>

3. Purpose and Mission

The Chartered Institute of Public Finance and Accountancy (CIPFA) states that a professional, independent and objective internal audit function is one of the key elements of good governance in local government.

The **purpose** of the Council's Internal Audit function is to therefore provide independent, objective assurance and consulting services, via the Audit and Standards (Advisory) Committee, Chief Executive, Chief Financial Officer and senior management, in order to add value and improve operations.

The **mission** of the Internal Audit function is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight. Internal Audit helps the Council to accomplish its objectives by bringing a systemic, disciplined approach to evaluating and improving the effectiveness of governance, risk management and control processes.

The purpose and mission are achieved through providing a combination of risk based assurance and consulting activities. The assurance suite of work involves assessing how well the systems and processes are designed and operating in order to effectively mitigate risk, while consulting activities aid with the improvement in systems and processes where necessary.

The response of the Council to the activity of Internal Audit should also lead to the strengthening of governance arrangements and the control environment, and therefore, contribute to the achievement of strategic objectives.

It is important to note that Internal Audit is not responsible for designing and implementing control systems and managing risks. It is the responsibility of senior management to establish and maintain appropriate risk management processes, control systems, accounting records and governance arrangements.

Statutory Requirements

The Council has a statutory duty to maintain an adequate and effective Internal Audit function in accordance with the proper Internal Audit practices of the Accounts and Audit Regulations (2015).

Section 151 of the Local Government Act 1972 also states that '*every local authority shall make arrangements for the proper administration of the financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs*'. To this end, the CIPFA Statement of the Role of the Chief Financial Officer in Local Government also states that the Chief Financial Officer must:

- Ensure an effective Internal Audit function is resourced and maintained;
- Ensure that the authority has put in place effective arrangements for the Internal Audit of the control environment and systems of internal control, as required by professional standards and in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom;
- 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 Financial Officer (CFO) is therefore of particular importance. To this end, the HIA had direct access to the CFO (Director of Finance) and holds regular 1:1s where planned internal audit activities and outcomes are discussed and reviewed as appropriate.

4. Standards for the Professional Practice of Internal Auditing

The Internal Audit function adheres to the PSIAS, which encompass the mandatory elements of the IIA's IPPF, these being: the Core Principles for the Professional Practice of Internal Auditing, the Standard and the Definition of Internal Auditing; and the Code of Ethics (seen at Appendix A).

In addition, the following standards and codes of practice are also adhered to:

- CIPFA Role of the Head of Internal Audit in the Public Sector; and
- CIPFA Local Government Application Note

Internal Audit will also have due regard to the Seven Principles of Public Life (seen at Appendix B).

5. Authority

Internal Audit is responsible for providing assurance to its key stakeholders, including the Chief Executive, Chief Financial Officer, Senior Management and Audit and Standards (Advisory) Committee to assist them with discharging their statutory responsibilities.

The Head of Internal Audit reports functionally to the Audit and Standards (Advisory) Committee, and organisationally to the Council's Monitoring Officer (Director of Legal, Human Resources, Audit and Investigations).

The Monitoring Officer, in conjunction with the Chief Financial Officer, will provide the Head of Internal Audit with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Head of Internal Audit also has direct and unfettered access to the Chief Executive (who carries the responsibility for the management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements); and any other member of the Council's Senior Management Team.

Where it is considered necessary to the proper discharge of internal audit activity, the Head of Internal Audit will also have direct access to elected Members of the Council, and in particular, those who serve on the Audit and Standards (Advisory) Committee. The Head of Internal Audit will also communicate and interact directly with the Independent Chair of the Audit and Standards Committee in between Committee meetings, as deemed appropriate.

The Internal Audit function shall:

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

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.

Internal Audit 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.

Audit and Standards (Advisory) Committee

To establish, maintain and ensure that Internal Audit has sufficient authority to fulfil its duties, the Audit and Standards (Advisory) Committee will:

- Approve the Internal Audit Charter;
- Approve the risk-based Internal Audit Plan;
- Receive communications from the Head of Internal Audit on the performance of Internal Audit, related to its plan and other matters.

6. Independence and Objectivity

The Head of Internal Audit will ensure that Internal Audit remains free from conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Head of Internal Audit determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal Auditors will maintain an unbiased attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year;
- Performing any operational duties for the Council or its affiliates;
- Initiating or approving transactions external to the Internal Audit function; and
- Directing the activities of any employee of the Council not employed by Internal Audit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Head of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity. 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. Furthermore, periodic Corporate Governance Meetings are held between the Chief Executive, Head of Internal Audit, Chief Financial Officer and Monitoring Officer to ensure that any governance issues remain high on the Council's agenda.

