

## INTERNAL AUDIT CHARTER



### Introduction

1. This Charter defines the purpose, authority and principal responsibilities of the Internal Audit Service.

### Definition of Internal Audit

2. The definition of Internal Audit specified by the Chartered Institute of Internal Auditors (IIA) and adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) reads as follows:

*“Internal Auditing is 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.”*

### Requirement for Internal Audit

3. There is a statutory requirement for Rother District Council to provide an Internal Audit Service. This is stated in Regulation 5 (1) of the Accounts and Audit Regulations 2015 which requires that *“a relevant authority must undertake an effective Internal Audit to evaluate the effectiveness of risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”*.

### Standards

4. The standards for the work of Internal Audit are laid down in the Public Sector Internal Audit Standards (hereafter referred to as “the Standards”). These standards, which also relate to CIPFA and their professional requirements, were last updated in April 2017.
5. The Standards are based on 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 (including interpretations and glossary).
6. The Standards also state the Mission of Internal Audit and the Core Principles for the Professional Practice of Internal Auditing.

7. It is a mandatory requirement that Internal Audit complies fully with all of these elements and they are also included in this Charter.
8. The Standards set out the responsibility for the “Chief Audit Executive” to ensure compliance. There is no requirement within the Standards to adopt this job title and this role is fulfilled by the Audit Manager.
9. In addition to the Standards, the Internal Audit Service is also governed by the Council’s Financial Procedure Rules.

### **Mission of Internal Audit**

10. The Standards include the following mission statement:

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

### **Core Principles for the Professional Practice of Internal Auditing**

11. The Standards state that all the following Core Principles should be present and operating effectively for an Internal Audit function to be considered effective:
  - 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 improvement.
12. The Internal Audit Service strives to meet these requirements (and the Mission of Internal Audit) through compliance with the Standards.

### **Code of Ethics**

13. All Internal Auditors must conform to the Code of Ethics set out in the Standards. The Code of Ethics requires that Internal Auditors carry out their duties with integrity and objectivity, to protect the confidentiality of all information acquired in the course of their work, and for them to only engage in services they are competent to perform.

### **Definition of the Board and Senior Management**

14. Under the Standards, this Charter is required to define the “Board” and “Senior Management”. Both the Board and Senior Management have specific and complementary roles and responsibilities set out within the Standards. With the

exception of matters relating to employment (see below), the “Board” is the Audit and Standards Committee.

15. The Audit Manager is not a statutory post within the definition of the Local Government Act 1972. The Head of Paid Service and Senior Management are therefore responsible for the appointment and remuneration of the Audit Manager where the service is provided in-house.
16. “Senior Management” comprises the members of the Strategic Corporate Management Team.

### **Scope and Objectives of the Internal Audit Service**

17. The Audit Manager is required to manage the provision of a complete Internal Audit Service to the authority which will include systems, probity, computer and contract audits.
18. There are no limitations on the scope of activities of the Internal Audit Service. This allows for unrestricted coverage of all the authority’s activities, including both financial and non-financial systems of internal control.
19. The main objectives of the Internal Audit Service are to:
  - independently review and appraise the effectiveness of the Council’s risk management, control and governance processes;
  - recommend improvements in control, performance and productivity in achieving corporate objectives;
  - contribute to and support the objectives of the Section 151 Officer by promoting the need for sound financial systems;
  - support the Monitoring Officer in the discharge of his/her responsibilities for maintaining high standards of governance, conduct and ethical behaviour;
  - advise on risk, control and governance issues in respect of new activities, major system changes and other areas of concern, and to facilitate good practice in managing risks;
  - work in partnership with the External Auditors; and
  - investigate allegations of fraud or irregularity, identify fraud as a consequence of its work, and act as a visible deterrent to potential wrongdoers.

### **Rights of Access**

20. The rights of access for the Internal Audit Service are provided for by the Accounts and Audit Regulations 2015. Regulation 5 (2) states that:

*“Any officer or member of a relevant body must, if required to do so for the purposes of the Internal Audit:*

  - (a) make available such documents and records; and*
  - (b) supply such information and explanation as are considered necessary by those conducting the Internal Audit.”*
21. Regulation 5 (3) also goes on to state that the definition of “documents and records” includes information recorded in an electronic form.

22. There are consequently no limitations on Internal Audit's access to records. Internal Audit staff have the authority to:

- access Council premises at reasonable times;
- access all assets, records, documents, correspondence and control systems;
- receive any information and explanation considered necessary concerning any matter under consideration;
- require any employee of the authority to account for cash, stores or any other authority asset under his/her control;
- access records belonging to third parties, such as contractors (provided this right of access is specified in their contract); and
- have direct access to the Chief Executive Directors, Section 151 Officer, Monitoring Officer, Heads of Service and any Member or body of Members considered appropriate and any other person charged with the governance of the authority.

