

## **CHARTER FOR INTERNAL AUDIT**

### **1. Introduction**

- 1.1 The Public Sector Internal Audit Standards (the 'Standards') require that the purpose, authority and responsibility of the internal audit activity 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). This document fulfils that requirement.
- 1.2 The Internal Audit service's vision is to provide an in-house cost effective, proactive, flexible, resilient and quality internal audit service to meet the needs of internal and external stakeholders to the West Suffolk councils.
- 1.3 This charter establishes the Internal Audit activity's position within both councils, including the reporting lines of Internal Audit, access rights, and defines the scope of internal audit activities.

### **2. Purpose**

- 2.1 The Standards define internal auditing as 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.
- 2.2 The Standards also define internal audit's 'Mission', i.e. what it aspires to accomplish within an organisation, as being: 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'
- 2.3 The internal control environment comprises the policies, procedures and operations established to ensure:
  - The achievement of priorities;
  - The appropriate assessment and management of risk;

- The reliability of internal and external reporting and accountability processes;
- Compliance with applicable regulations and laws;
- Compliance with the behavioural and ethical standards set for both councils;
- Economic, effective and efficient use of resources;
- Safeguarding of both councils' assets and interests; and
- The prevention of fraud and corruption.

2.4 In practical terms, Internal Audit will undertake an examination of financial and non financial systems in order to advise management where internal control systems can be improved, and seek to promote compliance with corporate policies and procedures, and achievement of corporate priorities, through its systematic review of both councils' activities. This does not imply that all systems will be subject to review, but all will be considered as part of the annual risk assessment of auditable areas and hence for review, following the assessment of risk.

2.5 Internal Audit may undertake work for new customers by extending its services to third parties including other local authorities and other organisations. If assurances are to be provided to parties outside the organisation this will be agreed between the relevant parties, and may include providing an audit opinion on the area under review.

### **3. Responsibilities**

3.1 Management are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their service, and that staff are aware of the processes and procedures required to operate the control systems.

3.2 The scope of internal audit applies to all functions and services for which each council is responsible. Internal Audit reviews, appraises and reports on the effectiveness and efficiency of financial and other management controls, including risk management, corporate governance, and arrangements for providing best value for money. This is achieved by undertaking audits and project work across the full range of both councils' functions in accordance with a risk based Audit Plan which outlines assignments to be carried out and the resources and skills required to deliver the plan.

3.3 To ensure internal audit resources are focused on areas where they can add maximum value, it is essential that Internal Audit understands the councils' needs, which means developing relationships with key stakeholders, in order to gather ongoing intelligence and gain a crucial insight into the operational and strategic change agendas across both councils.

- 3.4 The Audit Plan is submitted to senior management and the audit committees for consideration and approval. The plan will be kept under review to ensure it remains responsive to changing priorities and risks of the councils, any significant deviation from the approved plan will be communicated to senior management and the audit committee.
- 3.5 The Service Manager (Internal Audit) will share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts. Therefore, where services and other activities for which the councils are responsible or accountable are delivered through partnership or contract, an assessment will be made as to whether Internal Audit staff will undertake assurance work themselves, or may rely on the assurance provided by other auditors where this is already in existence.
- 3.6 At the end of the financial year the Service Manager (Internal Audit) is required to give an annual opinion to each council on the effectiveness of the whole of its internal control system, and the extent to which the council can rely on it.
- 3.7 The Accounts and Audit (England) Regulations 2015 require that councils conduct an annual review of the effectiveness of their system of internal control and produce an Annual Governance Statement. The audit committee will consider the findings of the review and whether an effective internal control system has been established and is being maintained. Internal audit is one of the principal ways in which audit committees can gain assurance on the effectiveness of the control environment, which comprises of risk management, controls and governance.
- 3.8 The Internal Audit section also undertakes other consultancy style work at the request of management, ranging from general financial advice and assistance to involvement in major council initiatives and projects. The Service Manager (Internal Audit) will ensure that before any consultancy work is agreed, his staff have the appropriate skills and resource to undertake that work. Every effort will be made by the Service Manager (Internal Audit) to ensure appropriate safeguards are in place to ensure objectivity in areas subject to future assurance activity. This may include assigning this work, as far as possible and for a reasonable period of time, to a different internal auditor to that carrying out the initial consultancy work, as appropriate.
- 3.9 In addition, Internal Audit may also undertake reviews and investigations into suspected irregularities or fraud, and carries out the financial appraisals of contractors.

## **4. Standards**

- 4.1 There is a statutory requirement for Internal Audit to work in accordance with 'proper audit practices'. For this purpose Internal Audit will comply with: auditing standards as defined in the Public Sector Internal Audit Standards (PSIASs) which replace the Code of Practice for Internal Auditors in Local Government in the UK; the Accounts and Audit Regulations 2015; and any other relevant professional guidelines issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA), along with having regard to the Seven Principles of Public Life.
- 4.2 The PSIASs encompass the mandatory elements of the IIA International Professional Practices Framework (IPPF) as follows:
- Definition of Internal Auditing
  - Code of Ethics, and
  - International Standards for the Professional Practice of Internal Auditing.
- 4.3 In addition, Internal Audit also complies with each council's rules and policies as well as external regulations and laws.

