

Appendix 4

**Internal Audit (Shared Service) Charter
November 2023**

Broxbourne Borough Council



Epping Forest District Council



Harlow District Council



St Albans City and District Council



INTERNAL AUDIT CHARTER

1. INTRODUCTION AND PURPOSE

Broxbourne, Epping Forest, Harlow and St Albans City and District Councils (the Councils) operate an Internal Audit Shared Service (Internal Audit). The purpose of this Charter is to set out the nature, role, responsibility, status and authority of Internal Audit, and to outline the scope of Internal Audit across all four councils. The Charter will also be used to monitor the performance of the Internal Audit service.

The Public Sector Internal Auditing Standards (PSIAS) 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'.

Internal Audit work is conducted in accordance with the PSIAS 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. STATUS OF INTERNAL AUDIT IN THE COUNCIL AND THEIR DEFINITIONS

Within the PSIAS, the terms 'board' and 'senior management' need to be interpreted in the context of the governance arrangements at each organisation. For the purposes of the Internal Audit activity and for this Charter, the following definitions apply:

The Board	<p>Responsible for overseeing the effectiveness of the internal audit function through the receipt of regular updates and reports. It is also responsible for the effectiveness of the governance, risk and control environment within the council, holding officers to account for delivery, including:</p> <ul style="list-style-type: none">• Performance indicators measuring operational effectiveness• The overall strategic direction of the service <p>At Broxbourne and Harlow, this shall mean the Audit and Standards Committee, and at Epping Forest and St Albans, this shall mean the Audit and Governance Committee. For the purpose of this Charter, all councils' Committees will be collectively referred to as the 'Audit Committee'.</p>
Senior Management	<p>Responsible for helping shape the programme of assurance work through an analysis and review of key risks to achieving the Councils' objectives and priorities. Senior management provides leadership and direction to the council.</p> <p>At Broxbourne, this shall mean the Corporate Management Team (CMT)</p> <p>At Harlow, this shall mean the Senior Management Board (SMB)</p> <p>At Epping Forest, this shall mean the Executive Team (ET)</p>

	<p>At St Albans, this shall mean the Strategic Leadership Team (SLT)</p> <p>For the purpose of this Charter, all councils' Senior Management will be collectively referred to as the 'Senior Management Team (SMT)' and their respective Directorate Management teams will be collectively referred to as 'Heads of Service'.</p>
Head of Internal Audit	<p>Responsible for the preparation of the Annual Audit Plan and its effective implementation following it being agreed with Members. Prior to drawing up the Audit Plan, the Head of Internal Audit will consult with Heads of Service, their direct reports and SMT with regard to risks, concerns etc. and take account of any issues raised by them.</p>
Chief Finance Officer (S151 Officer)	<p>Responsible for the approval of all decisions regarding the performance, evaluation, appointment, or removal of the Head of Internal Audit.</p> <p>At Broxbourne and Harlow, this role is held by the Director of Finance.</p> <p>At Epping Forest, this role is held by the Strategic Director.</p> <p>At St Albans, this role is held by the Strategic Director – Customer, Business and Corporate Support.</p> <p>For the purpose of this Charter, all councils' Chief Finance Officer will be collectively referred to as 'Section 151 Officer'.</p>

Internal Audit has direct and unrestricted access to the Chief Executive, the Chairman and members of the Audit Committee and Senior Management. The Head of Internal Audit will communicate and interact directly with each Senior Management Team and the Audit Committee, including between meetings as appropriate.

3. ROLE OF INTERNAL AUDIT

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 function to evaluate the effectiveness of its risk management, control and governance processes.

In addition, the council's Chief Financial Officer (the S151 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.

Internal Audit's activities and responsibilities are defined and approved by the Audit Committee, via this Charter, as part of their oversight role, as it is this 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.

The Head of Internal Audit reports functionally to the S151 Officer. In recognising the unique and critical role of the Head of Internal Audit, CIPFA's Statement on the Role of the Head of Internal Audit (HIA) (2019 edition) 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.

Internal Audit's primary role is to assist the council's Senior Management Team (SMT) and councillors in the effective discharge of their responsibilities. To this end, Internal Audit provides them with data, appraisals, recommendations, advice and information to enable effective control over the activities reviewed, including the Council's financial affairs.

Importantly, the Internal Audit Plan culminates in the Head of Internal Audit providing an annual audit opinion to councillors 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 in the production of the Annual Governance Statement (AGS) as part of the publication of the Statement of Accounts.

