

# Appendix 1

## Internal Audit Charter – Spelthorne BC

### 1. Introduction

This Charter describes for the Council the purpose, authority and responsibilities of the Internal Audit function in accordance with the mandatory UK Public Sector Internal Audit Standards (PSIAS).

The PSIAS require that the Charter must be reviewed periodically and presented to “senior management” and “the board” for approval. For the purposes of this charter “senior management” will be the Council’s Management Team (MAT) and the “board” will be the Audit Committee.

In PSIAS the ‘Head of Internal Audit’ role is referred to as the Chief Audit Executive. The Internal Audit Manager at Spelthorne represents the ‘Head of Internal Audit’ and therefore as Chief Audit Executive is responsible for applying this Charter and keeping it up to date. The Charter shall be reviewed biennially (once every two years) and approved by MAT and the Audit Committee.

The latest CIPFA statement on *‘The Role of the Head of Internal Audit’* (published 2019) places greater emphasis on the organisations responsibility to support the role of internal audit in order to enable the function to effectively meet its expected professional standards. (See below) Therefore the Strategic Management Team (comprises Chief Executive - Head of Paid Service, and two Deputy Chief Executives one of whom is the Section 151 Officer) and the Audit Committee are expected to familiarize themselves with their specific responsibilities.

*‘The aim of this Statement is to set out the role of the HIA in public service organisations and to help ensure organisations engage with and support the role effectively’. (CIPFA 2019)*

### 2. Internal Audit Purpose and Mission

The mission of Internal Audit is ‘to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight’. (PSIAS)

Internal Audit is defined in the PSIAS 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 supports the whole Council to deliver services economically, efficiently and effectively and achieve the Council's vision, priorities, strategic objectives and values, whilst giving due regard to effectively managing risk.

### **3. Statutory Requirement**

Internal Audit is a statutory service. The authority of the Internal Audit function is derived from legislation and for local authorities this is implied by Section 151 of the Local Government Act 1972. The Council's S151 Officer (Deputy Chief Executive/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. To perform that duty the Section 151 Officer relies, amongst other sources, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.

The CIPFA Statement on *'the Role of the Chief Financial Officer in Local Government'* states that the chief financial officer (CFO) must:

- ensure an effective internal audit function is resourced and maintained
- ensure that the authority has put in place effective arrangements for internal audit of the control environment
- support the authority's internal audit arrangements, and
- ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively.

The Accounts and Audit (England) Regulations 2015 more specifically state the requirement for every local authority to maintain an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account Public Sector Internal Auditing Standards (PSIAS) or guidance.

This statutory role is recognised and endorsed within the Council's Constitution (Financial Regulations).

### **4. Access and Authority**

The regulations referred to under section 3 require any officer or Member of the Council to:

- make available such documents and records; and
- supply such information and explanations;

As are considered necessary by those officers conducting the audit.

The scope of Internal Audit's remit includes the organisation's entire control environment and the Audit Committee authorises the internal audit department to have free and unrestricted access to all functions, records and assets deemed necessary by auditors in the course of internal audit work. Internal Audit will give due regard to confidentiality and safeguarding in

securing such records. In addition, Internal Audit will have unrestricted access to the Audit Committee, Chief Executive, Deputy Chief Executives, Members of the Council and all employees of the authority.

PSIAS also recommends that the Chief Audit Executive holds independent meetings with the Chair of the Audit Committee at least once a year (this has been referred to in the annual effectiveness review of Internal Audit, reported to Audit Committee in November 2018). This is being arranged with the new Audit Chairman at appropriate intervals.

In order to establish, maintain and assure that Spelthorne's Internal Audit has sufficient authority to fulfill its duties, the Audit Committee will:

- Approve the internal audit charter
- Approve the risk-based audit plan
- Receive and consider periodical reports from the Internal Audit Manager on recommendations arising from planned assurance reviews and other work undertaken
- Receive and consider the annual audit opinion which supports the Annual Governance Statement

## **5. Internal Audit Responsibilities and Scope**

Internal Audit is not responsible for control systems or their implementation. Responsibility for effective internal control and risk management rests with the management of the Council, as they represent the second line of defence in the overall assurance framework.

