

RUSHMOOR
BOROUGH COUNCIL



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. The PSIAS replaced the CIPFA code of practice for internal audit in Local Government in the UK (2006).
- 1.2 This 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 informed by the CIPFA Local Government Application Note (April 2013), which was published to assist in the implementation of the PSIAS.
- 1.3 The internal audit charter is subject to approval by the Licencing, Audit and General Purposes 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 Licencing, Audit and General Purposes Committee
Senior Management	Those responsible for the leadership and direction of the Council.	Executive Leadership Team (ELT)
Chief Audit Executive	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.	Audit Manager

- 2.2 Having set the scene, Sections 3 to 11 constitute the Charter. Section 12 notes a further task that, when completed, will deliver full compliance. The target date for this is 2019/20. Appendix 1 sets out the annual calendar, for when the various reports will appear.

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 Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements, are in place and operating effectively.

3.3 This is achieved through the Internal Audit service providing 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 **The Annual Opinion**

The Chief Audit Executive will provide an annual audit opinion, which will conclude on RBC’s overall adequacy and effectiveness of its framework of governance, risk management and control. This opinion can be used to inform the Annual Governance Statement. The opinion given will be based on reasonable and not absolute assurances, and will include any limitations to scope affecting the opinion. The audit opinion will include:

- The Opinion
- A summary of the work that supports the opinion, including any other sources of assurance
- A statement on conformance with PSIAS and the results of the Quality Assurance and Improvement Programme (QAIP)

4.2 **Annual plan**

The Chief Audit Executive will review the audit risk universe annually. This will help to inform the development of the annual audit plan, as this will highlight key risk areas within the organisation. Furthermore, the corporate risk register and the Council’s priorities and objectives will be used to help develop the overall audit plan.

As part of the planning process, the Chief Audit Executive 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.

The audit plan will be set prior to the start of the financial year and agreed by Senior Management and the Board. However, the plan will remain flexible in order to meet any changing priorities within the Council throughout the year. Quarterly update reports to Senior Management and the Board will detail any changes required to the audit plan.

The resource requirements to achieve the annual audit plan will be reviewed and if any resource limitations are identified, which will impact on the delivery of the audit plan, this will be highlighted to the Section 151 officer and the Board, consistent with para 8.1.

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. 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 significant weaknesses are found in risk based audits, an action plan will be agreed with the manager of the service. Internal Audit will maintain a record of these, which will be used to inform future 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. This will be done via follow up audit reviews and any incomplete recommendations will be reported to Senior Management and the Board. A rolling list of incomplete audit recommendations will be maintained and reported quarterly to Senior Management and the Board.

4.5 ***Consultancy activities***

Internal Audit may also provide consultancy services, such as advice on the design and implementation of a new system or process. The nature and scope of which will be agreed with the client and intended to add value and improve the Council's governance, risk management and control processes without Internal Audit assuming responsibility. Any significant consulting activity not already included in the annual audit plan, 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 Chief Audit Executive has responsibility for the work and delivery of the Corporate Investigation team, who provide specialist skills and knowledge to assist corporate investigations. The Internal Audit service assist the Corporate Investigation team 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 Chief Audit Executive'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.
- 5.2 The PSIAS requires that reporting management arrangements must be put in place that preserve the Chief Audit Executive's independence and objectivity and that they report to a level within the organisation that allows the internal audit activity to fulfil its responsibility.
- 5.3 Within RBC, the Chief Audit Executive 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 Licensing, Audit and General Purposes 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 auditors 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 must be disclosed to the Chief Audit Executive and reported to the Executive Head of Financial Services (Section 151 Officer), who must respond in writing within 21 days.