## **5. Relationships**

- 5.1 Internal Audit is involved in a wide range of relationships and the quality of these relationships will impact on the quality of the internal audit function and the effective delivery of that function.
- 5.2 The Standards specify that the Charter must define the terms 'Board' and 'Senior Management' for the purpose of the internal audit activity. For the West Suffolk councils the 'Board' is defined as the Performance and Audit Scrutiny Committees while 'Senior Management' is the Leadership Team.
- 5.3 Internal Audit will maintain effective relationships with management. Regular meetings will be held with the Assistant Director Resources and Performance (as the councils' S151 Officer), and senior management (Leadership Team) will be consulted in the annual audit planning process. Timing of audit work will be agreed in conjunction with management.
- 5.4 The Service Manager (Internal Audit) will also maintain an effective working relationship with members, in particular members of the audit committees (the 'Board'). The annual Internal Audit Plan will be formulated in consultation with the audit committees, and be approved by them around the start of the financial year. The Service Manager (Internal Audit) will have the opportunity to meet with the Chairs of the relevant audit committees if desired.

- 5.5 Internal Audit and External Audit will establish a relationship where they may seek to rely on, or take into account, each other's work, subject to the limits determined by their responsibilities (whereas Internal Audit's aim is to assist management the external auditors provide an independent opinion on the annual financial statements). The Service Manager (Internal Audit) will consult with the external auditors when drawing up the annual audit plan.
- 5.6 Internal Audit will also take account of the results and reports from any external inspections when planning and undertaking internal audit work.
- 5.7 Where it is necessary for Internal Audit to work with internal auditors of another local authority, the roles and responsibilities of each will be agreed with the necessary safeguards put in place to ensure they are clearly defined and understood.

## **6. Reporting**

- 6.1 Internal Audit is part of the Resources and Performance Service. The Service Manager (Internal Audit) reports to the Assistant Director (Resources and Performance) as the councils' S151 Officer but has free and unfettered access to the Joint Chief Executive, Directors, and the Chairs of the relevant audit committee and reports in his own name.
- 6.2 The appointment, removal and remuneration of the Service Manager (Internal Audit) is the decision of officers. Such decisions will, however, be reported to Leadership Team and the Performance and Audit Scrutiny Committee, who may request a direct consultation with the Service Manager (Internal Audit) or the Assistant Director (Resources and Performance).
- 6.3 All audit activity is intended to assist management to fulfill their objectives of delivering services and contributing to the overall objectives of the councils. Outputs from audit work can range from informal advice to formal written reports.
- 6.4 Formal reports will communicate the findings of each audit review and encourage management to take prompt action where control weaknesses have been identified (a responsible owner is detailed for each action and a target date for completion). Management are encouraged to give responses to actions, in the unlikely event that an action cannot be agreed, this will be recorded in the action plan with the risk highlighted.
- 6.5 Recommendations made within audit reports will be 'tracked and followed up' in order to ascertain whether agreed actions have been implemented.

- 6.6 Progress reports of work undertaken, including a summary of key audit findings, will be provided regularly to each council's audit committee. The end of year report will provide a summary of the work of Internal Audit during the whole year, information on the performance of the section, and an opinion from the Service Manager (Internal Audit) on the standard of internal control and probity within the councils. This is timed to support the annual review of corporate governance and the production of the Annual Governance Statement.
- 6.7 The Service Manager (Internal Audit) will also ensure that the Joint Chief Executive and Chairs of the relevant audit committees are advised in circumstances where internal audit investigations, reviews, and reports reveal fundamental weaknesses within the organisation, or are relevant in any way to the duty of the Joint Chief Executive.

## **7. Independence, Objectivity and Accountability**

- 7.1 Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. Where staff managed by the Service Manager (Internal Audit), or the Service Manager (Internal Audit) himself, have operational responsibilities this, including any impacts on independence or objectivity, will be reported to Leadership Team and the audit committees.
- 7.2 The Service Manager (Internal Audit) has direct, unrestricted access and freedom to report in his own name and without fear or favour to senior management and members of the relevant audit committees.
- 7.3 Internal Audit must be free from interference in determining the scope of internal auditing, performing work and communicating results. There must be no compromise regarding the ability of Internal Audit to provide an independent assurance on the internal control framework.
- 7.4 Accountability for the response to the advice and recommendations made by Internal Audit lies with management, who either accepts and implements the advice or formally rejects it.

## **8. Proficiency and Due Professional Care**

- 8.1 Internal Audit staff are bound by the four main principles of the CIPFA and CIIA Code of Ethics; (1) Integrity; (2) Objectivity; (3) Competence; and (4) Confidentiality.
- 8.2 Internal Audit staff must possess the knowledge, skills and other competencies needed to perform their individual responsibilities.

