


Agenda Item No:	9	
Committee:	Audit and Risk Management	
Date:	21 June 2021	
Report Title:	Internal Audit Charter	

1 Purpose / Summary

The Accounts & Audit Regulations 2015 require every local authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

The attached “Internal Audit Charter” is a document that reflects best practice audit guidance and is reviewed every three years by the Audit and Risk Management Committee.

2 Key issues

- The “Charter” establishes the practices of the Internal Audit Team, for example:
 - the position of independence in the organisation,
 - establishing a right of access to all records, and
 - enabling the Internal Audit Manager to deliver an audit opinion.
- The “Charter” also incorporates additional objectives in respect of Risk Management, Corporate Governance and Anti-Fraud and Corruption.
- The “Charter” has been prepared according to ‘Public Sector Internal Audit Standards’ (PSIAS) and the “CIPFA Local Government Application Note for PSIAS” (LGAN).
- A comprehensive review was completed in 2013 following introduction of the PSIAS and LGAN. It was previously considered by Corporate Governance Committee (minute CGC 28/14). The PSIAS was reissued in April 2017 and some minor amendments were made to the Internal Audit Charter and considered by the Corporate Governance Committee (minute CGC38/17).
- In November 2017 an External Quality Assessment was undertaken by CIPFA which reviewed various internal audit documents including the Internal Audit Charter. As a result of this review only one minor change was suggested relating to the inclusion of the Mission Statement.
- The “CIPFA Local Government Application Note” was reissued in 2019 and this document has been considered in the current review of the “Charter”.
- Job titles, roles and terminology have been updated in the current review.
- All amendments have been highlighted in yellow.

3 Recommendations

It is recommended that the Audit and Risk Management Committee consider and approve the attached “Internal Audit Charter”.

Wards Affected	All
Forward Plan Reference	N/A
Portfolio Holder(s)	
Report Originator(s)	Kathy Woodward – Shared Internal Audit Manager
Contact Officer(s)	Peter Catchpole – Corporate Director & Chief Finance Officer Kathy Woodward – Shared Internal Audit Manager
Background Paper(s)	Accounts and Audit Regulations 2015 Public Sector Internal Audit Standards 2017 CIPFA Local Government Application Note 2019

4 Background / introduction

- 4.1 The Internal Audit Charter defines the purpose, authority and responsibility of internal audit activities. It supports the Internal Audit plan and helps demonstrate compliance with professional standards.
- 4.2 The Charter is reviewed and presented every three years to confirm its ongoing validity and completeness. The document is based on standards established through the “CIPFA Local Government Application Note 2019 for the United Kingdom Public Sector Internal Audit Standards” (LGAN).
- 4.3 The standards cover the following areas:
 - Definition of internal auditing;
 - Code of ethics;
 - Attributable standards (characteristics); and
 - Performance standards (activities and measurement)
- 4.4 The Chartered Institute of Public Finance & Accountancy (CIPFA) is a global body that represents the public sector accounting and auditing profession. They produce the LGAN to help Local Government Internal Audit teams operate effectively. Internal Audit teams have to demonstrate compliance with the LGAN, which is reported to the Committee annually.
- 4.5 The LGAN is based upon the “Public Sector Internal Audit Standards 2017” (PSIAS) which were published by the Institute of Internal Auditors (IIA). The IIA is a global body that represents Internal Auditors in both the public and private sector. They maintain an International Professional Practices Framework (IPPF) which establishes good practice in internal auditing. The IPPF has recently been reviewed, and the changes may also be adopted by CIPFA following consultation.

5 Considerations

- 5.1 Both the PSIAS and LGAN became effective from April 2013, and a comprehensive review was completed to ensure that the “Charter” reflected the latest standards. This was presented to the Corporate Governance Committee in April 2013. The PSIAS was revised by the IIA in April 2016 and came into effect in April 2017. Following the revised standards a few minor changes were made to the Internal Audit Charter (minute CGC38/17).
- 5.2 The LGAN was reviewed and updated by CIPFA in 2019. Following the revised guidance, no significant changes have been identified as being required in the Internal Audit Charter.
- 5.3 In addition to the revised PSIAS guidelines, an external quality assessment was undertaken by CIPFA in November 2017. The assessment outlined suggestions and recommendations to ensure our Audit Charter complied with the PSIAS. Only one suggestion was made, for us to include the PSIAS mission statement in our ‘Charter’.
- 5.4 The Accounts and Audit regulations set the requirement to undertake an effective internal audit. The regulations have been updated to bring them closer to corporate governance requirements in the private sector, and elsewhere in the public sector. Consequently, there are some minor changes to terminology used. The requirement continues to be the same.

