

Internal Audit Charter



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Introduction

The Internal Audit Service has been established by the Council as a key component of its governance framework. This Charter formally defines the internal audit activity's purpose, authority and responsibility, and establishes its position within the Council, including the nature of its functional reporting relationships.

The Charter authorises access to records, personnel and physical properties relevant to the performance of audit assignments, and defines the scope of internal audit activities. The Charter is approved by the Corporate Governance Committee.

The Charter complies with the mandatory Public Sector Internal Audit Standards (PSIAS - also referred to as the Standards), the Chartered Institute of Public Finance and Accountancy's (CIPFA) Local Government Application Note for the PSIAS (LGAN), the Accounts and Audit Regulations 2015, and the Council's Financial Regulations.

The Council's Internal Audit Manager will fulfil the role of the "Chief Audit Executive" as stated in the Standards with specific responsibilities for ensuring compliance with this Charter, the PSIAS and the LGAN, and shall develop, lead and manage the Internal Audit Service.

The role of the "board" as stated in the Standards will be fulfilled by the Council's Corporate Governance Committee unless specifically stated otherwise in the Charter.

The role of "senior management" as stated in the Standards will be fulfilled by the Council's Senior Management Team (SMT) unless specifically stated otherwise in the Charter.

The Internal Audit Manager will be responsible for periodically reviewing the Charter to ensure it remains current, submitting it to the SMT prior to it being approved by the Corporate Governance Committee.

The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Mission of Internal Audit
- Definition of Internal Auditing;
- Code of Ethics (which include Integrity, Objectivity, Confidentiality and Competency); and
- International Standards for the Professional Practice of Internal Auditing (which include the Core Principles).

Purpose and Statutory Requirements

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Internal Audit is defined 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."*

The requirement for an internal audit function is implied by Section 151 of the Local Government Act 1972, which requires that authorities *"make arrangements for the proper administration of their financial affairs."* Regulation 6 of the Accounts and Audit Regulations 2015 specifically requires the Council to *"undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."*

The Internal Audit Manager's primary role is to deliver an annual internal audit opinion based on an objective assessment of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion and report forms the

main source of objective assurance used by management to inform the Council's Annual Governance Statement.

Authority

The Internal Audit Manager should have direct access to, and the freedom to report without fear or favour to, the Corporate Governance Committee (particularly the Chair and Vice-Chair of that Committee), members of the Senior Management Team (in particular those charged with governance), the Chief Financial Officer, Service Managers, or the External Auditor, as deemed necessary.

Internal auditors, with strict accountability for confidentiality and safeguarding records and information, are authorised to have full, free and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are required to assist the internal audit activity in fulfilling its role and responsibilities. This is reflected further in the Council's Financial Regulations (Ref: Constitution Part 6E, section 8).

To enable the Internal Audit Service to perform its duties effectively, it is essential that management provide them with appropriate access to IT systems, ideally separate licensed access.

Where relevant appropriate access rights shall be negotiated and included in contracts and partnership agreements to ensure the Internal Audit Service can obtain appropriate access to the personnel and records within those organisations.

Professionalism

The Internal Audit Service will govern itself by adhering to the Standards along with the LGAN produced by CIPFA. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance. In addition, supplementary guidance issued from time to time and endorsed by the relevant internal audit standard setters as applying to local government will also be adhered to along with the Council's relevant policies and procedures, and the internal audit manual.

Independence, Integrity and Objectivity

In seeking to provide an independent and objective opinion it is accepted that, being located within the organisation, the Internal Audit Service cannot be wholly independent of all management. Internal Audit's independence shall therefore be achieved through its organisational status. To provide an objective view and opinion, the Internal Audit Service will remain free from interference by any element in the organisation, including but not limited to matters of audit selection, scope, procedures, frequency, timing, or reporting.

The Internal Audit Service should be sufficiently independent of the activities that it audits. This will enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations, and provide credibly constructive challenge to management. It should therefore have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the Internal Auditor's judgement.

The Internal Audit Manager will confirm to the Chief Financial Officer and the Corporate Governance Committee, at least annually, the organisational independence and objectivity of the Internal Audit Service. If this has not been maintained, disclosure will be made. This may be as a result of resource limitations, conflicts of interest or restricted access to records.

