



# Report to Audit and Governance Committee

**Date:** 10 June 2020

**Title:** Internal Audit Charter

**Relevant councillor(s):** Katrina Wood

**Author and/or contact officer:** Maggie Gibb (Head of Business Assurance (& Chief Internal Auditor))

**Ward(s) affected:** N/A

**Recommendations:** Members are recommended to **approve** the Internal Audit Charter

**Reason for decision:** N/A

## Executive summary

- 1.1 The purpose of the report is to present the Internal Audit Charter for approval.
- 1.2 The S151 Officer has reviewed and signed off the proposed charter, and said document was agreed by the Cabinet Member for Resources prior to vesting day for the new Buckinghamshire Council.

## Content of report

- 1.3 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. 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.

## Other options considered

- 1.4 N/A

## Legal and financial implications

1.5 None.

## Corporate implications

1.6 None.

## Consultation and communication

1.7 None.

## Next steps and review

The Internal Audit Charter will be reviewed on an annual basis.

## Background papers

Buckinghamshire Council Internal Audit Charter





# **Buckinghamshire Council**

## **INTERNAL AUDIT CHARTER**

**Head of Business Assurance (& Chief Internal Auditor)**

**Date Produced: April 2020**

**Date for Review: April 2021**

## **1. Introduction**

- 1.1 The Public Sector Internal Audit Standards (PSIAS), which took effect from the 1 April 2013 and updated 1 April 2017, provide a consolidated approach across the whole of the public sector providing continuity, sound corporate governance and transparency. 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.
- 1.2 This Charter formally defines the purpose, the authority and responsibility of Internal Audit within Buckinghamshire Council, in accordance with the PSIAS. The Charter will be subject to approval by the Audit and Governance Committee on an annual basis to ensure that it is up-to-date and in line with the PSIAS requirements, which are subject to external validation within a five year operating period.

## **2. Purpose**

- 2.1 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. Authority**

- 3.1 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'.*
- 3.2 The standards for 'proper practices' in relation to Internal Audit are laid down in the Public Sector Internal Audit Standards.

## **4. Responsibility**

- 4.1 There is a statutory requirement under Section 151 of the Local Government Act 1972 for the Council to establish a clear framework for the proper administration of the authority's financial affairs. Buckinghamshire Council has delegated this responsibility to the Director of Corporate Finance. 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.  
  
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'*.
- 4.2 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 Audit Board and relevant Corporate Management Team (CMT) members or Audit and Governance Committee, as appropriate.

## **5. Definitions**

- 5.1 For the purposes of this charter, the following definitions shall apply in line with the duties laid out in the PSIAS:

*Chief Audit Executive* – is the person in a senior position responsible for effectively managing the Internal Audit activity in accordance with the Internal Audit Charter and the mandatory elements of the International Professional Practices Framework. In Buckinghamshire Council the Chief Internal Auditor is the designated 'Chief Audit Executive'.

*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. For Buckinghamshire Council this shall mean the Audit and Governance Committee. Buckinghamshire Council has put in place a sub-group of the board referred to as the Audit Board which comprises of the Monitoring Officer, Section 151 Officer and Chief Internal Auditor charged with directing and/or overseeing the activities and management relating to Internal Audit.

*Senior Management* – those charged with responsibility for the leadership and direction of Buckinghamshire Council, this shall mean members of CMT which comprises the Chief Executive and Corporate Directors, including the Monitoring Officer and Section 151 Officer.

## **6. Position in the Organisation**

- 6.1 The Chief Internal Auditor reports functionally to the Audit and Governance Committee, and organisationally to the Director of Corporate Finance (and Chief Finance (S151) Officer) who has statutory responsibility under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper finance administration of the Council's affairs.
- 6.2 The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of Buckinghamshire Council and for ensuring that the principles of good governance are reflected in sound management arrangements.
- 6.3 The Chief Internal Auditor has direct access to the Council's Monitoring Officer where matters arise relating to Monitoring Officer responsibility, legality and standards.
- 6.4 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 Audit and Governance 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 Board, Senior Management and other professionals.
- 7.2 The Director of Corporate Finance (and Chief Finance (S151) Officer) will provide the Chief Internal Auditor with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the Internal Audit opinion. Internal Audit must be adequately staffed in terms of numbers, qualification level and experience, having regard to its objectives and to the standards. All Internal Auditors will hold a professional qualification or be training towards a professional qualification. Resourcing may be supplemented by commissioning additional audit capacity if the S151 Officer or Chief Internal Auditor feels it appropriate.

