

# **INTERNAL AUDIT CHARTER**

## **Introduction**

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the Internal Audit Manager's functional reporting relationship with the 'board'; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the 'board'.

Internal Audit is a statutory requirement for local authorities. The two pieces of legislation that impact upon internal audit in local authorities are:

- Section 5 of the Accounts and Audit (Wales) Regulations 2015 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".
- Section 151 of the Local Government Act 1972 requires every authority to make arrangements for the administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs. CIPFA has defined 'proper administration' in that it should include 'compliance with the statutory requirements for accounting and internal audit'.

Public Sector Internal Audit Standards (PSIAS) published in 2013 and updated in 2016 provide a definition, mission and core principles for internal audit and the activity and standards that must be met. They include a Code of Ethics which Internal Auditors must conform to, covering integrity, objectivity, confidentiality and competency. They are mandatory for all internal audit departments in the UK public sector.

PSIAS state that the charter must:

- Define the terms 'board' and 'senior management' for the purposes of internal audit activity;
- Cover the arrangements for appropriate resourcing;
- Define the role of internal audit in any fraud related work; and
- Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

## **Mission and Definition of Internal Audit**

The PSIAS state that the Mission of Internal Audit is 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'. Internal auditing is defined as '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.'

It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. It may also undertake consulting services at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources.

## **Code of Ethics**

Anyone delivering internal audit work for the Council must comply with the PSIAS Code of Ethics. This covers:

Integrity	<p>The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.</p> <p>Internal Auditors:</p> <ul style="list-style-type: none"><li>- Shall perform their work with honesty, diligence and responsibility</li><li>- Shall observe the law and make disclosures expected by the law and the profession</li><li>- Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation</li><li>- Shall respect and contribute to the legitimate and ethical objectives of the organisation</li></ul>
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Objectivity	<p>Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.</p> <p>Internal Auditors:</p> <ul style="list-style-type: none"> <li>- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation</li> <li>- Shall not accept anything that may impair or be presumed to impair their professional judgement</li> <li>- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review</li> </ul>
Confidentiality	<p>Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.</p> <p>Internal Auditors:</p> <ul style="list-style-type: none"> <li>- Shall be prudent in the use and protection of information acquired in the course of their duties</li> <li>- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation</li> </ul>
Competency	<p>Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.</p> <p>Internal Auditors:</p> <ul style="list-style-type: none"> <li>- Shall engage only in those services for which they have the necessary knowledge, skills and experience</li> <li>- Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing</li> <li>- Shall continually improve their proficiency and effectiveness and quality of their services</li> </ul>

## **Independence and Authority**

PSIAS state that 'Organisational independence is effectively achieved when the Internal Audit Manager reports functionally to the board.' Within Flintshire the Audit Committee fulfils most of the roles of the 'board'. It is responsible for:

- approving the internal audit charter;
- approving the internal audit Strategic and Operational plans;
- receiving reports from the Internal Audit Manager on the departments performance relative to its plan and other matters; and
- making appropriate enquiries of management and the Internal Audit Manager to determine whether there are inappropriate scope or resource limitations

The department's budget is approved annually as part of the Council's overall budget. Remuneration and arrangements for the appointment and removal of the Internal Audit Manager are managed in accordance with the Council's adopted HR policies.

The Internal Audit department is part of the Governance Portfolio. The Internal Audit Manager reports administratively to the Chief Officer Governance (the Monitoring Officer).

To further ensure the independence of the Internal Audit Manager, the Chief Executive and Chair of the Audit Committee provide feedback into his annual appraisal.

Internal Audit is independent of the activities that it audits to ensure the unbiased judgements essential to its proper conduct and impartial advice to management.

To ensure independence, Internal Audit operates within a framework that gives it the authority to:

- have unrestricted access to all activities undertaken in the Council;
- have unrestricted access to all functions, records and property, including those of partner organisations. In very exceptional circumstances if the "responsible officer" (Section 151 Officer) and Monitoring Officer believe this would constitute a breach of the laws of confidentiality, or the provisions of the Human Rights Act or the Data Protection Act the matter will be referred to the Audit Committee for consideration;
- have full and free access to the Audit Committee via the Internal Audit Manager, and an annual private meeting with the committee;

- have full and free access to the Chief Executive, Head of Finance, Monitoring Officer, Chair and Vice Chair of the Audit Committee and External Auditors via the Internal Audit Manager;
- have unrestricted access to senior management, members and all employees;
- require any employee or Member to provide any information and explanation considered necessary concerning any matter under consideration;
- require any employee or Member to produce or account for cash, stores or any other Council asset or asset of a third party under his or her control;
- allocate resources, set timeframes, define review areas, develop scopes of work and apply techniques to accomplish the overall audit objectives; and
- issue audit reports in its own name.

