

SEVENOAKS DISTRICT COUNCIL

Internal Audit Charter

Revised to Reflect the Requirements of
the Public Sector Internal Audit Standards
2013



Internal Audit

INTERNAL AUDIT CHARTER

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1. Introduction

- 1.1 This Charter establishes the purpose, authority and responsibility of the Internal Audit Function for Sevenoaks District Council. The Internal Audit Service is a partnership agreement between Sevenoaks District Council and Dartford Borough councils. However, this version of the Charter is specific to Sevenoaks District Council. The Charter is prepared in compliance with the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013.
- 1.2 Definition of Internal Audit – The new PSIAS defined Internal Audit as: “an independent, objective assurance and consulting activity designed to add value to improve the operations of the Council. It assists the Council to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Council’s risk management, control, and governance processes”.

2. Purpose

- 2.1 Internal Audit provides assurance to management on the effectiveness of the controls in place to mitigate the risks of organisational objectives not being achieved. The assurance will be based on independent and objective opinion that involves an impartial examination, evaluation and reporting on the adequacy and effectiveness of the control environment. Internal Audit will give an assessment of how controls contribute to the economic, efficient and effective use of resources. In addition to its statutory role, Internal Audit may engage in consulting activity on behalf of management, in accordance with protocol agreed by senior management, in pursuant of the objectives of the Council. The engagement of consulting activities would be separate and distinct from its statutory assurance responsibilities.

3. Professionalism

- 3.1 The Internal Audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards); as set out in the sector specific requirements of the Public Sector Internal Audit Standards (PSIAS). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of Internal Auditing and for evaluating the effectiveness of the Internal Audit activity's performance.
- 3.2 The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to, including the CIPFA Statement on the Role of the Head of Internal Audit 2010 as applicable, to guide operations. In addition, the Internal Audit activity will adhere to the Policies, Procedures, Practices and Customs of the Council and the Council’s Internal Audit Standard and Quality Operating Procedures Manual.

4. Authority

- 4.1 The requirement for an Internal Audit Function for local authorities is implied by Section 151 of the Local Government Act 1972 (S151), which requires that authorities “make arrangements for the proper administration of their financial affairs.” Regulation 5(1) of the Accounts and Audit (Amendment) Regulations 2015 specifically requires “A relevant authority must 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”.
- 4.2 The nominated S151 Officer, who is responsible for making arrangements for the proper administration of the Council’s financial affairs at Sevenoaks Council, is the Chief Executive. The Council’s responsibility relating in relation to Regulation 5 of the Account and Audit Regulation 2015 discharged by the Internal Audit Function on behalf of the Section 151 Officer.
- 4.3 In addition to the above, Regulation 5(2) of the Accounts and Audit Regulations (2015) also requires that any officer or member of the Council must, if required to do so for the purposes of an Internal Audit:-
- a) Make available such documents and records; and
 - b) Supply such information and explanations; as is considered necessary to conduct the Internal Audit and in this regulation
 - c) “documents and records” also includes information recorded in an electronic form.
- 4.4 This Audit Charter recognises the mandatory nature of the PSIAS and has sought to comply with its requirements.

5. Organisation

- 5.1 The Public Sector Internal Audit Standards requires that the “Chief Audit Executive reports to the Board”.
- 5.2 In the context of the shared internal audit service for Sevenoaks District Council the “Chief Audit Executive” is the Audit, Risk and Anti-Fraud Manager.
- 5.3 In the context of the shared service for the Council “the Board” is “the highest level of governing body charged with responsibility to direct and/or oversee the activities of the management of the audit activity concerned”. In this context, “the Board” refers to the Sevenoaks District Council Audit Committee
- 5.4 For the purposes of this Charter and the PSIAS Standards “Senior Management” refers to the Strategic Management Team at Sevenoaks.
- 5.5 The Strategic Management Team currently consists of the Chief Executive, Seven Chief Officers and the Head of Transformation and Strategy

- 5.6 The Strategic Management Team at Sevenoaks is responsible for directing the Council's high level strategy and policies of the Council as agreed by the Cabinet and Council; and is guided by the Council's Constitution, policies and Procedures.
- 5.7 The Audit, Risk and Anti-Fraud Manager will report formally to the Audit Committee of the Council and administratively to the Chief Finance Officer.
- 5.8 The Audit, Risk and Anti-Fraud Manager will communicate and interact directly with the Audit Committee, including in executive sessions and between meetings as appropriate; and will also have direct access to the Head of Paid Service within the scope of his professional responsibilities.

