



## Internal Audit Charter

### 1.0 Introduction:

- 1.1 The purpose of the Audit Charter is to define what Internal Audit is and explain its purpose, role and activities.
- 1.2 The standards for the work of an Internal Audit section are laid down in the Public Sector Internal Audit Standards which came into effect on 1<sup>st</sup> April 2013. The objectives of the standards are to:
  - Define the nature of internal auditing within the UK public sector;
  - Set basic principles for carrying out internal audit in the UK public sector;
  - Establish a framework for providing internal audit services which add value to the organisation, leading to improved organisational processes and operations, and
  - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 1.3 The Public Sector Internal Audit Standards have been adopted as Part 1 of the Internal Audit Procedure Manual.
- 1.4 Where assurance is being provided by outside organisations, internal audit may be required to assess the reliability of the work undertaken.

### 2.0 Definitions:

- 2.1 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.
- 2.2 The "Board" is the Accounts, Audit and Governance Committee.
- 2.3 "Senior Management" comprises the Senior Leadership Team (Chief Executive and the three Directors).

### 3.0 Role:

- 3.1 The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities "*make arrangements for the proper administration of their financial affairs*". The Accounts and Audit Regulations 2006 more specifically requires that a "*relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control*".

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### 4.0 Professionalism:

- 4.1 The internal audit activity will govern itself by adherence to the Chartered Institute of Internal Auditors **mandatory** guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.
- 4.2 The Institute of Internal Auditors Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to relevant organisational policies and procedures and the Internal Audit Procedure Manual Part 2.

### 5.0 Authority:

- 5.1 The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised to have full, free, and unrestricted access to any and all of Horsham District Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities.

### 6.0 Organisation:

- 6.1 The Chief Internal Auditor will report functionally to the AAGC on the following:
- Approve the Internal Audit Charter.
  - Approve the Internal Audit Strategy.
  - Approve the risk based internal audit plan.
  - Receive communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters.
  - Make appropriate inquiries of management and the Chief Internal Auditor to determine whether there is any scope or budgetary limitation that may impede the ability of the internal audit activity to execute its responsibilities.
- 6.2 Full Council is responsible for approving the internal audit budget and resource plan.
- 6.3 Decisions regarding the appointment and removal of the Chief Internal Auditor are governed by the Council's Recruitment and Selection policy.
- 6.4 Decisions regarding the Chief Internal Auditor's remuneration are governed by the corporate pay and evaluation scheme.
- 6.5 The Chief Internal Auditor will report administratively (i.e. day-to-day operations) to the Director of Corporate Resources.

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6.6 The Chief Internal Auditor will communicate and interact directly with senior management and the AAGC, including attendance at Senior Leadership Team (SLT) meetings as appropriate and quarterly AAGC meetings.

6.7 The Chief Internal Auditor will establish effective communication with, and has free and unfettered access to, the Chief Executive and the Chair of the AAGC.

### **7.0 Independence and Objectivity:**

7.1 The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

7.2 The Internal Audit Team will have no direct operational responsibility or authority over any of the activities audited. Accordingly, 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.

7.3 Where the Chief Internal Auditor has direct responsibility for a non-audit activity, or heavily influences a non-audit activity, independent assurance will be obtained in one of two ways:

- Either the non-audit activity will be audited by another member of the audit team, reporting directly to the Director of Corporate Resources.
- Or the activity will be reviewed by another auditor from outside the Horsham D.C. Internal Audit Team.

7.4 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

7.5 The Chief Internal Auditor will have freedom to report in his or her own name, to all officers and Members and particularly to those charged with governance.

7.6 The Chief Internal Auditor will confirm to the AAGC, at least annually, the organisational independence of the internal auditing activity.

### **8.0 Responsibility:**

8.1 Managers are responsible for ensuring that effective governance arrangements are in place to manage strategic and operational risks and to maintain an effective system of control to mitigate these risks. They are also responsible for ensuring that members of staff are aware of the processes and procedures required to operate the control systems. This includes responsibility for the prevention and detection of fraud and other illegal acts. Where recommendations are made by Internal Audit and appropriate actions are agreed, managers are responsible for ensuring that these actions are completed within the agreed timescale.

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8.2 Internal Audit is responsible for promoting the benefits of good governance and helping to raise governance standards. The audit function will contribute towards the improvement of risk management processes, and is responsible for reviewing all aspects of internal control throughout the authority's activities and advising the Director of Corporate Resources on the soundness, adequacy and application of internal controls in relation to all key financial systems. The internal auditor should have regard to the possibility of malpractice and should seek to identify serious defects in internal control that might permit the occurrence of such an event. Whilst Internal Audit is not responsible for the prevention and detection of fraud and other illegal acts, it should evaluate the potential for the occurrence of fraud, and when it does occur, make recommendations for improving controls to prevent further occurrences.

