



Internal Audit Charter

Author:	Helen Kelvey
Source Location:	S:/Audit/Audit Documents
Related Documents:	Audit Manual Quality Assurance and improvement programme Counter Fraud Strategy Whistleblowing Policy
Date Created:	March 2015
Document Status:	Live

Document Control

This document is subject to change control and any amendments will be recorded below.

Change History

Version	Date	Changes
2.0	March 2015	Reviewed and updated to reflect changes in service provision



Internal Audit Charter

Ref.	Contents
1	Introduction
2	Purpose, scope and authority
3	Objectives
4	Roles and responsibilities
5	Code of Ethics
6	Service Standards
7	Reporting
8	Quality Assurance
9	Relationships
10	Fraud and irregularities
11	Review

1. Introduction

1.1 The purpose of this charter is to define what Internal Audit is and explain its purpose, authority and responsibility

1.2 For the purposes of internal audit activity the following terms are defined as follows:

‘board’ – the Audit and Governance Committee

‘senior management’ – the Senior Management Team which is made up of the Chief Executive and Growth Director, Deputy Chief Executive and Assistant Directors/Corporate Managers.

2. Purpose, Scope and Authority

2.1 Purpose

The Public Sector Internal Audit Standards 2013 (PSIAS) defines Internal Audit 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 Scope

Financial Regulations 6(a) states:

‘Internal Audit may investigate such financial records, systems and management procedures of the Council and its employees as considered necessary for the purposes of audit. For this purpose Internal Audit shall have authority at all reasonable times to visit all Council establishments and have access to all records and property of the Council and may require such explanations/assistance as he/she considers necessary’

2.3 Authority

The authority of the internal audit function is derived from legislation. The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which required that authorities shall *‘make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs’*. The Accounts and Audit (England) Regulations 2011 requires that *‘A local government body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control’*. Exeter City Council has delegated these responsibilities to the Assistant Director Finance.

3. Objectives

3.1 Internal Audit’s main objectives are to:

- provide a quality, independent and objective audit service that effectively meets the Council’s needs, adds value, improves operations and helps protect public resources
- provide assurance to management that the Council’s operations are being conducted in accordance with external regulations, legislation, internal policies and procedures
- provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes
- provide advice and support to management to enable an effective control environment to be maintained
- promote a counter fraud culture within the Council to aid the prevention and detection of fraud
- investigate allegations of fraud, bribery and corruption

4. Roles and responsibilities

4.1 Role of Internal Audit

To meet Internal Audit objectives, Internal Auditors are responsible for:

- reviewing and assessing the soundness, adequacy and reliability of financial and non-financial management
- reviewing and assessing the effectiveness of internal controls and making recommendations for improvement, where appropriate
- reviewing and assessing procedures to check that the Council's assets and interests are adequately protected and risks are identified and effectively managed
- checking for compliance with legislation, Council policies and procedures
- promoting and assisting the Council in the effective use of resources
- undertaking independent investigations into allegations of fraud and irregularity in accordance with Council policies and procedures and relevant legislation

4.2 Provision of the Internal Audit Function

The Internal Audit Function is provided 'in house' and consists of the Audit Manager and 2 auditors each working 4 days per week, Monday to Thursday.

4.3 Management Structure

Internal Audit is part of the Office of Assistant Director Finance. However, in order to maintain its independence Internal Audit has a right of access to the Chief Executive and Growth Director and/or the Leader of the Council and/or the Chair of the Audit and Governance Committee should circumstances warrant such. In addition, there is a right of access to Councillors as a matter of last resort. Internal Audit does not carry out any non-audit functions.

4.4 The Audit Manager is responsible:

- in managerial terms to the Assistant Director Finance
- for the performance of the Internal Audit Service to the Audit and Governance Committee

4.5 The Audit Manager's responsibilities to the Audit and Governance Committee include:

- presenting for approval the internal audit charter
- presenting and obtaining approval of the risk-based annual audit plan
- reporting quarterly on the work undertaken by Internal Audit
- reporting any serious weaknesses found in the internal control systems, and any instances where corrective action has not been taken by management
- reporting any instances where responses to audit reports have not been received within a reasonable timescale of the issue of draft and/or final audit reports, and any instances where agreed Audit recommendations have not been actioned within an acceptable time period
- providing an annual audit opinion of the overall adequacy and effectiveness of the Council's internal control environment
- reporting annually on conformance with the Public Sector Internal Audit Standards
- reporting annually performance against the quality assurance and improvement programme
- reporting annually on the Council's counter fraud work

