

**Suffolk Coastal District Council and
Waveney District Council**

Appendix A

INTERNAL AUDIT CHARTER

SEPTEMBER 2018

1. INTRODUCTION

- 1.1 This Internal Audit Charter defines the purpose, authority and responsibility of the Internal Audit Service across Suffolk Coastal and Waveney District Council.
- 1.2 The requirement for an Internal Audit function for local authorities is implied by Section 151 of the Local Government Act 1972 which requires that authorities make arrangements for the proper administration of their financial affairs. Regulation 6 of the Accounts and Audit (England) Regulations (2015) require every Local Authority to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to Internal Control. All auditing activity within each Council is accountable to the Audit and Governance Committee.
- 1.3 The Public Sector Internal Audit Standards (PSIAS) are mandatory and apply to all public sector internal audit service providers from 1 April 2013.

2. THE MISSION OF INTERNAL AUDIT

- 2.1 To enhance and protect organisational value by providing risk-based independent and objective assurance, advice and insight.

3. DEFINITION

- 3.1 Internal Audit officers shall conduct themselves by adhering to the PSIAS which encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF):

- Definition of Internal Auditing
- Code of Ethics;
- The Seven Principles of Public Life and
- International Standards for the Professional Practice of Internal Auditing

- 3.2 The PSIAS provides the following definition of Internal Audit:

“Internal Auditing main purpose is 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.”

3.3 A public sector requirement of the PSIAS is for this Charter to define the terms ‘board’ and ‘senior management’ for the purpose of internal activity. These terms must be interpreted in the context of the governance arrangements within the organisation.

3.4 The Board

The PSIAS definition of the Board informs that it ‘...*may refer to an audit committee to which the governing body has delegated certain functions*’. For the Council responsible for, ‘...*the promotion and maintenance within the Authority for high standards in relation to the operation of the Council’s Code of Corporate Governance*’ is delegated to the Audit Committee. Consequently, at the Council the Audit and Governance Committee will perform the function of the Board.

3.5 The Senior Management Team

There is not a specific definition of ‘senior management’ within PSIAS. Consequently, Corporate Management Team (CMT) will perform the function of the Senior Management Team.

4. OBJECTIVES OF THE INTERNAL AUDIT SERVICE

4.1 To act as an assurance function that provides an independent and objective opinion on the control environment by evaluating its effectiveness in achieving the Councils’ objectives. Where other external and internal assurance providers may have undertaken relevant assurance and audit work, Internal Audit will seek to rely on the work of these other assurance providers where professional standards would make it appropriate to do so.

4.2 To objectively examine, evaluate and report on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

4.3 To determine whether risk management, control, and governance processes, within the Councils and over functions that have been delegated or contracted out, and where it remains accountable for the expenditure involved, are effective, efficient and provide value for money.

4.4 Provide resources to meet each Council’s counter fraud requirements including the investigation of fraud and irregularities.

4.5 Act in a consultancy capacity by providing guidance and advice for strengthening the control environment. The objectives of the Consulting engagement address governance, risk management, ethical and control processes to the extent agreed upon with the client and are consistent with the Councils’ values, strategies and objectives and has been approved by a Head of Service.

5. ROLE OF INTERNAL AUDIT

5.1 To meet its objectives Internal Audit will:

- Review and assess the soundness, adequacy and reliability of financial and non-financial management and performance systems, and quality of data that support the controls (including those for risk management, corporate governance and ethical framework) established for the proper administration of each Council's activities;
- Review and assess the effectiveness of internal controls and make recommendations to improve where appropriate;
- Review and assess procedures to check each Council's assets and interests are properly accounted for, adequately protected and risks are identified and effectively managed;
- Check for the extent of compliance with legislation, councils' policies, plans and procedures to ensure that good standards of management are maintained and that decisions taken by each Council, their committees and management are correctly applied;
- Examine, review, appraise and report upon the application of proper authorisation within the delegated authorities given by the various levels of management;
- Promote and assist each Council in the economic, efficient and effective use of resources to in the achievement of each Council's corporate objectives. This includes the provision of any consultancy (advice, facilitation, training etc) work as well as assurance services;
- Undertake independent investigations into allegations of fraud and irregularity in accordance with each Councils policies and procedures and relevant legislation.

6. AUDIT PLANNING/REPORTING

6.1 The Head of Internal Audit shall be accountable to the Chief Executive and Audit and Governance Committees to develop an Audit Plan for each Council in consultation with Senior Management using a risk-based methodology and submit such plan to the appropriate Audit and Governance Committee for review and approval prior to the commencement of each financial year. If necessary to agree significant changes to the Audit Plan with the Audit and Governance Committees.

6.2 The Audit Plan involves a regular assessment of the audit universe which feeds into each Council's risk based audit plan. It takes into account emerging issues throughout the year and then matches appropriately qualified resources to be an adequate and effective service.

