

Internal Audit Charter 2021-22

1 Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) 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's¹ functional relationship with the board² as well as the rights of access to records, personnel and physical properties relevant to internal audit engagements.

2 Definition of Internal Audit

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

“Internal auditing is an independent, objective assurance and consulting activity³ 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.”

3 Purpose of Internal Audit

- 3.1 Internal audit is an arm of management. Management is responsible for internal control and establishing policies and procedures to help the council achieve its objectives. To provide optimum benefit to the council, internal audit works in partnership with management to improve the control environment and assist the organisation in achieving those objectives. This is achieved through the mix of audit work e.g. assurance work and consultancy and advice, whether this is ad hoc or through project related work. The objective supports the 'Mission of Internal Audit' which is defined within section 3 of the PSIAS as 'To enhance and

¹ The term Chief Audit Executive (CAE) is the generic title used in the Public Sector Internal Audit Standards to describe the head of internal audit at an organisation. The CAE describes the role of a person in a senior position responsible for managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The CAE, or others reporting to the CAE, will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the CAE may vary across organisations. At WDC the CAE has the post title of Audit and Risk Manager.

² In the Council's case the board is held to be the Finance and Audit Scrutiny Committee.

³ 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.

protect organisational value by providing risk-based and objective assurance, advice and insight’.

4 Statutory Basis of Internal Audit

- 4.1 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.”
- 4.2 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 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.

5 Core Principles for the Professional Practice of Internal Auditing

- 5.1 The PSIAS set out Core Principles that underpin the effectiveness of internal audit. The application of the principles will help internal audit achieve its mission. The principles and how Internal Audit at Warwick District Council (‘the Council’ or ‘WDC’) achieve these are set out below:

Principle	Examples of how the principles are applied
Demonstrates integrity	<ul style="list-style-type: none"> • Confidentiality of work undertaken. • Building trust with clients. • Compliance with requirements of relevant professional bodies. • Requirements with rules and procedures of the Council.
Demonstrates competence and due professional care	<ul style="list-style-type: none"> • Quality-assured work. • Work towards professional qualification. • Training and development.
Is objective and free from undue influence.	<ul style="list-style-type: none"> • Ensure there is no conflict of interest. • Factual accuracy of audit findings • Safeguard arrangements in relation to CAE role
Aligns with the strategies, objectives and risks of the organisation.	<ul style="list-style-type: none"> • Risk based audit plan • Consideration of risks with corporate risk register (SBRR) • ICT risk assessment
Is appropriately positioned and adequately resourced.	<ul style="list-style-type: none"> • Independently located within the Council’s organisational structure

Principle	Examples of how the principles are applied
	<ul style="list-style-type: none"> • Adequate staff resource to deliver the audit plan • Direct reporting line to senior management and to chair of Finance & Audit Scrutiny Committee
Demonstrates quality and continuous improvement	<ul style="list-style-type: none"> • Delivery of quality assurance and improvement actions
Communicates effectively	<ul style="list-style-type: none"> • Client satisfaction feedback • Clear and concise planning engagement • Quality of audit reporting and recommendations • Assurance to Finance & Audit Scrutiny Committee
Provides risk-based assurance	<ul style="list-style-type: none"> • Categorisation of audit opinions and recommendations • Audit work linked to corporate objectives • Auditing "what matters".
Is insightful, proactive and future-focused	<ul style="list-style-type: none"> • Participates within professional networks • Horizon scanning of internal and external audit-related activity • Service development time allowed
Promotes organisational improvement	<ul style="list-style-type: none"> • Implementation of audit recommendations • Development time allocated within the Audit Plan • Consultancy and advice on corporate projects

6 Responsibility, Authority and Scope of Internal Audit

- 6.1 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.
- 6.2 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.
- 6.3 Internal Audit has direct, free and unrestricted 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.

- 6.4 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 or Deputy 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.
- 6.5 The following groups are defined in terms of their powers and responsibilities in relation to Internal Audit:

Finance and Audit Scrutiny Committee

The PSIAS refers to 'the board'. This is usually taken to mean the audit committee. Its key responsibility as per the PSIAS is to maintain an overview on the adequacy of the council's governance, internal control and risk management processes. The Council's Finance and Audit Scrutiny Committee operates as the organisation's audit 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 Management⁴

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.

- 6.6 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

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

- Safeguarding of assets.
- 6.7 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.
- 6.8 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, where it has the necessary skills and resources to do this, may perform consulting and advisory services as appropriate for the organisation as determined by the Audit and Risk Manager on a case-by-case basis. It may also evaluate specific operations at the request of the Finance and Audit Scrutiny Committee and senior management, as appropriate.
- 6.9 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.

7 Professionalism and Ethical Behaviour

- 7.1 The work of Internal Audit is governed by 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.
- 7.2 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.
- 7.3 When undertaking their work, internal auditors are required to demonstrate integrity, objectivity, confidentiality and competency. This establishes trust and thus provides the basis for reliance on their judgement. Internal Audit officers will have due regard to the Committee on Standards of Public Life's 'Seven Principles of Public Life' and must comply to the code of ethics of any professional body where they are members.

8 Independence and Objectivity

8.1 Organisational Independence

8.1.1 Internal Audit is part of the Finance service area and the Audit and Risk Manager reports directly to the Head of Finance. The PSIAS requires that the CAE must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. To enable this to happen, the CAE has unfettered access to the Chief Executive, the Deputy Chief Executive and Monitoring Officer and to the Chair of the Finance and Audit Scrutiny Committee. To develop effective communication with the Chair, regular meetings are held to provide an update on internal audit activities.

