

Buckinghamshire County Council

INTERNAL AUDIT CHARTER

Head of Business Assurance (& Chief Internal Auditor)

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1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS), which took effect from the 1 April 2013, provide a consolidated approach across the whole of the public sector providing continuity, sound corporate governance and transparency.
- 1.2 The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'. The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility.

2. Authority

- 2.1 The requirement for an Internal Audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

- 2.2 The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 ('the Standards').

3. Purpose

- 3.1 Internal Audit plays a vital role in assisting Buckinghamshire County Council (BCC) in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.

- 3.2 The role of Internal Audit is best summarised through its definition within the Standards, 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'.

- 3.3 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.

4. Definitions

- 4.1 For the purposes of this charter, the following definitions shall apply:

Regulatory and Audit Committee - 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 Board – the highest level of governing body charged with the responsibility to direct and/or oversee the activities and management relating to internal audit. For BCC this shall mean the Audit Board comprising of the, Director of Assurance (S151 Officer), Director of Strategy and Policy (Monitoring Officer) and Head of Business Assurance (& Chief Internal Auditor).

Senior Management – those charged with responsibility for the leadership and direction of BCC, this shall mean members of One Council Board (OCB) which comprises the Chief Executive and Managing Directors, including the Monitoring

Officer and Section 151 Officer.

5. Responsibility

- 5.1 The Chief Internal Auditor is responsible for effectively managing the internal audit activity in accordance with the *'Definition of Internal Auditing'*, the *'Code of Ethics'* and *'the Standards'*.
- 5.2 Accountability for responding to Internal Audit reports and advice lies with Senior Management. The Chief Internal Auditor must be satisfied that Senior Management accept accountability for, and provide an adequate response to, issues raised through Internal Audit's work. When the Chief Internal Auditor is not satisfied, the matter will be escalated to the Board and relevant OCB members or Regulatory and Audit Committee, as appropriate.

6. Position in the Organisation

- 6.1 The Chief Internal Auditor reports functionally to the Board, and organisationally to the Director of Assurance (and Chief Finance (S151) Officer).
- 6.2 The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of BCC and for ensuring that the principles of good governance are reflected in sound management arrangements.
- 6.3 Where it is considered necessary to the proper discharge of the Internal Audit function, the Chief Internal Auditor has direct access to the Chairman (and other members as appropriate) of the Regulatory and Audit Committee.

7. Internal Audit Resources

- 7.1 The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with members of the Regulatory and Audit Committee, the Board, Senior Management and other professionals.
- 7.2 The Director of Assurance (and Chief Finance (S151) Officer) will provide the Chief Internal Auditor with the resources necessary to fulfil BCC's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Chief Internal Auditor will ensure that the Internal Audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the Audit Charter and Annual Audit Strategy and Plan.
- 7.3 The Annual Audit Strategy and Plan (known as the Business Assurance Strategy at BCC) will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.
- 7.4 Senior Management and the Board will be advised where, for whatever reason, Internal Audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process. The Annual Audit Strategy and Plan will be submitted to Senior Management, the Board and the Regulatory and Audit Committee, for endorsement. The Chief Internal Auditor will be responsible for delivering the plan.
- 7.5 The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of BCC. Significant matters that jeopardise the delivery of the plan

or require changes to the plan will be identified, addressed and reported to the Board, Senior Management, and the Regulatory and Audit Committee as appropriate.

8. Independence and Objectivity

- 8.1 Internal Auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice. Internal Auditors must maintain an unbiased attitude and ensure that no quality compromises are made. Objectivity requires that Internal Auditors do not subordinate their judgement on audit matters to others.
- 8.2 To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the Internal Audit activity:
- retains no executive or operational responsibilities;
 - operates in a framework that allows unrestricted access to Senior Management, the Board and Chair of the Regulatory and Audit Committee;
 - reports functionally to the Board;
 - reports in their own name;
 - rotates responsibilities for audit assignments within the Internal Audit team, where possible; and
 - ensures the planning process recognises and addresses potential conflicts of interest through Internal Audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles.
- 8.3 If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to Senior Management and the Board. The nature of the disclosure will depend upon the impairment.
- 8.4 The Chief Internal Auditor will confirm to the Regulatory and Audit Committee, at least annually, the organisational independence of the internal audit activity.

9. Due Professional Care

- 9.1 Internal Auditors will perform work with due professional care, competence and diligence. Internal Auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.
- 9.2 Internal Auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect. Internal Auditors will apprise themselves of the 'Definition of Internal Auditing', the 'Code of Ethics' and the 'Standards' and will work in accordance with them in the conduct of their duties.
- 9.3 Internal Auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Chief Internal Auditor.
- 9.4 Internal Auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of Internal Audit work will not be used to effect personal gain.