8.3 When undertaking audit assignments, Internal Audit is required to:

- Review and assess the soundness, adequacy and reliability of financial, management and performance systems and data;
- Review and assess the effectiveness of internal controls and make recommendations to improve these where appropriate;
- Review and assess procedures to check that the Council's assets and interests are adequately protected and risks are identified and effectively managed;
- Check for compliance with legislation, Council policies and procedures;
- Promote and assist the Council in the effective use of resources.

8.4 The objectives of Internal Audit are to:

- Provide a high quality effective internal audit service that meets the needs of the Council;
- Support and help embed corporate governance requirements and risk and business continuity management throughout the Council;
- Offer advice and assurance on achieving effective internal controls;
- Comply with professional standards (Public Sector Internal Audit Standards);
- Assist the Section 151 Officer in the discharge of their responsibilities;
- Provide an annual opinion of the Council's Governance arrangements, risk management framework and overall internal control environment.

### **9.0 Scope of Internal Audit Work:**

9.1 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. Internal Audit's remit extends to the entire control environment of the Council.

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### **9.2 The work of the function will include:**

- Governance – audit reviews testing the adequacy of the internal control environment.
- Consultancy – carrying out special assignments requested by senior management. However, these will only be carried out where resources are available, and not to the detriment of governance reviews.
- Fraud and irregularities – special investigations will be carried out into frauds and irregularities. See the Council’s Anti-Fraud and Corruption Policy for more information.
- Advice – the audit function will provide advice to officers as part of their day-to-day duties when carrying out reviews or when specifically approached.

### **10.0 Internal Audit Plan:**

10.1 At least annually, the Chief Internal Auditor will submit to the SLT and the AAGC an internal audit plan for review and approval. The internal audit plan will consist of a work schedule and planned resource requirements for the next fiscal year. Where appropriate, the Chief Internal Auditor will communicate the impact of resource limitations to SLT and the AAGC.

10.2 The annual internal audit plan will be developed in consultation with senior management and service managers using a risk-based methodology. The Chair of the AAGC will also be consulted as part of the process. The Chief Internal Auditor will review and adjust the plan, as necessary, in response to changes in the organisation’s business, emerging risks, operations, programmes, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to SLT and the AAGC through periodic activity reports.

### **11.0 Reporting and Monitoring:**

11.1 A written report will be prepared and issued by the Chief Internal Auditor following the conclusion of each internal audit engagement and will be distributed as appropriate. All audit reports are sent to the Chief Executive and Section 151 Officer, and where appropriate, the Council’s Monitoring Officer will be included in the circulation. Internal audit results will also be communicated to the AAGC.

11.2 The internal audit report will include agreed actions, timescales for implementation and the name of the officer responsible for implementation. An explanation for any corrective action(s) that will not be implemented will also be provided where applicable. Medium and high risk items where no action has been agreed will be referred to the appropriate senior manager.

11.3 Where an audit opinion is considered to be less than satisfactory, the report will be discussed by SLT. SLT and the AAGC may require the responsible service manager to attend their meeting to provide a progress update.

11.4 The internal audit activity will be responsible for appropriate follow up on engagement findings and recommendations. All significant findings will remain in an open issue file until cleared.

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- 11.5 The Chief Internal Auditor will periodically report to SLT and the AAGC on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by SLT and the AAGC.
- 11.6 The Chief Internal Auditor will write an annual report for the Accounts, Audit and Governance Committee and provide an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.
- 11.7 The Internal Audit team undertakes an annual audit of either: Housing Benefits, Council Tax or Business Rates on behalf of the CenSus Partnership (which comprises Horsham, Mid-Sussex and Adur District Councils). The remaining two systems are audited by the respective internal audit teams working on behalf of Mid Sussex and Adur District Councils, and reliance is placed on this work. This arrangement has been in place for a number of years, and the audits are routinely rotated.

Horsham D.C. is a commissioning authority, and as such, further assurance services may be provided to other authorities in return for an income where there is demand.

### **12.0 Quality Assurance and Improvement Programme:**

- 12.1 The internal audit activity will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identified opportunities for improvement.
- 12.2 The Chief Internal Auditor will communicate to senior management and the AAGC on the internal audit activity's quality assurance and improvement programme, including results of ongoing internal assessments, and external assessments will be conducted at least every five years.

### **13.0 Relationships with Elected Members**

- 13.1 The Chief Internal Auditor must establish and maintain good working relationships and channels of communication with Members. This should be achieved by regularly attending the AAGC meetings and responding to any issues raised by Councillors, especially those who are members of the AAGC.
- 13.2 The Chief Internal Auditor should have the opportunity to meet privately with the members of the AAGC if appropriate.

### **14.0 Code of Ethics**

- 14.1 Internal Auditors have a separate code of ethics to which they must adhere. These are set by the Institute of Internal Auditors.

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14.2 In addition, internal auditors must have regard to the Seven Principles of Public Life which the Committee of Standards of Public Life believes should apply to public services. These are set out in the Council's Officer Code of Conduct (Part 5B).

**Approved this 23rd day of March 2016**

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**Chief Internal Auditor**

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**Chief Executive**

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**Chair of the Accounts, Audit & Governance Committee**