Internal Audit Charter

Introduction

The Accounts and Audit Regulations 2015 require the Council to have effective internal audit that evaluates the effectiveness of the Council's risk management, control and governance processes, taking into account the Public Sector Internal Audit Standards and associated guidance.

In accordance with the Public Sector Internal Audit Standards, this Internal Audit Charter sets out the purpose, authority and responsibility of the Council's internal audit service. The Charter will be reviewed annually and presented to the Audit Committee for approval.

Purpose and Mission

The purpose of the Council's internal audit service is to provide independent, objective assurance and consulting services designed to add value and improve the Council's operations.

The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The internal audit service helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Standards for the Professional Practice of Internal Auditing

The internal audit service will govern itself by adherence to the mandatory elements of the Public Sector Internal Audit Standards, including the Core Principles, the Code of Ethics, the Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Head of Internal Audit will report periodically to the Corporate Leadership Team and the Audit Committee regarding the internal audit service's conformance to the Code of Ethics and the Standards.

Authority

The Head of Internal Audit will report functionally to the Audit Committee on a quarterly basis and administratively (i.e. day-to-day operations) to the Director of Finance, Procurement and Audit and has direct access to the Council's S151 Officer. In addition, and to support the independence of the Head of Internal Audit, the Chair of the Audit Committee will be invited, at least annually, to contribute to the annual performance review of the Head of Internal Audit.

To establish, maintain, and assure that the Council's internal audit service has sufficient authority to fulfil its duties, the Audit Committee will:

- Approve the internal audit charter.
- Approve the risk-based internal audit and anti-fraud plan.
- Approve the internal audit resource plans.
- Receive communications from the Head of Internal Audit on the service's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Head of Internal Audit to determine whether there is inappropriate scope or resource limitations.
- Ensure and authorise the Head of Internal Audit to have unrestricted access to, and communicate and interact directly with, the Council's statutory officers as well as all other members of the Corporate Leadership Team, the Audit Committee and the Mayor including in private meetings without management present.
- Ensure and authorise officers from internal audit and anti-fraud to have full, free, and unrestricted access to all functions, records (including electronic records), property, assets, and personnel pertinent to carrying out any engagement and/or investigation, subject to accountability for confidentiality, data protection and safeguarding of records and information.
- Ensure internal audit is allocated sufficient resources and is free to select any service, project or topic for audit; set the frequency of audits; determine the scope of its work and issue reports.
- Ensure officers from internal audit and anti-fraud are able to obtain assistance from the necessary personnel of the Council, as well as other specialised services from within or outside the Council, in order to complete their engagements and/or investigations.

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Independence and Objectivity

The Head of Internal Audit will ensure that the internal audit service remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Head of Internal Audit determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties including the Audit Committee.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

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

- Assessing specific operations for which they had responsibility within the previous 12 months.
- Performing any operational duties for the Council, its companies, partnerships or similar arrangements.
- Initiating or approving transactions external to the internal audit, anti-fraud, risk and/or insurance departments.
- Directing the activities of any Council employee not employed by internal audit, anti-fraud, risk or insurance departments except to the extent that such employees have been appropriately assigned to those departments or to otherwise assist the staff employed within them.

Where the Head of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Current Additional Responsibilities and Safeguards

The Head of Internal Audit currently holds responsibility for the Anti-Fraud, Risk and Insurance departments. To safeguard independence and objectivity each department will be independently reviewed and/or audited by a third party at least every three years or more frequently if required. Each review/audit will be sponsored by an appropriate Corporate Director and the outcomes will be reported to senior management and the Audit Committee.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Head of Internal Audit will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit service.

The Head of Internal Audit will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating the results.

Scope of internal audit activities

The scope of internal audit activities encompasses, but is not unduly limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, senior management, and appropriate outside

parties on the adequacy and effectiveness of governance, risk management, and control processes for the Council including any wholly or part owned/controlled companies, partnerships or similar arrangements.

Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed.
- The actions of the Council's members, employees, temporary staff and contractors are in compliance with the Council's policies, procedures, and applicable laws, regulations and governance.
- The results of operations, projects and/or or programmes are consistent with established goals and objectives.
- Operations, projects and/or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Council.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Head of Internal Audit will report periodically to senior management and the Audit Committee regarding:

- The internal audit service's purpose, authority, and responsibility.
- The internal audit service's plan and performance relative to its plan.
- The internal audit service's conformance with the relevant Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the Council.

