

# INTERNAL AUDIT CHARTER

**Author:** Sarah Marsh

**Title:** Chief Internal Auditor

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## **INTERNAL AUDIT CHARTER**

### **1. INTRODUCTION AND PURPOSE**

- 1.1 The purpose of this Charter is to set out the nature, role, responsibility, status and authority of Internal Audit within Epping Forest District Council (EFDC), and to outline the scope of internal audit work. The Charter will also be used to monitor the performance of the Internal Audit function.
- 1.2 The United Kingdom Internal Auditing Standards (UKPSIAS) define Internal Auditing 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'.*
- 1.3 Internal Audit work is conducted in accordance with the UKPSIAS and is consistent with the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing).

### **2. REVIEW OF THE AUDIT CHARTER**

- 2.1 This Charter will be subject to annual review by the Chief Internal Auditor, and any significant changes presented to the Audit and Governance Committee for approval.

### **3. ROLE OF INTERNAL AUDIT**

- 3.1 Within local government there is a statutory requirement for an Internal Audit function. The Accounts and Audit (England) Regulations 2015 require that a local authority 'must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes'.
- 3.2 In addition, the Council's Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. The S151 Officer relies, amongst other sources, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.
- 3.3 Internal Audit's activities and responsibilities are defined and approved by the Audit and Governance Committee, via this Charter, as part of their oversight role, as it is the committee charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.
- 3.4 The Chief Internal Auditor reports functionally to the Chief Executive. In recognising the unique and critical role of the Chief Internal Auditor, CIPFA's *Statement on the Role of the Head of Internal Audit (HIA)* sets out five key principles for delivering an effective internal audit function. Each of these five principles is underpinned by expected governance arrangements, core HIA responsibilities and personal and professional standards expected of the post holder. As part of the continuous assessment of the effectiveness of the Internal Audit function, these principles are benchmarked against current practices and reported accordingly.
- 3.5 Internal Audit's primary role is to assist the Council's management team, particularly the Chief Executive, the Chief Financial Officer/Section 151 Officer, the Monitoring Officer, and Service Directors in the effective discharge of their responsibilities. To this end, Internal Audit provides them with analyses, appraisals, recommendations, advice and information to enable effective control over the activities reviewed, including the Council's financial affairs.
- 3.6 Importantly, the Internal Audit Plan culminates in the Chief Auditor providing an annual audit opinion to Members and management on the overall adequacy and effectiveness of the Council's

framework of governance, risk management and control which, in turn, informs the Annual Governance Statement. Internal Audit has a significant role / input into the production of the Annual Governance Statement (AGS) as part of the publication of the Annual Accounts.

- 3.7 Internal Audit has a role in understanding the key risks of the Council and to examine and evaluate the adequacy and effectiveness of the systems of risk management and internal control operated by the Council.

#### **4. MISSION AND AIMS OF INTERNAL AUDIT**

- 4.1 The Internal Audit function has adopted the Global Institute of Internal Auditors mission and principles as follows:

Mission: To enhance and protect organisational value by providing risk based and objective assurance, advice and insight. The core principles being:

1. Demonstrates integrity
2. Demonstrates competence and due professional care
3. Is objective and free from undue influence (independent)
4. Aligns with the strategies, objectives and risks of the organisation
5. Is appropriately positioned and adequately resourced
6. Demonstrates quality and continuous improvement
7. Communicates effectively
8. Provides risk-based assurance
9. Is insightful, proactive and future focussed
10. Promotes organisational improvement.

- 4.2 The provision of assurance services is the primary aim for internal audit, requiring the Chief Internal Auditor to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consultancy services are advisory in the nature and are usually performed at the request of the Corporate Governance Group or Service Directors, with the aim of improving governance, risk management and control and contributing to the overall opinion. Most of Internal Audit's work is assurance rather than consultancy based.

#### **5. RESPONSIBILITIES OF INTERNAL AUDIT**

- 5.1 Internal Audit is responsible for: -

- The examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management and internal control processes.
- Compliance with significant policies and procedures established by management and Members.
- Conducting its work in accordance with UKPSIAS and associated codes of ethics and other guidance for the Professional Practice for Internal Auditing.
- Ensuring that it is appropriately resourced to be able to deliver the agreed Audit Plan.

