



INTERNAL AUDIT CHARTER

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1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) were formally adopted by CIPFA and IIA on the 1st April 2013 and updated on 1st April 2017. The PSIAS replaced the CIPFA code of practice for Internal Audit in Local Government in the UK (2006).
- 1.2 The Internal Audit Charter (“Charter”) establishes the purpose, authority and responsibilities for the Internal Audit service at Rushmoor Borough Council (RBC) and has been developed in line with the PSIAS requirements. It is further guided by the CIPFA Local Government Application Note (April 2013) (LGAN), which was published to assist in the implementation of the PSIAS.
- 1.3 The Charter is subject to approval by the Corporate Governance, Audit & Standards (CGAS) Committee on an annual basis, in line with the PSIAS requirements.

2. Definitions and roadmap

- 2.1 RBC has defined the following individuals referred to in the PSIAS as follows:

Terminology in PSIAS	Meaning in PSIAS	Who in RBC
The Board	The governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.	The CGAS Committee
Senior Management	Those responsible for the leadership and direction of the Council.	Executive Leadership Team (ELT)/ Cabinet
Chief Audit Executive (CAE)	A person in a senior position responsible for effectively managing the Internal Audit activity in accordance with the Internal Audit Charter and the Public Sector Internal Audit Standards.	Internal Audit Manager

3. Purpose of Internal Audit

3.1 The definition of internal auditing as defined within the PSIAS is;

'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.'

3.2 RBC's Senior Management is responsible for establishing and maintaining appropriate governance, risk management processes and controls (GRC) arrangements. Internal Audit plays a vital role in advising and providing overall assurance to the Board and Senior Management that the GRC arrangements in place are operating effectively.

3.3 The Internal Audit service provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes, where necessary.

4. Scope of Internal Audit

4.1 **Annual Audit Opinion (AAO)**

The CAE will provide an AAO, which will conclude on RBC's overall adequacy and effectiveness of its framework of GRC based mainly on the work carried out during the year. This opinion is used as a key part of the Annual Governance Statement (AGS).

The AAO given will be based on reasonable and not absolute assurances and will include any limitations to scope affecting the opinion. The AAO will include:

- The Opinion itself;
- A summary of the work that supports the opinion, including any other sources of assurance, e.g., from the Corporate Governance Group (CGG); and
- A statement on conformance with PSIAS and the results of the Quality Assurance and Improvement Programme (QAIP).

4.2 **Annual Audit Plan (AAP)**

The CAE will review the audit risk universe annually. This will help to develop the annual risk-based audit plan, as this will highlight key risk areas within the organisation. Furthermore, the Corporate Risk Register and RBC's priorities and objectives will be used to help develop the AAP.

As part of the planning process, the CAE will identify other potential sources of assurance and will include the approach to using other sources of assurance and any work required to enable reliance to be placed upon these other sources, e.g., the CGG.

The AAP will be set prior to the start of the financial year and agreed by Senior Management and the Board. However, the AAP will remain flexible in order to meet the evolving auditing environment within RBC throughout the year.

Bi-monthly update reports to Senior Management and the Board will detail any changes required to the AAP.

The resource requirements to achieve the AAP will be reviewed and, if any resource limitations are identified that will impact on the delivery of the AAP, will be highlighted to Senior Management and the Board.

4.3 ***Risk based audits***

Internal Audit will not be restricted to the audit of financial systems and controls but will also cover all operational and management controls. Audit work will be undertaken using a risk-based approach and carrying out reviews of the corporate and service risk registers. This identifies the risks associated with the achievement of the business objectives and reviews the design and operation of the controls in place to mitigate key risks, to ascertain the residual risk to the achievement of management's objectives.

4.4 ***Recommendations from audits***

Where control weaknesses are found, an appropriate action plan will be agreed with the head or manager of the service. Internal Audit will maintain a record of these, which will be used to track implementation, as well as for future follow up audits. An important element of audit work is to provide assurance to Senior Management and the Board as to whether audit recommendations have been successfully implemented by management, as this helps to support the CAE's overall assurance opinion. A rolling list of audit recommendations will be maintained and updates on incomplete recommendations will be reported to Senior Management and the Board on a bi-monthly basis.

4.5 ***Consultancy services***

Internal Audit may also provide consultancy services, such as advice on the design and implementation of a new system, key project or process. The nature and scope of which will be agreed with the client and intended to add value and improve RBC's GRC processes without Internal Audit assuming responsibility. Any significant consulting activity not already included in the AAP, which may affect the level of assurance work undertaken, will be reported to the Board and Senior Management for approval.

4.6 ***Special reviews/ fraud prevention and detection***

The Internal Audit service will assist RBC by:

- Promoting an anti-fraud, anti-bribery, anti-corruption culture, which aids prevention and detection.
- Ascertaining the effectiveness of fraud prevention controls and detection processes.

- Bringing to the CAE's attention any irregularities identified during the course of audit work which may be the result of fraud or corruption.
- Providing assurance that any remedial actions required, as a result of an investigation, have been implemented.

