

INTERNAL AUDIT CHARTER

2016-2018



Introduction

Organisations in the UK public sector have historically been governed by an array of differing internal audit standards. The Public Sector Internal Audit Standards (PSIAS), which took effect from the 1st April 2013 (*updated 2016*), provide a consolidated approach across the whole of the public sector enabling continuity, sound corporate governance and transparency.

The Standards form part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which also includes the mission; core principles; definition of internal audit; and Code of Ethics.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'. The purpose of the Charter is to formally define Internal Audit's statutory role, responsibility, status and authority within Stroud District Council.

Mission and Core Principles

The IPPF's overarching "Mission" for Internal Audit services is:

"...to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight".

The "Core Principles" that underpin delivery of the IPPF mission require internal audit functions to:

- Demonstrate integrity;*
- Be objective and free from undue influence (independent);*
- Align with the strategies, objectives and risks of the organisation;*
- Be appropriately positioned and adequately resourced;*
- Demonstrate quality and continuous improvement;*
- Communicate effectively;*
- Provide risk-based assurance;*
- Be insightful, proactive, and future-focused; and*
- Promote organisational improvement.*

Authority

Accounts and Audit Regulations 2015

All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (Section 151) and the Accounts and Audit Regulations 2015. The latter requires authorities 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."

Public Sector Internal Audit Standards (PSIAS)

The guidance accompanying the Regulations currently recognises both the Public Sector Internal Audit Standards (PSIAS) **2016** and the CIPFA Local Government Application Note for the UK PSIAS, as representing “proper internal audit practices”. These standards define the way in which the Internal Audit Service should be established and undertake its functions.

The PSIAS also requires a mandatory Code of Ethics, which promotes an ethical and professional culture. It does not supersede or replace internal auditor’s ‘own professional bodies’ code of ethics or those of employing organisations. In addition, all internal auditors in the public sector must have regard to the Committee on Standards in Public Life’s Seven Principles of Public Life. A statement of conformance with the standards is required.

Purpose

The District Council (management) is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

It is important to think of the internal auditor as the organisation’s critical friend, someone who can challenge current practice, champion best practice and support management in improvement, so that the organisation as a whole achieves its strategic outcomes, priorities and objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. The role of internal audit is best summarised through its mandatory definition within the Standards, 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’.

Assurance

The profession of internal audit is fundamentally concerned with evaluating an organisation's management of risk. The key to an organisation's success is to manage those risks effectively, as stakeholders demand.

The primary role of the internal auditor is to provide independent, objective assurance to Members and management that key risks are being managed effectively. To do this, the internal auditor will evaluate the quality of risk management processes, systems of internal control and corporate governance processes, across all parts of the Council, (taking into consideration other relevant internal and external assurance providers) and to provide an annual opinion on the effectiveness of these arrangements. This opinion supports the Council's Annual Governance Statement.

Assisting management in the improvement of internal controls

As well as providing assurance, an internal auditor's knowledge of the management of risk enables them to act as a consultant and provide support for improvement in the Council's procedures.

Accountability/Responsibility

The accountability for maintaining an adequate and effective system of internal audit within Stroud District Council lies with the Strategic Head (Finance and Business Services), as the authority's Chief Financial Officer (Section 151 Officer).

The Chief Internal Auditor is responsible for effectively managing the internal audit activity in accordance with the '*Mission*', '*Core Principles*', 'Definition of Internal Auditing', the 'Code of Ethics' and 'the Standards'.

In addition, for the purposes of this Charter, the following definitions shall apply regarding responsibilities in relation to Internal Audit:

Definition	Details	Responsibility in relation to Internal Audit at SDC
The Board	The governance group charged with providing independent assurance on the adequacy of the control environment, comprising risk management, control and governance.	Audit and Standards Committee.
Senior Management	Those responsible for the management of the Council.	Corporate Team

Position in the organisation

The Chief Internal Auditor reports functionally to the Board, and organisationally to the Strategic Head (Finance and Business Services) (Section 151 Officer).

Right of Access

The Chief Internal Auditor has the right of direct access to the Statutory Officers, i.e. Chief Executive, Monitoring Officer and the Chief Financial Officer.

Where it is considered necessary for the proper discharge of the internal audit function, the Chief Internal Auditor has the right of direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit and Standards Committee).

To provide independent assurances to senior management and the board, internal audit, with strict accountability for confidentiality and safeguarding records and information, is granted full, free and unrestricted access to all personnel, documents, personal records, other records, assets, and premises, belonging to the District Council and/or its key delivery partner organisations, as considered necessary for the purposes of the audit.