- 8.3 Internal Audit staff must also ensure that they conduct work with due professional care, applying the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care will be appropriate to the objectives, complexity, nature and materiality of the audit being performed.

## **9. Authority**

- 9.1 Internal Audit's statutory authority is derived from Section 151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2015.
- 9.2 Internal Audit's role applies to all functions and services for which the councils are responsible. This allows them full, free and unrestricted access to such records, assets, personnel and premises, as necessary for the proper fulfilment of their responsibilities. For those council services provided under contracts and partnership arrangements, rights of access shall be incorporated within all relevant contract or service agreement documents involving council services as appropriate.
- 9.3 Internal Audit's rights of access are stipulated within each council's Constitution.
- 9.4 All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities.

## **10. Allocation of Resources and Skills Required**

- 10.1 The Internal Audit service is provided in-house in partnership between St Edmundsbury Borough Council and Forest Heath District Council, through a shared service. It also works in partnership with other Suffolk councils, both County and districts, with the aim of reducing costs and maximising quality by for example sharing best practice and joint provision of training courses.
- 10.2 Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives, professional standards and the requirements of external audit. If a situation arises whereby the Service Manager (Internal Audit) concludes that resources are insufficient he must formally report this to the S151 Officer, Joint Chief Executive, and, if the position is not resolved, to the audit committee(s) as appropriate.
- 10.3 Internal auditors need to be properly trained to fulfill their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.
- 10.4 The Service Manager (Internal Audit) is responsible for appointing the staff of the Internal Audit Section and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.

10.5 The training and personal development needs of Internal Audit staff are identified through a review process and it is the responsibility of the Service Manager (Internal Audit) to ensure that staff receive the appropriate professional, technical and personal development training.

## **11. Quality of Service**

11.1 Internal Audit operates in accordance with standards of good practice applicable to internal audit to ensure that a continuously effective level of performance is maintained. The Standards require that Internal Audit is subject to a quality assurance and improvement programme that should include both internal and external assessments.

11.2 The Service Manager (Internal Audit) has developed and implemented a quality assurance and improvement programme that covers all aspects of the internal audit activity, which enables conformance with the Definition of Internal Auditing and the Standards to be evaluated, including whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

11.3 Internal review of work standards will be undertaken through a system of managerial review involving the Service Manager (Internal Audit). This will incorporate a review of audit working papers and reports prior to issue and agreement of such reports to relevant management.

11.4 Opinions will be canvassed from management responsible for activities under review to obtain their satisfaction with the Internal Audit service provided.

11.5 Performance indicators will be developed and agreed with senior management and the relevant audit committees to monitor and evaluate the quality of the service provided.

11.6 External audit assesses the work of the section annually to further inform its own view of the control environment.

11.7 The Service Manager (Internal Audit) will communicate to senior management and the audit committees at least annually on the Internal Audit's quality assurance and improvement programme, including results of ongoing internal assessments and any external assessments conducted as applicable.

11.8 The Core Principles for the Professional Practice of Internal Auditing, as set out in the Public Sector Internal Audit Standards, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective all of these Principles should be



present and operating effectively for both internal auditors and the audit service as a whole:

- 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.

## **12. Fraud, Corruption and Bribery**

- 12.1 Managing the risk of fraud, corruption and bribery is the responsibility of management. Internal Audit will assist management in the effective discharge of this responsibility, including investigating suspected frauds and irregularities where appropriate.
- 12.2 Audit procedures alone, even when performed with due professional care cannot guarantee that fraud, corruption and bribery will be detected. Internal Audit does not have responsibility for the prevention of detection of fraud, corruption or bribery. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud, corruption or bribery.
- 12.3 The Service Manager (Internal Audit) must be informed of all suspected or detected fraud, corruption or improprieties so they may be considered in terms of the adequacy of the relevant internal controls, and evaluated for the annual opinion on the control environment.
- 12.4 Any evidence or reasonable suspicions that an irregularity to funds, stores, property or records has occurred should be reported immediately. All cases will be dealt with in accordance with each council's Constitution, the Anti-Fraud and Anti-Corruption Policy, and the Joint Whistleblowing Policy.

## **13. Conclusion**

- 13.1 This Charter describes the purpose, mission, authority and principal responsibilities of the Internal Audit Service shared across West Suffolk. It is important that it is publicised and that the role of Internal Audit is understood.
- 13.2 Internal Audit needs to be able to react and adapt to the changes which are taking place locally and nationally. It is therefore important that the Charter is reviewed regularly to ensure that it is

relevant to the demands and responsibilities of the service and to the strategic priorities of both councils.

- 13.3 The Internal Audit Charter will be reviewed each year to confirm it remains accurate and up to date; any significant and necessary changes will be reported to senior management and the audit committees.

**Key Contact**

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