



# **INTERNAL AUDIT CHARTER**

## **September 2016**

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## Introduction

1. The purpose of this Charter is to establish the terms of reference for the Internal Audit service and outline how the service will be delivered and developed through its Audit Strategy.
2. The Charter has been developed to support the entire internal control environment requirements of Arun District Council.

## Statutory Basis

3. The Council is responsible for the provision of an Internal Audit function under the Accounts and Audit Regulations 2015, which states 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.*” Since 1<sup>st</sup> April 2013, the relevant mandatory standards for local authorities are CIPFAs Public Sector Internal Audit Standards (PSIAS).
4. Our statutory responsibility and rights of access are included in the Council’s Financial Regulations which are part of the Council’s Constitution.

## Strategy Statement

5. Our overall strategy is to deliver a risk-based audit plan in a professional, independent manner, to provide the Council with an opinion on the level of assurance it can place upon the entire internal control environment and to make recommendations to improve it.

This is in line with the Mission Statement included in the PSIAS from 1<sup>st</sup> April 2016 which is “*To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.*”

## Objectives and Outcomes of Internal Audit

6. The standard definition of internal auditing (adopted by both the Chartered Institute of Internal Auditors and CIPFA) is that:-  
“*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.*”
7. Our primary objective is to provide assurance on the effectiveness of the Council’s entire internal control environment to Officers and Members by giving an independent and objective annual opinion. This specific responsibility supports the Council’s Annual Governance Statement, which accompanies the Council’s published annual Statement of Accounts.

8. We objectively examine, evaluate and report on the adequacy of the entire internal control environment as a contribution to the proper, economic and efficient use of resources.

9. Other objectives include:-

- supporting the Section 151 Officer (Chief Finance Officer) in discharging his statutory duties
- supporting the Council's Monitoring Officer to deliver good governance arrangements
- supporting the Council's Corporate Plan objectives and performance management framework
- supporting Officers and Members in understanding exposure to risk and the effectiveness of controls established to manage those risks
- raising awareness of the Council's anti-fraud culture and ensuring that all suspected fraud and irregularities are reported and properly investigated, in accordance with the section's approved and published Fraud Response Plan
- providing quality services through the highest standards of professional practice, quality assurance systems and investment in staff.

10. Our service outcomes include:-

- detailed reports arising from reviews of the entire system of internal control containing, where necessary, recommendations to managers to improve controls
- comprehensive fraud prevention/detection measures and raised awareness of the special responsibility the Council has for maintaining the highest possible standards in its management of public funds
- advice and assistance during the development of current corporate initiatives
- other general advice and assistance to officers throughout the Council, regarding best practice, probity issues, systems development and internal control. Areas of best practice are communicated to Members and Service area managers through the issue of reports and notification of work carried out by the Council's appointed external auditors, Government agencies or other regulatory/advisory bodies that may help them improve the services they provide.

## **Independence of Internal Audit**

11. The Council's internal audit work is provided by the Internal Audit section of Finance, reporting operationally through the Head of Finance & Property to the Resources Director & Deputy Chief Executive. The section also has a direct responsibility to support the work of, and report to, 'those charged with governance' (also referred to as the 'board' in the relevant Standards), with the Council's Audit & Governance Committee being the designated body for this purpose.

12. Internal Audit's role applies to all functions and services for which the Council is responsible, including those delivered by its partners where appropriate.

13. To be effective, Internal Audit must operate independently and we have unrestricted access to all records deemed necessary in the course of our work.

14. We have a right of access to all Members, employees, and agents of the Council, including direct access to the Chief Executive.

15. The Chief Internal Auditor can report directly to those charged with governance, officers or Members, at any level.

16. We have a right of access to all information relevant to the Council's functions and services, which is necessary to meet our responsibilities. This includes Council information held by, or managed by, third parties under contract on the Council's behalf.

17. Our independence is achieved by reporting in our own name, ensuring that all internal auditors are free from any conflicts of interest and being free from direct management responsibility for non-audit operational areas, including the development, implementation or operation of systems.

## **Scope of Audit Work**

18. Our role applies to all functions and services for which the Council is responsible and to the entire internal control environment.

19. All audit activity is intended to assist managers fulfil their objectives of delivering services and contributing to the overall objectives of the Council.