6 Effect on corporate objectives

- 6.1 The Internal Audit Charter and Risk Based Plan supports the Council’s Local Code of Governance, which contributes to the Quality Organisation corporate objective.

7 Conclusions

- 7.1 The “Charter” continues to reflect guidance set by the IIA and CIPFA.
- 7.2 It is good practice for the Audit and Risk Management Committee to review and approve the “Charter” periodically, as it supports the Internal Audit plan.

Internal Audit Charter



1 Introduction

- 1.1 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.
- 1.2 All principal local authorities in the UK must make provision for internal audit. In England this is covered by the 2015 Accounts and Audit Regulations (regulation 5) which requires that: 'a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 1.3 The Public Sector Internal Audit Standards (PSIAS) set the standard for internal Auditing. Their objective is to:
 - define the nature of internal auditing within the UK public sector
 - set basic principles for carrying out internal audit in the UK public sector
 - establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
 - establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 1.4 The PSIAS are mandatory and comprise:
 - Mission of Internal Audit
 - Definition of Internal Auditing
 - Core Principles for the Professional Practice of Internal Auditing
 - Code of ethics
 - Attributable standards (characteristics); and
 - Performance standards (activities and measurement).
- 1.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) is a Relevant Internal Audit Standard Setter (RIASS) and are responsible for publishing guidance and Code of Practice to help Internal Audit deliver the PSIAS.
- 1.6 All Internal Audit activity is also carried out in accordance with corporate policy, with specific authority for Internal Audit contained in Financial Regulations C.16 to C.25.
- 1.7 Additional standards for conduct, procedure, and ethics are derived from the professional guidance. This includes the IIA Code of ethics, the CIPFA Code of ethics, plus any additional guidance considered "proper internal audit practices" referred to by the Accounts and Audit Regulations 2015.
- 1.8 The internal audit charter is a formal document that defines the internal audit activities purpose, authority and responsibility. It establishes the internal audit activity's position within the Council, including the nature of the Internal Audit Manager's functional reporting relationship with CMT and the **Audit and Risk Management Committee**; authorises access to records, personnel and physical properties relevant to the performance of work; and defines the scope of internal audit activities.
- 1.9 The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

2 Objectives of Internal Audit

- 2.1 The Mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
- 2.2 The objectives of Internal Audit are designed to complement the Council's Corporate Priorities, and to add value and improve the Council's operations.
- 2.3 The PSIAS define Internal Audit activity as "assurance" and "consulting". All internal audit assurance and consulting services fall within the scope of the Definition of Internal Auditing.
- 2.4 The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the Internal Audit Manager to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.
- 2.5 Consulting services are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.
- 2.6 The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach. Delivery of these objectives will include:
 - Supporting the Corporate Director & Chief Finance Officer to discharge their duties as the Council's "Section 151 Officer";¹
 - promote and raise standards of a positive anti-fraud and corruption culture:
 - facilitate the corporate approach to anti-fraud & corruption
 - help management identify fraud and error risks;
 - provide investigation provision (excluding Housing / Council Tax Benefit fraud);
 - promote and raise standards of risk management:
 - support the corporate approach to risk management;
 - help management identify hazards and risks;
 - communicate risk and control information to appropriate areas of the Council;
 - promote and raise standards of internal control:
 - assist management with continuous improvement by identifying areas in need of improvement and recommending solutions to problems;
 - advise on internal control implications of new systems and changes to existing systems;
 - comply with laws, regulations and ethical standards;
 - assess information technology governance;
 - promote and raise standards of corporate governance:
 - support corporate governance, performance and risk management processes by continuous evaluation and promotion of tools and good practice;

¹ Section 151 of the Local Government Act 1972 requires that an organisation must "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs".

- include consideration of social concerns, including environmental, equality and community & customer service concerns, impacted upon by audit findings;
- promoting appropriate ethics and values within the organisation;
- evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities;
- promote and raise standards for efficiency and effectiveness
 - ensure when reviewing systems that consideration is given to identifying and reporting efficiency opportunities, and this work will be performed jointly with the Council's Policy & Communication Team;

3 Location of Internal Audit

- 3.1 Internal Audit is located within the Policy, Resources and Customer Services team under the direction of the Corporate Director & Chief Finance Officer.
- 3.2 The Corporate Management Team is the 'Senior management' of the Council that review the Charter before it is placed before Audit and Risk Management Committee.
- 3.3 The Audit and Risk Management Committee is the 'Board' of the Council that approve the Charter.
- 3.4 The Internal Audit Manager shall report to Audit and Risk Management Committee:
 - the Internal Audit Charter;
 - the annual risk-based plan, including adequacy of resource;
 - regular performance and progress of the Internal Audit plan;
 - the opinion on assurance as to levels of internal control;
- 3.5 The Internal Audit Manager, in consultation with the Chief Finance Officer, will meet with the Audit and Risk Management Committee to discuss governance and risk. If required, the Internal Audit Manager can meet in private with the Corporate Director and Chief Finance Officer and Audit and Risk Management Committee, provided this complies with Committee's terms of reference.