The independent role of Internal Audit Service shall in no way diminish the close working relationship with management and other areas of the organisation through its direct and unimpeded access to officers and Members as required to undertake its duties. All internal audit reports to management and Members shall be made in the name of the Internal Audit Manager.

The Internal Audit Service also ensures its effectiveness through conformance with the Core Principles for the Professional Practice of Internal Auditing as set out in the recent International Professional Practices Framework. These principles are:

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence
- 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

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements. Each member of the team will confirm their commitment to conforming to the Code of Ethics, the Standards and the Committee on Standards of Public Life's *Seven Principles of Public Life* (<https://www.gov.uk/government/publications/the-7-principles-of-public-life>), and make a declaration of any interests or of "no interest" on an annual basis. Any interests will be taken into account when allocating audit work across the team.

The conduct of an audit engagement or the provision of advice by an internal auditor does not in any way diminish the responsibility of line management for the proper execution and control of their activities.

Relationships

The Internal Audit Manager will establish, develop and maintain strong and constructive working relationships and channels of communication with management and elected representatives, but more specifically with the Chief Financial Officer (also known as the Section 151 Officer), the Monitoring Officer and the Chair and Vice-Chair (if selected) of the Corporate Governance Committee.

Relationships with the Corporate Governance Committee

The Internal Audit Manager will report functionally to the Corporate Governance Committee, and in addition to that above, shall have:

- Free and unfettered access to the Corporate Governance Committee and attend all of its meetings.
- The right to meet with the Chair and Vice-Chair of the Corporate Governance Committee to discuss any matters or concerns that have arisen from internal audit work, and
- Provide advice to the Corporate Governance Committee and support it in reviewing its own effectiveness.

Relationships with Senior Management

The Internal Audit Manager shall have unrestricted access to senior management, and develop effective relationships with statutory officers to assist them in discharging their delegated responsibilities. The relationship between the Internal Audit Manager and Chief Financial Officer is of particular importance in local government, and is described further in the CIPFA's Statement on the Role of the Chief Financial Officer in Local Government. To this end the Internal Audit Manager shall periodically meet with the Chief Financial Officer to discuss relevant aspects of risk management, control, governance and any fraud matters.

The Internal Audit Service will be positioned within the Resources Team under the direction of the Resources Manager. Regular 1-2-1 meetings will take place and include discussion on the development and performance of the Internal Audit Service and that of the Internal Audit Manager.

Relationships with External Audit and Other Assurance Activities

Internal audit is independent of external audit and should not be driven by the external auditor's own priorities. The Internal Audit Service will establish and maintain an open relationship with the external auditor. More specifically, the Internal Audit Manager will liaise with the external auditors to:

- Consult on and coordinate respective audit plans.
- Co-ordinate the overall audit effort to ensure duplication of effort is minimised.
- Ensure appropriate sharing of information.
- Foster a co-operative and professional working relationship.

Relationships with the Council's Partners and Other Assurance Providers

The Internal Audit Manager may look to partners and other agencies for assurance. However, the basis for the assurance and its adequacy must be understood to determine whether additional review work is required. On occasion, Internal Audit may also be asked to give assurances to partners or other organisations. In such cases, the Internal Audit Manager and Chief Financial Officer shall decide, in consultation with all parties, whether Internal Audit will conduct the work to derive the required assurance or rely on assurance provided by other auditors or assurance bodies.

Resource Management, Proficiency and Due Professional Care

For the Internal Audit Service to fulfil its responsibilities, it must be appropriately resourced in terms of numbers, grades, qualifications, experience, skills and personal attributes. Resources must be effectively deployed to achieve the approved risk-based audit plan. The mix of available knowledge, skills and other competencies will be considered once the audit plan is drafted to ensure that they are sufficient to deliver it. The Internal Audit Manager will, following consultation and agreement with the Chief Financial Officer and the Resources Manager, communicate the impact of resource limitations to the SMT and the Corporate Governance Committee as part of the audit planning process.

The Internal Audit Manager will continue to assess the need for procuring specialist skills / experience to complement the in-house team and where the need arises investigate innovative ways of providing the necessary assurance. This may involve joint procurement with other teams, co-sourcing with other authorities, or utilising existing framework agreements.

The Internal Audit Manager shall:

- Lead and direct the Internal Audit Service so that it makes a full contribution to and meets the needs of the organisation and external stakeholders.
- Determine the resources, expertise, qualifications and systems for the Internal Audit Service that are required to meet internal audit objectives, using a full range of

resourcing options as necessary, including consultancy, working with others and buying in where appropriate.