Coordinating Activity

To avoid duplication and maximise assurance for the Council, the Head of Internal Audit will coordinate activities, where appropriate/possible, and will consider relying upon the work of other internal and external assurance and consulting service providers.

Consulting and Advisory Services

The internal audit service may perform consultancy and/or advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit service does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management. The outcome of consultancy and/or advisory services may be used by the Head of Internal Audit to inform the annual opinion.

Scope of Anti-Fraud, Risk and Insurance activities

The Head of Internal Audit currently holds responsibility for the Anti-Fraud, Risk and Insurance departments. The broad responsibilities of these departments includes, but is not unduly limited to, the following:

- To promote an anti-fraud culture within the Council that aids the prevention and detection of fraud and similar crimes such as theft and corruption.

- To investigate allegations of fraud and similar crimes affecting the Council and its customers and report the outcome of those investigations to senior management and the Audit Committee as required.

- To promote and facilitate effective Risk Management.

- To promote and facilitate adequate insurance arrangements for the Council's employees and assets.

The Head of Internal Audit will report periodically to senior management and the Audit Committee regarding:

- Progress and results of anti-fraud activity and investigations (at least quarterly).

- Progress and results of work on Fraud Prevention and National Fraud Initiative (NFI) activities and co-ordination.

- Risk Management activity including, when appropriate, corporate and divisional risk registers and the Council's risk strategy (at least quarterly).

- Insurance activity (at least annually).

Responsibility

The Head of Internal Audit has the responsibility to:

- Submit, at least annually, to senior management and the Audit Committee a risk-based internal audit and anti-fraud plan for review and approval.
- Communicate to senior management and the Audit Committee the impact of resource limitations on the annual plan.
- Review and adjust the annual plan, as necessary, in response to changes in the Council's business, risks, operations, programmes, systems, and controls.

- Present an annual report to senior management and the Audit Committee that provides an overall opinion of the Council's governance, risk management and control processes.
- Communicate to senior management and the Audit Committee any significant changes to the annual plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable observations, conclusions and agreed management actions to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit service collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter, annual plan and/or individual engagements.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit activity.
- Ensure adherence to the Council's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committee.
- Ensure the internal audit service's conformance with the Public Sector Internal Audit Standards, with the following qualification:
  - If the internal audit service is prohibited by law or regulation from conformance with certain parts of the Standards, the Head of Internal Audit will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.

Quality assurance and improvement programme

The internal audit service will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit services conformance with the Public Sector Internal Audit Standards and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit service and identify opportunities for improvement.

The Head of Internal Audit will communicate to senior management and the Audit Committee on the internal audit service's quality assurance and improvement programme, including results of annual internal assessments and external assessments which will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council.

Last approved by the Audit Committee on 1st December 2021

Glossary

Definition of Internal Auditing

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.

Assurance services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the Council. Examples may include financial, performance, compliance, system security and due diligence engagements.

Advisory and Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve the Council's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include advice, facilitation and training.

Senior Management

For the purposes of this charter and the Public Sector Internal Audit Standards the Corporate Leadership Team are defined as 'Senior management'.

The Board

For the purposes of this charter and the Public Sector Internal Audit Standards the Audit Committee are defined as 'The Board'.

Public Sector Internal Audit Standards

The Public Sector Internal Audit Standards are mandatory for local authorities. The standards, which are based on the mandatory elements of the International Professional Practices Framework (IPPF) of the Global Institute of Internal Auditors (IIA), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.

Governance

The combination of processes and structures implemented by the Council to inform, direct, manage and monitor the activities of the Council toward the achievement of its objectives

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the Council's objectives.

Control

Any action taken by management and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Code of Ethics

The Code of Ethics of the Institute of Internal Auditors (IIA) are principles relevant to the profession and practice of internal auditing and Rules of Conduct that describe behaviour expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing

Overall opinion

The rating, conclusion, and/or other description of results provided by the Head of Internal Audit addressing, at a broad level, governance, risk management, and/or control processes of the organisation. An overall opinion is the professional judgment of the Head of Internal Audit based on the results of a number of individual engagements and other activities for a specific time interval.