### **Main Areas of Work**

23. Internal Audit's main areas of work relate to the following key areas:

- Assurance Work
- Consultancy Work
- Counter Fraud Work

#### Assurance Work

23.1 The primary purpose of Internal Audit is to independently review and appraise the Council's key risk management, control and governance processes and to provide assurance on their effectiveness.

23.2 Internal Audit uses a risk-based approach to evaluate a broad range of activities including an annual review of the key financial systems (or Governance Audits). These reviews provide reasonable assurance that corporate objectives will be achieved, with particular reference to:

- the reliability and integrity of financial and operational information;
- the effectiveness and efficiency of operations and programmes;
- safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity and corruption;
- compliance with laws, regulations, policies, procedures and contracts;
- the economic and efficient use of resources (value for money); and
- effective monitoring systems and optimum use of performance management information.

#### Consultancy Work

23.3 Internal Audit give advice on risk, control and governance issues in respect of new activities, major system changes and other areas of concern. This work can take any form, provided that the independence of the service is not compromised but will typically include special

reviews or assignments where requested by Management, which fall outside the approved work plan and for which a contingency is included in the Audit Plan. Any consultancy work known about in advance will however be itemised in the Audit Plan. There will be no significant variation in consultancy work without approval by the Board.

### Counter Fraud Work

- 23.4 Management have clearly defined responsibilities for risk management, internal control and preventing fraud and corruption, which are set out in the authority's Financial Procedure Rules and the Anti-Fraud and Corruption Framework.
- 23.5 The Internal Audit Service also has a role in fraud prevention, detection and investigation. Its Auditors are required to consider the possibility of fraud in all systems they review, and work with Management to make sure that the correct controls are in place to reduce the likelihood of fraud occurring. The fact that absolutely any Council activity can be subject to Internal Audit review also acts as a deterrent to potential fraudsters.
- 23.6 Other counter fraud activities carried out by the Internal Audit Service include:
- the development and maintenance of the Anti-Fraud and Corruption Framework;
  - coordinating the National Fraud Initiative data matching exercises and assisting with the analysis of the results;
  - the investigation of any areas of potential fraud or error identified through routine audit work or brought to its attention by Management. The Audit Manager will investigate any allegations of fraud or corruption involving staff, Members or contractors;
  - reviewing and acting upon whistleblowing referrals; and
  - the proactive gathering of intelligence on areas of potential fraud; examining individual cases for evidence of error or wrongdoing; and liaising with the relevant departments to stop or recover losses where fraud is suspected.

### **Audit Strategy and Work Plan**

- 24 In order for the Internal Audit Service to accomplish its objectives, the Audit Manager will:
- ~~prepare a rolling 3-year risk-based Audit Plan in consultation with Senior Management and Heads of Service for approval by the Board (note that the "Board" may approve, but not direct the plan). This Strategic Plan will be regarded as flexible, to allow for changing needs and priorities identified through the Corporate, Project and Service Risk Registers. It will be reviewed annually and reported to the Board each March;~~

- carry out an annual risk assessment of all Council activities and ensure that any areas deemed as high risk are reviewed within a year, and all medium risk items are reviewed within two to three years;
- prepare a detailed annual Audit Plan setting out the work to be undertaken in any given financial year. This work will be completed in consultation with Senior Management and Heads of Service reported to the Audit and Standards Committee for approval by the Board (note that the “Board” may approve, but not direct the plan);
- prepare the Internal Audit Budget and Resource Plan;
- ensure a system of close supervision of audit work and maintain a review of audit files, adherence to standards and quality of audits;
- formally report the results of audits and the recommendations made to Senior Management, other relevant managers and the Board. Where Management has accepted a level of risk that may be unacceptable to the Council and this is not resolved with Senior Management, the Audit Manager will report this to the Board;
- follow up audit recommendations to make sure that corrective action is taken;
- provide an annual audit opinion to those charged with governance based on an objective assessment of the framework of governance, risk management and control, sufficient to inform the Council’s Annual Governance Statement; and
- undertake an annual review of the effectiveness of Internal Audit and report the outcomes to Senior Management and the Board as part of the Quality Assurance and Improvement Programme (QAIP). At least once every 5 years, the Internal Audit Service will also commission an external assessment or peer review.

## Resources

25. The resources available to Internal Audit are finite; however it is through the audits undertaken annually that Internal Audit determines a level of confidence on the control environment within the authority. Such audits allow the Section 151 Officer to place reliance on the work undertaken and to gain assurance on the control environment from the independent review of the key financial systems. A set of Governance Audits has been established which will be undertaken within each financial year. This will be complemented by a regular review of those areas identified as high or medium risk. This will ensure that key work streams which are considered business critical or of higher risk to the Council are reviewed on a timely basis. This process will largely determine the level of resources required.