5. Organisational independence

- 5.1 The Internal Audit service has no operational responsibilities for any financial systems, including system development and installation. However, it may provide advice on control implementation and risk mitigation where relevant throughout the design and implementation stages of new systems, key projects and processes.
- 5.2 The PSIAS requires that reporting management arrangements must be put in place that preserve the CAE's independence and objectivity and that they report to a level within RBC that allows them to provide credibly constructive challenge to Senior Management to impact on the GRC arrangements.
- 5.3 Within RBC, the CAE reports administratively to the Executive Head of Financial Services (Section 151 Officer) and has free and unfettered access to the Chief Executive, Chair of the CGAS Committee and Monitoring Officer.
- 5.4 Internal Audit will ensure that independence and objectivity are maintained in line with the PSIAS including where non-audit work is undertaken. To manage potential conflicts of interest, Internal Audit have no operational responsibilities and any independence issues are highlighted at the planning stage for individual audit assignments.
- 5.5 If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to the CAE and reported to the Executive Head of Financial Services (Section 151 Officer).

6. Responsibility

- 6.1 **CAE**
The CAE must ensure that:
- They carry out an audit needs risk assessment using the audit universe in order to prioritise the results into an AAP.
 - Agree the AAP with Senior Management and the Board.
 - The Internal Audit resources are appropriate and sufficient to achieve the Audit Strategy. Any inadequacies will be raised with Senior Management and the Board.
 - There are appropriate policies and procedures in place to guide the Internal Audit activities in line with PSIAS and appropriate regulations.
 - Appropriate corporate counter-fraud policies are in place and periodically reviewed for adequacy and effectiveness.

- Internal Audit complies with the PSIAS and Code of Ethics. Any non-compliance will be reported to senior management and the board.
- Periodical reviews of policies, procedures and the Internal Audit Charter will be carried out to ensure adequacy and effectiveness of this within the evolving auditing environment.
- Confidentiality is maintained at all times.
- Internal Audit do not audit activities for which they previously had responsibility within the last 12 months.
- Regular follow ups on audit recommendations are carried out and management have taken action to implement the agreed actions. Where key agreed actions have not been implemented this will be reported to Senior Management and the Board.
- Where management has accepted a level of risk that may be unacceptable to RBC, as per the Corporate Risk Appetite, the matter will be discussed with Senior Management, as relevant or escalated to the Board to be resolved.
- Access to audit records is controlled and only released in accordance with the Freedom of Information and General Data Protection Regulations (GDPR) 2018 Act.
- All records are retained for the required period and in line with RBC's retention guidelines.
- They report to the Board on a regular basis in line with the agreed work programme for the CGAS Committee.

6.2 **Auditors**

All auditors must ensure that they:

- Maintain professional independence, objectivity, integrity and confidentiality.
- Refrain from assessing any activity to which they were previously responsible within the last 12 months, although they may provide consultancy services.
- Possess the knowledge, skills and other competencies needed to perform their individual responsibilities and that they enhance those skills through continuing professional development.
- Exercise due professional care at all times.
- Assist management in establishing or improving GRC processes, without managing them.
- Give adequate notice of the start of a planned audit.
- Develop and document a plan of each assignment detailing its objectives, scope and any limitations, and timing.
- Consider the objectives, risks, effectiveness of the control framework, of the activity under review, when planning and setting the objectives of each assignment.
- Develop and document a programme of work that achieves the audit objectives.
- Document sufficient information on their identification, analysis and evaluation of risks and controls within the area being audited.
- Communicate their findings based on opinion ascertained from these evaluations, providing an overall conclusion and assurance

level, recommendations (where applicable) and proposed action plan.

- Communicate all findings in an accurate, objective, clear, concise, constructive, complete and timely manner in accordance with PSIAS.
- Agree a plan of action with the auditee to mitigate the control weaknesses identified.
- Maintain professional independence, objectivity, integrity and confidentiality.
- Inform the CAE of any areas where they could have a conflict of interest which could impair or be perceived to impair their objectivity.
- Securely hold any documents, property, or other material obtained for audit use or investigations.
- Act with due care to provide reasonable assurance on the adequacy of control.

6.3 **Section 151 Officer**

The section 151 officer has the authority to ensure that the provision of Internal Audit is sufficient to meet the section 151 requirements.

The section 151 officer must ensure that:

- Any suspected irregularities are properly and appropriately investigated and action taken.
- They are satisfied that the AAO and the AGS reflect accurately the position of the control framework.

6.4 **Monitoring Officer**

The monitoring officer is responsible for:

- Ensuring lawfulness and fairness in decision making
- Dealing with investigations into matters referred to them and make reports or recommendation in respect of them
- Provide advice on:
 - The scope of powers to take decisions
 - Maladministration
 - Financial impropriety
 - Probity

6.5 **Chief Executive**

The Chief Executive carries the responsibility for the proper management of RBC and for ensuring that the principles GRC are reflected in sound management arrangements.

