
INTERNAL AUDIT CHARTER

1 PURPOSE OF REPORT

- 1.1 To provide Members with an updated Internal Audit Charter (Charter) for their consideration and approval.

2 INTRODUCTION

- 2.1 Section 1000 of the Public Sector Internal Audit Standards (the Standards) states the purpose, authority and responsibility of Internal Audit activity must be formally defined in a manner consistent with the Institute of Internal Auditors' "Definition of Internal Auditing" and "Code of Ethics" as well as the Standards.
- 2.2 As such, the Charter is the formal document that defines Internal Audit's purpose, authority and responsibility. The Charter establishes Internal Audit's position within the Council, including the nature of the Chief Audit Executive's functional reporting relationship with the Audit Committee; 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 Audit Committee.
- 2.3 The Audit Committee last considered and approved the Charter in December 2015. The Standards require the Chief Audit Executive (CAE) to periodically review the Charter and present it to senior management and the Audit Committee for approval.
- 2.4 The Charter has been discussed and agreed with the Assistant Director, Democratic Services and the Managing Director.

3 UPDATES TO THE CHARTER

- 3.1 The Charter is appended. The only changes of note made for this version of the Charter are to more clearly set out the:-
- right of the CAE (i.e. the most senior member of the Internal Audit team however they may be engaged to act in that position) to report in their own name to senior management (up to and including the Managing Director) and the Audit Committee and Members if they see fit;
 - role for the Audit Committee Chairman and Managing Director to contribute to the CAE's performance appraisal (whatever form that takes given how that individual is engaged) to ensure it is not unduly influenced by those subject to Internal Audit;
 - scope of Internal Audit activity to cover all Council activities and, where agreements allow, partners, contractors and other bodies commissioned to deliver services on the Council's behalf (e.g. the LATCo);

- arrangements and responsibilities for investigating allegations of fraud and corruption and, where necessary, prosecuting. These are currently under review by the Chief Audit Executive and the Essex County Council Head of Internal Audit and Counter Fraud as a recommended action from the Peer Review. This review is taking into account the specialist knowledge and qualifications needed to undertake these roles and responsibilities effectively and in compliance with the various legal processes and procedures; and
 - inclusion of a reference to an 'Internal Audit mission statement' per the Global Institute of Internal Auditors' updated International Professional Practices Framework. Although this framework does not yet technically apply to the UK public sector, the mission statement has been included, pending its likely formal adoption following a period of consultation.
- 3.2 This Charter follows the Standards' UK public sector interpretation of "organisational independence" in not adopting a provision to involve the Audit Committee in approving decisions to appoint and remove the CAE and their remuneration. The underlying principle of independence of the CAE is safeguarded by ensuring that appraisal of their performance is not inappropriately influenced by those subject to audit. This is achieved through other provisions in the Charter, including the Managing Director undertaking, counter signing, contributing feedback to or reviewing the performance appraisal of the CAE and feedback is also being sought from the Chairman of the Audit Committee, as appropriate.

4 RISK IMPLICATIONS

- 4.1 Failure to have an appropriate Internal Audit Charter may mean the Internal Audit service does not comply with the Public Sector Internal Audit Standards. The Standards are deemed the 'proper practices' with which the Internal Audit service must comply under the Accounts and Audit Regulations 2015.
- 4.2 If there is not a clear basis for Internal Audit's purpose, authority and responsibility, it may not be able to effectively and independently conduct and or report on its work.

5 RESOURCE IMPLICATIONS

- 5.1 There are no direct financial implications as a consequence of this report.

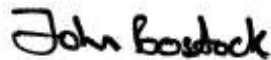
6 LEGAL IMPLICATIONS

- 6.1 An Internal Audit Charter is required to comply with the Public Sector Internal Audit Standards. The Standards are deemed the 'proper practices' with which the Internal Audit service must comply under the Accounts and Audit Regulations 2015.

7 RECOMMENDATION

7.1 It is proposed that the Committee **RESOLVES**

That the updated Internal Audit Charter be approved.



John Bostock

Assistant Director, Democratic Services

Background Papers:-

None.

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If you would like this report in large print, Braille or another language please contact 01702 318111.

INTERNAL AUDIT CHARTER

Introduction

To ensure that authorities make arrangements for the proper administration of their financial affairs, the Accounts and Audit (England) Regulations 2015 make statutory provision for a local authority to undertake an adequate and effective internal audit of its documents and records and of its system of internal control in accordance with proper internal audit practices.