4.6 The Audit and Governance Committee responsibilities are in accordance with the committee's terms of reference

5. Code of Ethics

5.1 The Internal Audit Service operates in accordance with the Public Sector Internal Audit standards 2013 (PSIAS) by:

- ensuring that all internal auditors conform to the Code of Ethics principles of integrity, objectivity, confidentiality and competency
- implementing the Attribute and Performance Standards as detailed in Section 5 of the standard

5.2 Internal Audit staff are required to make an annual affirmation of their knowledge of, and compliance with, the PSIAS Code of Ethics and must also have regard to the Committee Standards of Public Life's *Seven Principles of Public Life*.

6. Service Standards

6.1 What you can expect from us:

Internal Auditors will, at all times, exercise due professional care, act with integrity and take a professional, reliable, independent and innovative approach to their work.

It is essential that Auditors are impartial so that when an audit opinion is requested it will be unbiased and based upon the facts available. Should a situation arise where impartiality could be questioned, then another Auditor will be assigned to undertake the task concerned.

Where an auditor was previously employed within a service/area subject to audit then the Audit Manager will ensure that the auditor concerned is not assigned audits in that area until an appropriate amount of time has elapsed.

6.2 Audit Strategy

The Audit Manager prepares a risk-based audit strategy and translates this into a four year rolling plan that shows cyclical coverage of audits. All systems rates as 'high' risk are audited annually, 'medium' risk systems are audited every two years and 'low' risk systems audited every four years. Where there is a difference between the strategy/plan and resources available, this is reported to the Audit and Governance Committee

6.3 Annual Audit plan & resourcing

To implement the audit strategy, an annual audit plan is established using a risk-based assessment methodology. The plan determines in broad terms the resources and skills needed, and is used for allocating Auditors' work. Should the plan indicate a need for additional resources, this will be discussed with the Assistant Director Finance. Assistant Directors/Corporate Managers are consulted on the plan during the planning process and asked if there are any areas or work they wish specifically to be incorporated into the audit coverage. The plan is then presented to senior management for approval prior to being approved by the Audit and Governance Committee in March each year. The plan is flexible and includes a contingency to allow for changes in priorities, emerging risks, ad hoc projects, fraud and irregularity, etc.

6.4 The Council will make arrangements for Internal Audit to have adequate budgetary resources to maintain organisational independence. Any delegation of budgets for Internal Audit to service level will not compromise the scope of Internal Audit or the ability of Internal Audit to provide assurance on the Annual Governance Statement.

6.5 What we expect from you

Managers and staff should co-operate with the Auditors, and responses should be made to draft reports within 10 working days of issue of report. Where a response is not forthcoming a reminder will be issued. However, if a response is not received then the matter will be referred up to the next level of management, and ultimately to the Assistant Director/Corporate Manager, Chief Executive and Growth Director, Deputy Chief Executive, as appropriate.

7. Reporting

7.1 Audit reports

Audit reports:

- show the findings based on a risk assessment e.g. high, medium and low or may be advisory (a finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice)
- include an action plan showing the agreed actions and the target date for implementation
- give an opinion of the system as at the time of the audit
- define the circulation of the draft and the final reports

7.2 Audit report circulation/Reporting structure:

- Line managers receive a draft report for discussion followed by the final report
- Assistant Directors/Corporate Managers receive a copy of all final reports within their service
- Deputy Chief Executive receives a copy of all final reports
- Assistant Director Finance receives a copy of all reports for information
- CX and Growth Director is advised of any 'high' or 'medium' recommendation not agreed by management and of any recommendations agreed by management but not subsequently implemented

7.3 Reporting standards

Upon completion of audits, draft audit reports are issued to the relevant line managers for them to confirm the accuracy of the audit findings. Managers are invited to meet with the Auditor within 10 working days to discuss the report and their response to each recommendation on the draft report. The managers' responses are then recorded in the final report, along with dates for action or implementation.

In accordance with professional standards, after three months from the date of issue of the final report, follow-up audits are undertaken to ensure that the agreed controls and actions have been implemented. Where the implementation date for the recommendation is beyond three months, then the follow-up will be due at three month intervals, as appropriate.

