INTERNAL AUDIT CHARTER

Introduction

The main objectives of this Charter are to;

- Explain the role and objectives of Internal Audit in general terms;
- List the actual services provided by Internal Audit;
- Clarify the working relationship with senior officers, managers, staff and the Council's external auditors;
- Specify the operational responsibilities and standards applicable to Internal Audit; and
- Clarify the obligations of clients

Role and Objectives of Internal Audit

"Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. 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." – CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2003.

Internal Audit is established by the Council to review its activities with the objectives of:

- evaluating and reporting on the adequacy and effectiveness of the Council's system of internal control, in accordance with statutory responsibilities created under s151 of the Local Government Act 1972 and the Accounts and Audit Regulations 2003;
- helping the Council accomplish its objectives and fulfil its strategies;
- providing assurance to the Council as to the effectiveness of its policies, plans and procedures;
- supporting the Council by helping to improve the efficiency and effectiveness of its operations;
- optimising the contribution of, and levels of assurance provided by, audit and other review agencies;
- supporting the corporate Best Value and CPA processes through the conduct of audit assignments.

Statement on Internal Control

To comply with corporate governance requirements, the Council must publish a Statement on Internal Control with the financial statements. This statement will represent an overall review of internal control, including the processes of risk management, providing a broad reflection of the governance of the Council.

A substantial element of this statement will be based on the result of Internal Audit work. To facilitate this Internal Audit Reports contain opinions on the overall management of risks and the adequacy and effectiveness of controls being reviewed. The Audit Committee will approve the Statement on Internal Control to be signed by the Leader of the Council and the Chief Executive.

Risk Management and Internal Audit

The existence of Internal Audit does not diminish the responsibility of Corporate Directors and Service Heads to establish systems of internal control and to effectively manage both strategic and operational risks relating to their Services. Under the Council's Risk Management Policy, Service Heads have primary responsibility for the day-to-day management of business risk. This will be underpinned by the Council's Risk Register, which will be aligned to the Corporate Plan and the business planning process.

As an independent appraisal function Internal Audit's role is to assist managers in this process by evaluating risk in areas under review, providing assurance wherever possible and making recommendations to optimise levels of control.

Scope of Internal Audit

The scope of Internal Audit allows for unrestricted coverage of the authority's activities and unrestricted access to all records, assets, documents, correspondence and control systems deemed necessary in the course of the audit. In addition, Internal Audit, through the Internal Audit Manager, where deemed necessary, will have unrestricted access to:

- the Chief Executive;
- elected Members and the Audit Committee;
- individual Directors and Service Heads; and
- all authority employees.

In pursuing its objectives, Internal Audit will:

- seek to direct audit resources to areas presenting the highest risk to the authority;
- review the effectiveness of operations in meeting the published and planned objectives of the Council;
- review the reliability and integrity of systems and procedures adopted to produce financial and operational information;
- review the effectiveness of systems in ensuring compliance with relevant policies, plans, laws and regulations;
- review the arrangements for safeguarding the Council's assets and interests;
- review and evaluate the economy, effectiveness, and efficiency with which resources are employed;
- conduct special reviews and investigations; and
- liaise with the Council's external auditors in order to maximise the effectiveness of audit activity.

Audit Independence

The key determinant of the effectiveness of Internal Audit is that it is seen to be independent. To ensure this, Internal Audit will operate within a framework that allows:

- unrestricted access to senior management;
- reporting in its own name; and
- segregation from line operations.

Objectivity will be preserved by ensuring that all audit personnel are free from conflicts of interest and do not undertake any non-audit duties.

All Internal Audit activities will be carried out in accordance with the specific authorities provided by the Council's Financial Procedures.

Location of Internal Audit

Internal audit is located within Financial Services, in accordance with the financial regulations, under the direction of the Head of Financial Services (the Council's s151 Officer).

Internal Audit Responsibilities

The main areas of Internal Audit responsibility within the authority are to:

1. Review, appraise and report on:
   - The effectiveness of arrangements to manage risk, maintain internal control and deliver high standards of governance;
   - The appropriateness and reliability of internal controls; and
   - The suitability and reliability of financial and performance management information.
2. Investigate frauds and irregularities.
3. Support and advise on the development of new policies, strategies, processes and systems.

