

# Internal Audit Charter

MARCH 2021



## Introduction

The [Public Sector Internal Audit Standards](#) provide a consolidated approach to internal auditing standards across the whole of public sector. They are an expansion of international standards by HM Government, adding elements specific to the UK public Sector. The 'Standards' form part of the wider mandatory <sup>(1010)</sup> elements of the International Professional Practices Framework (IPPF) which is applicable to all UK Local Authorities:



The Standards require Internal Audit to implement and maintain an **Internal Audit Charter** <sup>(1000)</sup>. The Charter defines formally the purpose, authority and responsibility of Internal Audit.

## Mission & Core Principles

The IPPF's overarching mandated Mission for internal audit services is: ***'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'*** The 'Core principles' that underpin delivery of the IPPF mission require internal audit functions to:

- Demonstrate integrity;
- Demonstrate competence & due professional care;
- Be objective and free from undue influence (independent);
- Align with the strategies, objectives and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive, and future-focused; and
- Promote organisational improvement

### Definition of Internal Auditing:

*'An independent, objective assurance and consulting function 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'*

(PSIAS March 2017)

## Authority <sup>(1000)</sup>

All local authorities must make proper provision for internal audit in line with the [Local Audit and Accountability Act 2014](#) and the Accounts and Audit Regulations 2015 (regulation 5). The latter requires authorities to:

***“...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.”***

Deriving authority from those Regulations and those authorising this Charter, Internal Audit is free to plan and undertake any audit work necessary to fulfil its scope <sup>(1110.A1)</sup> (the scope of the service is covered later in this document). To enable full discharge of its duties, Internal Audit:

- Has a right of direct access to the Chair of the Audit Committee and Chief Executive <sup>(1110 PSR & 1111)</sup>;
- Has free and unrestricted access to all services, records (including those held electronically), property and personnel (Members, officers and third parties including contractors) that it deems necessary in order to undertake its work.

## Purpose <sup>(1000)</sup>

Internal audit is a vital component to the Council’s effective running, and will provide assurance, advice and insight to help protect and enhance the internal control, governance and risk management arrangements. The role of internal auditing has a mandatory definition within the Standards, as:

***‘an independent, objective assurance and consulting function 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’***

The service has a wider role to be the Council’s ‘critical friend’, able to confidently challenge current practice, champion best practice and support management in improvement. This is achieved through internal audit providing assurance and consulting activities.

## Responsibility <sup>(1000)</sup>

Responsibility for maintaining an effective system of internal audit within Sevenoaks District Council lies with the Deputy Chief Executive and Chief Officer – Finance & Trading (S151 Officer).

Provision of the internal audit service is through the **Dartford and Sevenoaks Internal Audit Partnership**, a shared service of audit professionals. The role of Chief Audit Executive (CAE) is fulfilled by the Audit Manager, who is responsible for managing the internal audit service in accordance with the IPPF and arrangements as set out in this Charter.

For the purposes of this Charter the following definitions apply:

- **The Board:** Those charged with governance of the Internal Audit function. For Sevenoaks this role is fulfilled by the [Audit Committee](#). The Board is responsible for approving the Charter and Audit Plan, and has oversight of the external assessment process. The Board will receive progress updates including the results of work undertaken and outcomes of the Quality Assurance and Improvement Programme (defined later in this document).
- **Senior Management:** Those responsible for executive leadership and direction. For Sevenoaks this role is fulfilled by the **Strategic Management Team**. Senior Management is engaged in approving the Charter,

reviews and comments on the Audit Plan, and will receive the results of internal audit work as set out in the scope of this Charter.

The Audit Manager reports functionally to the Audit Committee, and, with respect to activities undertaken at Sevenoaks, reports administratively to the Deputy Chief Executive and Chief Officer – Finance & Trading (Section 151 Officer).

### Independence & Objectivity <sup>(1100)</sup>

Internal Audit will remain free from undue interference in determining the scope and nature of its work and communicating its results. The Audit Manager will consider independence and objectivity as part of each audit and will confirm independence and objectivity at least annually to the Audit Committee.

