



INTERNAL AUDIT CHARTER

TABLE OF CONTENTS

Para No.	Narrative	Page No.
1.	Introduction	3
2.	Definitions	3
3.	Purpose of Internal Audit	4
4.	Professionalism	4
5.	Authority of Internal Audit	4
6.	Organisation	5
7.	Responsibility of the Internal Audit	5
8.	Scope of Internal Audit	5
9.	Independence and Objectivity	6
10.	Internal Audit Plan	6
11.	Internal Audit Resource	7
12.	Reporting and Monitoring	7
13.	The Role of Internal Audit in Fraud Related Work	8
14.	Performance of Non-Audit Activity	8
15.	Periodic Assessment	8
16.	Review	9

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1. Introduction

The Public Sector Internal Audit Standards took effect from the 1 April 2013 now revised in March 2016, to provide a consolidated approach across the whole of the public sector providing continuity, sound corporate governance and transparency. The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'. The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility.

2. Definitions

For the purposes of this charter the following definitions shall apply:

2.1 The definition of Internal Audit as set out in the PSIAS:

'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.'

2.2 The 'Board'

The board is defined as:

'the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting'.

Within this Council the role of the 'Board' will be fulfilled by the Audit Committee

2.3 Senior Management

Senior Management is defined as:

'those charged with responsibility for the leadership and direction of the Council'.

Within this council the role of 'Senior Management will be fulfilled by the Corporate Management Team (CMT) made up of the Executive Director, Director of Finance and Resources (S151 Officer) and the Director of Operations.

2.4 Chief Audit Executive

The Chief Audit Executive is described as:

'a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Audit Executive or others reporting to the Chief Audit Executive will have appropriate professional certifications and qualifications'.

Within this Council the role of the Chief Audit Executive will be fulfilled by the Internal Audit Client Manager.

3. Purpose of Internal Audit

The Accounts and Audit Regulations 2015 (Regulation 5 (1)) require that local authorities to which this regulation applies 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.

As an independent appraisal function, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of internal controls across the entire control environment of the council.

4. Professionalism

The internal audit activity will govern itself by adherence to the Public sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The service, and individual staff, will be governed by the Code of Ethics of the relevant professional bodies of which they are a member, and all codes and policies operated by the Council

5. Authority of Internal Audit

The authority of Internal Audit is set out in the Council's Financial Regulations. The Director of Finance and Resources has nominated a head of internal

audit (the Internal Audit Client Manager) has the right to direct access to the Head of Paid Service, and the Audit Committee where necessary.

Internal audit staff have access to all Council property and assets at any reasonable time and have the authority to apply any test or check they deem necessary to the accounts, cash securities or other properties or records which relate in any way to the operations of the Council and can require and receive such explanations from any Officers or Member as deemed appropriate. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities.

6. Organisation

The Internal Audit function sits within the Audit and Fraud Investigation Team that forms part of the Director of Finance and Resources responsibilities, who fulfils the role of the Council's Section 151 Officer. This role is responsible for maintaining an adequate and effective internal audit function and the nomination of an officer to act as the (Chief Audit Executive) Internal Audit Client Manager. The Internal Audit Client Manager is the nominated Head of Internal Audit and is responsible for the day to day management of the Internal Audit function. The Internal Audit Client Manager has free and unfettered access to the Executive Director, Section 151 Officer, Monitoring Officer and the Chair of the Audit Committee. The Internal Audit Client Manager will communicate and interact directly with the Audit Committee, including in and between Audit Committee meetings as appropriate.

7. Responsibility of the Internal Audit

The key responsibilities of Internal Audit are as laid out in the Council's Financial Regulations:

- The Director of Finance and Resources is responsible for maintaining an adequate and effective internal audit function.
- The internal audit function will operate in accordance with the Public Sector Internal Audit Standards
- The internal audit function is responsible for providing assurance on the Council's system of internal control. It examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.
- In fulfilling their responsibilities Internal audit staff will undertake effective reviews of systems and procedures on a regular basis.

8. Scope of Internal Audit

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit include:

- Consistency of operations or programs with established objectives and goals and effective performance.
- Effectiveness and efficiency of operations and employment of resources.
- Compliance with significant policies, plans, procedures, laws, and regulations.
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets.

