

# Internal Audit Charter

**Draft to Audit Committee (25 April 2016)**

Audit and Investigations

# 1. Introduction

This document explains the purpose, authority and responsibility of the Council's Internal Audit Service (IAS). The Charter updates the previous charter to bring it in to line with recent updates to the UK Public Sector Internal Audit Standards (PSIAS) made in March 2017.

## 2. Mission of Internal Audit

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

## 3. Purpose

Good controls, risk management and fraud prevention are the responsibility of management. Internal Audit is a statutory function, which provides assurance and at times advisory work to the Council. The work of Internal Audit can complement and support management control.

### Definition of Internal Audit

The Public Sector Internal Audit Standards (PSIAS) defines 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.'

### The Statutory Framework

The Accounts and Audit Regulations 2015 require the provision of an IAS. The IAS will also comply with the PSIAS.

### The Internal Audit Plan

The Head of Audit and Investigation must establish a risk based plan to determine the priorities of Internal Audit activity, consistent with the organisational goals. The Internal Audit Plan is reviewed annually. The Internal Audit Plan is agreed by the Audit Committee.

### The Assurance Role

Internal Audit's primary role is to provide assurance to the organisation. The Internal Audit function is the third line of defence in the Council's "three lines of defence" approach to risk and assurance– the first line is made up by the Council's core operational services and the second line by the oversight functions, for example the risk management service.

The third line of defence is internal and external auditors, which regularly review both the business frontlines and the oversight functions to ensure the council has adequate risk controls in place. The corporate management team and Members also make up the third line of defence in that they receive and act on reports from audit, oversight and the operational services, to ensure that the three lines of defence are operating effectively.

**The three lines of defence model is summarised in the following diagram:**

Diagram 1: Three Lines of Defence: Assurance



Assurance feeds from the risk based Internal Audit Plan to individual audit projects. Internal Audit employs a risk-based, systematic and disciplined approach to audit. The risk-based approach focuses on the materiality of transactions. As a result, it utilises risk to identify material or key transactions and tests a sample to ensure that the system works, thus providing assurance to management. It is management’s responsibility to maintain a system of internal control.

### Advisory Role

As well as assurance, Internal Audit may also undertake advisory (consulting) services. The Head of Audit and Investigations may be approached to undertake advisory work (classified in the code as ‘consultancy’ work). This will be provided without prejudice to the right of Internal Audit to review the relevant policies and procedures and operations at a later date.

All significant additional advisory projects not already included in the Internal Audit Plan, will be reported to the Audit Committee prior to acceptance. Significant for this purpose is defined as any project that will represent a change to the plan of in excess of 5% of the total days.

Significant projects must be agreed with Audit Committee, prior to acceptance. In the event that these projects are urgent it will be emailed to the Chair of the Audit Committee for interim approval and reported to the next meeting of the committee.

The Head of Audit and Investigations must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

Internal auditors may provide advisory services relating to operations for which they had previous responsibilities.

### Internal Audit’s Role in Fraud, Bribery and Corruption

Management, not internal auditors, are responsible for the prevention and detection of fraud, bribery and corruption. 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.

Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud and corruption will be detected. In the event that the IAS suspect a fraud, this will be referred to the investigation service.

## **4. Authority**

### **Access to Records**

There are no limitations to Internal Audit's right of access to the Council's officers, records, information, premises, or meetings which it considers necessary to fulfil its responsibilities.

Where key services are to be provided to the Council by other contractors or through a partnership, the contract or agreement need to provide a clause to facilitate a right of access for Internal Audit. This is essential in order for internal audit to form an opinion on the controls operating by the client and how these may impact upon the Council. In order to obtain assurance, the Head of Audit and Investigations in consultation with all relevant parties, will decide whether Internal Audit staff conduct work or if any reliance can be placed on the work of other auditors.

When the auditors (including PWC) receive confidential information about your affairs it shall at all times be kept confidential, except as required by law or as provided for in regulatory, ethical or other professional pronouncements applicable. All information will be maintained in line with appropriate regulations, for example the Data Protection Act 1998.

## **5. Responsibility**

The management and reporting lines for IAS and the Head of Audit and Investigations.

