



Audit and Risk Section

Internal Audit Charter

2018

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INTERNAL AUDIT CHARTER - JANUARY 2018

Introduction

- 1 Internal audit at Crawley Borough Council is provided by an in house team of staff.
- 2 There is a statutory requirement to provide an internal audit service and the service itself is regulated by [The International Standards on Auditing \(UK and Ireland\)](#), [Public Sector Internal Audit Standards](#) (PSIAS) and the Local Government Application Note (LGAN). The internal audit function is also governed by the Council's Financial Procedure Rules.
- 3 Regulation 5 of the [Accounts and Audit Regulations 2015](#) requires that "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 The PSIAS are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:
 - Definition of Internal Auditing
 - Code of Ethics, and
 - International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

Internal audit must comply fully with these [standards](#), elements of which also form part of this Charter.
- 5 The PSIAS sets out the responsibility for the "Chief Audit Executive" to ensure compliance with the standards. There is no requirement within the PSIAS to adopt this job title and this role is fulfilled by the Audit and Risk Manager.

Definition of Internal Audit

- 6 The definition of Internal Audit is set out in the Public Sector Internal Audit Standards, adopted by CIPFA, and updated in March 2016.

"Internal auditing 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."

Code of Ethics

7 As a fundamental requirement, internal auditors in UK public sector organisations must conform to the Code of Ethics set out in Section 6 of the PSIAS. The code is based on four principles. They are:

1. Integrity
2. Objectivity
3. Confidentiality
4. Competency

The Audit and Risk Manager must also conform to the Chartered Institute of Public Finance and Accountancy (CIPFA) [Standard of Professional Practice on Ethics](#) (SOPP on Ethics). The SOPP is based on the International Federation of Accountants (IFAC) Code of Ethics, which CIPFA has adopted in full.

If individual auditors have membership of another professional body, such as the Institute of Internal Auditors ([IIA](#)), then he or she must also comply with the relevant requirements of that organisation.

Lastly, internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*, information on which can be found at www.public-standards.gov.uk

The Board and Senior Management

8 Under the PSIAS, this Charter is required to define the “Board” and “Senior Management”. Both the board and senior management have specific and complementary roles and responsibilities set out within the PSIAS. With the exception of matters relating to employment (see below), the “**Board**” is the Audit Committee.

9 The Audit and Risk Manager is not a statutory post within the definition of the Local Government Act 1972. The Chief Executive and Corporate Directors are therefore responsible for the appointment and remuneration of the Audit and Risk Manager where the service is provided in-house and would constitute “the Board”.

10 **Senior Management** comprises of the members of the Corporate Management Team (CMT).

The Scope of Internal Audit Activity

11 The Audit and Risk Manager is required to manage the provision of a complete audit service to the authority which will include systems, probity, performance management, computer and contract audit.

12 There are no limitations on the scope of activities of the Internal Audit Service. The scope of the Internal Audit Service allows for unrestricted coverage of all the authority's activities, including both financial and non-financial systems of internal control.

Consulting Services

- 13 With the introduction of the PSIAS, internal audit may also provide “consultancy” services. This work could take any form, provided that the independence of the service is not compromised, but will typically include special reviews or assignments where requested by management, which fall outside the approved work plan and for which a contingency is included in the audit plan. There will be no significant variation in consultancy work without approval by the Board.

Responsibilities and Objectives of Internal Audit

- 14 The Charter frames objectives for internal audit that take account of the Council’s corporate aims of conducting of business with integrity whilst maintaining the highest ethical standards.
- 15 Consistent with these corporate aims, the key objectives of Internal Audit relate to:
- Internal Control Systems
 - Risk Management
 - Anti-Fraud and Anti-Corruption Framework