6. Independence and Objectivity, Including Arrangements for Consultancy Work

- 6.1 The Internal Audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.
- 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 Internal Auditors' judgment or which may give rise to perceptions of impairment. Whilst the Audit, Risk and Anti-Fraud Manager co-ordinates the Council's risk management strategy, he does not have ownership of the risks associated with individual service areas or operations, except those aspects of the Council's operations which are within the proper remit and scope set out in the Public Sector Internal Audit Standards.
- 6.3 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.
- 6.4 Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. Internal Audit has direct access and freedom to report in its own name to management and members and particularly to those charged with governance.
- 6.5 The Internal Audit Service may be called upon to conduct some consultancy work, as required by senior management or the Board. Where this becomes necessary, appropriate measures will be taken to ensure transparency and the maintenance of objectivity and independence. In particular the protocol set out in 6.6 below will be implemented

- 6.6 Consultancy work will require the work to be initially commissioned and agreed by a member of the Strategic Management Team, including the express approval of the Section 151 Officer. The Chairman of the Audit Committee will also need to be informed prior to commencing the work and the scope and outcome of such work would be reported to the next Audit Committee. Any auditor or auditors participating in consultancy work would be prohibited from auditing those areas.
- 6.7 To further safeguard audit independence, the Audit, Risk and Anti-Fraud Manager will confirm to the Audit Committee of the Council at least on an annual basis, the measures taken to ensure organisational independence of the Internal Audit Function.
- 6.8 In addition, all auditors at the Council are required to complete an annual declaration of interest form, to ensure that the allocation of audit work avoids any potential conflict of interest that could arise out of undertaking work relating to the audit plan, or other areas of Internal Audit work.
- 6.9 Where possible, audits are rotated within the team so as to avoid over-familiarity and complacency.
- 6.10 Notwithstanding the above, Internal Audit will, if deemed appropriate, review systems under development, or offer advice and guidance on aspects of risk, governance and control, for systems under development or new projects, without prejudicing its ability to subsequently independently audit such systems.
- 6.11 Accountability for the response to the advice and recommendations of Internal Audit lies with management, who either accept and implement the advice, or formally reject it where they can put forward a more effective alternative, or acceptance of any identified risks.
- 6.12 The conduct of an audit, or the provision of advice by an Internal Auditor, does not in any way diminish the responsibility of line management for the proper execution and control of their activities; including the management of the business risks associated with the service (s) under their remit and the prevention of fraud and irregularity.

7. Responsibility

- 7.1 The scope of Internal Auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council's governance, risk management and internal control processes in relation to the Council's defined goals and objectives. Internal control objectives considered by Internal Audit include, but are not limited to:
- Consistency of operations or programs with established objectives, policies, goals and performance targets.
 - Effectiveness and efficiency of operations and deployment of resources.
 - Compliance with significant policies, plans, procedures, laws and regulations.
 - Reliability and integrity of management and financial information processes, including the means to identify, measure, classify and report such information.

- Safeguarding of assets from Fraud, Irregularity and Mismanagement.

7.2 Internal Audit is responsible for evaluating all processes within the 'audit universe' of the Council including governance processes, management information and risk management processes. Internal Audit may also assist the Audit Committee in evaluating the quality, or outcome of External Auditor work, where the Board requires independent advice, or guidance, regarding aspects of the outcome of the work of the external auditors, or the implications of such work for the Council's internal control, governance or risk.

7.3 Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified during audit work to the Board and to Senior Management, including fraud risks, governance issues and other matters needed, or requested by the Board.

