



**BOROUGH OF
BROXBOURNE**

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**Broxbourne Borough Council
Internal Audit Charter**

November 20175

INTERNAL AUDIT CHARTER

1. INTRODUCTION AND PURPOSE

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of Internal Audit within the Council, and to outline the scope of internal audit work. The Charter will also be used to monitor the performance of the Internal Audit function.

The Public Sector Internal Auditing Standards (PSIAS) define Internal Auditing 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’.

Internal Audit work is conducted in accordance with the PSIAS and encompasses the mandatory elements of the Institute of Internal Auditors International Professional Practice Framework. any specific codes and professional guidance including CIPFA’s application note in relation to compliance with the UKPSIAS and the Institute of Internal Auditors’ Practice Advisories, Practice Guides and Position Papers.

2. REVIEW OF THE AUDIT CHARTER

This Charter will be subject to annual review by the Head of Internal Audit and any significant changes presented to the Audit and Standards Committee for approval.

3. ROLE OF INTERNAL AUDIT

Within local government there is a statutory requirement for an Internal Audit function. The Accounts and Audit (England) Regulations 20151 require that a local authority ‘must undertake an adequate and effective internal audit to evaluate the effectiveness of its risk management, control and governance processes’. of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.

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.

Internal Audit's activities and responsibilities are defined and approved by the Audit and Standards Committee, via this Charter, as part of their oversight role. The Head of Internal Audit reports functionally to the Group Manager/Director of Finance (Corporate Resources). In recognising the unique and critical role of the Head of Internal Audit, CIPFA's Statement on the Role of the Head of Internal Audit (HIA) sets out five key principles for delivering an effective internal audit function. Each of these five principles is underpinned by expected governance arrangements, core HIA responsibilities and personal and professional standards expected of the post holder. As part of the continuous assessment of the effectiveness of the Internal Audit function, these principles are benchmarked against current practices and reported accordingly.

Internal Audit's primary role is to assist the Council's management team, particularly the Group Manager (Corporate Services)/Director of Finance, the Monitoring Officer, the Chief Executive, the Head of Legal Services and Members/Councillors in the effective discharge of their responsibilities. To this end, Internal Audit provides them with analyses, appraisals, recommendations, advice and information to enable effective control over the activities reviewed, including the Council's financial affairs.

Importantly, the Internal Audit Plan culminates in the Head of Internal Audit providing an annual audit opinion to Members and management on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control internal control environment which, in turn, informs the Annual Governance Statement. Internal Audit has a significant role / input into the production of the Annual Governance Statement (AGS) as part of the publication of the Statement of Accounts/Annual Accounts.

Internal Audit has a role in understanding the key risks of the Council and to examine and evaluate the adequacy and effectiveness of the systems of risk management and internal control operated by the Council.

4. MISSION AND AIMS OF INTERNAL AUDIT

The Internal Audit function has adopted the Global Institute of Internal Auditors mission and principles, which are also incorporated in the Public Sector Internal Audit Standards, as follows:

Mission: To enhance and protect organisational value by providing risk based and objective assurance, advice and insight. The core principles being:

1. Demonstrating integrity
2. Demonstrating competence and due professional care
3. Objective and free from undue influence (independent)
4. Aligned with the strategies, objectives and risks of the organisation
5. Appropriately positioned and adequately resourced

6. Demonstrating quality and continuous improvement
7. Communicating effectively
8. Providing risk-based assurance
9. Insightful, proactive and future focussed
10. Promoting organisational improvement

The aims of Internal Audit are to: -

Provide a high quality and effective audit service that is responsive to the needs and requirements of Members and management;
Add value to the Council's systems by identifying areas for improvement and offering advice and assistance to Members and management to ensure effective systems of internal control;
Assist the Council in discharging its corporate governance requirements.

5. RESPONSIBILITIES OF INTERNAL AUDIT

Internal Audit is responsible for:

- The examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management and internal control processes.
- Compliance with significant policies and procedures established by management and Members.
- Operating the policies established by management and Members.
- Conducting its work in accordance with PSIAS and associated codes of ethics and other guidance for the Professional Practice for Internal Auditing.
- Ensuring that it is appropriately resourced to be able to deliver the agreed Audit Plan.