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

The Internal Audit function has adopted the Global Institute of Internal Auditors mission and principles, which are also incorporated in the Public Sector Internal Audit Standards, as follows: Mission: To enhance and protect organisational value by providing risk based and objective assurance, advice and insight. The core principles being:

- Demonstrating integrity
- Demonstrating competence and due professional care
- Objective and free from undue influence (independent)
- Aligned with the strategies, objectives and risks of the organisation
- Appropriately positioned and adequately resourced
- Demonstrating quality and continuous improvement
- Communicating effectively
- Providing risk-based assurance
- Insightful, proactive and future focussed
- Promoting organisational improvement

The provision of assurance services is the primary aim for Internal Audit, requiring the Head of Internal Audit 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 SMT or Heads of Service, with the aim of improving governance, risk management and control and contributing to the overall opinion. The majority of Internal Audit's work is assurance rather than consultancy based.

5. RESPONSIBILITIES OF INTERNAL AUDIT

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 councillors
- Conducting its work in accordance with PSIAS 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 Audit Plan

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

6. INDEPENDENCE AND OBJECTIVITY

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.

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 will advise on appropriate controls without prejudicing its right to subsequently audit such systems. Where the Head of Internal Audit has or is expected to have roles and responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

The Head of Internal Audit will confirm to the Audit Committee, at least annually, the organisational independence of the Internal Audit activity.

7. 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 in forming judgments.

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.

Where a potential conflict of interest arises this would be reported and, where applicable, appropriate arrangements approved by the Section 151 Officer to avoid any compromise of internal audit independence.

8. AUTHORITY AND ACCESS FOR INTERNAL AUDIT WORK

Internal Audit is authorised full, free and unrestricted access to any and all records (paper and computerised), physical properties, IT systems and personnel pertinent to carrying out any engagement. Such access will be granted on request 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.

Internal Audit examines and evaluates, on a risk focussed basis, the whole system of control established by management, not just the controls over financial transactions, but all operational and management controls.

9. SCOPE

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 corporate 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; and that the process aligns with the Council's corporate objectives
- the suitability of the service area being audited to ensure that services are provided in a way which offers value for money
- 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.

Internal Audit may undertake additional activities requested by management where it has the necessary skills and resources to do this, and this will be determined by the Head of Internal Audit in consultation with the Section 151 Officer on a case-by-case basis.

10. PLANNING AND REPORTING

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 and operational reviews – either high level assurance or full scope detailed reviews
- Proactive anti-fraud work and fraud investigations
- Specialist audits (for example contract, IT, major projects)
- Corporate governance and risk management support work
- Audit advice
- Staff training and promotion of awareness.

The Head of Internal Audit 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.

In determining the annual Internal Audit plan and coverage, the Head of Internal Audit 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 Head of Internal Audit 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 overall approved budget for the audit. If the Head of Internal Audit considers 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 the Section 151 Officer would be advised accordingly.

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. Responses will include a timetable for anticipated completion of action to be taken. The reporting arrangements will include both individual and composite reports to Heads of Service, their direct reports and SMT and where appropriate to the Audit Committee. Internal Audit is responsible for appropriate follow up on engagement findings and recommendations and will report to the Audit Committee on the results.

Internal Audit will report to the Audit 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.

Based upon its work, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Senior Management Team and to the Audit Committee, 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 on the effectiveness of the entire control environment.

11. FRAUD AND CORRUPTION

Internal Audit does not have responsibility for the prevention or detection of fraud or 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.

It is the 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:

- Developing and reviewing the Anti-Fraud and Corruption Strategy
- Maintaining a Fraud Response Plan
- Adhering to the requirement laid out in the Financial Regulations requiring all incidents of suspected or detected fraud to be notified to the Section 151 Officer
- Working with any bought in or internal specialist anti-fraud services
- Developing and maintaining data and intelligence networks with appropriate bodies including the Cabinet Office (National Fraud Initiative), police, other local authorities and government agencies
- Providing anti-fraud awareness training and guidelines to staff in conjunction with the Council's specialist bought in or internal anti-fraud service.

Once any suspected or detected fraud has been notified to the Section 151 Officer the appropriate course of action will be discussed with the Head of Internal Audit and a decision taken as to who should lead any subsequent investigation, whether it is Internal Audit, specialist anti-fraud service management, and whether to report the case to the police.

12. PERIODIC ASSESSMENT

Internal Audit will, in conjunction with the Audit Committee, provide regular reports on its performance and effectiveness drawing upon both quantitative and qualitative measures including adherence to professional standards. Furthermore, there will be mechanisms for quality control and 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.

13. RESPONSIBILITIES OF CORPORATE MANAGEMENT TEAM AND HEADS OF SERVICE

The Councils' Senior Management Team and Heads of Service have responsibility for determining the scope of Internal Audit work, in relation to relevant professional standards and guidelines, and for deciding the action to be taken on the outcome of, or findings from, their work.

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

SMT and Heads of Service 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. 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.

During the course of an audit, Heads of Service, service managers 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 agreed with Internal Audit.

14. RELATIONSHIP WITH THE EXTERNAL AUDITORS AND OTHER REGULATORY BODIES

Internal Audit will consult and where appropriate and 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 – Head of Internal Audit
November 2023

(Date of next review November 2024)