4 Scope of Internal Audit

- 4.1 A professional, independent and objective Internal Audit service is one of the key elements of good governance, as recognised throughout the UK public sector.
- 4.2 The scope of Internal Audit allows for unrestricted coverage of the authority's entire control environment, its partner organisation's activities and unrestricted access to all records and assets deemed necessary in the course of the assurance work. In addition, where required, the Internal Audit Manager will have unrestricted access to:
 - the Corporate Management Team;
 - members and the Audit and Risk Management Committee;
 - all Council employees;
 - partners and contractors where relevant;
- 4.3 The Internal Audit team aims to be approachable and accessible to all of the Council. A positive, open and communicative approach helps develop relationships for efficient audit work and fosters a proactive culture for management of risks.
- 4.4 The Internal Audit team will also support the Council by undertaking work that has the potential to improve management of risks, add value, and improve operations. This

could include membership and participation of corporate project groups and ad-hoc exercises.

- 4.5 Internal Audit must be objective and independent and must manage ethical risks that may undermine confidence in the team. Independence and objectivity will be considered prior to commencing any work, and any risks will be discussed prior to undertaking the work.
- 4.6 The allocation of auditor's work will be designed to ensure they are free from conflicts of interest, review of their own advice where they have been involved in the design of a process, policy or procedure.
- 4.7 As far as is practicable, Internal Audit will not participate in the day-to-day operation of any systems of internal financial control.

5 Audit style

- 5.1 Internal Audit will adopt a risk-based approach to planning assurance work. The planned approach of audit work will be to minimise disruption to the customer and to maximise the efficiency of internal audit review.
- 5.2 The Internal Audit Manager will be required to manage the provision of a complete audit function to the authority which will include systems, regularity, computer and contract audit.
- 5.3 A strategic annual risk-based audit plan will be prepared, in consultation with the Corporate Management Team. It will be designed to review areas of significant risk in accordance with the Council's corporate priorities and risk appetite. The plan will be presented to the **Audit and Risk Management Committee** for agreement and determination of the adequacy of resources required to provide assurance. The risk-based plan will be continuously reviewed and updated in response to changes in risk.
- 5.4 Resources will be managed as planned, or as otherwise agreed with the Corporate Director where unforeseen circumstances arise, to best address the organisational and audit objectives.
- 5.5 Audit work will be supervised and reviewed to ensure that it is completed to consistent standard. This will form part of the continuous quality assurance programme.
- 5.6 Management actions, arising from audit assignments, will be followed-up and escalated where the management response is considered inadequate in relation to the identified risk.
- 5.7 Each area audited will include an opinion on the level of internal control. The approach will reflect the type of assurance work delivered and will contribute to the annual opinion.
- 5.8 Annual reports, and interim updates where appropriate, will be prepared on the work of Internal Audit. This will be agreed with the Corporate Director & Chief Finance Officer for presentation to the **Audit and Risk Management Committee**.
- 5.9 In order to promote Internal Audit, and to create opportunities for effective communication, as much audit work as possible will be done on location with staff whose area of work is being reviewed. If the teams already have regular contact with Internal Audit a lean testing approach will be considered for efficiency.

6 Audit resources

- 6.1 An objective assessment of the resource requirements for Internal Audit shall be compiled annually for approval by the Corporate Director & Chief Finance Officer and presentation to the **Audit and Risk Management Committee** as part of the annual Risk Based Internal Audit plan.
- 6.2 Requests for unplanned work will be considered against capacity to ensure that internal audit's independence is not compromised, and the resource required to provide the annual audit opinion is not compromised.
- 6.3 The **Audit and Risk Management Committee** will be responsible for approving any new and significant work that requires a revision to the approved plan. A budgeted provision of contingency days will be retained for responsive work that has an insignificant impact to the plan.
- 6.4 Where appropriate Internal Audit will place assurance on the work completed by other assurance providers.
- 6.5 Upon request from the Corporate Director & Chief Finance Officer, appropriate specialists, from areas other than Internal Audit, may be made available to take part in any audit or audit related project requiring specialist knowledge. Working papers will be quality assured for consistency.