These 'proper internal audit practices' are the Public Sector Internal Audit Standards (PSIAS).

The objectives of the PSIAS are to:-

- define the nature of internal auditing in the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the Council, leading to improved organisational processes and operations
- establish the basis for the evaluation of internal audit performance and to drive improvement planning

To meet the above objectives, the PSIAS requires the organisation to have a documented and agreed Internal Audit Charter which in effect acts as the agreement between the Internal Audit service and the Council.

This document acts as the Internal Audit Charter.

Definitions used

This Charter defines the following terminology contained within the PSIAS:

- **the board** as the Audit Committee
- **senior management** as the Leadership team collectively and all Assistant Directors, the section 151 Officer, the Executive Director and the Managing Director individually

The **Chief Audit Executive** (CAE) is the person tasked with directly managing the Internal Audit function. At the time of writing, this is an employee of another local authority engaged under a memorandum of understanding until 31 March 2017.

Purpose and content of the Internal Audit Charter

The PSIAS defines the Internal Audit Charter (the Charter) as the means to formally document and agree Internal Audit's:-

- *purpose* – **see section 1**
- *authority* – **see section 2**
- *responsibility* – **see section 3**
- *position within the organisation* – **see section 4**
- *reporting relationship to senior management and the board* – **see section 5**
- *authority to access to records, personnel and physical properties relevant to the performance of audit engagements* – **see section 6**
- *scope of internal audit activities* – **see section 7**

Final approval of the Charter resides with the board which for the purposes of this charter is the Audit Committee. To ensure that the Charter remains appropriate to changing circumstance, it will be reviewed and presented for consideration and approval to the Audit Committee annually.

The Charter also summarises:

- how Internal Audit plans its work – **see section 8**
- how Internal Audit will work with officers and members to agree and report its work – **see section 9**

Section 1 – purpose of Internal Audit

The purpose of Internal Audit is to provide 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.

These 'proper audit practices' are in effect the PSIAS as defined by the Institute of Internal Auditors in conjunction with the Chartered Institute of Public Finance and Accountancy which are based upon the International Professional Practices Framework (IPPF). These Standards have been adopted by the Council's Internal Audit Service.

Internal audit's mission as per the IPPF is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. In delivering this, the service commits to operating in accordance with the IPPF's core principles, which requires it to:

- demonstrate integrity
- demonstrate competence and due professional care

- be objective and free from undue influence (independent)
- align with the strategies , objectives and risks of the organisation
- be appropriately positioned and adequately resourced
- demonstrate quality and continuous improvement
- communicate effectively
- provide risk-based assurance
- be insightful, proactive and future-focused
- promote organisational improvement.

The ultimate objective for Internal Audit is to complete sufficient work to provide an independent and objective annual opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes which the Council has established to enable it to achieve its objectives.

Internal Audit also has statutory objective of working in accordance with the PSIAS.

Section 2 – authority of Internal Audit

Financial Regulations authorise Internal Audit the right of access at any reasonable time to all records, documents and correspondence relating to any transactions of the Council, and can require any employees of the Council to produce cash, stores or any other Council property under their control. Internal Audit can also request explanations as considered necessary to confirm the correctness of any matter under examination.

Where agreements exist, Internal Audit may also request access to relevant records of partners, contractors and any commissioned delivery vehicles.

Section 3 – responsibility of Internal Audit

Internal Audit is responsible for ensuring the confidentiality and safe keeping of all records accessed and information obtained in the course of its work.

The CAE is responsible for the preparation of a risk-based Annual Audit Plan and has overall responsibility for its management. The Audit Committee considers and approves (but does not direct) the proposed Annual Audit Plan prior to its implementation.

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For clarity, management, not Internal Audit, are responsible for establishing and maintaining a proper and effective control environment and for managing risk within their area of operations. Line management also bears primary responsibility for the prevention and detection of fraud and corruption.

Internal Auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption.

The arrangements for investigating allegations of fraud and corruption and, where necessary, taking them through to prosecution (taking into account the specialist knowledge and qualifications needed to do this effectively and in compliance with the various legal processes and procedures) are currently under review as an action from the Peer Review. Internal Audit's roles and responsibilities in this regard will be clarified as part of this review and when there is clarity on the role of the CAE and their role.

Internal Audit staff will carry out their work with honesty, diligence and responsibility. Auditors will maintain an impartial, unbiased and objective approach to audit work in line with The Code of Ethics for Internal Auditors.