The delivery of the Internal Audit function is predominantly via in-house resources supplemented where necessary by engaging external resources to cover for periodic shortfalls or, for example, to provide specific expertise.

6. INDEPENDENCE AND OBJECTIVITY

Internal Audit will remain free from interference by any element in the Council, including matters of audit selection, scope, procedures, frequency, timing, or report content, to permit maintenance of a necessary independent and objective approach to its work.

Internal auditors 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 their judgment. Internal Audit may, however, review systems under development and will advise on appropriate controls without prejudicing its right to subsequently audit such systems.

Where the Head of Internal Audit has or is expected to have roles and responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

The Head of Internal Audit will confirm to the Audit and Standards Committee, at least annually, the organisational independence of the Internal Audit activity.

7. CONFLICTS OF INTEREST

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

Each auditor is required to proactively declare any potential conflict of interest prior to the commencement of each audit assignment. All auditors are required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest. Auditors who undertake any consultancy work will be prohibited from auditing those areas. Where possible, audits are rotated within the Shared Service team to avoid over-familiarity and complacency.

In any circumstances where a potential conflict of interest were to arise this would be reported and, where applicable, appropriate arrangements approved by the Corporate Management Team (CMT) Director of Finance to avoid any compromise of internal audit independence.

8. STATUS OF INTERNAL AUDIT IN THE COUNCIL

Internal Audit has direct access to the Chief Executive, the Chairman and members of the Audit and Standards Committee and senior management, the Audit and Standards Committee, the Chief Executive and the Chair of the Audit and Standards Committee. The Group Manager (Corporate services) Director of Finance as S151 Officer and the Audit and Standards Committee will jointly agree consider the level of Internal Audit resource to be deployed at the Council. The Head of Internal Audit will communicate and interact directly with senior management CMT and the Audit and Standards Committee, including between meetings as appropriate. Outside of formal senior management meetings and meetings of the Audit and Standards Committee, the Head of Internal Audit will have unrestricted access to the Chief Executive and to the Chairman of the Audit and Standards Committee.

For the purposes of the Internal Audit activity, the following groups are defined:

Audit and Standards Committee

The Audit and Standards Committee is responsible for overseeing the effectiveness of the internal audit function, and holding the Head of Internal Audit to account for delivery, through the receipt of regular updates and reports. The Audit and Standards Committee is also responsible for the effectiveness of the governance, risk and control environment within the Council, holding managers officers to account for delivery,. The Audit and Standards Committee is also responsible for the overall operation of the Internal Audit function, including:

- a. Resourcing and financial performance
- b.a. Performance indicators measuring operational effectiveness
- c.b. The overall strategic direction of the service.

Corporate Senior Management

The Council's senior corporate management team is responsible for helping shape the programme of assurance work through an analysis and review of key risks to achieving the Council's objectives and priorities. Corporate Senior management provides leadership and direction for the Council.

For line management purposes, The Head of Internal Audit reports to the Group Manager (Corporate Services) Director of Finance, and it is the Group Manager (Corporate services) Director of Finance as S151 Officer who approves all decisions regarding the performance, evaluation, appointment, or removal of the Head of Internal Audit, in consultation with the Audit and Standards Committee. The Group Manager (Corporate Services) Director of Finance as Section 151 Officer should ensure an effective Internal Audit function is resourced and maintained.

The day to day operational management of the Internal Audit function lies with the Head of Internal Audit, who is accountable to the Group Manager to the Audit and Standards Committee for standards of performance and the proper discharge of the audit function.

The Head of Internal Audit is responsible for the preparation of the Annual Audit Plan and its effective implementation following it being agreed with Members. and the effective implementation of the Audit Plan. Prior to drawing up the Audit Plan, the Head of Internal Audit will consult with Heads of Service and CMT with regard to risks, concerns etc. and take account of any issues raised by them.