- 6.3 Formal audit reports will be issued which provide management with an opinion on the adequacy of the internal control system and to inform them of significant audit findings, conclusions and recommendations. The relevant Head of Service will receive a copy of the final audit report.
- 6.4 Frequent summary reports provided to the Audit and Governance Committees include a summary of work undertaken within a period in line with the Audit Plan; lists audit reports issued within the period, opinions and sufficiency of the Internal Audit Service's resources. The report also includes information that is of interest or needs to be brought to an Audit and Governance Committee's attention; and the escalation status of overdue management actions.
- 6.5 An end of year report which provides a summary of the year's work of the Internal Audit Service will be provided to each Audit and Governance Committee. The report includes information on the performance of the Internal Audit Service; an objective evaluation and opinion from the Head of Internal Audit on the overall adequacy and effectiveness of each Council's framework of governance, risk management and control and any significant issues related to the processes for controlling the activities of a Council. The issue of this report is timed to support the annual review of each Council's Corporate Governance and production of each Council's Annual Governance Statement.

7. ACCESS

- 7.1 Each Council's Constitution provides responsibility to the Head of Internal Audit to provide an unrestricted ability to plan and undertake audit assignments deemed necessary to fulfil its purpose, and have a right of direct access to the Chair of the Audit and Governance Committees in doing so. To enable the service to discharge its duties fully, the Head of Internal Audit and officers of the Internal Audit function are authorised to have:
- Unrestricted access to all functions, records, property, and personnel;
 - Full and free access to the Audit and Governance Committees;
 - The necessary assistance of officers in service areas where they perform audits, as well as other specialised services from partner organisations and third party suppliers where contract terms include internal audit access rights.
- 7.2 Internal Audit will comply with any requests from the External Auditor or access to any information, files or working papers obtained or prepared during audit work that is required to discharge their responsibilities.
- 7.3 The Head of Internal Audit can report directly to each Council's Chief Executive and also has right of access to all Councillors.

8. INDEPENDENCE AND OBJECTIVITY

- 8.1 The Internal Audit Service will ensure it remains independent of the processes that it reviews so that it performs its duties in a manner that facilitates impartial and effective professional judgements and recommendations.

- 8.2 The Internal Audit Service will have no direct operational responsibility or authority over any of the processes reviewed. The Internal Audit Service will not develop, install systems and procedures, prepare records or engage in any other process that would then be subject to an Internal Audit by the existing service, although consultancy services can be provided.
- 8.3 Every effort will be made to preserve objectivity by ensuring all officers of the Internal Audit Service are free from any conflicts of interest; do not undertake any non-audit duties and have an impartial and unbiased attitude.
- 8.4 The Internal Audit Service is involved in the determination of its priorities in consultation with those charged with governance. The Head of Internal Audit has direct access and freedom to report in her name and without fear or favour to all officers and Councillors.
- 8.5 The Internal Audit Service will perform all duties in line with the four standards set out within the PSIAS i.e. integrity, objectivity, competency; and confidentiality. The service will operate at a high level of professionalism making use of audit skills, knowledge and judgement based on appropriate experience and training.
- 8.6 Where there is a conflict of standards, the PSIAS set out above within this Charter will take precedent.
- 8.7 Internal Audit will safeguard information received in carrying out its duties. Any information gained during the course of the audit work will remain confidential, without limiting or preventing Internal Audit from reporting within each Council as appropriate. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information sought will not be used to affect personal benefit.

9. RELATIONSHIPS AND RESPONSIBILITIES

9.1 The Head of Internal Audit and Internal Audit officers will:

- Maintain effective relationships with the managers. Regular meetings will be held with key stakeholders and management will be consulted during the audit planning process. Timing of audit work will be in conjunction with management;
- Take account of the results and reports from any inspections when planning and undertaking Internal Audit work. Where appropriate the Head of Internal Audit will establish a dialogue with representatives of the appropriate inspection agencies;
- Maintain an established working relationship with the External Auditor where internal and external audit can rely on each other's work, subject to the limits determined by their responsibilities, enabling them to evaluate, review and only re-perform where necessary. Regular meetings will be held and plans and reports shared.