Auditors are required to have due regard to the standards expected within the "Seven Principles of Public Life"

In accordance with the Council's Officer Code of Conduct internal auditors must declare interests that can impact on objectivity. Implications of the Bribery Act must be considered and auditors must not accept gifts, hospitality, inducements or other benefits other than those permitted by the Council's Code, for which the appropriate registration of such items must be completed. Information obtained during the course of an audit engagement must not be used for personal gain by an Internal Auditor or made available to third parties unless specific authority is in place to do so.

To ensure objectivity, individual auditors will not be permitted to carry out audit work in areas where they have had operational responsibility within the same financial year or longer until a suitable period has elapsed as determined by the CAE and or the Assistant Director Democratic Services (ADDS).

Subject to available operational resources, audit engagements will be rotated within the Internal Audit Team to prevent over-familiarity and complacency that could influence objectivity and effectiveness.

Potential for conflicts of interest or impairment to objectivity or independence will be considered as part of pre-audit work and documented as part of that work.

Management are responsible for responding formally to Internal Audit recommendations by either accepting and implementing the recommendations or formally reject them, explaining the reasons for so doing. If Internal Audit and management fail to reach agreement on issues or recommendations which Internal Audit consider to be of material importance, the final audit report will reflect the position of both and attention will be drawn specifically to these issues or recommendations in order that Senior Management and the Audit Committee may consider the options and give direction to an appropriate action.

Internal Audit may also provide consultancy services, such as advice and guidance on new design and implementation control, particularly through periods of organisational change.

Any consultancy advice will be given without prejudice as to future coverage of, and opinion, on the relevant activity on which advice has been given.

Any significant consulting activity not already included in the audit plan which might affect the level of assurance work undertaken will be reported to the Audit Committee.

The CAE is responsible for ensuring that the resources available to internal audit are sufficient to meet its responsibilities and achieve its objectives. Resources can be either in-house staff or specialist external providers.

If the CAE concludes resources are insufficient, they must formally report this to senior management and the board.

Section 4 – *Internal Audit's position within the organisation*

Internal Audit's position in the organisation must ensure and demonstrate its independence and allow it to effectively conduct its work.

The CAE manages the Internal Audit service, reporting to the ADDS as appropriate.

Internal audit is responsible for reporting functionally to the Audit Committee. This, in practice, means the regular reporting of the Internal Audit Annual Plan, progress on its delivery and wider indicators of the performance of Internal Audit team.

To ensure the independence of Internal Audit's work, the CAE:-

- will report annually to the Audit Committee on the adequacy, or otherwise, of the level of Internal Audit resources (as determined by the CAE) and whether there have been any constraints on the work of Internal Audit to reduce its independence.
- has the right to direct and unrestricted access (i.e. outside of line management) to, and freedom to report in their own name and without fear of favour, to the following:-
 - Managing Director and Executive Director
 - Section 151 Officer
 - Monitoring Officer
 - Any other member of The Leadership Team
 - Chairman of the Audit Committee

The independence of the CAE is further safeguarded by ensuring that appraisal of the post holder's performance (regardless of the means of engaging that individual) is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Managing Director and the Chairman of the Audit Committee can contribute to the appraisal of the CAE's performance. This is consistent with the requirements of the PSIAS.

In order to preserve its objectivity and independence, Internal Audit will not assume operational responsibilities for, and will remain independent of, the activities it audits or reviews.

The Audit Committee does not approve decisions regarding the appointment and removal of the CAE and the remuneration of the CAE, the underlying principle of the CAE's independence being elsewhere in this Charter, including ensuring that the CAE's remuneration or performance assessment is not inappropriately influenced by those subject to audit through the Managing Director either undertaking, countersigning, contributing feedback to or reviewing the performance appraisal of the CAE and ensuring that feedback is also sought from the Chair of the Audit Committee

Section 5 – *reporting relationship to senior management and the board*

The Internal Audit service reports to the ADDS. Internal Audit also reports functionally to the Audit Committee.

The CAE has regular meetings and briefings with senior management, namely the Section 151 Officer, the Managing Director and the Executive Director.

Internal Audit is also a member of the Governance Group.

Full details of how internal audit works with key officers, members and groups are set out in section 9.