Auditors must maintain *'an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made'* <sup>(PSIAS March 2017)</sup>. Maintaining objectivity requires auditors to be impartial and to avoid conflicts of interests that may otherwise impact on their professional judgement.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- Is not authorised to perform executive or operational responsibilities
- Cannot initiate or approve accounting transactions (outside of administration of the service)
- Cannot direct the activities of any Council employee (outside of administration of the service)
- Has the freedom and authority to report in its own name
- Recognises and addresses potential conflicts of interest through internal audit staff not undertaking an audit for at least 1 year in an area where they have had previous operational roles <sup>(1130.A1)</sup> and through adherence to the Council's declaration of interest processes

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to 'Senior Management' and 'the Board'.

### Ethical Conduct and Due Professional Care <sup>(1200)</sup>

Internal auditors will conduct themselves at all time in accordance with the principles contained in the professional Code of Ethics (Competence, Confidentiality, Integrity and Objectivity). They will also behave in accordance with the Seven Principles of Public Life (Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, Leadership).

Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work is designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal auditors have a duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity and objectivity. Internal auditors will appraise themselves of the 'Mission', 'Core Principles', 'Definition of Internal Auditing', the 'Code of Ethics' and the 'Standards' and will work in accordance with them in the conduct of their duties.

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They have a direct, personal responsibility to report any suspicions of fraud, corruption or improper conduct to the Audit Manager in accordance with agreed procedures.

Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used for personal gain, and will be managed in accordance with data protection and relevant information governance policies.

## Scope of Internal Audit Activities

The scope of Internal Audit work covers all of the organisation's activities, systems and services including those provided by third parties.

## Assurance

Internal Audit work includes tasks that support the annual Audit Opinion. This assurance work covers three areas:

- **Internal Control:** The process for assuring achievement of the Council's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and non-financial systems.
- **Corporate Governance:** The system of rules, practices and processes by which the Council is directed and controlled.
- **Risk Management:** The process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.

In addition to those three core areas Internal Audit may, subject to specific arrangements, undertake engagements in the areas of non-audit work, counter fraud and operational risk management as detailed in this Charter.

## Internal Audit Plan <sup>(2010)</sup>

The Audit Manager produces a Risk Based Internal Audit Plan to determine the priorities of the internal audit activity. The plan is developed in consultation with management, taking into account the Council's priorities, objectives, risk management framework and internal audit's own judgement of risks.

Strategic Management Team is consulted on the Risk Based Internal Audit Plan, which will detail internal audit activities. The plan is reported to the Audit Committee for approval.

A resource assessment will be conducted each year by the Audit Manager as part of the risk based audit plan to ensure that the resources needed to achieve that plan are appropriate, sufficient, and can be effectively deployed <sup>(2030)</sup>. The Audit Manager is responsible for delivery of the plan and providing updates of progress throughout the year.

## Non-Audit Work

### Consultancy <sup>(1000)</sup>

Internal Audit resource may sometimes be more usefully focused towards providing advice and consultancy rather than assurance. Consultancy (such as advice, guidance and training) are activities undertaken by internal audit that are intended to add value and improve governance, risk management and control processes.

As such, the Standards allow for consultancy work to be completed, providing that safeguards are in place to manage any potential or perceived impairment to independence and objectivity <sup>(1112 PSR)</sup>. For Sevenoaks non-audit work may be commissioned providing that:

- The nature, objective and scope are defined and agreed
- Significant requests have been approved by a member of the Strategic Management Team
- The service has the right skills, experience and available resource, and
- Internal Audit involvement does not constitute a conflict of interest and will not involve assuming a management role

The Audit Manager is responsible for ensuring all requests are reviewed in accordance with the above criteria before making the final decision. With respect to significant requests, defined as those which require the purchase of additional resources or amendment to the agreed audit plan, the Audit Manager will seek approval from the Chair of the Audit Committee.

Summaries of consultancy engagements will be communicated to the Board as part of the regular reporting of internal audit activities.