Internal Audit are responsible for providing independent and objective assurance on the adequacy of internal systems of control, risk management and governance arrangements, representing the third line of defence in the assurance framework. This ultimately provides the strategic Management Team and Members with assurance that helps them fulfil their duties to the Council and key stakeholders.

Annually the Internal Audit Manager is required to provide to the Audit Committee an overall opinion (evidence based) on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement. This is a key outcome of internal audit activity.

The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities. The annual audit report (includes the annual audit opinion) should include a section on any impairments in the scope of internal audit for that year (if applicable).

Internal audit activity will include an evaluation of the effectiveness of the organisation's risk management arrangements and risk exposures relating to:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Efficiency and effectiveness of operations and activities;
- Safeguarding of assets including fraud risks and
- Compliance with laws, regulations, policies, procedures and contracts

## **6. Independence and Positioning**

Internal Audit activity must be free from interference in determining the annual audit plan, scope of activity, performing work, sample selection and communicating results. This ensures that independence is preserved to ultimately enhance the value of the function to the authority and its stakeholders.

Organisational independence of Internal Audit is achieved in a number of ways:

- The Internal Audit Managers position in the overall management structure of the Council should have sufficient status and be of appropriate seniority in order to ensure that audit plans, reports and action plans are discussed effectively with both the Audit Committee and the strategic management team.
- It is important that the Internal Audit function is not placed hierarchically under parts of the organisation that are themselves subject to internal audit scrutiny. At Spelthorne the Internal Audit Manager reports directly to the Section 151 Officer (Deputy Chief Executive) who is part of the strategic management team, with a dotted line to the Chief Executive. The Internal Audit Manager also has a functional reporting relationship to the Audit Committee Chair as a non-executive board member.
- Internal Audit has freedom to reports in its own name and without fear of favour to, all officers and Members, with direct and unrestricted access to the Section 151 Officer, Chief Executive, Strategic Management Team and Audit Committee.
- The Internal Audit Manager's remuneration and performance appraisal is not inappropriately influenced by those subject to audit.
- Audit Committee approves (but does not direct) the Charter and Internal Audit Plan, being kept regularly informed of Internal Audit activities (see earlier reference to section on access and authority).
- Internal Audit recommendations including implementation status are reported to Audit Committee periodically.
- Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal Audit is segregated from operational responsibilities and every effort will be made to preserve objectivity by ensuring that Internal Audit staff do

not undertake any non-audit duties, with the exception of the following corporate tasks/responsibilities undertaken by the Internal Audit Manager:

- Co-ordination of the Council's Corporate Risk Register including reporting to Audit Committee and Cabinet (3 times a year);
- High-risk public fraud - collating and monitoring counter fraud returns/pursuing collaborative working arrangements with Partners for fraud referrals; promoting and encouraging counter fraud measures across the authority.
- Annual review of the Anti-Fraud, Bribery and Corruption Strategy

At the Internal Audit Manager's discretion, involvement of the audit team may also include:

- Consultancy services – for example, providing advice on implementing new systems and controls or organisational efficiency reviews. Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee.
- Attendance at corporate working groups to offer advice on risk and control implications as appropriate but this will not involve decision making.

Appropriate arrangements will be put in place to safeguard the independence of Internal Audit where it is involved in duties that fall outside the key assurance role.

Internal Auditors will maintain an unbiased attitude that enables them to perform audit engagements objectively and in such a manner that quality is not compromised, and they do not subordinate their judgement on audit matters to others. Should at any time any threats to objectivity be identified at any level (Auditor/organisationally/functionally), these will need to be managed as appropriate. All auditors are aware to identify any threats to objectivity as set out in the PSIAS Code of Ethics.

All Internal Audit staff are required to make an annual declaration of interest to ensure that objectivity is not impaired and that any potential conflicts of interest are appropriately managed. If the Internal Audit Manager feels that independence or objectivity may be impaired, the details of impairment will be disclosed to relevant Officers.