- 5.2 The delivery of the Internal Audit function is predominantly via in-house resources supplemented where necessary by engaging external resources to cover for periodic shortfalls or, for example, to provide a specific expertise.

#### **6. INDEPENDENCE AND OBJECTIVITY**

- 6.1 Internal Audit will remain free from interference by any element in the Council, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective approach to its work.

- 6.2 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 judgment. Internal Audit may, however, review systems under development and advise on appropriate controls without prejudicing its right to subsequently audit such systems.
- 6.3 Where the Chief Internal Auditor has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity. For example, the Chief Internal Auditor may be asked to take on responsibility for compliance or risk management activities. These roles could impair, or appear to impair, the organisational independence of the Internal Audit function. Safeguards would include oversight by the Audit and Governance Committee, periodic evaluation of reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.
- 6.4 The Chief Internal Auditor will confirm to the Audit and Governance Committee, at least annually, the organisational independence of the Internal Audit activity.

## **7. CONFLICTS OF INTEREST**

- 7.1 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 in forming judgments.
- 7.2 Each auditor is required to proactively declare any potential 'conflict of interest' prior to the commencement of each audit assignment. Where possible audits are rotated within the team to avoid over-familiarity and complacency.
- 7.3 In any circumstances where a potential conflict of interest were to arise this would be reported and, where applicable, appropriate arrangements approved by the Chief Executive to avoid any compromise of internal audit independence.

## **8. STATUS OF INTERNAL AUDIT IN THE COUNCIL**

- 8.1 Internal Audit has direct access to senior management, the Audit and Governance Committee, the Chief Executive and the Chair of the Audit and Governance Committee. The S151 Officer will advise the Audit and Governance Committee in relation to the required level of Internal Audit resource required in order for the Committee to make an informed decision in such matters. The Chief Internal Auditor will communicate and interact directly with senior management and the Audit and Governance Committee, including between meetings as appropriate. Outside of formal senior management meetings and meetings of the Audit and Governance Committee, the Chief Internal Auditor will have unrestricted access to the Chief Executive and to the Chair of the Audit and Governance Committee.
- 8.2 For the purposes of the Internal Audit activity, the following groups are defined:

### **Audit and Governance Committee**

The Audit and Governance Committee is responsible for providing independent assurance to the Council of the adequacy of the risk management framework, associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The Audit and Governance Committee is also responsible for oversight of the Internal Audit function, including:

- To agree the Council's Internal Audit Strategy Plan, Annual Audit Plan and monitor performance against all associated plans.
- To review summary Internal Audit reports and the main issues arising and seek assurance that action has been taken where necessary.
- To receive an Annual Report from the Chief Internal Auditor.

### **Corporate Governance Group**

The Council's Corporate Governance Group helps provide leadership and direction for the Council. The Group is responsible for monitoring and reviewing the corporate governance framework including:

- The Council's constitution, including financial regulations, contract standing orders and officer delegation;
- The Local Code of Corporate Governance;
- The annual governance statement for inclusion in the council's statutory statement of accounts;
- Risk management, including the corporate risk register;
- Anti-fraud and anti-corruption policies and measures.

### **Senior Management**

- 8.3 For line management purposes, the Chief Internal Auditor reports to the ~~Chief Executive~~ **Section 151 Officer**, who approves all decisions regarding the performance, evaluation, appointment, or removal of the Chief Internal Auditor, in consultation with the Audit and Governance Committee. The Section 151 Officer should ensure an effective Internal Audit function is resourced and maintained.
- 8.4 The day to day operational management of the Internal Audit function lies with the Chief Internal Auditor who is accountable through the ~~Chief Executive~~ **Section 151 Officer** to the Audit and Governance Committee for standards of performance and the proper discharge of the audit function.
- 8.5 The Chief Internal Auditor is responsible for the preparation of the Annual Audit Plan, agreeing it with Members and the effective implementation of the Audit Plan. Prior to drawing up the Audit Plan, the Chief Internal Auditor will consult with Service Directors, Service Managers and Corporate Governance Group with regard to risks, concerns etc. and take account of any issues raised by them.