Every effort is made to preserve objectivity by ensuring that all members of internal audit staff are free from any conflicts of interest and do not undertake any non-audit duties. Internal Audit has complete segregation from Council operations and is not responsible for the management of areas that are audited. The Internal Audit Manager and internal audit staff are not authorised to:

- perform any operational duties associated with the Authority;
- initiate or approve accounting transactions on behalf of the Authority; and
- direct the activities of any employee unless specifically seconded to Internal Audit.

However, in strict emergency situations only, audit personnel may be called upon to carry out non-audit work on a temporary basis. If a request is made the decision to allocate resources will be the Internal Audit Manager's, who will agree clear terms of reference. The Audit Committee Chair or Vice Chair, the Chief Officer Governance and the s.151 officer will be advised.

## **Role and Scope of Internal Audit**

Internal Audit must provide the Authority, through the Audit Committee, with an annual independent and objective opinion on the adequacy and effectiveness of internal control, risk management and governance arrangements. To that end the department reviews, appraises and reports on:

- The adequacy and effectiveness of the systems of financial, operational and management control and their operation in practice in relation to the

business risks to be addressed;

- The extent of compliance with and relevance of, policies, standards, plans and procedures established by the County Council and the extent of compliance with external laws and regulations, including reporting requirements of regulatory bodies;
- The extent to which the assets and interests are acquired economically, used efficiently, accounted for and safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, poor value for money, fraud or other cause, and that adequate business continuity plans exist;
- The suitability, accuracy, reliability and integrity of financial and other management information and the means used to identify, measure, clarify and report such information;
- The integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud and loss of all kinds; and that the process aligns with the Council's strategic goals;
- The follow-up action taken to remedy weaknesses identified by Internal Audit review, ensuring that good practice is identified and communicated widely;
- The operation of the Council's corporate governance arrangements;
- The potential within the Council for fraud and other violations through the analysis of systems of control in high-risk operations.

The Internal Audit department completes advisory / consultancy work in agreement with Chief Officers and Senior Managers by responding to requests for audit reviews and by contributing to projects and working groups throughout the Authority.

Where the Authority has entered into a partnership with other organisations the partnership arrangement will be subject to review. In addition, where Flintshire County Council is the lead authority of a partnership or collaboration, the work undertaken will be subject to review by Flintshire Internal Audit.

## **Fraud and Irregularity**

All managers are responsible for applying controls to reasonably prevent and detect fraud. Furthermore, internal audit is not responsible for identifying fraud, however it will assess the risk of fraud and be aware of the risk of fraud when planning and undertaking any internal audit work. All actual or suspected incidents of fraud, corruption or impropriety should be reported without delay to Internal Audit. The internal audit department investigates fraud and irregularity in terms of:

- The undertaking of investigations into reports of violations of the Council's regulations or criminal activities i.e. fraud against the Council; and
- The undertaking of investigations of reports from staff, other persons engaged in activities on behalf of the Council and members of the public, reporting perceived cases of possible violations of rules or regulations, mismanagement, misconduct, or fraudulent abuse of authority.

Referrals to the police are made if there is suspected criminal activity, in accordance with the Anti-Fraud and Corruption Policy and the Fraud and Irregularity Response Plan, following consultation with the Monitoring Officer or Human Resources where appropriate.

Internal Audit is responsible for maintaining the Anti-Fraud and Corruption Policy, the Fraud and Irregularity Response Plan and the Whistleblowing Policy. They also administer the National Fraud Initiative. The Internal Audit Manager is a named contact within the Whistleblowing Policy.

### **Audit Responsibility**

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.

The primary task of Internal Audit is to review the systems of internal control operating throughout the authority, and in doing this it will adopt a predominantly risk-based approach to audit.

