



Internal Audit Charter

Author:	Helen Kelvey / Helen Putt
Source Location:	S:/Audit/Audit Documents
Related Documents:	Audit Manual Quality Assurance and improvement programme Counter Fraud Strategy Whistleblowing Policy
Date Created:	March 2017
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
3.0	March 2017	Reviewed and updated to reflect changes in senior management structure, inclusion of mission statement and core principles, changes to reporting and follow up processes



Exeter City Council

Internal Audit Charter

Ref.	Contents
1	Introduction
2	Purpose, scope and authority
3	Mission Statement
4	Core Principles
5	Objectives
6	Roles and responsibilities
7	Code of Ethics
8	Service Standards
9	Reporting
10	Quality Assurance
11	Relationships
12	Fraud and irregularities
13	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 Directors/Corporate Managers.

2. Purpose, Scope and Authority

2.1 Purpose

The Public Sector Internal Audit Standards 2016 (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 2015 requires that *‘A local government body must ensure that it has a sound system of internal control which:*

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;*
- (b) ensures that the financial and operational management of the authority is effective; and*
- (c) includes effective arrangements for the management of risk’*

Exeter City Council has delegated these responsibilities to the Chief Finance Officer.

3. Mission Statement of Internal Audit

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

4. Core Principles

- 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
- Promotes organisational improvements

5. Objectives

5.1 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

6. Roles and responsibilities

6.1 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, agreeing remedial action with management, 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

6.2 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.

6.3 Management Structure

Internal Audit is part of the Finance service. 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. In exceptional circumstances, Internal Audit may be required to undertake non-audit duties. Where this situation occurs, the Audit Manager will ensure that separation of

duties takes place i.e. the auditor undertaking the non-audit task will not be responsible for auditing that area for at least 12 months.

6.4 The Audit Manager is responsible:

- in managerial terms (administratively) to the Chief Finance Officer
- for the performance of the Internal Audit Service (functionally) to the Audit and Governance Committee

6.5 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 remedial action has not been implemented 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

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

7. Code of Ethics

7.1 The Internal Audit Service operates in accordance with the Public Sector Internal Audit standards 2016 (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

7.2 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*.

8. Service Standards

8.1 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.

8.2 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 rated 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

8.3 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 Chief Finance Officer. The CX and Growth Director, Deputy Chief Executive and the Chair/Deputy Chair of Audit and Governance Committee along with 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.

8.4 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.

8.5 What we expect from you:

Requests for information/documents are dealt with in a timely manner

Managers and staff should co-operate with the Auditors, at all times.

Following the issue of a draft report managers should agree to attend a meeting discuss remedial action within 15 working days of issue of the report.

9. Reporting

9.1 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

9.2 Audit report circulation/Reporting structure:

- Line managers receive a draft report for discussion followed by the final report

- Directors/Corporate Managers receive a copy of all final reports within their service
- Deputy Chief Executive receives a copy of all final reports
- Chief Finance Officer receives a copy of all reports for information
- CX and Growth Director is advised of any 'high' or 'medium' findings where remedial action is not agreed by both management and internal audit and of any remedial action agreed by management but not subsequently implemented

9.3 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 finding on the draft report. The remedial action agreed is then recorded in the final report, along with dates for action or implementation.

Audit follow-ups are conducted within 12 months of the final report being issued, except for significant issues which will be followed up sooner and monitored more closely, as appropriate,

Where an Audit is conducted annually the follow-up will form part of the Pre Audit Questionnaire. An opportunity to immediately rectify any outstanding issues will be given but where this is not done the outstanding issues will be reported to the Audit and Governance Committee. The relevant Director will be notified in advance that the matter is being reported to Audit and Governance Committee.

Low risk findings will only be followed up at the next audit, regardless of whether the system is audited annually or not.

Any agreed remedial action not implemented within a reasonable timescale and any 'high' risk findings 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 12 months of the date of issue of the final audit report, to ensure that the agreed remedial action due for implementation has been completed

10. Quality assurance

10.1 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).

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

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

11. Relationships

11.1 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.

11.2 Internal - the main contacts are with: Council employees, line managers, 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.

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

11.4 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

12. Fraud and irregularities

12.1 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.

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

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

12.4 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.

13. Review

13.1 The Internal Audit Charter will be reviewed biennially by the Audit Manager and presented to senior management and the Audit and Governance Committee for approval.