20. In addition to the regular review of key systems of internal control, financial and operational, which forms the bulk of our assurance work, we will:-

- respond to requests for support, advice and guidance on implementing and/or improving best practice control procedures for current and new systems
- provide support, advice and guidance on risk and controls to staff involved in the design and implementation of new systems and processes
- provide assistance on key projects, including attendance on project boards, and conduct specialist consultancy and value for money reviews. The scope of such consultancy work is agreed with management and is subject to having the necessary resources, skills and ensuring our independence and objectivity is not affected. Should there be a requirement for a significant consulting activity, which is not in the agreed annual plan and will impact on the amount of assurance work to be undertaken, then approval for this will be sought in advance from the Audit & Governance Committee
- be alert in all our work to risks and exposure that could allow fraud or corruption to occur and to any indications that a fraudulent or corrupt practice may have been occurring
- determine the most appropriate course of action by which fraud and irregularities should be investigated
- review the effectiveness of the Council's (and wherever possible, its partners') corporate governance and risk management arrangements.

21. It must be noted that, whilst Internal Audit will promote the Council's counter-fraud policy to deter and prevent fraud, for example participating in the National Fraud Initiative, it does not have responsibility for the prevention and detection of fraud and corruption. We cannot guarantee that fraud or corruption will be detected in our work. Managing the risk of fraud and corruption is the responsibility of managers.

## **Audit Planning**

22. The level of Internal Audit resources required to examine all of the Council's activities exceeds those available each year. It is, therefore, essential that the work of Internal Audit is properly planned to ensure that maximum benefit is gained from the independent appraisal function which Internal Audit provides.

23. Each year we prepare a risk-based plan, in consultation with senior management, which takes into account the Council's published Priorities/objectives and the adequacy/outcomes of the Council's risk management, performance and assurance frameworks.

24. This plan also considers any potential coverage by external audit and we have a joint working protocol in place to ensure we make the best use of the combined audit resources, wherever possible seeking to place reliance on each other's work and co-ordinating work plans.

25. The annual plan is a flexible document, rather than an absolute expression of audit coverage, to enable the service to respond to changing risks and priorities.

26. The preparation of the annual plan will also consider any strategic objectives of the service, in relation to delivering any commitments or undertaking certain reviews at particular frequencies to fulfil statutory requirements.

27. Annual plans are approved and monitored by the Audit & Governance Committee.

28. We will plan the scope of each audit in discussion with the relevant Service Manager/key contact prior to the start of each review and will confirm details agreed in written terms of reference. Timing of audit work will normally be planned in conjunction with management to minimise abortive work and time (e.g. due to unavailability of key staff) but, in certain circumstances, unannounced visits may be undertaken.

## **Audit Reporting**

29. All audit assignments will be the subject of formal reports and include an audit opinion.

30. Our reporting structure is designed to ensure that final versions of reports are agreed with managers and are both accurate and practical.

31. Towards the end of an audit we will arrange an exit meeting with the key contact where we will share and discuss our initial findings. If this is not practical, we will issue an informal draft report to the key contact which will set out our initial findings.

32. The purpose of the exit meeting/informal draft stage is to give feedback and to eliminate any inaccuracies in our findings, so that these can be resolved before a formal draft report is issued.

33. Draft reports will ask the key contact to provide a management response to the recommendations made and to agree target implementation dates and responsible officer.

34. To assist managers in their response we categorise our recommendations as follows:-

High: Major issues that pose significant risk to the Council and that we do not consider to be controlled to an acceptable level and as such, need to be brought to the attention of senior management and urgently addressed

Medium: Important issues that pose some risk to the Council that with the improvement of controls should be controlled to an acceptable level and which should be addressed by management in their areas of responsibility

Low: Detailed problems of a minor nature that we were able to resolve through discussion with responsible officers.

35. It is the responsibility of managers to accept and implement Internal Audit findings and recommendations, or accept the risk resulting from not taking action.

36. We also provide an overall assurance opinion on each audit review to help us inform our overall opinion, required to support the Council's Annual Governance Statement. We categorise our opinion for individual audits, and overall in the Internal Audit Annual Report & Opinion, as:-

**Full Assurance**

There is a sound system of control in place & those controls are consistently applied & are fully effective. Control objectives are fully met.

**Substantial Assurance**

There is a sound system of control in place but some of the controls are not consistently applied or fully effective. Control objectives are largely achieved.

**Moderate Assurance**

There is basically a sound system of control in place, but there are weaknesses and evidence of non-compliance with or ineffective controls. Control objectives are often achieved.

**Limited Assurance**

The system of control is weak & there is evidence of noncompliance with controls that do exist. Control objectives are sometimes achieved.

**No Assurance**

There is no system of control in place and control objectives are rarely or never achieved.

37. Managers responses to recommendations made in draft reports will be incorporated and reissued as finals. Copies of all final reports will be provided to the relevant Head(s) of Service and to the Chief Executive and appropriate members of the Corporate Management Team (referred to as 'senior management' in the appropriate Standards). Copies of appropriate reports will also be shared with the Council's external auditors.

