

## **Internal Audit Charter 2020**

### **Introduction**

The Public Sector Internal Audit Standards require the Council to have an Internal Audit Charter that must be approved by Senior Management and the Audit Committee (or its equivalent). The Charter defines the purpose, authority and responsibility of Internal Audit. It also sets out the nature of the Chief Audit Executive's<sup>1</sup> functional relationship with the board<sup>2</sup> as well as the rights of access to records, personnel and physical properties relevant to internal audit engagements.

### **Purpose of Internal Audit**

The Chartered Institute of Internal Auditors defines internal audit as follows:

"Internal auditing is an independent, objective assurance and consulting activity<sup>3</sup> 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."

### **Statutory Basis of Internal Audit**

Within local government there is a statutory requirement for an internal audit function. The 2003 Accounts and Audit Regulations (as amended by the 2006, 2009, 2011 and 2015 Regulations) require 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."

In addition, the Council's Chief Finance Officer (the Head of Finance) has a statutory duty under Section 151 of the Local Government Act 1972 to "make arrangements for the proper administration of the authority's financial affairs". This assumes, amongst other duties, provision of an effective internal audit

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<sup>1</sup> This is the generic title used in the Public Sector Internal Audit Standards to describe the head of internal audit at an organisation. At WDC this officer is the Audit and Risk Manager.

<sup>2</sup> In the Council's case this is held to be the Finance and Audit Scrutiny Committee.

<sup>3</sup> An assurance engagement is an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organisation. Examples of the types of engagements that would be considered assurance engagements include financial, performance, and compliance audits. Consulting activities are advisory and related client service activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve an organisation's operations without the internal auditor assuming management responsibility. Consulting activities includes such activities as conducting internal control training, providing advice to management about the control concerns in new systems, drafting policies, and participating in quality teams.

function. The Section 151 Officer relies, amongst other sources, upon the work of internal audit in reviewing the operation of systems of internal control and financial management.

## **Role**

Internal Audit's responsibilities are defined by the Finance and Audit Scrutiny Committee, via this Charter, as part of their oversight role. Internal audit activity is approved and overseen by the Finance and Audit Scrutiny Committee.

Internal Audit may undertake consultancy activity (additional work requested by management) where it has the necessary skills and resources to do this, and this will be determined by the Audit and Risk Manager on a case-by-case basis.

## **Professionalism**

Internal Audit complies with the Public Sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance.

In addition, Internal Audit will adhere to the Council's relevant policies and procedures as well as its own operating procedures set out in its Internal Audit Manual.

## **Authority**

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, has full and unrestricted access to all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are required to assist Internal Audit in fulfilling its roles and responsibilities.

Internal Audit also has free and unrestricted access to the Finance and Audit Scrutiny Committee and senior management.

## **Organisation**

Internal Audit has direct access to senior management, the Finance and Audit Scrutiny Committee, the Chief Executive and the Leader of the Council. The Section 151 Officer and the Finance and Audit Scrutiny Committee will jointly agree the level of internal audit resource to be deployed at the Council. The Audit and Risk Manager will communicate and interact directly with the senior management and the Finance and Audit Scrutiny Committee.

For line management purposes, the Audit and Risk Manager will report to the post of Head of Finance at Warwick District Council. The Chief Executive will approve all decisions regarding the performance evaluation of the Audit and Risk Manager as part of the Council's Performance Management Framework.

The following groups are defined in terms of their powers and responsibilities in relation to Internal Audit:

### *Finance and Audit Scrutiny Committee*

The Finance and Audit Scrutiny Committee is responsible for overseeing the effectiveness of the internal audit function, and holding the Audit and Risk Manager to account for delivery, through the receipt of regular reports and updates. The Finance and Audit Scrutiny Committee is responsible for the effectiveness of the governance, risk and control environment within the Council, holding managers to account for delivery.

### *Senior Management<sup>4</sup>*

Senior management is responsible for helping to shape the programme of assurance work through analysis and review of key risks. Senior management is responsible for responding to reports issued by Internal Audit and for implementing recommendations within agreed timescales.

## **Independence and Objectivity**

Internal Audit will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

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

The Audit and Risk Manager will confirm to the Finance and Audit Scrutiny Committee, at least annually, the organisational independence of Internal Audit.