### **Lines of Responsibility**

The Head of Audit and Investigations is line managed by the Director of Finance, however, will also report functionally to the Audit Committee.

Decisions on the appointment, removal and changes to the Head of Audit and Investigations will be the decision of officers, but will be received by the Audit Committee. Either the Corporate Board or Audit Committee may request a private meeting with the Head of Audit and Investigations on these matters. Reporting of the IAS is therefore summarised in the table below:

	Director of Finance	Chief Officer Team	Audit Committee
Approving the internal audit charter			X
Approving the risk based internal audit plan			X
Approving the internal audit resource plan			X
Receiving communications from the chief audit executive on the internal audit activity's			X
Monitoring performance relative to its plan and other matters;			X
Making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.			X
Approving decisions regarding the appointment and removal of the chief audit executive.	X	See note A	See note A

Note A - The Director of Finance will take decisions in relation to the appointment, remuneration and removal of the Head of Audit and Investigations. These will, however, be reported to the Corporate Board, who may request a direct consultation with the Head of Audit and Investigations or Director of Finance.

## External Audit and other regulators and inspectors

The Head of Audit and Investigations meets regularly with the Council's external auditors to discuss links between internal and external audit.

All Internal Audit final reports are sent to the Council's external auditors to build into their planning; they may also request to review certain internal audit files.

The Head of Audit and Investigations will liaise with third parties who either require assurance from the council, or vice versa, as and when required.

## 6. Independence

Professional internal auditors are mandated by the standards to be independent of the business activities they audit. Internal auditors are required to be impartial unbiased attitude and avoid any conflict of interest. Internal auditors will have no direct responsibility over areas which they audit. Internal Audit staff with real or perceived interest which may represent a conflict of interest will inform the Head of Audit and Investigations as soon as possible.

The Head of Audit and Investigations has management responsibility for Insurance, Risk Management and Investigation. To maintain a level of independence, PWC will consider these areas as part of the planning process and agree with the Director of Finance; undertake any audits of these services and provide copies of reports directly to the Director of Finance.

## Reporting

The Head of Audit and Investigations has free and unfettered access to the following:



In addition fraud or corruption may be reported directly to the police or third party where appropriate.

The Executive Director Corporate Resources, Chief Executive and Chair of the Audit Committee will also be asked for feedback as part of the Head of Audit and Investigation's appraisal.

All Ealing and PWC staff within anti-fraud and internal audit are required to complete a declaration of interest and be required to provide updates in the event of a change in circumstances.

Any internal audit staff involved in significant advisory projects will not be involved in the audit of that area for at least 12 months.

## 7. Due Professional Care

Internal Audit staff are bound by the ethics requirements of the act as well as the Council's policies and procedures, relevant legislation. Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

### Ethics

All members of the anti-fraud and internal audit team are provided with the Internal Audit Code of Ethics and sign to agree compliance with, notwithstanding their obligation to comply with the code of ethics for their own professional bodies. This also extends to the line management for the service.

### Quality Assurance

In line with the PSIAS a quality assurance and continuing improvement programme covering all internal audit work, has been established. An annual self-assessment is undertaken against the PSIAS as well as

ongoing monitoring. In addition, an external assessment will be undertaken at least once every five years by a suitably qualified, independent assessor.

## **8. Core Principles for the Professional Practice of Internal Auditing**

The Core Principles, taken as a whole, articulate internal audit effectiveness. For an Internal Audit function to be considered effective, all of these principles should be present and operating effectively for both internal auditors and the audit service as a whole:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

These attributes should be demonstrated by audit staff and the service as all times, through their work, reporting and culture.

## **9. Terminology**

The Public Sector Internal Audit Standard utilises the following terms. The Council has not adopted the terminology, however, the roles and responsibilities are fully adopted. The following sets out how the council meets the requirements of the standard:

### **Senior Management Team**

The Senior Management Team's responsibilities are covered by the Corporate Board.

### **The Board**

The Board's responsibilities are covered by the Council's Audit Committee, as detailed in section 4.

### **Chief Audit Executive**

The Chief Audit Executive for the Council is the Head of Audit and Investigations.