All staff within Internal Audit 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, Internal Auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to the Head of Internal Audit and appropriate parties;
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined;
- Make balanced assessments of all available and relevant facts and circumstances; and
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.
- 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; and
- Ensure compliance with the Bribery Act 2010.

The Head of Internal Audit will confirm to the Audit and Standards (Advisory) Committee, at least annually, the organisational independence of Internal Audit. The Head of Internal Audit will also disclose to the Audit and Standards (Advisory) Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

7. Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit and Standards (Advisory) Committee and senior management on the

adequacy and effectiveness of the Council's governance, risk management, and control processes.

The Head of Internal Audit is also responsible for providing an annual audit opinion and report that can be used to inform the Annual Governance Statement. The annual opinion will conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control, and may be based on:

- A summary of internal audit work carried out for the relevant period;
- Follow-up on the implementation of recommendations;
- Any significant governance issues as reported within each Council's Annual Governance Statement;
- The annual review of the effectiveness of Internal Audit.

A range of Internal Audit services are provided to form the annual opinion. The approach is determined by the Head of Internal Audit and will depend on the level of assurance required, the significance of the objectives under review to the organisation's success, the risks inherent in the achievement of those objectives, and the level of confidence required that controls are well designed and operating as intended.

Internal audit assessments may include evaluating whether:

- Risks relating to the achievement of strategic objectives are appropriately identified and managed;
- The actions of officers, directors, employees, and contractors are in compliance with Council policies, procedures, and applicable laws, regulations, and governance standards;
- The results of operations or programmes are consistent with established goals and objectives;
- Operations or programmes are being carried out effectively and efficiently;
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact on the Council;
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity; and
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Head of Internal Audit will report periodically to senior management and the Audit and Standards (Advisory) Committee regarding:

- Internal Audit's purpose, authority, and responsibility;
- Internal Audit's plan and performance relative to its plan;
- Internal Audit's conformance with The IIA's Code of Ethics and Standards and, where apt, action plans to address any significant conformance issues;

- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit and Standards (Advisory) Committee;
- Results of audit engagements or other activities;
- Any response to risk by management that may be unacceptable to the Council.

The Head of Internal Audit also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. 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.

Consultancy and Advisory Services

Internal Audit may perform consulting and advisory services related to governance, risk management and control as appropriate. It may also evaluate specific operations at the request of the Audit and Standards (Advisory) Committee or senior management, as appropriate. Before any consultancy work is agreed, the Head of Internal Audit will ensure that Internal Audit has the appropriate skills, resources and approval to undertake the review. The Head of Internal Audit will also ensure that appropriate safeguards are in place to preserve objectivity in areas subject to future internal audit activity.

Counter Fraud

The primary responsibility for the prevention and detection of fraud lies with management who are also responsible for the management of fraud risks. Managers are required to report all suspicions of theft, fraud and irregularity to the Head of Audit. The Head of Audit manages and controls all investigations and will ensure that investigators are fully trained in carrying out their responsibilities.

Internal Audit's role in any fraud or corruption related work will be in accordance with the Council's Anti-Fraud and Corruption Strategies and with resources approved by the Audit and Standards (Advisory) Committee in the annual audit plan. However, Internal Auditors will have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation. In addition, the service may assist or lead, as needed, in the identification and investigation of suspected fraudulent activities within the Council and notify senior management and the Audit and Standards (Advisory) Committee of the results.

Risk Management

Internal Audit 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. Safeguards will be put in place to ensure that functions deemed as inappropriate in the IIA's guidance on *The Role of Internal Auditing in Enterprise-Wide Risk Management*, are not undertaken by Internal Audit. Safeguards will be put in place to ensure that the Audit and Standards (Advisory) Committee and senior management receive separate, clear and objective messages from each function.

Third Parties

Internal Audit may carry out assurance work for third parties (i.e. organisations outside of the Council), where requested and deemed appropriate to do so. This may include Council subsidiaries, charitable, voluntary sector and other community-based organisations.

All internal audit, consultancy and advisory, and assurance work provided to third-party organisations is carried out in accordance with the standards and requirements set out within this Charter.

Internal Audit also operates a co-sourced delivery model, with a portion of the annual plans delivered by an external provider. The provider is required to work to the same standards and audit methodology as detailed within this Charter.

8. Responsibility

The Head of Audit will be professionally qualified (CMIIA, CCAB or equivalent) and will have wide internal audit and management experience.