The Internal Audit Manager is required to manage the provision of a complete audit service to the Council that will include systems, regularity, computer and advisory audit in addition to the investigation of potential fraud and irregularity. In discharge of this duty, the Internal Audit Manager has a responsibility to:

- prepare a rolling strategic risk-based audit plan after consultation with senior management and the Chief Officer Team, for formal approval by the Audit Committee. This strategic plan is regarded as flexible rather than as an immutable expression of audit policy;
- translate the strategic plan into annual plans for Chief Officers and the Audit Committee;
- implement the audit plan as approved, including any additional work requested by management and the Audit Committee;
- ensure that the scopes of individual audit assignments are agreed with

departmental management;

- prepare and maintain an Audit Manual detailing departmental procedures and standards;
- ensure a system of close supervision of audit work, and maintain a Quality Assurance and Improvement Programme including annual internal assessments and external assessments at least every five years;
- Report the results of assessments to the Audit Committee, and state that the department conforms with the standards or disclose any non-conformance;
- maintain knowledge, skills and expertise within the section specifically for the investigation of fraud and irregularity;
- bring a systematic disciplined approach to evaluate and report on the effectiveness of risk management, internal control and governance processes;
- highlight control weaknesses and required associated improvements together with corrective action recommended to management based on an acceptable and practicable timeframe;
- undertake follow up reviews and action tracking to ensure management has implemented agreed internal control improvements within specified and agreed timeframes;
- liaise with the external auditor for the purpose of providing optimal audit coverage to the Authority;
- work with the external auditor to provide consistent advice to management and the Audit Committee; and
- prepare annual reports on audit and special investigation activities for presentation to the Audit Committee, and such other reports on audit issues as may be required by the Chief Officer Governance or the Audit Committee.

## **Audit Resources**

The staffing structure of the section will comprise qualified Internal Auditors, Accounting Technicians and part qualified Accountants with a mix of professional specialisms to reflect the varied functions of the section.

Each year the departmental resources are assessed against the needs of the plan, in order to ensure there is sufficient coverage to arrive at the annual audit opinion.

The Internal Audit Manager, Audit Committee and s151 Officer all have a responsibility to ensure Internal Audit has sufficient resources to enable it to fulfil its mandate. Significant matters that jeopardise the delivery of the plan or require



changes to the plan will be identified, addressed and reported to the Audit Committee.

Upon request from the Head of Finance, appropriate specialists from other Directorates and departments should be made available to take part in any audit review requiring specialist knowledge.

### **Audit Training**

Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development. The Internal Audit Manager carries out a continuous review of the development and training needs of all audit employees through the Authority's appraisal system and will arrange, within budget provision, in-service training covering both internal and external courses.

Specific resources are devoted to specialised training in relation to computer audit, contract audit and fraud investigation to keep abreast of developments.

### **Audit Reporting**

All standard audit assignments are the subject of formal reports. Discussion draft reports are issued to the manager of the area under review. Debrief meetings are then held for agreement to the factual accuracy of findings and the necessary actions. After agreement, final reports are issued. The Internal Audit Manager considers the release of special investigations audit reports for disciplinary purposes on a case-by-case basis. Access to audit files is restricted to the Chief Officer Governance (Monitoring Officer) and External Auditor.

The Internal Audit Manager issues progress reports to the Audit Committee and management summarising outcomes of audit activities, including follow up reviews and the tracking of audit recommendations. These are presented at every Audit Committee meeting.

He reports to the Committee on the progress of investigations into possible fraud and irregularity and also briefs the Audit Chair on any high profile investigations.

The assignment opinions that audit provides during the year are part of the framework of assurances that assist the Authority to prepare an informed Annual Governance Statement.

Internal Audit provides the Authority with an opinion on the adequacy and effectiveness of the Authority's governance, risk management and control arrangements in support of the Annual Governance Statement. In giving the opinion it should be noted that assurance can never be absolute, the most that can be provided is a reasonable assurance that there are no major weaknesses in governance, risk management and control processes. The annual opinion is provided in the Annual Report after the year end.

### **Performance Reporting**

Performance Indicators for Internal Audit are reported to each Audit Committee meeting.

The department participates in benchmarking within the Wales Chief Auditors Group. Results are reported to the Audit Committee.

### **Related Documents**

This document is one of a series that, together, constitute the policies of the Council in relation to anti-fraud and corruption measures. The other documents are:

- Financial Procedure Rules and Contract Procedure Rules;
- Anti-Fraud and Corruption Policy;
- Fraud and Irregularity Response Plan;
- Whistleblowing Policy; and
- Disciplinary Procedure