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# Internal Audit Charter

Approval Date: 25 September 2018

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Owner: Internal Audit Manager

## **1. INTRODUCTION**

This document sets out the role, responsibility, status and authority of internal auditing within Erewash Borough Council. It establishes terms of reference and assists in developing the strategy for the internal audit service.

The document will be reviewed annually, agreed with the Section 151 Officer and any changes reported to the Audit Committee for approval.

## **2. MISSION STATEMENT**

To enhance and protect Erewash Borough Council's organisational value by providing risk-based and objective assurance, advice and insight.

## **3. PURPOSE**

The internal audit service has been established to:

- a) provide independent, objective assurance to the council on its operations;
- b) add value, by assisting management to improve the delivery of the council's objectives and operations through evaluating and challenging the effectiveness of risk management, control and governance processes.

## **4. REGULATORY BASIS**

The authority of the internal audit function is derived from legislation and is provided by the Internal Audit Section within the Resources Directorate. The service assists the council's Section 151 Officer (Director of Resources) in the discharge of his statutory responsibilities within the Local Government Act 1972 for ensuring the proper administration of the council's financial affairs.

The Accounts and Audit Regulations 2015 require the council 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.

## **5. RESPONSIBILITIES**

Internal Audit has adopted the 10 core principles for the professional practice of internal auditing, which are:-

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives and risks of the organisation.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.

9. Is insightful, proactive, and future-focused.
10. Promotes organisational improvement.

The Internal Audit Manager is responsible for determining the scope of internal audit work and for reporting on the outcome of its work to the appropriate tiers of management. Internal Audit will independently review, appraise and report on:

- a) the soundness, adequacy and application of internal controls;
- b) the extent to which the council's assets and interests are accounted for and safeguarded from losses of all kinds arising from:
  - fraud and other offences;
  - waste, extravagance, inefficient administration, poor value for money and other cause;
- c) the suitability and reliability of financial and other management data developed within the council;
- d) the extent of compliance with the council's Local Code of Corporate Governance.

Internal Audit also has access to joint working arrangements delivered by means of an ongoing agreement that exists with Broxtowe Borough Council for support on specified assignments and general audit management where appropriate skills, experience and resources are required. The council's own Internal Auditors may also undertake reciprocal audit work on behalf of Broxtowe Borough Council thereby making the best use of audit resources and co-ordinating work plans.

Internal Audit will administer and coordinate the council's risk management processes thereby supporting management in making its assessment of risk. In addition information gathered during the course of internal audit work will be shared to enhance management's understanding of the risks to the council and the financial and operational controls in place to manage them.

With the exception of the coordination of the risk management function, which will be audited independently, Internal Audit is not responsible for any of the activities which it audits. Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the council. Management is also responsible for the appropriate and effective management of risk.

## **6. AUTHORITY AND CONFIDENTIALITY**

The authority for Internal Audit (as set out in the legislation outlined in Section 4) is documented and defined within the council's Constitution and Financial Regulations. Internal Audit's remit extends across all areas of the Council.

The objectivity, impartiality, integrity and conduct of all Internal Audit staff must be above reproach at all times. Internal Audit staff are responsible for conducting work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Chartered Institute of Internal Auditors. All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for the conduct of this work. The Internal Audit Manager and individual internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

Internal audit work shall be carried out with due regard to all relevant professional standards. This requires compliance with the Public Sector Internal Audit Standards (PSIAS). The Internal Audit Manager will operate a quality assurance and improvement programme which monitors the on-going performance of internal audit activity and periodically assesses compliance with the PSIAS. This process will include both internal and external assessments. Non-conformance with the PSIAS shall be identified and reported annually to Audit Committee.

Internal Audit is responsible for operating under the policies determined by the council and supporting the values set out in its Corporate Plan. Internal Audit staff will make themselves familiar with the published regulations of the council, particularly the Council Constitution, Financial Regulations and Contract Procedure Rules, and conduct themselves in accordance with the council's Employee Code of Conduct. In addition to these requirements, disclosures of interest must also be formally reported to the Internal Audit Manager and, in the case of the Internal Audit Manager, to the Section 151 Officer.

Internal Audit will not assume responsibility for the design, operation or control of any procedures. Members of the team who have previously worked for the council in another capacity will not be asked to review any aspects of their previous section's work until at least two years has passed. Systems work will also be rotated subject to operational constraints. Staff skills and training requirements will be considered, in the context of this strategy and internal audit service plans, as part of the Employee Development and Performance Review process.

Internal Audit staff will be required to ensure that audit work is in accordance with the standards, practices and procedures as set out in the internal audit manual.