- 7.3 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 Annual Internal Audit Strategy and Plan.
- 7.4 The Internal Audit Plan 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. Such proposals will be presented for agreement to the Audit Board and approval from the Audit and Governance Committee.
- 7.5 Senior Management and the Audit 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 Internal Audit Strategy and Plan will be submitted to Senior Management, the Audit Board and the Audit and Governance Committee for approval. The Chief Internal Auditor will be responsible for delivering the plan.
- 7.6 The Internal Audit Plan will be kept under review to ensure it remains responsive to the changing priorities and emerging risks. Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to the Audit Board, Senior Management and the Audit and Governance Committee as appropriate.

## **8. Independence and Objectivity**

- 8.1 Internal Audit will be sufficiently independent of the activities they audit to enable them to perform their duties in a manner that facilitates impartial, unbiased and effective professional judgements and advice.
- 8.2 Internal Auditors will have no direct operational responsibility or authority over any of the activities audited within Buckinghamshire Council. They will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair Internal Audit's judgement. Internal Auditors will not undertake audits for at least two years in an area where they have had previous operational roles and/or undertaken consulting activity. Internal Audit will therefore ensure that any potential conflicts of interest are recognised and addressed through the planning and resourcing process.
- 8.3 Internal Auditors must display the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or processes being examined.
- 8.4 If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to Senior Management and the Audit Board. The nature of the disclosure will depend upon the impairment.
- 8.5 The Chief Internal Auditor will confirm to the Audit and Governance Committee, at least annually, the organisational independence of the internal audit activity as part of the Annual Report.

## **9. Due Professional Care**

9.1 The Council's Internal Audit activity will conform to standards and guidance contained in the Public Sector Internal Audit Standards. The PSIAS encompasses the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework which include:

- the Definition of Internal Auditing;
- the Core Principles;
- the Code of Ethics; and
- the International Standards for the Professional Practice of Internal Auditing.

9.2 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.

9.3 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 access to all records (documentary and electronic), assets and premises, belonging to the Council or its key delivery partner organisations. 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. 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.

## **10. Scope of Internal Audit Activities**

10.1 Annually, the Chief Internal Auditor will submit to the Audit and Governance Committee the Annual Internal Audit Strategy and Plan for review and approval prior to the commencement of the financial year. The Chief Internal Auditor will communicate the impact of resource limitations and significant interim changes to the Audit Board and the Audit & Governance Committee.

10.2 The Annual Internal 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 Senior Management including the Chief Executive, Corporate Directors, S151 and Monitoring Officers. Prior to submission to the Audit and Governance Committee for approval, the plan will be discussed with the Audit Board and Senior Management. The plan is dynamic in nature and will be reviewed and realigned on a regular basis to take account of new, emerging and changing risks and priorities. Quarterly meetings with the Corporate/Service 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.

10.3 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.

- 10.4 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 Senior Management, as appropriate.
- 10.5 For each audit assignment, Internal Auditors will develop and document a plan including the objectives of the review, the scope, and timing and resource allocations. In planning the assignment, auditors will consider, in conjunction with the auditees, the objectives of the activity being reviewed, significant risks to the activity and the adequacy and effectiveness of the activity's governance, risk management and control processes.
- 10.6 Internal Audit will consult with the Council's external auditor and with other relevant inspection/assurance and review bodies, as required, in order to co-ordinate effort, ensure adequate coverage and minimise any duplication. 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 Senior Management.
- 11.2 Internal Audit is responsible for developing and implementing the Anti-Fraud and Corruption Policy. All suspicions of theft, fraud and irregularity should be reported to the Chief Internal Auditor, in accordance with the policy. Internal Audit will investigate cases of suspected fraud and financial irregularities. In some cases, this may be delegated to the service itself following an assessment of risk and financial impact. All investigations will be monitored by Internal Audit, ensuring that all suspected and/or reported irregularities are dealt with promptly and in accordance with this strategy; and that action is identified to improve controls and reduce the risk of recurrence.
- 11.3 Internal Audit also facilitate Buckinghamshire Council's participation in the National Fraud Initiative (NFI), in which the Council's data is matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