9. AUTHORITY AND ACCESS FOR INTERNAL AUDIT WORK

Internal Audit, with strict regard to confidentiality and safeguarding records and information, is authorised full, free and unrestricted access to any and all Council records (paper and computerised), physical properties, IT systems and personnel pertinent to carrying out any engagement. Such access will be granted on demand request and need not be subject to prior notice. However, Internal Audit will endeavour to give adequate and reasonable notice, where possible, when working on routine audit reviews.

Internal Audit also has free and unrestricted access to the Audit and Standards Committee and senior corporate management. Internal Audit examines and evaluates, on a risk focussed basis, the whole system of control established by management, not just the controls over financial accounting and reporting transactions, but all operational and management controls.

10. SCOPE

The scope of Internal Audit work encompasses but is not restricted to the following:

- the adequacy and effectiveness of the systems of financial, operational and management control and their operation in practice in relation to the Council's defined corporate goals and objectives;
- the extent of compliance with, relevance of, and financial effect of, policies, strategies, standards, plans and procedures established by the Council and the extent of compliance with external laws and regulations;
- the extent to which the assets and interests are acquired, accounted for and safeguarded from losses of all kinds arising from waste,

extravagance, inefficient administration, poor value for money, fraud or other cause;

- the suitability, reliability and integrity of financial and other management information and the means used to identify, measure, classify and report such information;
- the integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud and loss of all kinds; and that the process aligns with the Council's strategic aims/corporate objectives;
- the suitability of the organisation of the the service area being audited/ audited for carrying out their function, to ensure that services are provided in a way which is economical, efficient and effective; offers value for money
- the follow-up actions taken to implement recommendations made and remedy weaknesses identified by Internal Audit, ensuring that good practice is identified and widely communicated;
- the operation of the Council's corporate governance and risk management arrangements.

Internal Audit may undertake consultancy activity (additional activities requested by management) where it has the necessary skills and resources to do this, and this will be determined by the Head of Internal Audit in consultation with Group Manager (Corporate Services)/the Director of Finance on a case by case basis.

11. PLANNING AND REPORTING

A risk based approach is adopted in planning the work of the audit function. This involves a needs and risk assessment of all the activities carried out by the Council from which an Annual Plan is prepared. The type of audits covered include:

- Key financial systems reviews
- Systems/Operational Reviews – either high level assurance or full scope detailed reviews
- Proactive anti-fraud work and fraud investigations
- Specialist audits (for example, contract/computer/major projects)
- Corporate governance support work
- Audit advice
- Staff training and promotion of awareness

The Head of Internal Audit submits to Members for approval an Annual Internal Audit Plan, setting out the recommended scope of audit work in the period based

upon risk assessment criteria. The Annual Plan is developed with reference to a longer term strategic outlook for Internal Audit work for the three year period, prepared in conjunction with management. The Audit Plan is a dynamic document, which is flexible and reactive to situations arising during the course of the period covered and hence may be subject to review and revision during the year.

In determining the Annual Internal Audit Plan and coverage, the Head of Internal Audit takes into account several factors including the Council's risk management arrangements and other assurance and monitoring arrangements for achieving the Council's objectives. The allocation of resources is based upon the relative knowledge, skills, experience and any specialisms that may be required. The Head of Internal Audit can also draw upon other parties to deliver internal work for example to meet "in-house" shortfalls arising from sickness, vacancies or to provide a particular specialism. If the Head of Internal Audit considers that the audit resources available in any way limit the scope of Internal Audit or prejudice the ability of Internal Audit to deliver a service consistent with the standards expected, then those charged with the governance of the Council would be advised accordingly.

Internal Audit carry out the work, as agreed, report upon the outcome and findings, and make appropriate recommendations on the action to be taken as a result. Services' response will include a timetable for anticipated completion of action to be taken. The reporting arrangements will include both individual and composite reports to Heads of Service and the Corporate Management Team/CMT and where appropriate to the Audit and Standards Committee, at the agreed intervals.