38. Wherever possible, the circulation of audit reports will be agreed at the outset and will have due regard to confidentiality and legal requirements. Any information gained in the course of audit work remains confidential without limiting or preventing Internal Audit from meeting its reporting responsibilities to the wider organisation.

39. We will follow-up progress made by managers on the implementation of all recommendations.

40. We will report quarterly to the Audit & Governance Committee and Corporate Management Team on progress made on delivering our annual plan.

41. Member involvement in the process is a critical element in the audit reporting framework, in that information is provided to support the effective working of the Audit & Governance Committee. We report the following to the Audit & Governance Committee:-

- **Annual Audit Plan**

- **Quarterly Internal Audit Progress reports:-**

- a) To consider progress against plan
- b) To inform Members of significant issues arising from audit assurance work and the impact this may have if control weaknesses identified are not addressed
- c) To inform of other audit work where a report has not been issued

- **Annual Report & Opinion to:-**

- a) Compare actual activity with planned work
- b) Provide an overall opinion on the control environment
- c) Provide a summary of work undertaken to formulate the annual opinion on the entire control environment, including reliance placed on work by other assurance bodies
- d) Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement
- e) To consider progress made by managers in the implementation of audit recommendations.

## **Responsibilities of Managers**

42. Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the service, its reputation and independence.

43. We strive to build effective working relationships with all our stakeholders, internal and external, by encouraging an environment of mutual trust, confidence and understanding.

44. A key relationship is with managers. Managers at all levels need complete confidence in the integrity, independence and capability of Internal Audit.

45. Managers' role is to manage the risks facing their service and to maintain an adequate and effective system of internal control to mitigate these risks. Managers are also

responsible for ensuring that staff are aware of the processes and procedures required to operate the control systems in place.

46. We encourage managers to maximise the effectiveness of the outcome of Internal Audit work by:-

- commenting on, and inputting to, the annual audit plan
- agreeing terms of reference for each audit assignment, to ensure attention is focused on areas of greatest risk or concern
- giving information and explanations that are sought during audit reviews
- providing access at all reasonable times to premises, personnel, documents and assets as necessary
- giving early notification of plans for change, including potential new initiatives, operational systems and processes
- ensuring key contacts provide responses to draft audit reports within the required timescales
- ensuring agreed actions arising from audit recommendations are carried out efficiently and on a timely basis
- notify Internal Audit of any suspected fraud, irregularity, improper use or misappropriation of the Council's property or resources
- pending investigations and reporting, take all responsible steps to prevent further loss and to secure records and documents against removal or alteration
- acting in line with the Council's disciplinary procedures.

## **Relationship With the Audit & Governance Committee**

47. The Council has adopted best practice in implementing an audit committee (the Audit & Governance Committee). This committee is independent of the Executive function, and reports directly to the Council on matters it feels are relevant. Terms of reference, reflecting best practice, have been agreed by Full Council.

48. The existence of an independent and effective Audit & Governance Committee helps to convey to staff and the public the importance Members and Officers attach to internal control.

49. The Audit & Governance Committee is not just the concern of auditors, as it has responsibility for ensuring that the Council has good corporate governance arrangements in place to help deliver the best services to support the Council's Priorities, aims and objectives and ensure excellent use of resources.

50. Internal Audit is one of a number of areas of assurance that contribute to the Council's corporate assurance framework. It does this by providing an opinion on the level of assurance the Council can place upon the entire internal control environment and by making recommendations to improve it. This includes Internal Audit's evaluation of the effectiveness of the Council's risk management and corporate governance arrangements.

51. It is important that the Council seeks independent assurance about the mechanisms underpinning the various aspects of governance and one of the responsibilities of the Audit & Governance Committee is to review the effectiveness of Internal Audit.

## **Audit Resources, Skills and Service Quality**

52. In order for Internal Audit to demonstrate high standards of professional conduct, the internal auditor must be impartial in discharging all responsibilities. Bias, prejudice or undue influence must not be allowed to limit or override objectivity.

53. The service operates with reference to standards of best professional practice applicable to internal audit, in particular the CIPFA Public Sector Internal Audit Standards and the Chartered Institute of Internal Audit Standards (the mandatory elements of which are the basis for the PSIAS). These codes are identified as representing 'proper practices in relation to internal audit' and govern the way in which we operate. Policies and standard working practices have been put in place to ensure audit staff understand and comply with the codes.

54. In addition, the Council recognises and formally adopts the Code of Ethics (as contained in both the CIIA Code of Professional Conduct and the PSIAS) as appropriate standards by which the conduct of the Internal Audit Section can be measured. Regard is also had to the Committee on Standards in Public Life's 'Seven Principles of Public Life'.