## **12. Reporting and Monitoring**

- 12.1 The PSIAS require the Chief Internal Auditor to provide an annual opinion, based upon and limited to the work performed, and on the overall adequacy and effectiveness of the organisation's systems of internal control which consist of a 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.

12.2 Organisational independence is achieved when the Chief Internal Auditor reports functionally to the Audit and Governance Committee, 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 Internal 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.

### **13. Provision of Assurance to Third Parties**

13.1 The Council's Internal Auditors undertake Internal Audit and assurance activity for third parties, such as Buckinghamshire Fire & Rescue Service and local Academy Trusts.

13.2 The same principles detailed in this Charter will be applied to these engagements. In performing consulting engagements, Internal Audit will ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If Internal Audit develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

### **14. Quality Assurance**

14.1 The Internal Audit team will work to the PSIAS 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 Internal Audit will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity, and evaluates the activity's conformance with the Standards and application of the Code of Ethics. As such, the programme assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

14.3 The Chief Internal Auditor will communicate to senior management and the Audit and Governance Committee on the internal audit activity's quality assurance and improvement programme, including results of ongoing monitoring at least annually, internal assessments upon completion and external assessments conducted at least every five years. Disclosure will include:

- The scope and frequency of both internal and external assessments;
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest;
- Conclusions of assessors; and
- Corrective action plans.

The results of the quality assurance improvement programme and progress against any improvement plans will be included in the Chief Internal Auditor's annual report.

## ANNEX 1

### 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:** The PSIAS requires that a quality assurance framework be established, which will include both internal and external assessment of the work of Internal Audit. The Chief Internal Auditor is responsible for providing periodically an internal quality assessment (IQA) on the internal audit activity as regards its consistency with the requirements of the PSIAS. This will be carried out through annual self-assessment using the checklist in the CIPFA Application Note. Results of these IQAs will be communicated to the Audit Board through the Chief Internal Auditor's annual report. External quality assessments (EQAs) will be conducted at least once every five years and may be a full external assessment or a self-assessment with independent validation in line with the PSIAS. These reviews will be commissioned in line with the PSIAS and the approach will be agreed by the Audit Board with outcomes reported to the Audit Board by the Chief Internal Auditor.
- e. **Follow-up:** The PSIAS also requires the Chief Internal Auditor to establish a follow-up process to monitor and ensure management actions have been effectively implemented. This Internal Audit will facilitate the Council's monitoring of implementation of agreed management actions, reporting on progress quarterly to the Audit Board and Senior Management. Individual follow-up assignments will be commissioned to review areas that receive a "Limited" assurance rating.
- f. **Fraud and irregularity investigations:** Managing the risk of fraud and corruption is the responsibility of management; Internal Audit will assist management in the effective discharge of this responsibility. Audit procedures alone cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption.

It is the responsibility of Senior Management to promote awareness of and adherence to the Council's Anti-Fraud and Corruption Policy. It is important that the Chief Internal Auditor is notified of all suspected or detected fraud, corruption or impropriety, to inform the annual audit opinion and the risk-based plan.

- g. Advisory / consultancy services:** The PSIAS defines consulting services as follows:  
*“Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation’s governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training”.*

Buckinghamshire Council’s Internal Audit Plan will clearly show items which fall within the definition of consulting services. The PSIAS requires that approval must be sought from the Audit Board for any significant additional consulting services not already included in the Internal Audit Plan, prior to accepting the engagement (Standard 1130).

- 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.