10. Scope of Internal Audit Activities

- 10.1 The Annual Audit Strategy and Plan will be developed based on a prioritisation of the audit universe and reference to the Strategic Risk Register. The plan is also informed through discussion with the Managing Directors, Finance Directors, Director of Assurance, Monitoring Officer and the Chief Executive. Prior to submission to the Regulatory and Audit Committee for approval, the plan will be discussed with appropriate Senior Management and the Board. Quarterly meetings with the Directors are scheduled to ensure the plan is kept under continuous review. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.
- 10.2 A range of Internal Audit services are provided (Annex 1) to form the annual opinion. The approach is determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the organisations success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.
- 10.3 Internal Audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Board or management, as appropriate.
- 10.4 The Chief Internal Auditor will meet regularly with the external auditors to consult on audit plans, discuss matters of mutual interest and to seek opportunities for cooperation in the conduct of audit work. The external auditors will have the opportunity to rely on the work of Internal Audit where appropriate.

11. Fraud and Corruption Responsibilities

- 11.1 The primary responsibility for the prevention and detection of fraud, corruption and theft rests with Managing Directors, Directors and Service Managers.
- 11.2 All suspicions of theft, fraud and irregularity should be reported to the Chief Internal Auditor, in accordance with the Anti-Fraud and Corruption Strategy. This will enable the adequacy of the relevant controls to be considered, the implication of the fraud on the risk management, control and governance processes to be evaluated and any management actions to be agreed.
- 11.3 Internal Audit will investigate the more complicated or large cases of suspected fraud and other irregularities. In some cases, an allegation may be of a routine or minor nature that can be dealt with by service management. All investigations however should be reported to Internal Audit, who will monitor the investigation, ensuring action is initiated, effectively managed and it is brought to a proper conclusion.
- 11.4 Internal Audit also facilitate BCC's participation in the National Fraud Initiative (NFI), in which specified data is matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

12. Access to Relevant Personnel and Records

- 12.1 In carrying out their duties, Internal Audit (subject to the appropriate vetting and security requirements for access and on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to BCC. Internal Audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

13. Reporting

Chief Internal Auditor's Annual Report and Opinion

- 13.1 The Chief Internal Auditor shall produce an Annual Internal Audit Opinion and Report that can be used by the organisation to inform their governance statements. The Annual Internal Audit Report and Opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report will incorporate as a minimum:
- the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

The Board

- 13.2 Organisational independence is achieved when the Chief Internal Auditor reports functionally to the Board, who will receive, challenge and monitor the following reports:
- Internal Audit Charter;
 - Annual Audit Strategy and Plan;
 - Internal Audit budget and resource plan;
 - Progress in delivering the Annual Audit Strategy and Plan;
 - Internal Audit performance;
 - Annual Internal Audit Opinion and Report; and
 - Scope, form and results of internal and external assessments, as part of the quality management and improvement plan.

14. Quality Assurance

- 14.1 The Internal Audit team will work to the Public Sector Internal Audit Standards to maintain consistency in service provision. This requirement will be enforced through appropriate supervision and supervisory/management review of all audit working papers, action plans and audit reports.
- 14.2 An Effectiveness of Internal Audit questionnaire will be distributed to key contacts at the end of the year to assess the quality and added value of the function, the work undertaken throughout the year and to seek suggestions for improvement. All completed forms will be reviewed by the Chief Internal Auditor and Audit Managers and be included in the Annual Internal Audit Opinion and Report.
- 14.3. In line with the Standards, external assessment will also be conducted at least once every five years by an external, qualified, independent assessor or assessment team.

15. Ownership of Documentation

- 15.1 Internal Audit files and working papers, which demonstrate compliance with the Standards are the property of BCC. Internal Audit complies with the data retention policy of the BCC.

16. Review of the Internal Audit Charter

- 16.1 This charter will be reviewed annually by the Chief Internal Auditor and presented to the Board and Regulatory and Audit Committee for approval.

Assurance Services

- a) **Risk based audit:** in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.
- b) **Developing systems audit:**
- the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
 - programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.
- c) **Compliance audit:** in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.
- d) **Quality assurance review:** in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.
- e) **Follow up:** Internal Audit will facilitate the organisation's monitoring of implementation of agreed management actions, reporting on progress quarterly to the Board and Regulatory and Audit Committee. If required, individual follow up assignments will be commissioned to review areas that receive a "limited" assurance rating.
- f) **Fraud and irregularity investigations:** Internal Audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes.
- g) **Advisory / consultancy services:** in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an Internal Auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.
- h) **Third party assurance:** the availability of objective assurance from other assurance providers will be considered in determining audit needs. Where Internal Audit needs to work with the Internal Auditors of other organisations, a practice which is expanding with the development of more organisational strategic partnerships, the roles and responsibilities of each party, as well as billing arrangements, will be clearly defined, agreed and documented prior to the commencement of work. Internal audit will also ensure awareness of and seek to place reliance on the work of other review bodies such as HMIC and HMRC, etc.