55. The service is provided by Arun District Council's in-house Internal Audit team. The staffing structure will as far as possible be comprised of a suitable mix of qualifications, experience and skills. In compliance with CIPFA's 'The Role of the Head of Internal Audit', the Chief Internal Auditor is required to be professionally qualified and suitably experienced.

56. The Chief Internal Auditor ensures internal audit resources are sufficient to meet its responsibilities and achieve its objectives. Resource requirements are reviewed annually in relation to draft annual audit plans. Resources will be considered in terms of available days and the skills and experience of audit staff. Any gaps in resource requirements considered necessary to deliver proposed annual plans will be referred to the Section 151 Officer (Head of Finance & Property) and the Audit & Governance Committee for consideration.

57. Individual training needs are identified in accordance with the Council's Performance Development Review scheme. As well as basic training in audit techniques and the development of specialist skills, the service is committed to coaching and mentoring its staff and to providing opportunities for achieving a relevant professional qualification and for continuous professional development (CPD).

58. Internal audit work is conducted to a risk-based methodology, in line with relevant Standards and best practice, and subject to quality assurance checking through management review of working papers and reports, prior to release.

59. Internal Audit maintains its awareness of national and local issues through membership and subscription to professional bodies such as CIPFA's Technical Information Service (TIS Online), the Better Governance Forum (BGF) and the Chartered Institute of Internal Auditors, as well as liaison with external audit and networking with other internal audit services via the Sussex Audit Group (SAG) and others.

60. The following suite of performance indicators and targets has been developed to monitor the quality of the service performance:-

- Annual Audit Plan – chargeable days, actual against planned
- Annual Audit Plan – utilisation rate of chargeable days against days available, excluding leave and sickness
- Annual Audit Plan – audit assignment days against total chargeable days
- Audit operating costs per chargeable day.

Annual target values are assessed against resources, as part of the preparation of the annual Audit Plan, and included in the Internal Audit Annual Report & Opinion for agreement by the Committee.

61. Performance against these indicators is reported on an annual basis to the Audit & Governance Committee. (These, and other relevant measurements, will also be used as part of an annual benchmarking exercise undertaken among the participating members of SAG).

62. In addition, measures are taken to capture user satisfaction and to drive continuous service improvement. This may be by means of an overall annual satisfaction survey issued to Council management or a specific individual survey issued at the completion of an audit assignment. User satisfaction feedback is monitored and reported annually to the Audit & Governance Committee.

63. External review of the quality of the service takes place through:-

- the Council's external auditor. This review incorporates compliance with the PSIAS and the extent to which external audit can rely on the work of Internal Audit as part of the statutory external audit of the Council's accounts
- the Audit & Governance Committee's annual assessment as to whether adequate skills and resources are available to provide an effective Internal Audit service.

64. An annual internal effectiveness review is also undertaken by key senior officers and reported to the Audit & Governance Committee. This fulfils the requirements of the Accounts and Audit Regulations 2015.

65. In order to meet the Quality Assurance and Improvement Programme requirements of the International Professional Practice Framework (IPPF) of the Institute of Internal Auditors:-

- an annual internal quality assessment is also performed to ensure that the organisation, management and practice of internal audit within the Council is in line with the mandatory aspects of the framework and this is reviewed by both the Corporate

Management Team ('senior management') and the Audit & Governance Committee ('the board')

- an external assessment must be conducted at least once every 5 years by a qualified, independent assessor/assessment team from outside the organisation. The scope of such an assessment will be agreed with the Audit & Governance Committee, the results reported to them and the implementation of any agreed improvements monitored/reported.

66. In 2016, the PSIAS was updated to include the Core Principles for the Professional Practice of Internal Auditing (as already contained in the IPPF). Taken as a whole, these articulate internal audit effectiveness and should all be present and operating effectively. The operation of the Council's Internal Audit section (as per this Charter) is in line with these 10 principles, subject to the quality assessment process noted above:-

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategic, objectives and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive and future-focused
- Promotes organisational improvement.

## **Approval and Review**

67. The Chief Internal Auditor will annually review this Charter to ensure that it is kept up to date and fit for purpose. Any amendments will be reported to the Audit & Governance Committee for approval. A copy of the Charter will be made available on the Council's intranet and website.

## **Key Contact**

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## **Other Related Documents**

69. Other related documents that should be read in conjunction with this Charter are the Council's:-

- Code of Corporate Governance
- Constitution – Financial Procedure Rules
- Constitution – Codes of Conduct
- Anti-Fraud, Corruption & Bribery Policy
- Confidential Reporting Code (Whistleblowing Policy)
- Fraud Response Plan.