## **7. Reporting Lines**

PSIAS requires the Internal Audit Manager to be appropriately positioned, reporting at the highest levels of the organisation and this is done in the following ways:

- The Internal Audit Manager reports directly to the Section 151 Officer (Deputy Chief Executive). Regardless of line management arrangements, the Internal Audit Manager has free and unfettered access to report to the Chief Executive; Strategic Management Team; the Audit Committee Chairman; the Leader of the Council and the Council's External Auditor;
- Audit draft reports are circulated to the Section 151 Officer (Deputy Chief Executive who is also part of the Strategic Management team);
- Audit final reports are circulated to the Strategic Management Team;
- The Audit Committee receives reports three times a year on internal audit activity, including audit recommendations on planned assurance work and status monitoring.

## 8. Engagement and Communication

Internal Audit reporting lines referred to under section 7 above ensure the Internal Audit Manager has the opportunity to engage with individuals at the highest level of the organisation on a regular basis including the Chief Executive, Strategic Management Team, and the Audit Committee.

All Group Heads and Managers are consulted as part of the annual audit planning process which feeds into defining the audit need. To help services to develop greater understanding of the role of audit and have a point of contact in relation to any support they may need on governance and control issues (both at a corporate and service level), the Internal Audit Manager will attend either MAT Plus or DMT meetings (as appropriate) quarterly to provide senior management with an opportunity to discuss emerging risks and key developments within their service areas. This may help towards embedding a risk management culture across the Council. Internal audit will consider any impact on its work plan, offering advice and/or insight focussing on priority areas. Such measures represent 'added value' in terms of the audit role beyond the core planned assurance work.

## 9. Fraud, Bribery & Corruption

*'Managing the risk of fraud and corruption is the responsibility of management. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. ....Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.'* – **CIPFA.**

Internal Audit will however be alert in all its work to risks and exposures that could enhance opportunities for fraud, bribery or corruption.

The Section 151 Officer and Internal Audit Manager should be informed immediately of all suspected or detected fraud, bribery, corruption or irregularity. Internal Audit will consider the adequacy of the relevant control framework, recommend improvements to strengthen controls to minimise future fraud risks, and evaluate the implication for their annual opinion on the control environment.

Internal Audit will investigate allegations of fraud in line with the Council's Anti- Fraud, Bribery and Corruption Strategy. There may be a requirement to bring in Investigators to lead or assist Special investigations (relating to suspected internal fraud or irregularity) as there is insufficient capacity within the Internal Audit team to undertake the whole process, particularly given that investigations are often by their nature very resource intensive. Furthermore, this approach can provide access to specialist expertise including Financial Investigator resources and Forensic Analysts, contributing to a more successful outcome. Discretion and confidentiality will be applied throughout the process.

The service may go beyond the work needed to meet its assurance responsibilities to support or lead investigations as required but this will be dependent on circumstances and resources available.

The Head of Corporate Governance is responsible for investigating allegations of bribery and corruption.

Internal Audit together with the strategic management team will promote an anti-fraud, bribery and corruption culture within the Council to aid the prevention and detection of fraud, bribery and corruption. This will be achieved through continued annual review of the Anti-Fraud, Bribery and Corruption Strategy and refresher counter fraud training /awareness raising.

## **10. Resources and Competencies**

The Internal Audit Manager is responsible for managing and delivering the internal audit service at Spelthorne and reports directly to the Section 151 Officer (Deputy Chief Executive).

The service currently comprises a total of 1.75 FTE (established posts) as follows:

Internal Audit Manager (.75 FTE)

Senior Internal Auditor (1 FTE)

A small budget is available for external contract audit resources to supplement the internal audit team.

The work of Internal Audit is driven by the annual Internal Audit Plan, which is approved each year by the Audit Committee. The Internal Audit Manager is responsible for ensuring that Internal Audit resources are sufficient to meet its responsibilities and achieve its objectives. Where resource shortfall is identified, the impact on the audit plan will be communicated and the strategic Management Team have the authority to consider and approve any growth in audit resources subject to the annual growth bid process.

*'Responsibility for ensuring that an effective and appropriately resourced internal audit service is in place rests with the organisation' (CIPFA 2019 statement on the role of the Head of Internal Audit).*

In some instances short term resource may be required to provide resilience where for example there are vacant posts or unplanned absences.