8. Relationship with Anti-Fraud Activity

8.1 The Audit, Risk and Anti-Fraud Manager is responsible for the Council's Fraud and Corruption Strategy and Whistle Blowing Policy. The Council's Anti-Fraud Strategy incorporates the arrangements for Internal Fraud and External Fraud; and is also guided by the CIPFA Code of Practice for Managing the Risk of Fraud 2014.

8.2 Internal Audit is responsible for investigating internal whistle blowing incidences and fraud or irregularity allegations relating to Officers and Members. The Audit, Risk and Anti-Fraud Manager has a duty to report all proven fraud outcomes over £10K to the External Auditors.

8.3 The Audit, Risk and Anti-Fraud Manager is the Council's named key contact for the National Fraud Initiative (NFI) and Internal Audit liaises with the National Fraud Initiative (NFI) for data matching, which is aimed at identifying potential fraud for further investigation.

8.4 There is a dedicated investigations team which specialises on Benefits Fraud investigations and Housing Tenancy Fraud which also sits within the Audit, Risk and Anti-Fraud Team. The work of the Benefits Fraud investigations team is guided by the Council's Benefits Fraud Prosecution Policy and incorporates both pro-active and re-active methodologies. From 1 February 2016, the Department for Works and Pensions (DWP) will be taking over the responsibility for Benefits Fraud Investigations. Existing Benefits Fraud Investigations staff will be eligible to be transferred over to the DWP. Following consultation with Investigations staff, the Council has created an in-house Investigations Team, which consists of the majority of the existing experienced investigations team officers. The new team will focus on residual fraud work not transferred to the DWP, particularly around council tax exemptions and discounts which will not transfer over to the DWP.

8.5 In addition, Internal Audit's planned work includes evaluating internal controls for their effectiveness in preventing or detecting fraud, which is considered to be a standard risk in the majority of audits on the Annual Internal Audit Plan. Internal

Audit therefore considers the risks and exposures, which may allow fraud or corruption to occur within the Council's key financial systems.

- 8.6 However, it should be noted that managing the risk of fraud is ultimately the responsibility of management at the Council. Auditors will however be alert in all their work to risks and exposures that could allow fraud or corruption, as well as seeking to identify indications that fraud and corruption may have been occurring. In such circumstances more effective controls will be proposed for management considerations and where appropriate, a special investigation will also be undertaken.

9. Arrangements for Undertaking Work Outside the Annual Audit Programme

- 9.1 Any work undertaken outside the Annual Audit Programme, other than whistle blowing investigations, or irregularity investigation, will require approval from Senior Management and should be reported to the Board.
- 9.2 Where such work is necessary, the scope, remit and resources requirement will be agreed with Senior Management prior to commencement.
- 9.3 The protocol for consultancy work is set out on paragraphs 6.5 and 6.6.

10. Internal Audit Plan

- 10.1 At least annually, the Audit, Risk and Anti-Fraud Manager will submit a risk based Annual Internal Audit Plan to the Audit Committee for review and approval, following agreement with Senior Management. The Internal Audit plan will incorporate the audit reviews and resource requirements to provide an appropriate level of assurance for the relevant period. The Audit, Risk and Anti-Fraud Manager will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee as necessary during the year.
- 10.2 The Annual Internal Audit Plan will be developed based on an analysis and prioritisation of the audit universe, using a risk-based methodology, including input of Senior Management and the Audit Committee. Prior to submission to the Audit Committee for approval, relevant parts of the plan will be discussed with appropriate Senior Officers of the Council, prior to Strategic Management Team approval.
- 10.3 Any significant deviations from the approved Internal Audit Plan will be communicated through the periodic activity reporting process to the Audit Committee following approval by Strategic Management Team.