## **7. SCOPE OF INTERNAL AUDIT WORK**

Independence is essential to the effectiveness of the internal audit service; so it will remain free from interference in all regards. This shall include, but not be limited to matters of audit selection, scope, procedure, frequency, timing or report content. Internal Audit staff engaged on audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities, from both members and officers of the council. Internal Audit may, with accountability for safeguarding records and information, have access at all times to such documents, assets, records and premises of the council which appear to be necessary for the purpose of the audit. Internal Audit are also able to review the arrangements of any aspect of service delivery, finance or governance irrespective of whether those arrangements are provided directly or indirectly (via partnerships, contractually or any other business arrangement).

Internal audit work will normally include, but is not restricted to:

- a) reviewing the integrity of financial and operating information (and the means used to identify, measure, classify and report such information);
- b) reviewing the adequacy and effectiveness of controls in new and existing systems, ascertaining whether operations are consistent with objectives and appraising the risks associated with areas under review and proposing improvements;

- c) appraising the effectiveness of the risk management framework and recommending improvements where necessary;
- d) assisting management and members to identify risks and controls with regard to the objectives of the council and its services;
- e) reviewing and reporting on the systems established by management to ensure compliance with those policies, procedures, laws and regulations which could have a significant impact on operations;
- f) reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- g) appraising the economy, efficiency and effectiveness with which resources are employed and promoting best practice;
- h) providing at the specific request of management, investigative and consultancy services, in particular advice on the prevention and detection of fraud and waste within council systems provided:
  - the internal auditors independence is not compromised;
  - the necessary skills to carry out the assignment are available, or can be obtained without undue cost or delay;
  - the scope of the consultancy assignment is clearly defined and there are adequate resources identified within the annual audit plan;
  - management understand that the work being undertaken is not internal audit work.
- i) developing and promoting a counter-fraud culture within the council by:
  - being alert to risks and exposures that could allow fraud or corruption and to indications that fraud and corruption may have been occurring;
  - undertaking and participating in data matching;
  - determining the most appropriate method of investigating allegations;
  - considering the implications of all suspected or detected fraud, corruption or impropriety (and putting in place arrangements to ensure all such cases are notified to the Internal Audit Manager as the Section 151 Officer's nominee) and any impact for the opinion on the adequacy of the relevant controls and the overall internal control environment.

## **8. RELATIONSHIP WITH THE EXTERNAL AUDITORS/OTHER REGULATORY BODIES**

Internal Audit will co-ordinate its work with other assurance providers (External Audit, inspectorates etc.) wherever this is beneficial to the council. In particular the Internal Audit Manager shall plan activity so that there is adequacy of audit coverage and to minimise duplication of assurance effort.

Where the council works in partnership with others to deliver services Internal Audit will consider the adequacy of the governance arrangements and assurance frameworks in place.

## **9. STATUS OF INTERNAL AUDIT IN THE ORGANISATION**

The Internal Audit Manager is line managed by the Head of Finance but has unfettered access to report directly to the Director of Resources, who is a member of the Corporate Management Team. However to further ensure the organisational independence of the function the Internal Audit Manager has the unreserved right to report as necessary directly to the Chairman of the Audit Committee and the Audit Committee, as those charged with governance of the council.

## **10. PLANNING AND REPORTING**

The budget is determined by the council and is based on an audit needs assessment which is completed by the Internal Audit Manager annually. If the Internal Audit Manager or Audit Committee considers that the scope of internal audit work is limited by resource then they should report to council accordingly.

Following consultation with the Section 151 Officer and the Corporate Management Team the Internal Audit Manager will submit for approval by the Audit Committee, an annual internal audit plan, setting out the work coverage for the financial year. The annual plan will be developed and prepared using a risk based methodology and needs assessment which considers the council's objectives and risks.

Internal Audit will identify and address key local and national issues through the corporate risk management system and by undertaking appropriate professional networking.

Internal Audit will report quarterly to the Audit Committee, providing a summary of their findings from each audit along with an opinion on the control environment and advising of any higher risk recommendations not implemented within agreed timescales. Internal Audit will also provide an annual report to the Audit Committee summarising the performance of the function and giving an overall internal audit opinion on the adequacy and effectiveness of the council's framework of governance, risk management and control. The opinion will be based not only on internal audit work conducted but may draw upon other forms of assurance where these are available. This work will contribute to and inform the Annual Governance Statement and also assist the Audit Committee in fulfilling its terms of reference.

Internal Audit will carry out work as agreed, report the outcome and findings, and make recommendations on the action to be taken to the appropriate senior manager and Director. Internal Audit will also monitor the implementation of recommendations by management.

Internal audit reports will normally be issued as draft reports to the relevant managers of the service(s) within ten working days of the completion of the audit.

The relevant managers of the service(s) are expected to provide a response and timescale for corrective action to address each recommendation made in the draft audit report. Internal Audit will ensure that each response is signed off by the responsible manager prior to issuance of the report.

Internal Audit will issue a final report incorporating the management responses, within ten working days of receipt of responses. The report will also be issued to the Director of Resources and any other Director with responsibility for the system under review.

In addition to the internal reporting lines outlined above and in Section 9, the Internal Audit Manager may also report directly to the Chief Executive.