6. Responsibility

6.1 **Chief Audit Executive**

The Chief Audit Executive must ensure that:

- They carry out an audit needs risk assessment using the audit universe in order to prioritise the results into an annual plan.
- Agree the plan with Senior Management and the Board.
- The internal audit resources are appropriate and sufficient to achieve the approved audit plan. Any inadequacies will be raised with the Section 151 Officer 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 anti-fraud policies are in place and periodically reviewed for adequacy and effectiveness.
- Internal Audit complies with the PSIAS and Code of Ethics.
- They periodically review policies, procedures and the internal audit charter to ensure adequacy and effectiveness.
- Confidentiality is maintained at all times.
- Auditors do not audit activities for which they previously had responsibility within the last 12 months.
- Follow ups on audit recommendations are carried out and management have taken action to implement the agreed actions. Where agreed action has not been taken this is reported to senior Management and the Board.
- Where management has accepted a level of risk that may be unacceptable to RBC 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 Data Protection 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 Committee.

6.2 **Auditors**

All auditors must ensure that they:

- Maintain an impartial and unbiased attitude and avoid any conflict of interest.
- 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 risk management processes, without managing those risks.
- 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 Chief Audit Executive 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.
- S/he is satisfied that the annual audit opinion and the annual governance statement reflects accurately the position of the control framework.
- Internal audit is sufficiently resourced and is effective. In the event that it is not this is raised with the Board.

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 of good governance 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 Licensing, Audit and General Purpose Committee. The Members are responsible for:

- Approving the Internal Audit Charter
- Reviewing the risk based internal audit plan, 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 internal audit plan and resource requirements.
- Making appropriate enquires of both management and the Chief Audit Executive to determine if there are any inappropriate scope or resource limitations, in respect of carrying out internal audit work.
- Considering reports from the Chief Audit Executive on internal audit's performance during the year.
- Considering the Chief Audit Executive's annual report
- Receiving summaries of any specific internal audit reports as required for the purposes of ensuring the audit purpose and responsibilities are being met.
- Receiving reports outlining the action taken where the Chief Audit Executive has concluded that management has accepted a level of risk that may be unacceptable to the Council or there are concerns about progress with the implementation of agreed actions.
- Providing free and unfettered access to the Committee Chair for the Chief Audit Executive, including the opportunity for a private meeting with the Committee.

6.7 **Auditees/ Managers**

Responsibility for internal control rests with managers, who should ensure that arrangements are appropriate and adequate. It is for management to accept and implement audit recommendations or to accept the risk resulting from not taking any action. 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.

6.8 **External Audit**

Internal audit will co-operate and regularly liaise with the external auditors to ensure an efficient and effective internal audit service and ensure where possible duplication of work is avoided. External audit have a responsibility to assess whether internal audit arrangements are adequate and will, where they are able, place reliance on internal audits work when forming their opinion on RBC's accounts.

7. Due professional care

- 7.1 The Chief Audit Executive must hold a professional qualification and current membership and must be suitably experienced.
- 7.2 The Chief Audit Executive 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 the Section 151 Officer and reported to the Board if there is likely to be an impact on achieving either the annual audit plan or a sufficient level of reviews to enable an effective annual audit opinion 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 auditors 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 Council employee, agent or Member to produce cash, equipment, computers or other Council property under their control. Internal Audit can retain or seize these items in order to protect the Council’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.

10. Reporting structure

- 10.1 Annually the Chief Audit Executive will present for review and approval the annual audit plan, including resource requirements and any perceived deficiencies to the Board following consultation with Senior Management.
- 10.2 Quarterly an update report on the progress towards the audit plan will be presented 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 controls 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 It is for management to determine whether or not to accept the audit recommendations made and to recognise and accept the risks of not taking action. They must formally respond giving reasons for their decision.
- 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 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 Chief Audit Executive 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 Chief Audit Executives 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 complaint and the action that will be taken in the current year by the audit service in order to work towards becoming fully compliant.

APPENDIX 1

Approximate Timing	Report Details
Feb/March	Annual Audit Plan
May	Audit Opinion
May	Update for all deliverables for the previous financial year and update on audit work to the end of quarter 4.
June/July	Audit update for quarter 1 and deliverables for quarter 2 and quarter 3.
Oct/ Nov	Audit update for quarter 2 and deliverables for quarter 3 and quarter 4.
Jan/ Feb	Audit update for quarter 3 and deliverables for quarter 4.

NB: Only approximate timings have been given for these reports as it will depend on when the Committee meetings are scheduled.