## **Conflicts of Interest**

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others when forming judgements.

In addition to the ethical requirements of the various professional bodies, each auditor is required to declare proactively any potential 'conflict of interest' prior to the commencement of each audit assignment.

All auditors are required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest. Auditors who undertake any consultancy work will be prohibited from auditing those areas. Audits are rotated within the team to avoid over-familiarity and complacency.

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<sup>4</sup> Senior management comprises the members of the Senior Management Team i.e. the Chief Executive, the Deputy Chief Executives and the Heads of Service Areas.

## **Responsibility and Scope**

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit extend to the entire control environment of the organisation and include:

- Consistency of operations with established objectives and goals
- Effectiveness and efficiency of operations and employment of resources
- Compliance with significant policies, plans, procedures, laws, and regulations
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information
- Safeguarding of assets.

Internal Audit is responsible for evaluating all processes ('audit universe') of the organisation including governance processes and risk management processes. It also assists the Finance and Audit Scrutiny Committee in evaluating the quality of performance of external auditors and ensuring a proper degree of coordination with internal audit is maintained.

Due to its detailed knowledge and understanding of risks and controls, internal audit is well placed to provide advice and support on emerging risks and issues. As a result, internal audit may perform consulting and advisory services as appropriate for the organisation. It may also evaluate specific operations at the request of the Finance and Audit Scrutiny Committee and senior management, as appropriate.

Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Finance and Audit Scrutiny Committee and to senior management, including fraud risks, governance issues, and other matters requested by these bodies. This can include the results of investigations, whether related to the conduct of staff or otherwise. This ensures Internal Audit plays a key role in providing assurance to the Finance and Audit Scrutiny Committee and senior management on the effectiveness of the entire control environment.

## **Role in Anti-Fraud**

The work programme of Internal Audit is designed, in part, to help deter fraud and corruption. With this in view, Internal Audit bases its planning on regular risk assessment, and works with senior managers and the Finance and Audit Scrutiny Committee in determining its programme of work.

Internal Audit will also share information with relevant partners, where lawful and appropriate, to increase the likelihood of detecting fraudulent activity and reduce the risk of fraud to all. This includes co-ordinating the statutory data matching processes and investigations arising under the National Fraud Initiative.

The Audit and Risk Manager must be notified immediately of all suspected or detected fraud, corruption or impropriety so that the impact upon control arrangements can be evaluated.

### **Internal Audit Plan**

At least annually, the Audit and Risk Manager will submit to the Finance and Audit Scrutiny Committee an Internal Audit Plan for review and approval. The Internal Audit Plan will include resource requirements. The Audit and Risk Manager will communicate the impact of resource limitations and significant interim changes to senior management and the Finance and Audit Scrutiny Committee.

The Internal Audit Plan will be developed based on a prioritisation of the audit universe using a risk-based methodology and on extensive consultation with stakeholders, including the Council's managers.

Any significant deviation from the approved Internal Audit Plan will be communicated through the periodic activity reporting process.

### **Reporting and Monitoring**

The Audit and Risk Manager will arrange for a written report to be prepared and issued following the conclusion of each internal audit engagement; this will be distributed to appropriate managers at various stages of draft. When the report is in final form it will also be issued to the relevant member portfolio holder.

The Internal Audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations.

Management's response will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

Internal Audit will determine the state of implementation of recommendations contained in audit reports. For each assignment this will initially be done through managers' self-assessment and then will be achieved through direct confirmation by the auditor as part of the next audit of that subject. In both cases, the Finance and Audit Scrutiny Committee will be informed of the results.

The Audit and Risk Manager will consider any request from external stakeholders for reports on the results of internal audit activity, in consultation with senior management.

The Audit and Risk Manager will issue quarterly update reports to the Finance and Audit Scrutiny Committee to advise on the results of each internal audit engagement, and provide an annual report to the Finance and Audit Scrutiny Committee giving an opinion on the internal control environment.

### **Periodic Assessment**

In accordance with the Public Sector Internal Audit Standards a review of the effectiveness of internal audit will be performed at least once every five years.

### **Review of the Audit Charter**

This Charter will be subject to annual review by the Audit and Risk Manager and annual approval by the Finance and Audit Scrutiny Committee.