In addition, internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

If required, this access should not be subject to prior notice, which extends to partner bodies and external contractors working on behalf of the council. Internal audit's right of access to third parties should be reflected in contracts and service level agreements.

All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities.

Independence and objectivity

The Internal Audit activity will remain free from interference by any element in the organisation in determining the scope of activity, performing work and communicating results. Internal auditors must:

- be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice;
- exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined; and
- make a balanced assessment of all the relevant circumstances and not be duly influenced by their own interests or by others in forming judgements and opinions.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, effective arrangements are in place within Stroud District Council, to ensure the internal audit activity:

- operates in a framework that allows unrestricted access to 'Senior Management' and 'the Board';
- reports functionally to 'the Board';
- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team;
- freedom to determine its priorities;
- completes individual annual declarations confirming compliance with rules on ethics, independence, objectivity, conflicts of interest, the Bribery Act 2010 and acceptance of inducements; and
- ensures the planning process recognise and address potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles and/or undertaken consulting activity.

The Chief Internal Auditor will confirm to the board at least annually that the internal audit activity is organisationally independent.

If there has been any real or apparent impairment of independence or objectivity, the details of the impairment will be disclosed to 'Senior Management' and 'the Board'. The nature of the disclosure will depend upon the impairment.

Internal audit resources

The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide ranging internal audit, risk management and management experience.

The Shared Services will provide the Chief Internal Auditor with the resources necessary to fulfil the District Council's requirements and to meet statutory obligations. The internal audit budget is reported to the Strategy & Resources Committee and Full Council for approval annually as part of the overall Council budget.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, personal attributes, qualifications, experience and competencies required to perform and deliver its responsibilities. In addition to in-house internal audit resource, the Chief Internal Auditor may engage the use of external resources where it is considered appropriate, including the use of specialist providers e.g. IT internal audit provision and counter fraud specialists.

The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the District Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to 'Senior Management' and 'the Board'. 'Senior Management' and 'the Board' will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the annual internal audit plan, due to limitations on resources.

If 'Senior Management', 'the Board' or the Chief Internal Auditor, consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Chief Financial Officer, accordingly.

Proficiency and Due Professional Care

Internal auditors will perform work in accordance with the PSIAS and with due professional care, competence and diligence. Internal auditors cannot be expected to identify every risk, control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance that the key risks (including the consideration of fraud and information technology risks) within the scope of their review, are being effectively controlled / managed, taking into consideration the relative complexity, materiality or significance of matters to which assurance procedures are applied. Auditors will take into consideration the cost of assurance, in relation to the potential benefits and risk exposure.

Internal Auditors will be required to undertake a programme of Continuing Professional Development in order to develop and maintain their professional and behavioural skills, competencies and knowledge.

Relationship with External Audit/Other Relevant Assurance Providers/Regulatory Bodies

Internal Audit will liaise, share information and co-ordinate its activities with internal and external providers of assurance to ensure there is adequate coverage and minimise duplication of effort. Where other external and internal assurance providers have undertaken assurance work, Internal Audit will seek to rely on the work of these other providers, if deemed relevant.

Scope of Internal Audit Activities

Assurance

The service is responsible for providing assurance across the Council's entire 'control environment', comprising risk management, control and governance. This means that the scope includes all of the Council's operations, resources, services and responsibilities to enable the Chief Internal Auditor to provide an annual opinion. However, in addition to the core assurance activity, Internal Audit also provides the following services:

Anti-Fraud and Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud and corruption will be detected. However, whilst Internal Audit does not have responsibility for the detection or prevention of fraud and corruption, Internal Audit fully considers the risk of fraud and corruption when undertaking its activities.

Investigations into potential financial irregularities are undertaken by Internal Audit, whether reported directly to the Chief Internal Auditor, or referred by the Monitoring Officer, as required under the Council's Anti-Fraud and Corruption Policy Statement and Strategy and Whistleblowing Policy. The scope and approach taken to the investigation is dependent upon the nature of the allegations, which may also require referral to the police or other enforcement agencies.

In certain circumstances, Internal Audit may delegate the investigation of specific allegations to the service itself following an assessment of risk and financial impact.

On completion, findings are reported to an appropriate level of management, who will then be responsible for determining action to be taken.

Internal Audit also facilitates the District Council's participation in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

Consultancy

The service also undertakes consultancy work designed to improve the effectiveness of risk management, control and governance processes at the request of the Council, subject to there being no material impact on the core assurance activity and the availability of skills and resources.