In managing the Internal Audit function, the Internal Audit Manager is responsible for:

- submitting an annual report to the Audit Committee detailing the performance of Internal Audit for the previous financial year, and giving an opinion on the effectiveness of the Council's systems of internal control;
- managing the internal audit function and determining the scope and methods of audit activity;
- identifying areas of operation for internal audit review consistent with corporate and other service plans and objectives;
- developing an annual operational plan based on an assessment of materiality and risk and reviewing/revising the plan on a quarterly basis, identifying the resources needed to achieve it;
- submitting reports to the Audit Committee on the development, monitoring and review of the annual plan and operational plans;

- ensuring that Internal Audit work is effectively planned, controlled and recorded and is undertaken with due professional care;
- reporting to management on the results of audit activities and agreeing actions for improvements where necessary;
- reviewing the progress by management to implement the agreed actions for improvements;
- performing audit reviews in collaboration with the Council's external auditors, and;
- maintaining a suitably skilled, qualified, and experienced internal audit service.

Reporting Responsibilities

The Internal Audit Manager reports administratively and functionally to the Head of Financial Services as the Council's s151 Officer. S/he is also authorised to report directly to the Chief Executive and all levels of management as necessary.

The Internal Audit Manager will prepare and distribute to relevant managers a written report following the conclusion of each audit, containing an agreed plan of action.

Internal Audit will review progress with agreed actions following the agreed implementation date. The Internal Audit Manager will present the results of each audit and of each follow-up review to the Audit Committee.

Audit Resources

The Internal Audit staffing structure will comprise a mix of qualified, technician and trainee posts.

The Internal Audit Manager will carry out a continuous review of the development and training needs of all audit personnel, in line with the Council's scheme for Employee Development and Performance Appraisal.

Internal Audit staff will contribute to regional Audit Group meetings as appropriate with a view to participating in the development and sharing of best practice.

Client Liaison and Reporting

In addition to consultation on audit plans, Service Heads will also be consulted at the start of all audit assignments. The audit plan and schedule of work will be posted on the Intranet and wherever practical auditees will be given two weeks notice of audit assignments.

All substantive audit assignments will be the subject of formal reports. All reports will be drawn up in consultation with auditees and agreed for factual accuracy. Findings will be discussed with a view to agreeing actions for improvement as appropriate. Any unresolved issues will be reported as such together with the reasons why an agreed action cannot be formulated.

Once agreed final reports will be issued to relevant managers, Directors and the Head of Financial Services and a copy sent to the Audit Commission and a copy of the report will be posted on the Intranet.

All audit reports will be formally followed up to monitor implementation of agreed actions.

The Audit Committee will receive and review the findings of audit assignments as presented in the completed reports ensuring management take appropriate action to implement the agreed actions, and to remedy any internal accounting, organisational, or operational control weaknesses identified.

Quality Control

Internal Audit Feedback questionnaires will be issued following each audit report to enable managers to give feedback on the audit assignment in order to facilitate continuous improvement of internal audit work. Every quarter the Internal Audit Manager will review the responses to the satisfaction surveys and take action as appropriate. Outcomes from satisfaction surveys will be reported to Audit Committee.

Relationship with External Audit

To ensure proper co-ordination of the authority's overall audit arrangements, the Internal Audit Service will, in conjunction with the authority's external auditor, produce a protocol for liaison and joint working and keep it under review.

The protocol will contain provisions enabling the Internal Audit Service to follow up external audit reports and recommendations.

Client Obligations

Service charters not only require the obligations and responsibilities of the service provider to be clear, but also those of the client. Effective service delivery is a two-way process. In the Internal Audit and Risk Management context this is particularly important as Service Heads and managers need to understand what their role is in relation to internal control and the management of risk. In specific terms, this involves:

- identifying, evaluating and managing business (including financial) risks on a day-to-day basis in accordance with the Council's Risk Management Policy;

- informing Internal Audit of proposed new systems to enable involvement from the outset, the scope of involvement to be mutually agreed;

- identifying specific risk areas for potential review by Internal Audit;

- discussing risks identified with the Lead Auditor at the start of an audit assignment with a view to agreeing the scope, objectives and methodology for the review, to be formalised in the audit brief;

- agreeing with the Lead Auditor the plan for the review including timescales, communication lines and expectations, in-line with Corporate policy;

- providing constructive input and adequate resources to complete the review within the agreed timescale;

- responding to audit requests and documentation on a timely basis ensuring that accurate, up-to-date information is made available to auditors as required;

- evaluating and taking ownership of agreed actions, taking account of risk and cost-effectiveness, and;

- implementing agreed actions in line with agreed timescales.