Section 6 – *authority to access to records etc.*

Internal Audit has the authority to undertake the following where relevant for the purpose of internal audit work:-

- access any Council premises, assets, records, documents and correspondence, and control systems.
- receive any information and explanation related to any matter under consideration.
- require any employee of the Council to account for cash, stores or any other asset under his or her control.
- access records belonging to third parties (e.g. partners, contractors and delivery vehicles commissioned to deliver services) when required.

Section 7 – *scope of Internal Audit*

The scope of Internal Audit includes all of the Council's operations, resources, services and responsibilities in relation to other bodies. Where agreements allow, this includes all contractors and other bodies commissioned to deliver services on behalf of the Council.

Section 8 – *how Internal Audit plans and delivers its work*

Audit planning

The PSIAS require Internal Audit to produce a risk-based audit plan.

To achieve this, Internal Audit reviews the procedures in place for determining the areas of risk for each Assistant Director to ensure that areas of high risk from Strategic, Corporate, Service and Operational areas are considered for inclusion in the Annual Audit Plan, including those identified by the external auditors.

The process of reviewing risks to the Council will be ongoing. The risk-based approach will be used to identify areas for review, taking into account the risk maturity of the Council. The risk assessment will be based upon professional judgement but be informed by:-

- key corporate and service level documents (e.g. plans and risk registers)
- regular discussions with the Section 151 Officer, Managing Director and Executive Director and at least annual discussions with all Assistant Directors ensuring Internal Audit work keeps pace with changing national and local circumstances and requirements
- outcomes from other relevant, independent audits, inspections or work undertaken.

An audit risk assessment will be maintained which includes all outward and inward facing service activities, key financial systems and other corporate processes to plan and deliver the Council's business.

The risk assessment will take account of the following types of risk:-

- financial risk.
- public related risks (including satisfaction and reputational).
- operational risks (including importance in delivering corporate aims, priorities and objectives).
- legal and political risks.
- people and property risks (including health & safety and safeguarding).
- inherent risk (including complexity, fraud, controllability).

Senior Management will review and comment on the Annual Audit Plan prior to it being presented to the Audit Committee for consideration and approval to ensure effective audit coverage of the key issues affecting their service areas.

The PSIAS also require the Audit Committee to approve, but not direct, the Audit Plan. This means the Audit Committee can and should challenge whether the Plan is sufficient and adequately focused.

Delivering audit work

Individual audit engagements will be undertaken in line with procedures maintained by Internal Audit to ensure consistency in structure and approach. The approach to testing must be appropriate and of sufficient size and intensity to draw valid conclusions.

Working papers must be maintained to justify conclusions reached and enable another independent auditor to repeat the work and come to the same conclusion.

Where prior audit work has identified good controls and procedures and there have not been significant changes in those procedures or key personnel since the last engagement then the level of testing may be reduced, whilst ensuring the underlying controls are still in place.

In carrying out its duties Internal Audit will work constructively with management and staff. During the course of an engagement, management and staff are required to co-operate fully with the auditors. All auditors will conduct themselves in compliance with standard 9 of The Cipfa Code; Due Professional Care.

If significant control failings are identified in testing, this fact will be referred to the CAE and brought to the attention of relevant management during the course of the engagement for immediate action.

If evidence or suspicion of fraud or corruption is identified during the course of an engagement t/he matter will be reported immediately to the ADDS / CAE / S151 Officer as appropriate without further reference to line management, for consideration and timely progression in line with the Council's Anti-Fraud & Corruption Policy.

All outcomes will be fully discussed with operational management at the conclusion of an engagement. Management responses will be recorded and considered for the purposes of completing a final report of the engagement.

An Audit Report will be produced and presented to the relevant Assistant Director to obtain confirmation as to content and relevance. This will be done as soon as practical after completion of field work. The Report will contain recommendations to address any weaknesses in controls or procedures identified in the Audit Engagement. An action plan, confirmed by the relevant Assistant Director, with realistic dates for implementation will be agreed.

After the report and action plan, if applicable, has been agreed by the relevant Assistant Director, copies of the report will be issued for information to the Section 151 Officer, Directors and the relevant Portfolio Holder.

If Internal Audit and management fail to reach agreement on issues or recommendations considered to be of material importance by Internal Audit, the final audit report will reflect the position of both and attention will be drawn specifically to these issues or recommendations in order that Senior Management and the Audit Committee may consider the options and give direction to an appropriate action.

Audit Reports can be used by The Leadership Team and line management as evidence of assurance to support their Service Assurance Statement and the Annual Governance Statement.