## Staffing

26. The Internal Audit Service at Rother District Council is provided by an in-house team.
27. The Standards state that *“Internal Auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The Internal Audit activity collectively must possess or obtain the knowledge, skills and competencies.”*

28. The Audit Manager must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. The Audit Manager is a Chartered Member of the Institute of Internal Auditors (CMIIA).
29. The job descriptions and recruitment processes provide for the appointment of individuals with an appropriate set of skills, competencies and qualifications to meet the standard, either individually or as a combined Internal Audit Service.
30. All Internal Audit staff are trained in order to be able to perform each element of their assignments with due professional care.
31. All Internal Audit staff are encouraged to enhance their knowledge, skills and other competencies through continuing professional development (CPD). Where staff are members of professional bodies, they must also comply with any CPD requirements of their membership.

### **Independence**

32. The main determinant of the effectiveness of Internal Audit is that it is (and seen to be) independent in its planning and operation. To ensure this, Internal Audit will operate within a framework that allows:
  - unrestricted access to Senior Management;
  - reporting in its own name; and
  - segregation from line operations.
33. The Internal Audit Service is an independent unit within the ~~Corporate Core~~ Deputy Chief Executive's directorate and the Audit Manager reports direct to the Deputy Chief Executive Directors.

### **Non-Audit Duties and Avoidance of Conflicts of Interest**

34. Every effort is made to preserve objectivity by ensuring that all Internal Auditors are free from any conflicts of interest and the undertaking of non-audit duties is kept to a minimum. Internal Auditors are required within the Standards to refrain from participating *"in any activity or relationship which may impair or be presumed to impair their unbiased assessment."*
35. A conflict of interest is a situation in which an Internal Auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the Auditor, the Internal Audit Service, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.
36. Where the Audit Manager has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be put in place to limit impairments to independence and objectivity. The Audit Manager must also highlight any potential or perceived impairment to the Board. The Board should then approve and periodically review any safeguards put in place to limit impairments to independence and objectivity. Safeguards may include delegating the audit of any such activity to an appropriate independent "deputy"



or commissioning an independent third party (such as another local authority or a contractor) who will then report directly to those charged with governance.

37. Where Internal Audit staff are required to undertake non-audit duties, the Audit Manager will make it clear that those audit staff are not fulfilling those duties as Internal Auditors. The Audit Manager will ensure that within the service there remains sufficient impartiality to enable the actions and activities of those Internal Audit staff to be subject to audit by those independent from the activity.
38. Internal Auditors are not permitted to assess specific operations for which they were previously responsible for a period of at least 12 months.
39. If any member of the Internal Audit Service, or any individual or organisation engaged to act on its behalf considers that there is, or is perceived to be a conflict of interest, this must be declared to the Audit Manager, who will direct alternative and independent resources to the audit. If the Audit Manager finds himself in that position, he must declare this in writing to the ~~Strategic~~ Corporate Management Team and another independent person or body will be appointed to fulfil this role.

### **Management and Internal Audit**

40. It is the responsibility of Management to establish systems of internal control to ensure that activities are conducted in a secure and well-ordered manner. Internal Audit is one element of the control environment, but its existence does not relieve Management of its responsibility for maintaining effective risk management, control and governance processes.

### **Relationships with Elected Members and Reporting**

41. The Audit Manager must establish and maintain good working relationships and channels of communication with Members. This should be achieved by regularly attending Audit and Standards Committee meetings and responding to any issues raised by Councillors, especially those who are members of the Audit and Standards Committee.
42. The Audit Manager will report periodically to Senior Management and the Board in accordance with the Standards. The programme of planned reports for a calendar year is shown below.

March	Quarterly Report on Internal Audit Activity Q3
March	Internal Audit Plan for forthcoming financial year
March	Annual Review of the Effectiveness of Internal Audit
June	Annual Report on Internal Audit Activity <u>and Opinion on the Control Environment</u>
September	Quarterly Report on Internal Audit Activity Q1
December	Quarterly Report on Internal Audit Activity Q2

43. Internal Audit aims to apply appropriate levels of transparency in reporting on work undertaken and recommendations for improvement. Reporting arrangements are designed to clearly show the standards and controls which



services are measured against and the Auditor's opinion on whether these have been met as well as applicable conclusions, recommendations and action plans. Reports deliberately do not include operational detail which might contain personal or commercially sensitive data.

### **Review of This Charter**

This Charter will be reviewed and updated as necessary, and in any event, at least once every 3 years.

Date of next scheduled review: March ~~2023~~2025

Gary Angell

Audit Manager

February ~~2020~~2022