- Recruit suitably qualified and skilled internal auditors in accordance with the Council's human resources policies and procedures.
- Ensure that the professional and personal training needs of internal audit staff are identified and met.

The skills required for the delivery of the internal service are primarily:

- Auditing knowledge and skills, provided by professional and on-the-job training.
- A comprehensive understanding of the organisation, its objectives, systems and processes. This is ensured by being part of the organisation and through experience of auditing it.
- Communication, negotiation and influencing skills necessary to effectively plan, undertake and report on audits.
- Judgement and impartiality in assessing materiality and finding practical solutions.
- Planning and organisation skills for effective working.

Each job role within the Internal Audit structure has the required skills, competencies and qualifications, as specified within the approved job description and person specification for each post.

In line with the Council's policy, each member of the Internal Audit team will receive an annual appraisal interview which will assess them against the required skills and competencies for the job role, the requirements for effective delivery of the of the Internal Audit Plan, and the Council's values.

To safeguard independence, the Internal Audit Manager's annual appraisal will include feedback from the Chief Executive and/or Deputy Chief Executive and the Chair of the Corporate Governance Committee, which will be considered as part of that appraisal. The Internal Audit Manager's appraisal will also take heed of CIPFA's Statement on the Role of the Head of Internal Audit.

Any identified individual training and development needs will be included in the annual service training plan and delivery of the agreed actions will be regularly monitored. Internal auditors are also required to maintain a record of their continual professional development in line with their professional body.

Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives.
- Relative complexity, materiality or significance of matters to which assurance procedures are applied.
- Adequacy and effectiveness of governance, risk management and control processes.
- Probability of significant errors, fraud or non-compliance.
- Cost of assurance in relation to potential benefits.

Internal Audit Plan

At least annually, the Internal Audit Manager will submit to the SMT and the Corporate Governance Committee an Internal Audit Plan for review and approval, which will be linked to a strategic high-level statement of how the Internal Audit Service will be delivered and developed in accordance with this Charter and how it links to the Council's objectives and priorities.

The Internal Audit Plan will be developed based on the Council's strategic risk register and prioritisation of the audit universe using risk-based methodology, including input from senior management. The Plan shall be fixed for a period of no longer than a year and shall be sufficiently flexible to reflect the changing risks and priorities of the Council.

Any significant deviation from the approved Internal Audit Plan will be communicated to the SMT and the Corporate Governance Committee through the periodic activity reporting process.

The Internal Audit Plan sets out the number of days required to adequately review the areas involved and indicates the priority level for each planned audit engagement and balances the following needs:

- To ensure the plan is completed in line with agreed performance targets.
- To meet the expectations of the service's key stakeholders.
- To take account of the Council's risk management framework and risk maturity.
- To ensure core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control (on which the external auditors can place reliance).
- To have a sufficient contingency element to deal with unplanned issues and investigations that may arise during the year, e.g. allegations of financial or other irregularities, or approved consultancy engagements.
- To enable positive timely input to assist corporate and service developments.
- To meet the requirements of the agreed Internal and External Audit Protocol.

Reporting and Monitoring

Internal Audit Reports

At the conclusion of an audit engagement, a written report will be prepared and issued by the Internal Audit Manager, which will:

- Include an overall assurance opinion, but not provide absolute assurance, on the adequacy of the governance, risk and control processes.
- Identify inadequately addressed risk and non-effective control processes.
- Detail management's response and timescale for corrective action.
- Identify elements of good practice and system improvement opportunities.

When corrective action has not been agreed, reporting will be escalated to a level consistent with the Internal Audit Manager's assessment of risk.

Copies of all finalised reports will periodically be supplied to the Chief Executive, Deputy Chief Executive and the Chair and Vice-Chair of the Corporate Governance Committee. Any reports receiving a "minimal assurance" opinion rating shall be reported to the SMT for their consideration, and the issues summarised in periodic activity reports. Any reports of corporate significance will be supplied to the SMT and any containing financial considerations will be issued to the Chief Financial Officer.

The Internal Audit Manager shall maintain a corporate register of action plans, accessible to the SMT and all Service Managers. Management are required to discuss outstanding audit matters at respective 1-2-1s and at the Risk Management Working Group meetings, and provide regular feedback to the Internal Audit Service on progress in achieving the agreed recommendations. Any IT-related recommendations are considered by the IT Steering Group.