PSIAS stipulate that the Chief Audit Executive must be a fully qualified Auditor or Accountant to undertake their duties. The Internal Audit Manager achieved the full Chartered Institute of Internal Auditors (CMIIA) qualification in 2002 and has gained a considerable amount of audit experience at Spelthorne.

The Internal Audit Manager is responsible for appointing Internal Audit staff including Contractors and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience, expertise and audit skills. The Internal Audit Manager may engage the use of external resources where it is considered appropriate, including the use of subject matter experts in areas such as ICT and Contract Auditing.

Internal Audit must be appropriately staffed in terms of numbers, grades, qualifications and experience, having regard to its objectives and professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme (CPD). In addition Auditor competency is assessed and supported through the following measures:

- The skills and competencies for each level of auditor are defined in job descriptions and person specifications that are all approved through the Council's formal processes. These are reviewed and updated as necessary for example when recruiting for new Auditors or if there have been significant changes to responsibilities.
- Internal Auditors have access to an Internal Audit Manual setting out operational standards and processes, subject to periodical review.
- Each audit review is overseen by the Internal Audit Manager at key stages to ensure appropriate supervision and direction, taking into account the level of Auditor experience/skills/qualification. This includes a robust quality review process on completion of the work.
- Annual performance appraisal reviews and periodical one to one's are undertaken for all staff. Auditor training and personal development/qualification needs are identified through this process.
- Competency matrices are being further developed for all Internal Audit staff.

## 11. Audit Approach and Service Delivery

*'Head of internal audit - The executive responsible for the organisation's internal audit service, including drawing up the internal audit strategy and annual plan and giving the annual audit opinion'. (CIPFA Statement 2019 on the Role of the Head of Internal Audit)*

The Internal Audit Manager at Spelthorne will be required to manage the provision of an audit service to the authority which will include advice to Services as required. In discharging this duty, the Internal Audit Manager will:

- Prepare an annual risk-based Internal Audit Plan which aligns to the organisation's strategic objectives and will support the annual internal audit opinion, for formal approval by Management Team and Audit Committee. The plan will set out planned assurance assignments and other types of work, prioritised as appropriate and allowing for some flexibility to take into account changing risk priorities/emerging risk areas. The methodology applied in determining the audit need and audit plan is set out in the annual plan report to Management Team and the Audit Committee.
- Ensure effective delivery of planned audit reviews including scope determination, consideration of relevant risks (not just financial risks), and application of techniques required to accomplish audit objectives and offering appropriate steer and guidance to assigned Auditors.
- Ensure a system of supervision of internal audit work, giving due regard to compliance with audit processes and methodologies when performing engagements (identify/analyse/evaluate/document information), which support test results and audit conclusions all evidenced through sufficient working papers. Robust quality review of all audits are undertaken prior to issue of draft and final reports.
- Ensure all internal audit assignments and significant unplanned work will be the subject of formal reports aimed at enhancing systems of internal control and improving risk management. Draft reports will be sent directly to the managers responsible for the area under review for agreement as to the factual accuracy of findings and to provide management responses to audit recommendations. Reports contain an assurance opinion for the area being audited.
- Ensure that where there are factors which effect the delivery of an audit assignment such as significant delays from Management in providing responses to audit recommendations, resistance in cooperating with the audit process and failing to providing information requested, the matter will be escalated in the first instance to the Section 151 Officer and depending on the outcome the Chief Executive and/or Chair of the Audit Committee will be alerted.
- Highlight to both the strategic management team and the Audit Committee any management response to risk/audit recommendations that are deemed unacceptable.