Internal Audit is responsible for appropriate follow up on engagement findings and recommendations and will report to the Audit and Standards Committee on the results.

Internal Audit will report to the Audit and Standards Committee, in accordance with the agreed arrangements, on the overall adequacy of the internal control system and major findings, recommendations and management actions. Any significant deviation from the approved Audit Plan will be communicated through the periodic activity reporting process.

Based upon its work, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit and Standards Committee and to the Corporate Management Team, including fraud risks, governance issues, and other matters needed or requested by these bodies. This ensures that Internal Audit plays a key role in providing assurance to the Audit and Standards Committee and the Corporate Management Team on the effectiveness of the entire control environment.

12. FRAUD

Internal Audit does not have responsibility for the prevention or detection of fraud or corruption. However, internal auditors should be alert in all their work to risks and exposures that could allow fraud and corruption to take place and to any indicators that fraud and corruption may have occurred. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

It is the individual service areas' responsibility to consider the risk and impact of fraud and to design and implement suitable safeguards to mitigate these risks. The role of Internal Audit in relation to countering fraud is to support services in minimising fraud -related risk. It does this in several ways including:

- Developing and reviewing the Anti-Fraud and Corruption Strategy.
- Maintaining a Fraud Response Plan.
- The requirement laid out in the Financial Regulations requiring all incidents of suspected or detected fraud to be notified to the Group Manager (Corporate Services) Director of Finance.
- Working with the Shared Anti-Fraud Service (SAFS)
- Developing and maintaining data and intelligence networks with appropriate bodies including the Cabinet Office (National Fraud Initiative), Police, other Local Authorities and Government agencies.

Internal Audit also provides anti-fraud awareness training and guidelines to staff in conjunction with SAFS.

Once any suspected or detected fraud has been notified to the Group Manager (Corporate Services) Director of Finance, the appropriate course of action will be discussed with the Head of Internal Audit and a decision taken as to who should lead any subsequent investigation, whether it is Internal Audit, SAFS, or service management, and whether to report to the police.

13. PERIODIC ASSESSMENT

Internal Audit will, in conjunction with the Audit and Standards Committee, provide regular reports on its performance and effectiveness drawing upon both quantitative and qualitative measures including feedback from clients, adherence to professional standards. and through the opinion of the external auditors. Furthermore, there will be mechanisms for quality control and continuous improvement in service delivery through such measures including internal self-assessments, peer reviews and independent external assessment, the latter to be conducted at least every five years.

14. RESPONSIBILITIES OF CORPORATE MANAGEMENT TEAM AND HEADS OF SERVICE

The Council's Corporate Management Team and Heads of Service have responsibility for determining the scope of Internal Audit work, in relation to relevant professional standards / guidelines, and for deciding the action to be taken on the outcome of, or findings from, their work.

They also have a responsibility to ensure that the Internal Audit function has: -

- the support of management,
- adequate resources; and
- direct access and freedom to report to senior management and Members, including the Group Manager (Corporate Services) Director of Finance, Monitoring Officer Chief Executive, Head of Legal Services, and Cabinet / the relevant Committee.

CMT and Heads of Service also have primary responsibility for establishing and maintaining a proper and effective control environment and for managing risk, including proper accounting records and other management information for running the Council. In addition there is also a primary responsibility for the prevention and detection of fraud, including the prompt reporting to all relevant parties of any evidence or reasonable suspicion of an irregularity.

During the course of an audit, Heads of Service and their staff will be required to cooperate fully with the auditor's requirements, including the completion of action plans, signing off audit reports and the timely implementation of specific and agreed recommendations made by Internal Audit.

15. RELATIONSHIP WITH THE EXTERNAL AUDITORS AND OTHER REGULATORY BODIES

Internal Audit will consult and where appropriate work closely with others, particularly including the external auditors, to minimise areas of duplication and to maximise the value obtained from the total audit resource. However, the work of Internal Audit will not be driven by external audit's own priorities.

Sarah Marsh – Head of Internal Audit
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(Date of next review; November 20168)