The Internal Audit Service will be responsible for appropriate follow-up of recommendations made to ensure that management have effectively implemented them within the agreed timescales.

In addition to the reporting process identified above, detailed reporting and monitoring arrangements will be communicated to management prior to the commencement of an audit engagement via an audit brief, and the results of the audit fieldwork will be discussed with management prior to issue of the audit report.

Reporting to the Corporate Governance Committee

The Council has a responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control to determine the Annual Governance Statement. This review is informed by the work of Internal Audit and the officer working group which maintains the Council's Local Code of Governance, by management within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates. To assist with this review the Internal Audit Manager will produce an annual report and overall opinion, based on the areas examined and whether the Council's governance, risk management and internal control arrangements are adequate and have been properly applied in the year.

In order to provide the required opinion, the Internal Audit Manager is required to prepare and report to the SMT and the Corporate Governance Committee the following in support of its internal audit activities:

- A risk-based annual audit plan.
- In-year report and annual report on audit activities including any significant findings or major internal control failures.
- Other ad-hoc reports on significant corporate or control issues and initiatives highlighting areas of concern.

The annual report must incorporate the opinion, a summary of the work from which the opinion is derived; a statement on conformance with the Standards; the results of the Internal Audit Service's quality assurance and improvement programme; and shall draw attention to significant areas of concern and management's response.

Scope of Internal Auditing Activities

All of the Council's activities, regardless of funding source, may be subject to review. Its work will cover all of the operational and management controls within the Council. This does not imply that all systems shall be subjected to review, but that all systems will be included in the audit planning process and hence be considered for review as part of the assessment of risk.

The scope of internal auditing contributes to the improvement of governance, risk management and control processes, and encompasses, but is not limited to, the examination and evaluation of these processes in relation to the organisation's defined goals and objectives.

This includes:

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a serious impact on the organisation.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Contributing to and supporting the Council's objective of ensuring the provision of, and promoting the need for, sound financial systems.
- Assessing whether the information governance arrangements adequately support the Council's strategies and policies, and contributing to their improvement.
- Assessing and recommending improvements to corporate governance.
- Working with others in the organisation that have responsibility for promoting good governance and help to promote the benefits.

- Evaluating the design, implementation and effectiveness of the Council's ethics-related objectives, programmes and activities.
- Evaluating the effectiveness of risk management processes and contributing to their improvement.
- Reporting significant risk exposures and control issues, including fraud risk, governance issues, and other matters needed or requested by management and the Corporate Governance Committee.
- Evaluating specific operations at the request of management, as appropriate.
- Supporting management upon the design of controls at appropriate points in the development of major change programmes.

It shall not generally be Internal Audit's role to question the appropriateness of Council policies or policy decisions unless this involves enhancing the governance arrangements, but to review the control environment surrounding the application of them. The evaluation of controls shall be undertaken against an assessment of the risks facing the organisation, to determine their adequacy, reliability and effectiveness and how well the responsibilities assigned to managers are being carried out in practice.

Accountability for the response to the risks and identified control weaknesses identified by Internal Audit lies with management, who identify and/or implement the appropriate actions or accept the risk. Audit advice and recommendations are given without prejudice to the right to further review relevant policies, procedures and operations at a later stage.

Assurance to third parties may be provided where specific internal audit resources have been allocated and agreed by senior management, or where stipulated in partnerships and contractual arrangements. The Internal Audit Service is currently required to provide assurance to those partners who support the West Northamptonshire Joint Planning Unit.

Any assurance on controls and risks for services provided to the Council by others, shall be evaluated to determine whether reliance that can be placed on their work. Where limitations or gaps are identified these shall be reported to those charged with governance.

Consulting Services

The Internal Audit Manager shall, within available resources, provide consulting services in an advisory capacity, which is generally at the request of management, with the aim of improving governance, risk management and control, and contributing to the overall opinion, without the Internal Audit Service assuming management responsibility. Such services include support and advice to working groups and corporate activities on aspects such as risk management, corporate governance, procurement, project management, information governance and HR practices. Advice is also provided to management relating to new activities, areas of concern or major system changes to ensure an effective control environment is maintained.

The Internal Audit Service will be informed of major projects and their progress through continuing discussion with management. Internal Audit response to major projects will be proportionate to the risk in terms of their inclusion of specific work within the Internal Audit Plan. Where a project team seeks advice or further support from Internal Audit, this will be treated as one for consultancy support.