Internal Control Systems

- 15.1 The primary objective of Internal Audit is to contribute to the review of the effectiveness of the entire control environment of the organisation. This is achieved by adopting a predominantly risk-based approach to audit.
- 15.2 The internal control system comprises the whole network of systems established within the authority to provide reasonable assurance that corporate objectives will be achieved. As stated in PSIAS, the internal audit activity must evaluate risk exposures relating to the organisation’s governance, operations and information systems regarding the:
- Achievement of the organisation’s strategic objectives;
 - Reliability and integrity of financial and operational information;
 - Effectiveness and efficiency of operations and programmes;
 - Safeguarding of assets; and
 - Compliance with laws, regulations, policies, procedures and contracts.
- 15.3 Accordingly, in the conduct of planned audits, the Internal Audit Service may:
- Review the reliability and integrity of financial information and the means used to identify, measure, classify and report such information
 - Review the means of safeguarding assets and, as appropriate, verify the existence of such assets;
 - Appraise the economy and efficiency with which resources are employed, identify opportunities to improve performance and recommend solutions to problems;
 - Review the established systems to ensure compliance with those policies, procedures, laws and regulations which could have a significant impact on operations, and determine whether the authority is in compliance;

- Review operations and activities to ascertain whether results are consistent with objectives and whether they are being carried out as planned.

Risk Management

15.4 The Internal Audit Service has a role in, and provides advice about, risk management and where appropriate assists in the preparation and promotion of the authority's risk management policy statement and approved strategy. It is not the role of Internal Audit to manage risks.

Anti-Fraud and Anti-Corruption

15.5 Senior Management have clearly defined responsibilities for Risk Management, Internal Control, Internal Audit and preventing Fraud and Corruption, which are set out in the authority's Financial Procedure Rules and the Anti-Fraud and Anti-Corruption Strategy. All suspected frauds and irregularities shall be reported to the Fraud and Inspections Manager, and where appropriate, the Audit and Risk Manager

15.6 The Internal Audit Service has a role in fraud prevention, detection and investigation and may assist in the development and maintenance of an Anti-Fraud and Anti-Corruption Strategy and fraud response plan.

Management Responsibilities

15.7 The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure and well-ordered manner.

16 To accomplish the objectives, the Audit and Risk Manager will:

- Prepare a detailed Annual Audit Plan setting out the work to be undertaken in any given financial year and how this links with the organisation's objectives and priorities.
- Prepare the internal audit budget and resource plan.
- Ensure a system of close supervision of audit work and maintain a review of audit files, adherence to standards and quality of audits.
- Formally report the results of audits and the recommendations made to Senior Management, other relevant managers and the Board. Where management has accepted a level of risk that may be unacceptable to the organisation and this is not resolved with Senior Management, the Audit and Risk Manager will report this to the Board.
- Follow up to make sure that corrective actions are taken.
- Provide an annual audit opinion to those charged with governance based on an objective assessment of the framework of governance, risk management and control, sufficient to inform the organisation's governance statement.
- Undertake annually a review of the effectiveness of internal audit (as required by Public Sector Internal Auditing Standards) and report the outcomes to Senior Management and the Board as part of the Quality Assurance and Improvement Programme (QAIP). At least once every five years, the Internal Audit Service will also commission an external assessment or peer review.

Resources

- 17 The resources available to internal audit are finite however; it is through the audits undertaken annually from which Internal Audit determines a level of confidence on the control environment within the authority. Such audits allow the Section 151 Officer to place reliance on the work undertaken and to gain assurance on the control environment from the independent review of the key financial systems. A set of 'governance' audits has been established which will be undertaken within each financial year. This will be complemented by a regular review of those areas identified as high risk through the Strategic, Project and where appropriate, individual Service Risk Registers. This will ensure that key work streams which are considered business critical and a high risk to the Council are reviewed on a timely basis. This process will largely determine the level of resources required.

Staffing

- 18 The PSIAS states that "Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and competencies".
- 19 The Audit and Risk Manager must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. The Audit and Risk Manager is a qualified Member of the Chartered Institute Internal Auditors.
- 20 The job descriptions and recruitment processes provide for the appointment of individuals with an appropriate set of skills, competencies and qualifications to meet the standard, either individually or as a combined internal audit activity.
- 21 All internal audit staff are trained in order to be able to perform each element of their assignments with due professional care.
- 22 All staff are encouraged to enhance their knowledge, skills and other competencies through continuing professional development (CPD). Where staff are members of professional bodies, they must also comply with any CPD requirements of their membership.

