

Audit Committee

24 November 2022



Title	Internal Audit Charter
Purpose of the report	To note and approve
Report Author	Punita Talwar, Internal Audit Manager
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	Not Applicable
Corporate Priority	All Corporate Priorities Community Affordable housing Recovery Environment Service delivery .
Recommendations	The Audit Committee is asked to review and approve the Internal Audit Charter, which sets out the purpose, authority and responsibilities of the Internal Audit service at the Council.
Reason for Recommendation	In accordance with the mandatory Public Sector Internal Audit Standards (PSIAS), the Audit Committee are required to approve the Internal Audit Charter, which is subject to periodical review.

1. Summary of the report

- 1.1 The mandatory Public Sector Internal Audit Standards (PSIAS) highlight the requirement for public bodies to have an Audit Charter and for this to be reviewed biennially, communicated and approved by the Audit Committee.
- 1.2 This report therefore seeks to confirm that the purpose, authority and responsibility of the internal audit activity have been properly defined consistent with the PSIAS, as outlined in the refreshed Audit Charter reviewed in October 2022 (Appendix 1 – clean version). This cover report sets out the pivotal points for the attention of the Audit Committee and strategic Management Team.

2. Key issues

- 2.1 The Audit Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the mandatory UK Public Sector Internal Audit Standards. The charter sets out the nature of services that internal audit will provide and how internal audit will support the Council to achieve its corporate priorities and objectives, through the provision of independent objective assurance on the effectiveness of systems of internal control in managing risk, as well as adding value through advice, insight and support.
- 2.2 The Audit Charter has been reviewed and revised (previously updated July 2019) to ensure it is still compliant with the mandatory Public Sector Internal Audit Standards (PSIAS) which came into effect from April 2013 with subsequent revisions from April 2017. This also completes one of the actions arising from the Internal Audit Manager's recent annual review of the 'effectiveness of internal audit' reported to the Audit Committee in July 2022.
- 2.3 The key messages and pivotal points of the audit charter remain unchanged. The latest refresh incorporates several changes to the previous document to ensure it is current and relevant. These revisions relate to reporting lines, provide greater detail around the level of 'non-audit' duties undertaken by the Internal Audit Service, highlight the necessary safeguarding of audit independence and objectivity, refer to new approaches for assessing auditor skills/competency, and mention limitations in moving certain activities recommended under PSIAS forward (QAIP and organisational assurance framework) in the context of service priorities.
- 2.4 The revised Internal Audit Charter at Appendix 1 includes the following sections and the key points are summarised here. These sections were in the previous charter, but the content has been expanded and amended as appropriate to ensure it is current. Where there is *no change* this has been highlighted below and for completeness we also include a track changes version of the Charter at Appendix 2, in addition to the clean version at Appendix 1:
- (a) **Application of Charter and review** (Section 1) - 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' as she holds executive responsibility for discharging essential requirements of this role defined by CIPFA (see reference at top of section 11). Therefore, as Chief Audit Executive is responsible for applying the Charter and keeping it up to date on a biennial basis. *Minor change.*
- (b) **Purpose and Mission** (Section 2)–Includes a mission statement as set out in PSIAS. The mission of Internal Audit is 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'. There is also reference to supporting the successful achievement of the Council's corporate priorities, strategic and business objectives. *Minor change.*

- (c) **Statute** (Section 3) – Legislative requirement for Internal Audit including responsibilities of the Section 151 Officer/Chief Finance Officer. *No change.*
- (d) **Access and Authority** (Section 4)– Highlights the importance of Internal Audit having free and unrestricted access to all records, premises, officers and Members deemed necessary in fulfilling its duties. It outlines how the Audit Committee on an ongoing basis will endorse and approve audit authority. *Minor change.*
- (e) **Responsibilities and Scope** (Section 5)- Sets out responsibility in providing independent and objective assurance to the Council on the adequacy of systems of internal control, risk management and governance arrangements. A key outcome of internal audit activity is an evidence based annual audit opinion representing a key assurance statement for the Council. *Some updates have been made to this section of the Charter.*
- (f) **Independence, Objectivity and Positioning** (Section 6) – The importance of fundamental principles of auditing (independence and objectivity) is explained as well as how organisational independence is achieved and applied. There is reference to ‘non-audit’ corporate responsibilities and the wider remit undertaken by the service. In safeguarding audit independence, the Charter mentions that Internal Audit are not able to provide objective assurance of those systems and processes where it is directly involved (corporate risk management and high-risk counter fraud). Therefore, it is the Council’s responsibility to make adequate arrangements for seeking assurance provision of these areas. *Some updates have been made to this section of the Charter.*
- (g) **Reporting Lines** – (Section 7) PSIAS requires the Chief Audit Executive (Internal Audit Manager at Spelthorne) to be appropriately positioned, reporting at the highest level of the organisation with free and unfettered access. This includes reporting to both the executive (strategic management team) and non-executive board represented by the Audit Committee, with a requirement for the Internal Audit Manager to meet independently with the Chair of the Audit Committee. This section also refers to revised reporting lines of the Internal Audit Manager with effect February 2020, reporting directly to the Group Head of Corporate Governance. Dotted reporting lines to the Section 151 Officer and Chief Executive form part of the organisational chart to preserve audit independence. *Some updates have been made to this section of the Charter.*
- (h) **Engagement and Communication** (Section 8) –Internal Audit engage and consult with senior management as part of the audit planning process and communicate at various stages during the course of assurance assignments. There is reference to the ‘added value’ role in supporting services on risk, control, and governance issues. *Some updates have been made to this section of the Charter.*
- (i) **Fraud, Bribery and Corruption** (Section 9) - Internal Audit and management responsibilities are outlined/differentiated including the