6.6 **Members**

Members are required to scrutinise the work of Internal Audit in line with the Terms of Reference for the CGAS Committee. The Members are responsible for:

- Approving the Internal Audit Charter

- Reviewing the risk-based AAP, including Internal Audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- Approving significant changes to the risk-based AAP and resource requirements.
- Making appropriate enquiries of both management and the CAE to determine if there are any inappropriate scope or resource limitations, in respect of carrying out internal audit work.
- Considering reports from the CAE on Internal Audit's performance during the year.
- Considering the CAE's annual assurance opinion report
- Receiving summaries of Internal Audit reviews and recommendations made as set out in the AAP.
- Receiving updates on key recommendations not yet implemented.
- Holding management accountable for the implementation of key recommendations and where necessary calling them into committee meetings to provide updates on progress.
- Receiving reports outlining the action taken where the CAE has concluded that management has accepted a level of risk that may be unacceptable to RBC or there are concerns about progress with the implementation of agreed actions.
- Providing free and unfettered access to the CGAS Committee Chair for the CAE, including the opportunity for a private meeting with the Committee.

6.7 ***Auditees/ Managers***

Responsibility for GRC rests with managers, who should ensure that arrangements are appropriate and adequate. It is for management to accept and implement audit recommendations in order to improve the GRC environment. Auditees must ensure that they:

- Give internal auditors access to premises, personnel, documents and assets that the auditor requires for the purpose of their work.
- Provide auditors with any information and explanations that they seek in the course of their work.
- Respond promptly and formally to audit requests for information and reports.
- Notify Internal Audit of any potential areas that additional assurance could be obtained.

6.8 ***External Audit***

Internal Audit will co-operate and liaise with the external auditors to ensure an efficient and effective internal audit service and ensure where possible duplication of work is avoided.

7. Due professional care

- 7.1 The CAE must hold a professional qualification and current membership and must be suitably experienced.
- 7.2 The CAE will assess on an annual basis the knowledge, skills and other competencies required within the internal audit section in order for it to fulfil its purpose and effectively carry out professional duties in accordance with statutory requirements. If any insufficiencies are identified these will be reported to Senior Management and the Board, if there is likely to be an impact on achieving either the AAP or a sufficient level of reviews to enable an effective AAO to be made.
- 7.3 All internal auditors will have sufficient knowledge through training and continued professional development to carry out their duties.
- 7.4 Any impairment either in fact or appearance on any individual auditor's independence or objectivity will be reported to the Section 151 Officer.

8. Authority

- 8.1 All local authorities must make proper provision for Internal Audit in line with the 1972 Local Government Act (Section 151) and the Accounts and Audit Regulations 2015. The latter requires authorities to:
'(i) 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 auditing standards or guidance.'

9. Access to records and personnel

- 9.1 Internal auditors have right of access to all premises, personnel, documents and information they consider necessary for the purpose of their reviews and to obtain such information and explanations from any employees as necessary concerning any matter under review/ investigation.
- 9.2 Internal auditors also have the power to require any RBC employee, agent or Member to produce cash, equipment, computers or other RBC property under their control. Internal Audit can retain or seize these items in order to protect RBC's interest, or to preserve evidence, if a suspected irregularity has occurred before considering whether to refer the issue to the Police.
- 9.3 Records will be held and retained in line with the General Data Protection Regulations 2018 Act.

10. Reporting structure

- 10.1 Annually the CAE will present for review and approval the AAP, including resource requirements and any perceived deficiencies to the Board following consultation with Senior Management.

- 10.2 Update reports on the progress towards the AAP will be presented regularly to Senior Management and the Board. This will include any significant risk exposure and control issues identified and any changes required to the audit plan.
- 10.3 A report will be prepared for every audit review carried out, which will include an opinion on the adequacy of GRC in the area that has been audited. The report will be distributed in line with the agreed reporting protocols. The draft report will be discussed with the auditees and a response obtained for each recommendation along with a timescale for implementation.
- 10.4 At an appropriate “close-out” meeting, Internal Audit and Service Management should agree the findings and recommendations in the draft report. Subsequently, they should provide adequate management responses to the recommendations and set appropriate target dates for their implementation.
- 10.5 Progress towards agreed actions will be reported to Senior Management and the Board. If appropriate action has not been taken within a reasonable timeframe for high-risk actions or limited/no assurance audits then this will be specifically highlighted for further action by Senior Management and the Board.

11. Public Sector Audit Standards (PSIAS)

- 11.1 The PSIAS promotes an ethical and professional culture. The CAE will carry out an annual self-assessment of the Internal Audit’s performance against PSIAS. A breakdown of compliance and non-compliance will be communicated annually to the Board and Senior Management along with a Quality Assurance and Improvement Programme (QAIP).

12. Quality Assurance and Improvement Programme (QAIP)

- 12.1 As a result of the CAE’s review of the PSIAS, a QAIP will be developed for the current year if full compliance has not been achieved. This will set out what work is required to become compliant and the action that will be taken in the current year by the audit service in order to work towards becoming fully compliant.