



# **Harlow Council** **Internal Audit Charter**

**November 2019**

## INTERNAL AUDIT CHARTER

### 1. INTRODUCTION AND PURPOSE

1.1 The purpose of this Charter is to set out the nature, role, responsibility, status and authority of Internal Audit within Harlow District Council, and to outline the scope of internal audit work. The Charter will also be used to monitor the performance of the Internal Audit function.

1.2 The United Kingdom Public Sector Internal Auditing Standards (UKPSIAS) 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'.*

1.3 Internal Audit work is conducted in accordance with the UKPSIAS and encompasses **is consistent with** the mandatory elements of the 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)** which can be found on the Chartered Institute of Internal Auditors website.

### 2. REVIEW OF THE AUDIT CHARTER

2.1 This Charter will be subject to annual review by the Internal Audit Manager and any significant changes presented to the Audit and Standards Committee for approval.

### 3. ROLE OF INTERNAL AUDIT

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

3.2 In addition, the Council's Chief Finance 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.

- 3.3 Internal Audit's activities and responsibilities are defined and approved by the Audit and Standards Committee, via this Charter, as part of their oversight role, **being the Committee charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting**
- 3.4 The Internal Audit Manager reports functionally to the Head of Finance. In recognising the unique and critical role of the Internal Audit Manager, CIPFA's Statement on the Role of the Head of Internal Audit (HIA) 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.
- 3.5 Internal Audit's primary role is to assist the Council's senior management team, particularly the Head of Finance, the Monitoring Officer, the ~~Managing Director~~ **Chief Executive** and Councillors in the effective discharge of their responsibilities. To this end, Internal Audit provides them with analyses, appraisals, recommendations, advice and information to enable effective control over the activities reviewed, including the Council's financial affairs.
- 3.6 Importantly, the Internal Audit Plan culminates in the Internal Audit Manager providing an annual audit opinion to senior management and Councillors 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 / input into the production of the Annual Governance Statement (AGS) which forms part of the published Annual Accounts.
- 3.7 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**

- 4.1 The Internal Audit function has adopted the Global Institute of Internal Auditors mission statement as follows:

Mission Statement: To enhance and protect organisational value by providing risk based and objective assurance, advice and insight. The core principles being:

1. Demonstrates integrity

2. Demonstrates competence and due professional care
  3. Is objective and free from undue influence (independent)
  4. Aligns with the strategies, objectives and risks of the organisation
  5. Is appropriately positioned and adequately resourced
  6. Demonstrates quality and continuous improvement
  7. Communicates effectively
  8. Provides risk-based assurance
  9. Is insightful, proactive and future focussed
  10. Promotes organisational improvement
- 4.2 **The provision of assurance services is the primary aim for Internal Audit, requiring the Internal Audit Manager 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 nature and are usually performed at the request of the Chief Executive 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

5.1 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 Members
- Conducting its work in accordance with UKPSIAS 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 agreed Audit Plan.

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

## 6. INDEPENDENCE AND OBJECTIVITY

6.1 Internal Audit will develop its approach to its work in consultation with the Audit and Standards Committee but independently of any specific area of 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.

- 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 their judgment. Internal Audit may, however, review systems under development and advise on appropriate controls without prejudicing its right to subsequently audit such systems.
- 6.3 Where the Internal Audit Manager has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity. For example, the Internal Audit Manager may be asked to take on responsibility for compliance or risk management activities. These roles could impair, or appear to impair, the organisational independence of the Internal Audit function. Safeguards would include oversight by the Audit and Standards Committee, periodic evaluation of reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.
- 6.4 The Internal Audit Manager will confirm to the Audit and Standards Committee, at least annually, the organisational independence of the Internal Audit activity.

## **7. CONFLICTS OF INTEREST**

- 7.1 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.
- 7.2 Each auditor is required to proactively declare any potential 'conflict of interest' prior to the commencement of each audit assignment. In addition and where possible, audits are rotated within the team to avoid over-familiarity and complacency.
- 7.3 In any circumstances where a potential conflict of interest were to arise this would be reported and, where applicable, appropriate arrangements approved by the Head of Finance to avoid any compromise of internal audit independence.

## **8. STATUS OF INTERNAL AUDIT IN THE COUNCIL**

- 8.1 Internal Audit must have direct access to senior management, the Audit and Standards Committee, the ~~Managing Director~~ **Chief Executive** and the Chair of the Audit and Standards Committee. The Head of Finance will advise the Audit and Standards Committee in relation to the required level of Internal Audit resources required in order for the Committee to make a formed decision in such matters. The Internal Audit Manager will communicate and interact directly with senior management and the Audit and Standards Committee, including between meetings as appropriate. Outside of formal senior management meetings and meetings of the Audit and Standards Committee, the Internal Audit Manager will have direct access to the ~~Managing Director~~ **Chief Executive** and to the Chair of the Audit and Standards Committee.
- 8.2 For the purposes of the Internal Audit activity, the following groups are defined:

### **Audit and Standards Committee**

The Audit and Standards Committee is responsible for overseeing the effectiveness of the internal audit function, and holding the Internal Audit Manager to account for delivery, through the receipt of regular updates and reports. The Audit and Standards Committee is responsible for the effectiveness of the governance, risk and control environment within the Council, holding managers to account for delivery. The Audit and Standards Committee is also responsible for the overall operation of the Internal Audit function, including:

- Resourcing and financial performance.
- Performance indicators measuring operational effectiveness.
- The overall strategic direction of the service.