## **9. AUTHORITY AND ACCESS FOR INTERNAL AUDIT WORK**

- 9.1. Internal Audit, with strict regard to confidentiality and safeguarding records and information, is authorised full, free and unrestricted access to any and all Council records (paper and computerised), physical properties, IT systems and personnel pertinent to carrying out any engagement. Such access will be granted on demand and need not be subject to prior notice. However, Internal Audit will endeavour to give adequate and reasonable notice, where possible, when working on routine audit reviews.
- 9.2 Internal Audit also has free and unrestricted access to the Audit and Governance Committee and senior management. Internal Audit examines and evaluates, on a risk focussed basis, the whole system of controls established by management, not just the controls over financial accounting and reporting, but all operational and management controls.

## **10. SCOPE**

- 10.1 The scope of Internal Audit work encompasses but is not restricted to the following: -

- the adequacy and effectiveness of the systems of financial, operational and management control and their operation in practice in relation to the Council's defined goals and objectives;
- the extent of compliance with, relevance of, and financial effect of, policies, strategies, standards, plans and procedures established by the Council and the extent of compliance with external laws and regulations;
- the extent to which the assets and interests are acquired, accounted for and safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, poor value for money, fraud or other cause;
- the suitability, reliability and integrity of financial and other management information and the means used to identify, measure, classify 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 aims;
- the suitability of the organisation of the areas audited for carrying out their function, to ensure that services are provided in a way which is economical, efficient and effective;
- the follow-up actions taken to implement recommendations made and remedy weaknesses identified by Internal Audit, ensuring that good practice is identified and widely communicated;
- the operation of the Council's corporate governance and risk management arrangements.

10.2 Internal Audit may undertake consultancy activity (normally additional activity requested by management) where it has the necessary skills and resources to do this, and this will be determined by the Chief Internal Auditor in consultation with Chief Executive on a case by case basis.

## **11. PLANNING AND REPORTING**

11.1 A risk based approach is adopted in planning the work of the audit function. This involves a needs and risk assessment of all the activities carried out by the Council from which an Annual Plan is prepared. The type of audits covered include: -

- Key financial systems reviews
- Systems/Operational Reviews – either high level assurance or full scope detailed reviews.
- Proactive Anti-fraud work and fraud investigations are referred to the Corporate Fraud Team as appropriate.
- Specialist Audits (for example, contract/computer/major projects)
- Corporate governance and risk management support work
- Audit Advice
- Staff training and promotion of awareness

11.2 The Chief Internal Auditor submits to Members for approval an Annual Internal Audit Plan, setting out the recommended scope of audit work in the period based upon risk assessment criteria. The Annual Plan is developed with reference to a longer term strategic outlook for Internal Audit work for the three year period, prepared in conjunction with management. The Audit Plan is a dynamic document, which is flexible and reactive to situations arising during the course of the period covered and hence may be subject to review and revision during the year.

- 11.3 In determining the Annual Internal Audit Plan and coverage, the Chief Internal Auditor takes into account several factors including the Council's risk management arrangements and other assurance and monitoring arrangements for achieving the Council's objectives. The allocation of resources is based upon the relative knowledge, skills, experience and any specialisms that may be required. The Chief Internal Auditor can also draw upon other parties to deliver internal work for example to meet "in-house" shortfalls arising from sickness, vacancies or to provide a particular specialism providing the costs can be managed within the approved operational budget for the audit service. If the Chief Internal Auditor considers that the audit resources available in any way limit the scope of Internal Audit or prejudice the ability of Internal Audit to deliver a service consistent with the standards expected, then those charged with the governance of the Council would be advised accordingly.
- 11.4. Internal Audit carry out the work, as agreed, report upon the outcome and findings, and make appropriate recommendations on the action to be taken as a result. Directors' response will include a timetable for anticipated completion of action to be taken. The reporting arrangements will include both individual and composite reports to Service Directors and the Corporate Governance Group and where appropriate to the Audit and Governance Committee, at the agreed intervals.
- 11.5 Internal Audit is responsible for appropriate follow up on engagement findings and recommendations and will report to the Audit and Governance Committee on the results.
- 11.6 Internal Audit will report to the Audit and Governance Committee, in accordance with the agreed arrangements, on the overall adequacy of the internal control system, governance and risk management arrangements and major findings, recommendations and management actions. Any significant deviation from the approved Audit Plan will be communicated through the periodic activity reporting process.
- 11.7 Based upon its work, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit and Governance Committee and to the Corporate Governance Group, including fraud risks, governance issues, and other matters needed or requested by these bodies. This ensures that Internal Audit plays a key role in providing assurance to the Audit and Governance Committee and the Corporate Governance Group on the effectiveness of the entire control environment.