11. Reporting and Monitoring

- 11.1 The Audit, Risk and Anti-Fraud Manager, as the designated Chief Audit Executive, will submit the following reports to the Audit Committee in compliance with Internal Audit functional reporting requirements:-
- The Internal Audit Charter and Internal Audit Strategy ;

- Annual risk-based Audit Plan and resource requirements;
- Periodic progress reports at each Committee Meeting showing performance against the Annual Internal Audit Plan and relevant Performance Indicators;
- Summary report on the outcome of audit reviews;
- Full details of any reviews requested by the Audit Committee or Chairman of the Committee;
- Progress of Internal Audit Recommendations;
- Confirmation annually that the organisational independence of Internal Audit is maintained;
- The Internal Audit Annual Report, with an overall opinion on the adequacy and effectiveness of the risk management, governance and control environment within the Council;
- The outcome of the Annual Internal Quality Assessment on the effectiveness of the Internal Audit Activity and the Quality Assurance Improvement Programme (QAIP);
- Progress on implementing any actions from the External Quality Assessment;
- Outcome of special investigations, whistle blowing investigations, or irregularity investigations.

11.2 A written report will also be prepared and issued by the Audit, Risk and Anti-Fraud Manager, or designee, following the conclusion of each Internal Audit engagement and will be distributed as appropriate to relevant managers within the Council.

11.3 The Internal Audit report will include management's response and corrective action taken, or to be taken, in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided subsequently by management of the audited area, should include a timetable for anticipated completion of corrective actions to be taken; and an explanation for any corrective action that will not be implemented.

11.4 The Internal Audit activity, via the lead auditor, will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

12. Quality Assurance and Improvement Programme (QAIP)

12.1 The Audit, Risk and Anti-Fraud Manager is responsible for conducting an annual self-assessment of the quality of the arrangements and performance of the Internal Audit Activity and an assessment of compliance with the Public Sector Internal Audit Standards and this Charter. The outcome of these assessments will be communicated to Senior Management, prior to presenting to the Audit Board.

12.2 In addition, the Audit, Risk and Anti-Fraud Manager will communicate to Senior Management and the Board on the Internal Audit activity's Quality Assurance and Improvement Program (QAIP), including results of ongoing annual internal assessments and external assessments conducted at least every five years.

13. Organisational Relationships

13.1 Relationship with the Management

13.1.1 The Audit, Risk and Anti-Fraud Manager, as the designated Chief Audit Executive, is responsible for directing the work of the Audit Function and the reporting of the outcome of Internal Audit engagement activities to relevant operational management.

13.2 Relationship with Those Charged with Governance

13.2.1 The Audit, Risk and Anti-Fraud Manager has direct access to the Section 151 Officer; Head of Paid Service; Chair of the Audit Committee, or equivalent and is able to report directly on any relevant internal control issues or concerns.

13.3 Management Team

13.3.1 The Audit, Risk and Anti-Fraud Manager is also able to report to Strategic Management Team and individual Chief Officers as considered appropriate.

13.4 Elected Members

13.4.1 The role of Members with regard to Internal Audit is addressed within the terms of reference of the Audit Committee.

13.4.2 Although the Annual Internal Audit Plan and Annual Internal Audit Report are approved by the Section 151 officer, both documents are required to be endorsed by the Audit Committee, prior to implementation or adoption by the Council.

13.4.3 Internal Audit will report to the Audit Committee on the work of Internal Audit periodically through the year. These reports are set out above in section 9.1

13.5 Relationship with External Audit

13.5.1 The Audit, Risk and Anti-Fraud Manager will participate in liaison protocol meetings with the Council's External Auditors to:

- foster a co-operative and professional working relationship;
- reduce the incidence of duplication of effort;
- ensure appropriate sharing of information;
- co-ordinate the overall audit and assurance effort.

13.5.2 In particular the Audit, Risk and Anti-Fraud Manager will:

- discuss the Annual Internal Audit plan with External Audit to facilitate External Audit planning;
- make all Internal Audit working papers and reports available to External Audit;
- receive copies of relevant External Audit communications with management;

- gain a knowledge of the External Audit work programme and methodology;
- provide liaison, where appropriate, between External Audit and management for the purpose of resolution of differences.

13.6 Amendments to Charter

13.6.1 Amendments of this charter are subject to the approval of the Strategic Management Team and the Audit Committee.