## Risk Management

Internal Audit leads the co-ordination of risk management work, and chairs the Risk Management Group which develops the risk management approach. These roles, along with authoring risk reports, providing training and advice / coaching are all roles that are legitimate internal audit roles as defined by the IIA's position paper on *The Role of Internal Auditing in Enterprise-Wide Risk Management*. In taking these roles, the following safeguards to independence are in place:

- Internal separation of duties between the officers co-ordinating risk management and those undertaking audits
- Overall responsibility for risk management sits with Strategic Management Team and the Audit Committee, and risk is reported as separate functions to the internal audit service
- Resource to provide risk management services is made available and reported in the audit plan, agreed by the Audit Committee
- Internal Audit do not set the risk appetite for the Council, take operational responsibility for identifying and managing risks, or own risk actions other than those relating to the Internal Audit Service
- Any review or internal audit of the effectiveness of the risk management process will be undertaken independently from outside of the audit partnership. This enables independent assurance to be provided to the Board

## Counter Fraud

The role of internal audit regarding Counter Fraud is set out in the **Counter-Fraud and Corruption Strategy**. The Audit Manager reviews and updates this Strategy on behalf of the Deputy Chief Executive and Chief Officer – Finance and Trading and investigates and reports on internal cases of alleged or potential fraud. The Audit Manager also has overall responsibility for the maintenance and operation of the Whistleblowing Policy and for keeping records of allegations received and the outcomes. Such investigations and responsibilities present a potential impairment to independence. Should assurance on these activities be required, it will be commissioned from a third party. The outcomes of counter fraud work are communicated to the Deputy Chief Executive and Chief Officer – Finance and Trading, the Chief Executive and the Audit Committee where appropriate to do so.

## Management Responsibilities

To be effective, the Internal Audit service requires full co-operation of senior management. In approving this Charter, the Audit Committee and the Chief Officer – Finance & Trading direct management to co-operate with the Internal Audit service in the delivery of their work. This includes, but is not limited to, engagement in the planning process for individual audits, acting as audit sponsors, providing access to appropriate records, personnel and systems, responding to draft reports and implementing audit actions in line with agreed timescales.

Senior management will also update the Audit Manager of significant proposed changes to processes, systems, organisational structure, newly identified significant risks and cases of suspected or detected fraud, corruption or impropriety.

Senior management will also ensure that the Internal Audit service has sufficient resources to fulfil the Risk Based Internal Audit Plan as agreed by the Audit Committee.

## Reporting <sup>(2400)</sup>

The Audit Manager will deliver an **annual opinion** <sup>(2450)</sup> report that can be used by the organisation to inform its Annual Governance Statement. The audit opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of internal controls, governance and risk management. The annual report will incorporate as a minimum:

- The scope including the time period covered for the opinion
- Scope limitations
- Consideration of all related projects including the reliance on other assurance providers
- A summary of the information that supports the opinion
- The risk or control framework or other criteria used as a basis for the overall opinion
- The overall opinion, judgment or conclusion reached
- A statement on conformance with the Public Sector Internal Audit Standards, the independence of the service, and the results of the Quality Assurance and Improvement Programme.

Internal audit will communicate the results of audit reviews and updates on the performance of the internal audit activity to Senior Management and the Audit Committee.

## Quality Assurance and Improvement Programme (QAIP) <sup>(1300)</sup>

The Dartford and Sevenoaks Internal Audit Partnership is committed to providing a high quality internal audit service that meets the needs of its stakeholders and adds value to both Councils. It aims to support the achievement of strategic objectives by providing independent, insightful assurance on risk management, governance and control. The QAIP has been designed as a critical tool to deliver this commitment by creating mechanisms to identify and implement improvements and to embed a culture of continuous improvement within the team. The QAIP covers periodic internal and external assessments, supervision of engagements, Key Performance Indicators, customer feedback questionnaires and auditor self-assessments. The full QAIP will be provided to stakeholders on request.

## Review

The Charter will be reviewed annually and any changes reported to the Audit Committee for approval.

The Audit Manager will disclose any areas of non-conformance <sup>(1322)</sup> with the Code of Ethics or the Standards, including the impacts on the overall scope or operation of the internal audit activity to senior management and the Audit Committee if identified.

The Charter is authorised within Sevenoaks District Council with the agreement of the Chairman of the Audit Committee and Deputy Chief Executive and Chief Officer – Finance and Trading.

Agreed by Audit Committee: **March 2021**