Independence

- 23 The main determinant of the effectiveness of Internal Audit is that it is seen to be independent in its planning and operation. To ensure this, Internal Audit will operate within a framework that allows:
- Unrestricted access to senior management
 - Reporting in its own name
 - Segregation from line operations

Non Audit Duties and Avoidance of Conflicts of Interest

- 24 Every effort is made to preserve objectivity by ensuring that all internal auditors are free from any conflicts of interest and the undertaking of non-audit duties is kept to a minimum, except where this represents 'consultancy', which is agreed by the S151 Officer and the Audit Committee in advance. Any consultancy work must not impair the objectivity of the Audit and Risk section, or raise issues of conflict of interest. Internal auditors are required within the PSIAS to refrain from participating "in any activity or relationship which may impair or be presumed to impair their unbiased assessment".
- 25 Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.
- 26 Where internal audit staff are required to undertake non-audit duties, such as election duties, the Audit and Risk Manager will make it clear that those audit staff are not fulfilling those duties as internal auditors. The Audit and Risk Manager will ensure that within the service there remains sufficient impartiality to enable the actions and activities of those internal audit staff to be subject to audit by those independent from the activity.
- 27 Internal auditors are not permitted to audit areas in which they have worked, for a period of at least 12 months.
- 28 If any member of the Internal Audit Service, or any individual or organisation engaged to act on its behalf considers that there is, or is perceived to be a conflict of interest, this must be declared to the Audit and Risk Manager, who will direct alternative and independent resources to the audit. If the Audit and Risk Manager finds themselves in that position, they will declare this in writing to the Corporate Management Team and another independent person or body will be appointed to fulfil this role.

Relationships with Elected Members and Reporting

- 30 The Audit and Risk Manager will report periodically to Senior Management and the Board in accordance with Standard 2060 in the PSIAS. The programme of planned reports for a calendar year is shown below.

March	Quarterly Report on Internal Audit Activity Q3
March	Annual Review of Effectiveness as part of the QAIP
March	Internal Audit Plan for forthcoming financial year
July	Annual Report on Internal Audit Activity
September	Quarterly Report on Internal Audit Activity Q1
November	Quarterly Report on Internal Audit Activity Q2

- 31 Internal Audit aims to apply appropriate levels of transparency in reporting on work undertaken and recommendations for improvement. Reporting arrangements are designed to clearly show the standards and controls which services are measured against and the auditor's opinion on whether these have been met as well as applicable conclusions, recommendations and action plans. Reports deliberately do not include operational detail which might contain personal or commercially sensitive data.

Rights of Access

- 32 The rights of access for the internal auditor are provided for by the Accounts and Audit Regulations 2015, sections 5(2)-5(3) and these provisions have been enhanced since the 2011 Regulations.
- (2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit -
- (a) make available such documents and records; and
 - (b) supply such information and explanations;
- as are considered necessary by those conducting the internal audit.
- (3) In this regulation "documents and records" includes information recorded in an electronic form.
- 33 There are consequently no limitations on internal audit's access to records. Internal Audit staff have the authority to:
- access council premises at reasonable times
 - access all assets, records, documents, correspondence and control systems
 - receive any information and explanation considered necessary concerning any matter under consideration
 - require any employee of the authority to account for cash, stores or any other authority asset under his/her control
 - access records belonging to third parties, such as contractors when required.
 - have direct access to the Corporate Directors, Service managers and any Member or body of Members considered appropriate and any other person charged with the governance of the authority.
- 34 Internal auditors are bound by the rules of confidentiality of their professional institutes, local Conditions of Service and the employee's contract of employment.

Review of This Charter

This Charter will be reviewed and updated as necessary, and in any event, not less than every three years.

Date of next scheduled review: January 2021

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Glossary

CMIIA – Chartered Member of the Institute of Internal Auditors

CCAB - Consultative Committee of Accountancy Bodies