- 9.2 The Head of Internal Audit will establish a working relationship with members, in particular with members of the Audit and Governance Committees. The Head of Internal Audit has the right to meet privately with the Chairmen of the Audit and Governance Committees, if desired.
- 9.3 The Head of Internal Audit will maintain an effective working relationship with the Chief Financial Officer who leads and directs financial strategy and operations.
- 9.4 Responsibility of the Councils:
- To ensure an adequate and effective Internal Audit function is maintained.
- 9.5 Responsibilities of the Audit and Governance Committees:
- To agree the Annual Internal Audit Plan;
 - To receive all Internal and External Audit reports, to monitor the progress of Internal Audit recommendations, and to respond to any referred to the Audit and Governance Committees.
- 9.6 Responsibilities of Heads of Service:
- To ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work;
 - To ensure that auditors are provided with any information and explanations that they seek in the course of their work;
 - To consider and respond promptly to recommendations in audit reports;
 - To ensure that any agreed actions arising from audit reports are carried out in a timely and efficient manner;
 - To notify the Head of Internal Audit immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the Councils' property or resources. Pending investigation and reporting, the Heads of Service should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration. All employees involved shall regard the information, and its source, as confidential.

10. INTERNAL AUDIT RESOURCES

- 10.1 Internal Audit must have sufficient resources in terms of numbers, qualification levels and experience. If the Head of Internal Audit concludes that resources are insufficient, this will be reported to the Chief Executive and, if the position is not resolved, to the Audit and Governance Committees, who have ultimate power to report this to Full Council.

- 10.2 Internal Auditors training and personal development needs are established through an appraisal process and it is the responsibility of the Head of Internal Audit to ensure that auditors receive the appropriate professional, technical and personal development training.
- 10.3 The Head of Internal Audit is responsible for appointing the staff for the Internal Audit Service and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.

11. QUALITY ASSURANCE

- 11.1 PSIAS Standard 1300 'Quality Assurance and Improvement Programme' requires that the Internal Audit function is subject to a quality assurance and improvement programme that must include both internal and external assessments.
- 11.2 To support the quality assurance and improvement programme, the PSIAS is accompanied by an Application Note which includes a checklist for measuring the performance of the Internal Audit Service against the PSIAS. The Head of Internal Audit will share the results of internal and external assessments with the Chairmen of the Audit and Governance Committees.
- 11.3 The Internal Audit Service is fully committed to continually reviewing and assessing the service provided and this is aided by the adoption of performance indicators to measure and evaluate the performance of the service.
- 11.4 All Internal Audit engagements are subjected to a thorough internal quality review by either the Head of Internal Audit or Audit Manager to ensure that all work undertaken is in accordance with PSIAS; work is planned and undertaken in accordance with risks associated with areas under review and the conclusions in the final reports are fully supported by detailed work undertaken.
- 11.5 Post audit feedback surveys are issued to managers that have been subject to an internal audit to obtain their satisfaction with the internal audit service provided.
- 11.6 The External Auditor keeps the performance of the Internal Audit service under continuous review to ensure reliance is placed on its work.
- 11.7 An external assessment of the Internal Audit Service must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Partnership. The Head of Internal Audit will discuss options for the assessment with the Chief Executive and the Audit and Governance Committees.
- 11.8 An Internal Audit Manual reflects the standards as outlined in the PSIAS. It sets out the approach and methodology for the delivery of Internal Audit engagements. The objective of the Audit Manual is to:
- Define the relevant council policies and procedures to be applied during the delivery of Internal Audit services; and

- Provide guidance to both new and existing Internal Audit officers on how such procedures should be applied to Internal Audit engagements.

The Audit Manual is constantly under review and updated in accordance with the PSIAS and its Application Note.

12. FRAUD AND CORRUPTION

12.1 The Head of Internal Audit and his/her authorised representatives shall ensure that the Chief Executive is advised of circumstances where the Internal Audit investigations, reviews and reports reveal fundamental weaknesses within the organisation or are relevant in any other way to the Chief Executive.

12.2 Responsibility for the prevention and detection of fraud and corruption is a matter for all employees. The joint Anti-Fraud and Corruption Management Strategy and other supporting fraud related policies set out each Council's approach.

12.3 The Internal Audit Service shall be informed immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of each Council's property or resources. In certain circumstances Internal Audit may require the assistance of external agencies such as the Police, Revenue and Customs and other Government Agencies. The type and extent of contact and consultation will be determined by the Head of Internal Audit upon the circumstances of the case under review.

12.4 In accordance with PSIAS, officers of the Internal Audit Service are aware that it is their responsibility to:

- Declare interests in accordance with the requirements set by the organisation on the type and nature of interests that should be declared;
- Not accept any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by each Council's own policies);
- Not use information obtained during the course of duties for personal gain;
- Disclose all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements; and
- Ensure compliance with the Bribery Act 2010.

12.5 All Internal Audit officers are required to complete an annual declaration of their interests. This is undertaken as part of an annual appraisal and is in line with professional ethics. The Head of Internal Audit is responsible for ensuring that audit officers are not assigned to operational areas or investigations that could compromise their independence (including previous and/or secondary elsewhere in the organisation).

13. REVIEW

- 13.1 The Head of Internal Audit will periodically review this Charter and present it to the Audit and Governance Committees and senior management at least every two years.