Internal Audit is responsible for evaluating all processes ('audit universe') of the entity including governance processes and risk management processes. It also assists the Audit Committee in evaluating the quality of performance of external auditors and maintains proper degree of coordination with internal audit.

Internal audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Audit Committee or Corporate Management Team, as appropriate.

Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee or Corporate Management Team, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee.

9. Independence and Objectivity

The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Internal Audit Client Manager will confirm to the Audit Committee (Board), at least annually, the organisational independence of the internal audit activity.

The independence of the Internal Audit Client Manager is safeguarded by the Executive Director reviewing and countersigning the performance reviews of the Internal Audit Client Manager.

10 Internal Audit Plan

At least annually, the Internal Audit Client Manager will submit to the Audit Committee an internal audit plan for review and approval, including risk assessment criteria. The internal audit plan will include timing as well as budget and resource requirements for the next fiscal year. The Internal Audit Client Manager will communicate the impact of resource limitations and significant interim changes to Corporate Management Team, Senior Management and the Audit Committee.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of Service Manager, Corporate Management Team and the Audit Committee. Prior to submission to the Audit Committee for approval, the plan will be discussed with senior manager and Corporate Management Team. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

11. Internal Audit Resources

The Internal Audit Client Manager will hold an appropriate professional qualification (CMIIA, CCAB or equivalent) and have extensive internal audit experience.

The Director of Finance and Resources is responsible for providing the Internal Audit Client Manager with the appropriate resources to maintain an adequate and effective internal audit service.

The Internal Audit Client Manager will ensure that the Internal Audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit plan.

12. Reporting and Monitoring

A written report will be prepared and issued by the Internal Audit Client Manager after receipt from the contractor following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Audit Committee.

The final version of the internal audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response is required to include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. Where agreed timeframe have not been met these will be reported to the Audit Committee. This allows a decision to be made on whether a change in the

agreed timeframe is necessary or whether the action is still applicable if control enhancements have been implemented elsewhere that negates the need for the action.

The internal audit activity will be responsible for appropriate follow-up on audit findings and recommendations. All significant findings will remain on the outstanding recommendations record until cleared or approved to be removed by the Audit Committee if a justifiable reason is provided to support the request.

The Internal Audit Client Manager is responsible for the delivery of an annual audit opinion and report that can be used by Corporate Management Team to inform their governance statements. The annual opinion will conclude on the overall adequacy and effectiveness of the organisations' framework of governance, risk management and control. The annual opinion will be formed as part of the Annual Audit Report prepared by the Internal Audit Contractor who fulfils the role of completing the Internal Audit Plan.

13. Role of Internal Audit in Fraud Related Work

The role of Internal Audit in fraud related work is set out in the following Council documents:

- Financial Regulations
- Anti – Fraud, Corruption, and Bribery Strategy
- Whistleblowing Policy
- Prosecution Policy
- Fraud Response Plan
- Housing Tenancy Fraud Policy

The primary responsibility for maintaining sound systems of internal control including arrangements to prevent and detect fraud and corruption lies with management. Completion of planned audit work assists this process by highlighting areas where controls are inadequate or are not operating as intended.

The Internal Audit Client Manager also facilitates the authority's participation in the National Fraud Initiative (NFI) in which specified data is matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

14. Performance of Non-Audit Activities

The Internal Audit Client Manager has line management responsibility for the Council's Fraud Investigation Team which form part of the Internal Audit and Fraud Investigation Team. To maintain independence and avoid conflict of interest any internal audits of these functions will be undertaken by an externally procured resource.

Where individual internal auditors undertake non – audit activities, for example in participating in corporate projects in a non – audit role, the auditor involved will not participate in future audits of the service/project area until at least one year has elapsed from completion of the activity.

15. Periodic Assessment

The Internal Audit Client Manager is responsible for periodically providing a self assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

In addition, the Internal Audit Client Manager will communicate to Corporate Management Team and the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years. However as the majority of Waverley's work is completed by an external contractor Waverley requires them to have an external assessment completed at least every 5 years and include this in the Annual Audit Report.

The Internal Audit Client Manager will agree the scope of external assessments with the Director of Finance and Resource and the Chair of the Audit Committee.

16. Review of the Internal Audit Charter

This charter will be reviewed annually by the Internal Audit Client Manager and presented bi-annually to Corporate Management Team and the Audit Committee for approval.