importance of alerting the Section 151 Officer and Internal Audit Manager immediately where irregularities are suspected to enable appropriate action to be taken to safeguard the authority's assets. Promotion of a Counter fraud, bribery and corruption culture is achieved through annual review of the strategy, and its application. *Some updates have been made to this section of the Charter.*

- (j) **Audit Resources and competencies** – This sets out current staffing levels and refers to both service level and organisational responsibilities in considering whether the Internal Audit function is sufficiently resourced. It also sets out how auditor competencies and proficiencies are assessed. *Some updates have been made to this section of the Charter.*
- (k) **Audit Approach and Service Delivery** – Some of the core activities and duties in managing the delivery of the audit service are outlined. Reference is also made to the requirement for the Council to develop an assurance framework to articulate the alternative sources of assurance (both independent sources and other). This is not however a priority given that overstretched corporate capacity remains a corporate risk. *Some updates have been made to this section of the Charter.*
- (l) **Professional Standards and Ethical conduct** –The importance of exercising due professional care through adherence to statutory requirements, core principles and professional codes of conduct/frameworks. This extends to professional codes of ethics highlighting the importance of integrity, objectivity, confidentiality and competency. *Minor updates to this section.*
- (m) **Quality Assurance Improvement Programme (QAIP)**- Mechanisms already in place including an annual review of audit effectiveness. Further development of a QAIP programme to demonstrate how the function is operating effectively is not a priority given the need to prioritise activities. We are incorporating into 2023/24 an action for measuring percentage of agreed audit recommendations implemented as an indicator of enhanced organisational internal control in managing risk. *Some updates have been made to this section of the Charter.*

3. Options analysis and proposal

- 3.1 Option 1 (Preferred Option) .The revised Charter includes relevant and current content in setting out the purpose, authority and responsibilities of Internal Audit, as well as organisational responsibilities with reference to key stakeholders in supporting Internal Audit, as attached at Appendix 1. The Audit Committee is responsible for approval of the Charter, as a requirement of the PSIAS.
- 3.2 Option 2 . Do nothing and revert to the previous Charter, which has become out of date.

4. Financial implications

- 4.1 There are none.

5. Risk considerations

- 5.1 If the Audit Charter and the principles and practices it conveys are not effectively applied it could have implications for the reliability and communication of assurance provision and recommendations for ongoing organisational improvement in managing risk and delivering objectives.
- 5.2 Continuous effective application of the audit charter is dependent on (i) ongoing organisational support from key stakeholders including the Audit Committee and the strategic Management Team (ii) Proficient, competent and skilled audit resources (iii) Suitable overall direction to ensure planning, delivery and assurance provision is proportionately risk focussed.
- 5.3 The detailed audit charter (refreshed) at Appendix 1, once formally approved and signed off by relevant parties, is intended to safeguard and minimise potential risk implications set out at para 5.1. To reiterate, the Charter defines the purpose, authority and responsibility of the internal audit activity consistent with the PSIAS and makes reference to necessary principles/processes/systems/reviews/arrangements/approaches in adherence with PSIAS.

6. Procurement considerations

- 6.1 The Audit Charter refers to Contractor audit resource and such procurement activity has been/will continue to be subject to seeking alternative quotations in accordance with procurement thresholds, supported by legal agreements with Service Providers.

7. Legal considerations

- 7.1 The Public Sector Internal Audit Standards (PSIAS) are mandatory further to the Accounts and Audit (England) Regulations 2011. The PSIAS require public bodies to have an Audit Charter and for this to be reviewed biennially, communicated and approved by the Audit Committee. This is also referenced in the opening paragraph of this report at 1.1.

7.2 Other considerations

- 7.3 There are none.

8. Equality and Diversity

- 8.1 Equality and Diversity forms part of the audit universe referred to in the Audit Charter at Appendix 1 section 11 and there is scope for this to be considered as a discrete area for review in 2023/24 or 2024//25 as part of the planned audit work programme. This will however depend on the audit needs assessment and continued prioritisation in targeting finite audit resources.

9. Sustainability/Climate Change Implications

- 9.1 Sustainability and Climate Change forms part of the audit universe referred to in the Audit Charter at Appendix 1 section 11 and was reviewed in 2021 as part of the planned audit work programme, with recommendations to enhance control in managing risk.

10. Timetable for implementation

- 10.1 Application of the Audit Charter is already effective and ongoing so no timetable is proposed.

11. Contact

- 11.1 Punita Talwar, Internal Audit Manager.

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Background papers: Public Sector Internal Audit Standards (PSIAS – UPDATED 2017)

Appendices:

Appendix 1 – Internal Audit Charter (Clean version)

Appendix 2 - Internal Audit Charter (Track changes version)