Due to Internal Audit's knowledge of District systems and processes Internal Audit is well placed to provide risk and control advice and support to managers on potential implications of changes to policy, process and/or systems. The provision of such advice does not prejudice Internal Audit's right to evaluate the established systems and controls at a later date.

In order to help services to develop a greater understanding of audit activity and have a point of contact in relation to any support they may need, Internal Audit has put in place a set of service liaison arrangements that provides a specific named contact for each service and regular liaison meetings. The arrangements also enable Internal Audit to keep in touch with key changes and developments within services that may impact on its work.

Other Activity

The Chief Internal Auditor, may, at the request of 'the Board' or 'Senior Management', carry out investigations into issues where the Council's strategic, operational and/or financial interests are at stake.

The Chief Internal Auditor shall seek approval from the Board for any significant additional consultancy services/other activity not already included in the Annual Internal Audit Plan, prior to accepting the engagement, if this materially affects the core assurance activity.

Internal Audit Planning

The Chief Internal Auditor will produce an Annual Risk Based Internal Audit Plan to determine the priorities of the internal audit activity.

These plans are developed in consultation with senior managers across the Council with the proposed activity taking account of the Council's priorities, objectives, risk management framework, including risk appetite levels set by management and internal audits own judgement of risks.

To ensure internal audit resources continue to be focussed accordingly, particularly during periods of radical change, it is essential that Internal Audit understand the Council's' needs, which means building relationships with key stakeholders, which includes the Audit and Standards Committee, in order to gain crucial insight and ongoing 'intelligence' into the strategic and operational change agendas within Council.

This insight is not only at the initial development stages of the plan but dialogue continues throughout the financial year(s) which increases the ability for the internal audit service to adapt more closely to meet the assurance needs of the Council. The plan is therefore dynamic and flexible to meet these needs.

‘Senior Management’ will be consulted on the Annual Risk Based Internal Audit Plans, which will detail the Internal Audit activities and submitted to ‘the Board’, for approval. The Chief Internal Auditor will be responsible for delivery of the plan.

Reporting

Reporting to Management

A written report will be prepared and issued by the Chief Internal Auditor or designee following the conclusion of each Internal Audit activity and will be distributed as appropriate. The Internal Audit report will include management’s response, corrective action taken, or to be taken and target dates in regard to specific findings and recommendations. Internal Audit will follow up all high priority recommendations made.

Reporting to ‘the Board’ and ‘Senior Management’

The Board (at SDC the Audit and Standards Committee)

The Chief Internal Auditor shall deliver an annual internal audit opinion and report (and quarterly progress reports on Internal Audit activity) to ‘the Board’ that helps to inform the Council’s Annual Governance Statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the organisations framework of governance, risk management and control. The annual report will include, as a minimum:

- The opinion;
- A summary of the work that supports the opinion;
- A statement of conformance with the PSIAS; and
- The results of the quality assurance and improvement programme.

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- approving the internal audit charter;
- approving the annual risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity’s performance relative to its plan and other matters, including the annual report and opinion;
- receiving and considering major Internal Audit findings and recommendations;
- monitoring management’s response to Internal Audit findings and the implementation of the recommendations;

- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations;
- agreeing the scope and form of the external assessment as part of the quality assurance and improvement plan;
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance with professional standards; and
- approving significant consulting services not already included in the audit plan, prior to acceptance of the engagement, if this materially impacts on core assurance activity.

Senior Management

As those responsible for the management of the Council it is imperative that the Corporate Management Team is engaged in:

- Reviewing and being consulted on the internal audit charter;
- Reviewing and being consulted on the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations; and
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance.

Within Stroud District Council, the Strategic Head (Finance and Business Services) and the Chief Internal Auditor ensure that all of the above are brought to the attention of the Corporate Management Team.

Quality Assurance and Improvement Programme (QAIP)

The PSIAS require that the Internal Audit function is subject to a quality assurance and improvement programme that must include both internal and external assessments.

The Chief Internal Auditor has developed and implemented a QAIP that covers all aspects of the internal audit activity which enables conformance with all aspects of the PSIAS to be evaluated.

In addition, the Chief Internal Auditor will communicate to the Senior Management and the Board on the internal audit activity's QAIP, including results of annual internal assessments and external assessments conducted at least every five years. The external assessment will be undertaken by a qualified, independent assessor or assessment team from outside the Council. Progress against any improvement plans agreed following external assessment, will be reported in the Internal Audit Annual Report.

The Chief Internal Auditor will discuss options for the assessment jointly with the 'Board'.