The Head of Internal Audit has the responsibility to:

- Submit, at least annually, to senior management and the Audit and Standards (Advisory) Committee, a risk based internal audit plan for review and approval;
- Identify the resources required to deliver the audit plan and communicate to senior management and the Audit and Standards (Advisory) Committee the impact of resource limitations on the internal audit plan. The Head of Audit can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources;
- Review and adjust the internal audit plan, as necessary, in response to changes to the Council's objectives, business, risks, operations, programmes, systems, and controls;
- Communicate to senior management and the Audit and Standards (Advisory) Committee any significant interim changes to the internal audit plan. This includes advising, for whatever reason, where internal audit is unable to provide assurance on any significant risks within the timescale envisaged;
- Seek approval from the Audit and Standards (Advisory) Committee for any significant additional consulting services that are not already included in the audit plan;
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programmes and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties;
- Follow up on findings and recommendations, as outlined in the Internal Audit Methodology, and report periodically to senior management and the Audit and Standards (Advisory) Committee any corrective actions not effectively implemented.

- Deliver an annual audit opinion and report that can be used by the Council to inform its annual governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisations framework of governance, risk management and control;
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld;
- Ensure that Internal Audit collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter;
- Ensure trends and emerging issues that could impact on the Council are considered and communicated to senior management and the Audit and Standards (Advisory) Committee as appropriate;
- Ensure emerging trends and successful practices in internal auditing are considered;
- Establish and ensure adherence to policies and procedures designed to guide the Internal Audit function;
- Ensure adherence to the Council's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit and Standards (Advisory) Committee;
- Ensure conformance of the Internal Audit Service with the Public Sector Internal Audit Standards.

9. Reporting and Monitoring

For each audit engagement, Internal Audit will ensure that a terms of reference is prepared and agreed with the auditees and key stakeholders, setting out the scope of the audit.

On completion of the audit, a written report will be prepared and issued which, where appropriate, will summarise findings and identify areas where improvements are required to the Council's control environment. The Internal Audit report will also include management's response and action to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area, should include agreed actions to be taken and an explanation for any recommendations that will not be implemented.

Internal Audit may also undertake work which does not contribute explicitly to the overall audit opinion. These may include certification of grant claims or consulting activities where Internal Audit provide independent and objective advice and guidance to management on risk and control issues within individual systems to improve those systems and processes where necessary. Where such work is undertaken, this will be set out as part of Internal Audit's annual report. In order to protect Internal Audit's independence and minimise the impact on the delivery of the overall plan, and as set out in the sections above, the Head of Internal Audit will give due consideration to the appropriateness of undertaking such work.

Internal Audit will also be responsible for appropriate follow-up of agreed action. This includes monitoring progress in implementing audit recommendations in accordance with agreed timescales. Progress will be reported to management and to the Audit and Standards (Advisory) Committee on a periodic basis. Where progress is unsatisfactory, or management fail to provide a satisfactory response to follow up requests, Internal Audit will report this accordingly.

10. Quality Assurance and Improvement Programme

The PSIAS include ten Core Principles, which when taken as a whole, articulate internal audit effectiveness. For an internal audit service to be considered effective and achieve its mission, all Principles must 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; and
- Promotes organisational improvement.

Internal Audit will develop a Quality Assurance and Improvement Programme (QAIP) that covers internal audit activity. The QAIP will seek to provide reasonable assurance to stakeholders that Internal Audit:

- Conforms with the above principles;
- Performs its work in accordance with the PSIAS (including the Definition of Internal Auditing and Code of Ethics) and the CIPFA Statement on the role of the Head of Internal Audit;
- Understands the Council as an organisation, including its needs and objectives;
- Understands its role and position with respect to the organisation's other sources of assurance and plans its work accordingly;
- Operates in an effective and efficient manner;
- Is perceived by stakeholders as adding value and continually improving operations; and
- Is forward thinking and strives for continuous improvement.

The Head of Internal Audit will communicate to senior management and the Audit and Standards (Advisory) Committee the outcomes of the QAIP, including results of ongoing internal self-assessments and external assessments conducted at least every five years by a qualified, independent assessor.

Author: Head of Internal Audit and Investigations

Date: November 2021

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

The Institute of Internal Auditors Code of Ethics is a statement of principles and expectations governing the behaviour of individuals and organisations in the conduct of internal auditing.

A summary of the principles and rules of conduct is provided below. The full version of the Code of Ethics can be seen here: <https://www.iaa.org.uk/resources/ippf/code-of-ethics/>

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.

Rule 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.