Any agreed recommendations not implemented within a reasonable timescale and any 'high' risk recommendations that are not accepted will be reported to Strategic Management Team (performance) and the Audit and Governance Committee in accordance with the committee's terms of reference.

Internal Audit works to the reporting quality standards of:

- draft audit reports to be issued within 10 working days of the completion of the results table
- final audit reports to be issued within 10 working days of the discussion of the draft audit report
- final reports to be followed-up within 3 months of the date issue of the final audit report, to

ensure that the accepted recommendations due for implementation have been established

8. Quality assurance

8.1 Internal Audit has established a Quality Assurance and Improvement Program (QAIP). This has been designed to provide reasonable assurance to the various stakeholders of the Internal Audit Service that Internal Audit:

- performs its work in accordance with this Charter, which is consistent with the Public Sector Internal Audit Standards, Definition of Internal Auditing and Code of Ethics;
- operates in an effective and efficient manner; and is perceived by stakeholders as adding value and improving Internal Audit's operations. To that end, Internal Audit's QAIP will cover all aspects of the Internal Audit activity including:
 - ✓ Monitoring the Internal Audit activity to ensure it operates in an effective and efficient manner
 - ✓ Ensuring compliance with the *Standards*, Definition of Internal Auditing and Code of Ethics
 - ✓ Helping the Internal Audit activity add value and improve organizational operations
 - ✓ Both periodic and ongoing internal assessments
 - ✓ An external assessment at least once every five years, the results of which are communicated to SMT and the Audit & Governance Committee

The Audit Manager is ultimately responsible for the QAIP, which covers all types of Internal Audit activities, including consulting (where applicable).

8.2 External assessments of the internal audit service are conducted annually by the Council's external auditors.

8.3 Internal auditors are required to enhance their knowledge, skills and other competencies through continuing professional development.

9. Relationships

9.1 General - in all of these relationships the person/s concerned will be treated with respect, courtesy, politeness and professionalism. Any confidential or sensitive issues raised with, or reported to, Internal Audit staff will be dealt with in an appropriate manner. Where issues could cause embarrassment to the Council, the appropriate manager will be advised immediately so that the issue can be addressed without delay.

9.2 Internal - the main contacts are with: Council employees, line managers, Assistant Directors/Corporate Managers, Deputy Chief Executive and the Chief Executive and Growth Director. Prior to the start of each audit, the auditor will meet with the manager to complete a pre-audit questionnaire. As part of this process, the auditor will agree with the manager concerned the timing and scope of the audit and the circulation of the audit report.

9.3 Councillors – the main means of communication between Internal Audit and Councillors is via the Audit and Governance Committee which meets 4 times per year.

9.4 External – Internal audit will liaise with the external auditors in order to:

- foster a co-operative and professional working relationship
- eliminate the incidence of duplication of effort
- ensure appropriate sharing of information
- co-ordinate the overall audit effort

10. Fraud and irregularities

10.1 The Audit Manager is responsible for reviewing and updating the Council's Counter Fraud Strategy and for promoting an anti-fraud culture within the Council. This is achieved by the following:

- raising awareness of fraud by providing counter fraud training via an e-learning package to all existing staff and all new staff as part of their induction
- assessing the Council's level of compliance with the recommendations contained in the Fighting Fraud Locally Strategy
- specific detailed testing in high risk areas
- participation in the Audit Commission national fraud initiative data matching exercise
- provision of a fraud hotline to allow suspected fraud and irregularity to be reported by telephone/internet directly to Internal Audit either anonymously or with contact detail provided
- investigation of all areas of concern identified through routine audit, reported to management or via the Council's Whistleblowing policy.

10.2 Assistant Directors/Corporate Managers are responsible for managing risks in order to prevent fraud, irregularity, waste of resources, etc. Internal Audit will assist Assistant Directors/Corporate Managers to effectively manage these risks.

10.3 However, no level of controls can guarantee that fraud will not occur, even when the controls are performed diligently with due professional care.

10.4 Where there is evidence or reasonable suspicion that a fraud or irregularity has occurred, then this must be reported immediately to Internal Audit. All cases will be dealt with in accordance with the Council's 'Counter Fraud Strategy' and 'Whistleblowing Policy' and the Fraud Response Plan.

11. Review

11.1 The Internal Audit Charter will be reviewed biennially by the Audit Manager and presented to senior management and the board for approval.