



# **INTERNAL AUDIT CHARTER**

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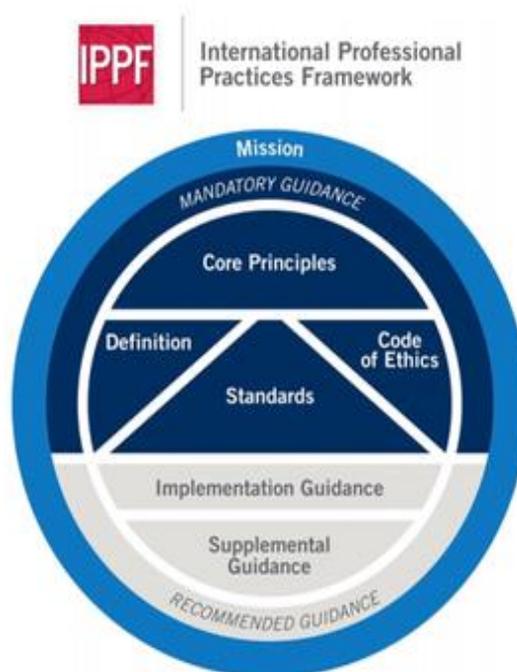
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## 1. Introduction

The purpose of the Internal Audit Charter is to define the Internal Audit's purpose, authority, and responsibility in accordance with the UK Public Sector Internal Audit Standards (PSIAS). It establishes Internal Audit's position within the council and reporting lines; authorises access to records, personnel, and physical property relevant to the performance of audit work; and defines the scope of internal audit activities.

The standards form part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which also includes the mission; core principles; definition of internal audit and Code of Ethics.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'.



## 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.'*

*Mission of Internal Audit is to 'enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'*

## **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 Management Board made up of the Chief Executive and two Strategic Directors.

## **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 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 in a timely manner 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 powers and duties authority of Internal Audit is set out in the Council's Financial Regulations, paragraph 14.3 details the authority Internal Audit has to perform their duty. The Strategic Director (Section 151 Officer) has nominated these rights to the Internal Audit Manager who has direct access to the **Joint Chief Executive (Head of Paid Service) Guildford and Waverley Borough Council's**, and the Audit Committee.

Internal audit staff have access to all Council property and assets, at any reasonable time, and have the authority to apply any test or checks they deem necessary to the accounts, including cash securities, properties or records which relate in any way to the operations of the Council. The auditor 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 Internal Audit Service that forms part of the Strategic Director's 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, IIA) Internal Audit Manager. The Internal Audit Manager is responsible for the day-to-day management and the long-term planning for the service. Therefore, the Internal Audit Manager has free and unfettered access to the **Joint Chief Executive**, Section 151 Officer, Monitoring Officer, and the Chair of the Audit Committee. The Internal Audit 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 Service**

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

- The Strategic Director (Section 151 Officer) 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 in a timely manner.
- ❖ 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 Management Board as appropriate.

Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee or Management Board, 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 the maintenance of an independent and objective attitude to enable them to provide impartial, unbiased and effective professional judgements and advice.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- retains no executive or operational responsibilities.
- operates in a framework that allows unrestricted access to 'senior management' and 'the Board'
- reports functionally to 'the Board'
- reports in their own name
- rotates responsibilities for audit assignments within the internal audit team
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements and
- ensures the planning process recognise and address potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to 'Senior Management' and 'the Board'. The nature of the disclosure will depend upon the impairment.

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 judgements.

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

The Joint Chief Executive (Head of Paid Service) Guildford and Waverley Borough Council's reviewing and countersigning the performance reviews of the Internal Audit Manager.

## 10. Internal Audit Plan

At least annually, the Internal Audit 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 Manager will

communicate the impact of resource limitations and significant interim changes to Management Board, 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 Managers, Management Board, and the Audit Committee. Prior to submission to the Audit Committee for approval, the plan will be discussed with Senior Managers and Management Board. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process to Audit Committee.

## **11. Internal Audit Resources**

The Internal Audit Manager will hold an appropriate professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

The Strategic Director (Section 151 Officer) is responsible for providing the Internal Audit Manager with the appropriate resources to maintain an adequate and effective internal audit service.

The Internal Audit 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 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 throughout the year.

The final version of the internal audit report will include management's response and corrective action taken regarding the specific findings and observations. Management's response includes a timetable for anticipated completion of the action to be taken and an explanation for any corrective action that will not be implemented. Where an agreed timeframe has 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 agreed actions with the responsible Head of Service. All agreed action will remain on the monitoring system (Pentana) until implemented or approved to be removed by the Audit Committee if a justifiable reason is provided to support the request.

The Internal Audit Manager presents the Annual Internal audit opinion as part of the Annual Internal Audit report to the Management Board which is then included in the Annual Governance Statement that supports the Annual Accounts. The Internal Audit Annual Audit Opinion includes an assessment of

the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

### **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 maybe inadequate or are not operating as management intended.

The Internal Audit 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 potentially fraudulent activity.

### **14. Performance of Non-Audit Activities**

The Internal Audit Manager has line management responsibility for the Council's Fraud Investigation Officer, which forms part of the Internal Audit Service. 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 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 Manager will communicate to the Management Board 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

most of the Audit Plan work is completed by an External Contractor, Public Sector Internal Auditing Standards requires them to have an external quality assessment completed at least every 5 years and this is confirmed and included in the Councils Annual Internal Audit Report. The evidence of these assessments is checked by the External Auditors as part of their assessment of the internal control and governance framework in place within Waverley Borough Council. ~~as part of the work completed for the External Audit findings report.~~

## **16. Review of the Internal Audit Charter**

This charter will be reviewed annually by the Internal Audit Manager and where changes are required will be presented at least every 2<sup>nd</sup> year to the Audit Committee for approval.