- Ensure significant risk exposures and control issues including fraud risks and governance issues are considered for inclusion in the Council's Corporate Risk Register and highlighted to both the strategic management team and the Audit Committee.
- As External Audit share internal audit's interest in the governance, risk and control environment, regular liaison meetings will be held to enable sharing of plans and findings. External Audit also attend every meeting of the Audit Committee.
- Follow up Internal Audit Recommendations and report status of implementation to the strategic management team and Audit Committee.
- Attend every formal meeting of the Audit Committee & pre-briefs and at these meetings agenda planning is discussed. Prepare reports on internal audit activities including quality improvement measures as ascertained from effectiveness reviews (relating to the audit function) for presentation to the Audit Committee (3 times a year/9 reports). The Audit Committee are responsible for approving (but not directing) internal audit's strategy, plan and performance.
- On an annual basis issue an independent audit opinion on the Council's internal control environment, risk management arrangements and governance framework, which forms part of the Annual Audit report and Annual Governance Statement. (See section 5 above also)
- Given the limited audit resource available, audit will consider as part of its work the range and depth of assurance that is being provided from other assurance sources (internal and external). This should also help to reduce duplication and free up audit resources to provide greater independent assurance in other priority areas. Preparation of an overall assurance framework incorporating the three lines of defence is resource intensive and in line with best practice the strategic management team will be responsible for owning this framework and allocating resources to undertake the groundwork for this corporate task. Any such framework does need to be developed over time, requiring input from various Services including Internal Audit.
- Undertake specific corporate responsibilities as mentioned earlier under section 6.
- Periodically review the internal audit service plan which outlines the key performance data that will measure delivery of the service.

## **12. Professional Standards and Ethical conduct**

The work of Internal Audit will be performed with due professional care and in accordance with the UK Public Sector Internal Audit Standards (PSIAS, revised April 2016), the Accounts and Audit Regulations (2015) and with any other relevant statutory obligations and regulations. The UK Public Sector Internal Audit Standards set out core principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness.

Auditors must also adhere to codes of conduct and relevant standards/principles/frameworks/ linked to their membership of professional bodies such as the Chartered Institute of Internal Auditors (CIIA) and the Certified Institute of Public Finance and Accountancy (CIPFA). This includes due consideration of ethical principles, such as the 2018 CIPFA Standard of Professional Practice (SOPP) on Ethics and the Chartered Institute of Internal Auditor's Global Code of Ethics. All Auditors are required to sign up to the code of ethics on an annual basis.

The latest CIPFA statement on 'The Role of the Head of Internal Audit' (published 2019) places greater emphasis on the organisations responsibility to support the role of internal audit in order to enable the function to effectively meet its expected professional standards.

*'The aim of this Statement is to set out the role of the HIA in public service organisations and to help ensure organisations engage with and support the role effectively'. (CIPFA 2019)*

Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership.

All Internal Audit staff should be aware of and comply with the Council's policies and procedures.

In carrying out their work, Internal Auditors must exercise due professional care by considering:

- (i) The extent of work needed to achieve the required objectives;
- (ii) The relative complexity, materiality or significance of matters to which assurance procedures should be applied; and
- (iii) The adequacy and effectiveness of governance, risk management and control processes;
- (iv) The probability of significant errors, fraud or non-compliance; and
- (v) The cost of assurance in proportion to the potential benefits.

### **13. Quality Assurance and Improvement Programme**

The Internal Audit Manager will oversee the work of Internal Audit at each level of operation to ensure that a continuously effective level of performance compliant with PSIAS is maintained. As part of demonstrating this compliance an annual review of the effectiveness of the system of Internal Audit is undertaken and reported to Audit Committee. In addition an external quality assessment will be carried out once every five years by a suitably qualified, independent assessor. This was undertaken during 2018/19 and areas of good practice identified from the review were highlighted to the Audit Committee, together with a few improvement actions.

Instances of non-conformance with the PSIAS, including the impact of any such non-conformance, will be disclosed to the Audit Committee. Any significant deviations will be considered for inclusion in the Council's Annual Governance Statement.

A Quality Assurance Improvement Programme (QAIP) is to be developed further in 2019/20 which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter
- Operates in an effective and efficient manner; and,
- Is adding value and continually improving the service that it provides

Audit Charter reviewed by  
Internal Audit Manager  
Punita Talwar  
June 2019

Signatures & Dates:

Chief Audit Executive (Internal Audit Manager), Punita Talwar  
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Section 151 Officer/Chief Finance Officer (Deputy Chief Executive),  
Terry Collier .....

Chief Executive, Daniel Mouawad.....

Chair of the Audit Committee, Councillor Joanne Sexton .....