8.1.2 Organisational independence is also achieved through functional reporting to the Finance and Audit Scrutiny Committee. Examples of functional reporting include the approval of this charter, approval of the internal audit plan, receiving regular monitoring reports on internal audit activity and the presentation of an annual report. The annual report will be timed to support the Council's Annual Governance Statement. Confirmation of Internal Audit's organisational independence will be included in the annual report of the Audit and Risk Manager.

8.1.3 A key determinant of the effectiveness of internal audit is that it is seen to remain free from interference in all regards. This shall include, but not limited to matters of audit selection, scope, procedure, frequency, timing or report content. To ensure this, Internal Audit will operate within a framework that allows unrestricted access to senior management and members, reporting in its own name and segregation of team members from line operations.

8.1.4 It is not uncommon, given the financial challenges facing local government, that a CAE will have operational responsibility for other service areas. At Warwick District Council, the Audit and Risk Manager has responsibility for Risk Management, Insurance and Corporate Fraud Investigation.

8.1.5 PSIAS standard 1112 requires that where responsibilities of the CAE fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity. In practical terms, at Warwick District Council, where an audit is to be undertaken on a service area that is managed by the Audit and Risk Manager then the audit will be reviewed and signed off by the Head of Finance. The relevant internal auditor will report direct to the Head of Finance for the purpose of approving documentation such as the audit assignment brief and draft and final reports.

8.2 Individual Objectivity

8.2.1 Internal auditors must have an impartial, unbiased attitude and avoid any conflict 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.

- 8.2.2 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.
- 8.2.3 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. The Audit and Risk Manager will consider the materiality of the conflict and if necessary take remedial action. For example, assigning the audit to another team member or contracting the audit work externally.
- 8.2.4 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.

9 Role in Anti-Fraud

- 9.1 Managing the risk of fraud and corruption is the responsibility of management. At WDC this responsibility is defined within the Council's Code of Financial Practice and within the Anti-fraud and Corruption Strategy. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption.
- 9.2 The work programme of Internal Audit is designed, in part, to help deter fraud and corruption. With this in mind, Internal Audit bases its planning on regular risk assessment and works with senior managers in determining its programme of work.
- 9.3 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.
- 9.4 The Audit and Risk Manager must be notified immediately of all suspected or detected fraud, theft, corruption or any other impropriety so that the impact upon control arrangements can be evaluated, including implications for the provision of an overall opinion on the internal control environment contained within the Internal Audit Annual Report as well as implications for the Annual Governance Statement.

10 Resourcing

- 10.1 The Internal Audit service is provided through an in-house team of three full time equivalent officers. These officers report to the Audit and Risk Manager. The team sits within the Finance service area.
- 10.2 The audit plan is aligned to the available staff resource and this resource is deemed sufficient to ensure the coverage and effectiveness of internal audit activity. The remit of Internal Audit is not just related to financial control and therefore it is essential the skills mix within the team reflects this wider responsibility. Where necessary, if it is deemed the audit team do not possess the required skills and knowledge or to supplement the in-house resource where that is insufficient in size, resources from external providers are utilised.
- 10.3 The Audit and Risk Manager is responsible for ensuring that the resources of the Internal Audit section are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby it was the opinion these resources were insufficient, this would be formally reported to the Head of Finance and to the Finance and Audit Scrutiny Committee. It would also be reported to other members of senior management if deemed necessary.

11 Relationship with External Audit

- 11.1 Both internal audit and external audit have a commitment to work together to ensure resources are effectively and efficiently deployed. The two parties should meet regularly to support a cooperative, professional working relationship, share relevant information and coordinate the overall audit effort.
- 11.2 Both parties should advise each other of any significant issues which arise as soon as practicable, and of any changes or delays in agreed areas of reliance. They should also liaise during the planning stage of producing audit plans to ensure the timing and scope of our work makes the most of coverage and avoids duplication. External audit will have full and free access to all internal audit documentation.

12 Internal Audit Planning

- 12.1 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.
- 12.2 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.

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

13 Reporting and Monitoring

13.1 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.

13.2 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.

13.3 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.

13.4 Internal Audit will determine the state of implementation of recommendations contained in audit reports. For each assignment, managers are expected to provide Internal Audit with updates on the completion of the agreed action with evidence provided accordingly. Finance and Audit Scrutiny Committee will be informed of the completion (or otherwise) of the agreed actions on a quarterly basis.

13.5 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.

13.6 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.

13.7 As set out in the PSIAS, para 2450, the CAE must also provide an annual report to the board that includes:

- An annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework
- A summary of the audit work from which the opinion is derived, and
- A statement on conformance with the PSIAS and the results of the Internal Audit Quality Assurance and Improvement Programme

13.8 Thus, every internal audit report should give an opinion on the risk and controls of the area under review, building up to the annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

13.9 A fundamental part of the work undertaken by Internal Audit is the follow up of audit recommendations to ensure that management actions have been properly implemented. The Finance and Audit Scrutiny

Committee has the remit to call in any officer to explain where recommendations remain unaddressed. All audit opinions and the results of follow up work, particularly the need to escalate any outstanding recommendations and/or adverse audit opinions, are also considered by the senior management team on a quarterly basis.

13 Periodic Assessment of the Effectiveness of Internal Audit

- 13.1 In accordance with the Public Sector Internal Audit Standards an external review of the effectiveness of Internal Audit will be performed at least once every five years.

14 Review of the Internal Audit Charter

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