## **12. FRAUD AND CORRUPTION**

- 12.1 Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. However, internal auditors should be alert in all their work to risks and exposures that could allow fraud and corruption to take place and to any indicators that fraud and corruption may have occurred. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.
- 12.2 It is individual service areas' responsibility to consider the risk and impact of fraud and to design and implement suitable safeguards to mitigate these risks. The role of Internal Audit in relation to countering fraud is to support services in minimising fraud-related risk. It does this in several ways including:
- Liaison and provide assistance to the Corporate Fraud Team, as part of the Internal Audit Function.
  - Developing and reviewing the Council's Anti-Fraud and Corruption Strategy.
  - Maintaining a Fraud Response Plan.
  - Financial Regulations requiring all incidents of suspected or detected fraud to be notified to the Chief Internal Auditor.
  - Developing and maintaining data and intelligence networks with appropriate bodies including the Cabinet Office (National Fraud Initiative), Police, other Local Authorities and Government agencies.

12.3 Suspected or detected fraud should be notified to Internal Audit and the Section 151 Officer, who will decide on the most appropriate course of action and a decision taken as to who should lead any subsequent investigation, whether it is Internal Audit, the Corporate Fraud Team or service management, and whether to report to the police.

### **13. PERIODIC ASSESSMENT**

13.1 Internal Audit will, in conjunction with the Audit and Governance Committee, provide regular reports on its performance and effectiveness drawing upon both quantitative and qualitative measures including feedback adherence to professional standards. Furthermore, there will be mechanisms for quality control/continuous improvement in service delivery through such measures including internal self-assessments, peer reviews and independent external assessment, the latter to be conducted at least every five years.

### **14. RESPONSIBILITIES OF CORPORATE GOVERNANCE GROUP AND DIRECTORS**

14.1 The Council's Corporate Governance Group and Service Directors have responsibility for determining the scope of Internal Audit work, in relation to relevant professional standards / guidelines, and for deciding the action to be taken on the outcome of, or findings from, their work.

14.2 They also have a responsibility to ensure that the Internal Audit function has: -

- the support of management,
- adequate resources; and
- direct access and freedom to report to senior management and Members, including the Section 151 Officer, Monitoring Officer, Chief Executive and Cabinet / the relevant Committee.

14.3 The Corporate Governance Group and Service Directors also have primary responsibility for establishing and maintaining a proper and effective control environment and for managing risk, including proper accounting records and other management information for running the Council. In addition there is also a primary responsibility for the prevention and detection of fraud, including the prompt reporting to all relevant parties of any evidence or reasonable suspicion of an irregularity.

14.4 During the course of an audit, Service Directors and their staff will be required to cooperate fully with the auditor's requirements, including the completion of action plans, signing off audit reports and the timely implementation of specific and agreed recommendations made by Internal Audit.

### **15. RELATIONSHIP WITH THE EXTERNAL AUDITORS / OTHER REGULATORY BODIES**

15.1 Internal Audit will consult and where appropriate work closely with others, including the external auditors, to minimise areas of duplication and to maximise the value obtained from the total audit resource. However, the work of Internal Audit will not be driven by external audit's own priorities.

Sarah Marsh – Chief Internal Auditor

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**(Date of next review; January 2022)**