7 Audit competencies & training

- 7.1 The effectiveness of the Internal Audit team depends significantly on the quality, training and experience of its staff. The team will maintain an appropriate mix of knowledge, skills, and competences, to deliver the audit plan.
- 7.2 The Internal Audit Manager will carry out a continuous review of the development and training needs of the Internal Audit team and will arrange training covering both internal and external courses. Specific resources will be devoted to specialised training as is deemed appropriate to support organisational priorities.
- 7.3 Training needs of individual staff members are identified, delivered, and monitored, through the Council's Springboard process. As well as basic training in audit techniques, and the acquisition of specialist audit skills, the Internal Audit team is committed to coaching and mentoring its staff, networking with other peer authorities, and to providing opportunities for appropriate professional development.
- 7.4 Internal auditors who work in the public sector must demonstrate ethical behaviour. The Internal Audit Manager will ensure that that the team is aware of:
 - CIPFA code of ethics
 - IIA code of ethics
 - Nolan Principles of Public Life

8 Audit reporting

- 8.1 For each audit, a brief will be prepared, discussed, and agreed with relevant managers. The brief will establish the objectives, scope and timing for the assignment and its resource and reporting requirements.
- 8.2 All audit work will be the subject of formal reports or working papers.
- 8.3 Communication of results will, where appropriate, contain internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion will take account of the expectations of the Corporate Management Team, the **Audit and Risk Management Committee**, other stakeholders, and will be supported by sufficient, reliable, relevant, and useful information. Communications will be accurate, objective, clear, concise, constructive, complete, and timely.
- 8.4 Draft reports will be sent to the managers responsible for the area under review for agreement of the factual accuracy of findings and audit recommendations.
- 8.5 Final reports will be issued to the Team Manager and Corporate Director for the area under review with copies sent to the Corporate Director and the Corporate Director & Chief Finance Officer. Reports will be issued by the Internal Audit Manager or reviewed by the Internal Audit Manager and delegated to the Internal Auditor completing the audit work.
- 8.6 In circumstances where it is not practical to report to the Line Manager because to do so may harm any further investigation or outcomes, then the Internal Audit Manager and Chief Finance Officer shall rely on their professional judgment and decide for the best interests of the Council whether to report matters internally, externally, and whether to inform the Chairman of the **Audit and Risk Management Committee**.
- 8.7 During consulting work, governance, risk management and control issues may be identified. Whenever these issues are significant to the Council, they will be communicated to the Corporate Management Team.

9 Quality assurance

- 9.1 The Internal Audit Manager shall ensure a review of completed audit assignments for quality against relevant professional standards and will implement any necessary action in response to any weaknesses identified. The Internal Audit Manager shall utilise appropriate targets and measures to steer performance and quality.
- 9.2 Periodic feedback shall be obtained from users in respect of individual audits and the service as a whole.
- 9.3 Periodic Quality Assurance of the effectiveness of Internal Audit shall be performed on a cycle that complies with professional standards. This will typically be an internal independent review, completed annually by the Corporate Director & Chief Finance Officer. An external assessment will be conducted once every five years by a qualified, independent assessor to verify compliance. The outcome of the review will be reported annually to **Audit and Risk Management Committee**.

10 Glossary of terms

The following glossary is for key terms used in the PSIAS, LGAN and the Internal Audit Charter

Term	Long name	Description
IIA	Institute of Internal Auditors	Global profession representing Internal Auditors
PSIAS	Public Sector Internal Audit Standards	Definition, Code of Ethics and Standards set by the IIA
LGAN	CIPFA Local Government Application Note	Sector specific guidance to supplement the PSIAS, authored by CIPFA.
RIASS	Relevant Internal Audit Standard Setters	The professional bodies responsible for providing codes of practice to supplement the PSIAS
CIPFA	Chartered Institute of Public Finance & Accountancy	Public Sector RIASS for Local Government.
Board	Audit and Risk Management Committee	The Committee responsible for Corporate Governance as defined by the Code of Governance and the Council Constitution.
Senior management	Corporate Management Team	The Managers of the Council.
CAE	Chief Audit Executive	The post-holder responsible for the day to day management of the Internal Audit team. At FDC the post is called the Internal Audit Manager.
Assurance	Na	The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the Internal Audit Manager to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.
Consulting	Na	Consulting services are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.