### **Senior Management**

The Council's senior management team is responsible for helping shape the programme of assurance work through an analysis and review of key risks to achieving the Council's objectives and priorities. Senior management provides leadership and direction for the Council.

- 8.3 For line management purposes, the Internal Audit Manager reports to the Head of Finance who approves all decisions regarding the performance evaluation, appointment, or removal of the Internal Audit Manager, in consultation with the Senior ~~Corporate Team~~ **Management Board** and the Internal Audit shared service Board, ensuring feedback is sought from the Chair of the Audit Committee.

- 8.4 The day to day operational management of the Internal Audit function lies with the Internal Audit Manager, who is accountable through the Head of Finance to the Audit and Standards Committee for standards of performance and the proper discharge of the audit function.
- 8.5 The Internal Audit Manager is responsible for the preparation of the Annual Audit Plan, agreeing it with Councillors and the effective implementation of the Audit Plan. Prior to drawing up the Audit Plan, the Internal Audit Manager will consult with Heads of Service and Senior Management ~~Team~~ **Board** with regard to risks, concerns etc. and take account of any issues raised by them.

## **9. AUTHORITY AND ACCESS FOR INTERNAL AUDIT WORK**

- 9.1. Internal Audit, with strict regard to confidentiality and safeguarding records and information, is authorised access to any and all Council records (paper and computerised), physical properties, IT systems and personnel pertinent to carrying out any engagement and subject to third party agreement as may be deemed necessary (e.g. external third party database access). Such access will be granted as and when it may be required with prior notice being given wherever possible. There may be instances when such access may not be subject to prior notice if agreed with the Head of Finance. However, Internal Audit will endeavour to give adequate and reasonable notice, where possible, when working on routine audit reviews.
- 9.2 Internal Audit also has free and unrestricted access to the Audit and Standards Committee and senior management. Internal Audit examines and evaluates, on a risk focussed basis, the whole system of controls established by management, not just the controls over financial accounting and reporting, but all operational and management controls.

## **10. SCOPE**

- 10.1 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 defined 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 of all kinds; and that the process aligns with the Council's strategic aims;
- the suitability of the organisation of the areas audited for carrying out their function, to ensure that services are provided in a way which is economical, efficient and effective;
- 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.

10.2 Internal Audit may undertake work outside of the approved annual Internal Audit plan (normally additional activity requested by management) where it has the necessary skills and resources to do this, and this will be determined by the Internal Audit Manager in consultation with the Head of Finance on a case by case basis.

## 11. PLANNING AND REPORTING

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

- 11.2 The Internal Audit Manager submits to Councillors 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.
- 11.3 In determining the Annual Internal Audit Plan and coverage, the Internal Audit Manager 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 Internal Audit Manager 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 approved operational budget for the audit service. If the Internal Audit Manager considers that the 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 those charged with the governance of the Council would be advised accordingly.
- 11.4. 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. Services response 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 and the Senior Management Team **Board** and where appropriate to the Audit and Standards Committee, at the agreed intervals.
- 11.5 Internal Audit is responsible for appropriate follow up on report findings and recommendations and will provide updates to the Audit and Standards Committee on the results.
- 11.6 Internal Audit will report to the Audit and Standards 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.
- 11.7 Based upon its work, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Senior Management

~~Team~~ **Board** and to the Audit and Standards 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.

## **12. FRAUD AND CORRUPTION**

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

12.2 It is the responsibility of individual service areas 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 Council's Anti-Fraud and Corruption Strategy.
- Maintaining a Fraud Response Plan.
- Financial Regulations requiring all incidents of suspected or detected fraud to be notified to Head of Finance and the Internal Audit Manager.
- Developing and maintaining data and intelligence networks with appropriate bodies including the Cabinet Office (National Fraud Initiative), Police, other Local Authorities and Government agencies.

Internal Audit also aims to provide anti-fraud awareness training and guidelines to staff.

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

## **13. PERIODIC ASSESSMENT**

13.1 Internal Audit will, in conjunction with the Audit and Standards 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/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.

#### **14. RESPONSIBILITIES OF SENIOR MANAGEMENT BOARD**

14.1 The Council's Senior Management Board has responsibility for determining the scope of Internal Audit work, in relation to relevant professional standards / guidelines, and for deciding the action to be taken on the outcome of, or findings from, their work.

14.2 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 Councillors, including the Head of Finance, Monitoring Officer, ~~Managing Director~~ **Chief Executive** and Cabinet / the relevant Committee.

14.3 The Senior Management Board 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 information for running the Council. 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.

14.4 During the course of an audit, Heads of Service and their staff will be required to co-operate fully with the auditor's requirements, including the completion of action plans, signing off of reports and the timely implementation of specific and agreed recommendations made by Internal Audit.

#### **15. RELATIONSHIP WITH THE EXTERNAL AUDITORS / OTHER REGULATORY BODIES**

15.1 Internal Audit will consult and where appropriate work closely with others,

Sarah Marsh – Internal Audit Manager  
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(Date of next review: November 2020)