

Internal Audit

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 shared service internal audit function for Sevenoaks District and Dartford Borough Councils. 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 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 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 Six of the Accounts and Audit (Amendment) Regulations 2011 specifically requires relevant bodies 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.”

4.2 Each Council has a nominated S151 Officer, who is responsible for making arrangements for the proper administration of the Council’s financial affairs. This responsibility is partially discharged by Internal Audit on behalf of the Section 151 Officer.

- Sevenoaks District Council S151 Officer Chief Executive
- Dartford Borough Council S151 Officer Managing Director

4.3 This audit charter also recognises the mandatory nature of the PSIAS and has sought to comply with its requirements.

5. Organisation

5.1 For the purposes of this Charter, references to the Chief Audit Executive will mean the Audit, Risk and Anti-Fraud Manager. The Chief Audit Executive will report functionally to the Audit Committee/Board and administratively to the Chief Finance Officer/Head of Finance/Sec151 officer

5.2 The Chief Audit Executive will communicate and interact directly with the Audit Committee/Board, 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

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 auditor's judgment.

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 Internal Audit will, if deemed appropriate, review systems under development without prejudicing its ability to subsequently independently audit such systems.
- 6.6 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.
- 6.7 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.
- 6.8 The Chief Audit Executive will confirm to the Audit Committee/Board, at least annually, the organisational independence of the internal audit activity.

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:
- Consistency of operations or programs with established objectives and goals and effective performance.
 - 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.
- 7.2 Internal Audit is responsible for evaluating all processes ('audit universe') of the Council including governance processes, management information and risk management processes. It also assists the Audit Committee/Board in evaluating the quality of performance of external auditors and maintains proper degree of coordination with internal audit.
- 7.3 Internal audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Audit Committee/Board or management, as appropriate.

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

8. Internal audit plan

8.1 At least annually, the Chief Audit Executive will submit to the Audit Committee/Board an internal audit plan for review and approval, including risk assessment criteria. The internal audit plan will include timing as well as budget and resource requirements for the next fiscal/calendar year. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee/Board.

8.2 The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee/Board. Prior to submission to the Audit Committee/Board for approval, the plan may be discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process to the Audit Committee/Board.

9. Reporting and monitoring

9.1 A written report will be prepared and issued by the Chief Audit Executive or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Audit Committee/Board.

9.2 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 thereafter (i.e. within??? days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

9.3 The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

10. Periodic assessment

10.1 The Chief Audit Executive is responsible also for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

10.2 In addition, the Chief Audit Executive 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.

11. Organisational Relationships

11.1 Relationship with the Management

11.1.1 The 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

11.2 Relationship with those charged with governance

11.2.1 The Chief Audit Executive has direct access to the Section 151 Officer; Head of Paid Service; Chair of the Audit Committee/Board or equivalent and is able to report directly on any relevant internal control issues.

11.3 Management Team

11.3.1 The Chief Audit Executive is also able to report to Management Team and individual Directors as considered appropriate.

11.4 Elected Members

11.4.1 The role of Members with regard to Internal Audit is addressed by the appropriate Committee or Board and is defined in the relevant terms of reference.

- Sevenoaks District Council: Audit Committee
- Dartford Borough Council: Audit Board

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

11.4.3 Internal Audit will report to each Committee or Board on the work of Internal Audit periodically through the year. These reports include a summary of each final report relevant to that Council.

11.4.4 Internal Audit will also report to each Committee or Board on the implementation by management of agreed recommendations.

11.5 Relationship with External Audit

11.5.1 The Chief Audit Executive will liaise with External Audit 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.

11.5.2 In particular the Chief Audit Executive 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.

11.6 Amendments to Charter

11.6.1 Amendments of this charter are subject to the approval of the relevant Management Team and Committee or Board. Where differences exists in relation to custom and practices at a local level, these will be reflected within the amendments.