Audit Assessment of Level of Assurance

The following levels of assurance are utilised when providing an opinion at the end of an audit engagement:-

- **Good Assurance:** The activity's key controls are comprehensive, well designed and applied consistently and effectively manage the significant risks
Management can demonstrate they understand their significant risks and they are proactively managed to an acceptable level.

Past performance information either shows required outcomes are clearly defined and/or consistently met.
- **Adequate Assurance:** Most of the activity's key controls are in place, well designed and applied consistently and effectively manage the significant risks.
Management can demonstrate they understand their significant risks and they are generally and proactively managed to an acceptable level

Past performance information either shows required outcomes are clearly defined and/or generally met.
- **Limited Assurance:** The activity's key controls are absent or not well designed or inconsistently applied meaning significant risks.
Management cannot demonstrate they understand all their significant risks. Or Management cannot demonstrate their significant risks are consistently or proactively managed to acceptable levels.

Past performance information either shows required outcomes are not clearly defined and/or consistently not met.
- **No Assurance:** The activity's key controls are absent or not well designed or inconsistently applied in all key areas.
Management cannot demonstrate they have identified or manage their significant risks.

Required outcomes are not clearly defined and/or consistently not met.

Audit Recommendations

Recommendations will be prioritised based on the following criteria:-

- **Critical:** the identified control weakness could lead to a critical impact on the activity's ability to manage the risks to achieving objectives. The control weakness means the associated risk highly likely to occur or have occurred.

There are no compensating controls to possibly mitigate the level of risk.

- **Significant:** The identified control weakness could have a significant impact on the activity's ability to achieve objectives. The control weakness means the associated risk is likely to occur or have occurred.

There are few effective compensating controls. Where there are compensating controls, these are more likely to be detective (after the event) controls which may be insufficient to manage the impact.

The difference between 'critical' and 'significant' is a lower impact and/or lower probability of occurrence and or that there are some compensating controls in place.

- **Moderate:** The identified control weakness could have a moderate impact on the activity's ability to manage the risk to achieving objectives. The control weakness does not undermine the activity's overall ability to manage the associated risk (as there may be compensating controls) but could reduce the quality or effectiveness of some processes and/or outcomes.
- **Low:** The identified control weakness is not significant and recommendations are made in general to improve current arrangements.

The agreed final report will be reported to the next scheduled Audit Committee to inform the Members of the Audit Opinion and key issues arising. If considered appropriate by Members, The Leadership Team member or relevant line managers may be required to attend the Audit Committee on the date that the report is presented.

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Section 9 – how internal audit work will be reported and approved

Details of how Internal Audit's work and reports are reported to and approved by key officers, members and groups are set out below:

Stakeholder	Audit sponsor	S151 officer, Directors	Leadership Team	Portfolio Holder	Audit Committee
Document					
<i>Draft Audit Brief</i>	<i>Copy for <u>approval</u></i>				
<i>Final Audit Brief</i>	<i>Copy of final</i>	<i>S151 only - copy of final</i>			
<i>Draft Audit Report</i>	<i>Copy for <u>approval</u></i>				
<i>Final Audit Report</i>	<i>Copy of final</i>	<i>Copy of final</i>		<i>Copy of final</i>	<i>Copy of summarised final (as part of Quarterly Audit Progress Report)</i>
<i>Schedule of Audit Committee Business</i>		<i>Draft for comment (annually in Feb / March)</i>	<i>Draft for comment (annually in Feb / March)</i>		<i>Draft for comment and <u>approval</u> (annually in March)</i>
<i>Quarterly Audit Progress Report</i>		<i>Draft for comment</i>	<i>Draft for comment</i>		<i>Copy of final</i>
<i>Annual Audit Plan</i>		<i>Draft for comment (annually in Feb / March)</i>	<i>Draft for comment (annually in Feb / March)</i>		<i>Draft for comment and <u>approval</u> (but not direction) (annually in March)</i>
<i>Annual Audit Report (incl. self assessment against PSIAS) and Annual Opinion</i>		<i>Draft for comment (annually in May / June)</i>	<i>Draft for comment (annually in May / June)</i>		<i>Copy of final (annually in June)</i>
<i>Audit Charter</i>		<i>Draft for comment (annually in Nov / Dec)</i>	<i>Draft for comment (annually in Nov / Dec)</i>		<i>Draft for comment and <u>approval</u> (Dec)</i>