Any significant additional consulting services that have not already been included within the audit plan shall require the prior approval of the Chair of the Corporate Governance Committee prior to being reported at the next committee meeting.

Counter Fraud Role

Under the Council's Anti-Fraud, Bribery & Corruption Policy the Internal Audit Service is responsible for:

- Providing a pro-active corporate anti-fraud function to facilitate the identification and subsequent investigation of alleged acts of fraud, bribery or corruption.
- Investigating or assisting with the investigation of all fraud, bribery and corruption that do not fall within the remit of other investigative bodies such as the case with welfare and housing benefit fraud.
- Reporting to and liaising with the Police and other external agencies on individual cases.
- Developing and delivering the Council's Counter Fraud Strategy on behalf of management and analysing fraud risk.
- Making appropriate arrangements to co-ordinate the Council's work on National Fraud Initiatives.
- Co-ordinating the Council's response to external fraud surveys.
- Issuing advice and guidance to Members, management and officers in relation to fraud and corruption related legislation and procedures.
- Promoting fraud awareness and training through the dissemination of fraud bulletins, e-learning tools, marketing and other initiatives.
- Acting as the Council's consultant on issues of fraud, bribery and corruption.

A specialist Corporate Fraud Officer is a member of the Internal Audit Service and plays a pivotal role in those activities described above. Whilst it is not the primary role of the internal auditors to detect fraud, they do have a role in providing independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud and they evaluate the potential for the occurrence of fraud as part of audit engagements.

Under the Council's Anti-Fraud, Bribery and Corruption Response Plan the Internal Audit Manager is notified of all suspected or detected fraud, corruption or impropriety and in addition to those responsibilities within the Response Plan this information is used to inform the annual internal audit opinion.

As part of the undertaking of investigations the Internal Audit Service may recommend improvements to systems, attend disciplinary meetings and tribunals, and report to any investigative panel.

Outside of the standard risk assessment used for internal audit resources a fraud risk register has been established to identify and evaluate the key fraud risks to the authority. A programme of proactive fraud work is being established tailored to individual fraud risks. Whilst the Internal Audit Manager is responsible for managing the Corporate Fraud Officer their work and those responsibilities placed on the Internal Audit Service complement each other by examining and mitigating risks to the authority and by identifying improvements to the internal control environment. It is considered that this does not compromise the independence of the Internal Audit Service or impair any judgements it makes.

Quality Assurance and Improvement Programme

Internal Assessment

It is no longer a requirement for the Council to undertake an annual review of the effectiveness of its internal audit function. However, senior management and the the Corporate Governance Committee has determined that an interim internal review will be carried out in between mandatory external assessments. This review will be undertaken by the manager administratively responsible for the Internal Audit Service (currently the Resources Manager) and be supported by the Chief Financial Officer and the Internal Audit Manager, as appropriate. The findings of this review shall be reported to and considered by the Corporate Governance Committee, as part of the consideration of the Council's annual review of the effectiveness of its system of internal control. Evidence to support the review shall include the results from:

- Self-assessment of compliance against the Standards.
- Benchmarking through peer networking, if available.
- Stakeholder and customer satisfaction surveys.
- Achievement of the Internal Audit Service Plan.
- External auditor's opinion.
- Related audit activities of the Corporate Governance Committee.

The yearly outturn results of agreed performance and assurance targets, as set out in the Internal Audit Service Plan, shall also be reported in the annual audit report.

The Internal Audit Manager shall put in place adequate on-going monitoring and periodic review of internal audit work, supervision and review of files, to ensure that audit plans, work and reports are evidence based, support any conclusions made and consistent with the Standards.

External Assessment

An external assessment will be carried out at least once every five years by a qualified independent assessor or assessment team from outside the Council. The form of the assessment may be a full external assessment, or a self-assessment with independent external validation. To conform with the Standards a review is to be carried out before the end of 2017/18.

The Internal Audit Manager will agree the form and scope of this assessment with an appropriate sponsor (the Resources Manager, the Chief Financial Officer, or the Chair of the Corporate Governance Committee) and the independent assessor.

Improvement plans arising from any internal or external review of the Internal Audit Service shall be prepared as appropriate, and reported periodically to the SMT and the Corporate Governance Committee.