

Draft Internal Audit Charter

1 Introduction

- 1.1 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the operations of <organisation>. It assists the <organisation> in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control and governance processes.

2 Role

- 2.1 The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2011, 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’.
- 2.2 The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [‘the Standards’].

3 Professionalism

- 3.1 The internal audit activity will govern itself by adherence to the Public Sector Internal Audit Standards 2013 [‘the Standards’]. The mandatory Standards constitute the fundamental requirements for the professional practice of internal auditing in the public sector and for evaluating the effectiveness of the internal audit activity's performance.
- 3.2 The CIPFA local government application note for the United Kingdom Public Sector Audit Standards will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to <organisation> relevant policies and procedures and the internal audit activity's standard operating procedures manual.

4 Authority

- 4.1 The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of <organisation> 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. The internal audit activity will also have free and unrestricted access to the Board.

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5 Organisation

- 5.1 The Chief Audit Executive will report functionally to the Board and administratively (i.e. day to day operations) to the <designation>.

The Board will:

- Approve the internal audit charter.
- Approve the risk based internal audit plan.
- Approve the internal audit budget and resource plan.
- Receive communications from the Chief Audit Executive on the internal audit activity's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Chief Audit Executive.
- Approve the remuneration of the Chief Audit Executive.
- Make appropriate inquiries of management and the Chief Audit Executive to determine whether there is inappropriate scope or resource limitations.

- 5.2 The Chief Audit Executive will communicate and interact directly with the Board, including in executive sessions and between Board meetings as appropriate.

6 Independence and Objectivity

- 6.1 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.
- 6.2 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 internal auditor's judgment.
- 6.3 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.
- 6.4 The Chief Audit Executive will confirm to the board, at least annually, the organisational independence of the internal audit activity.

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7 Responsibility

- 7.1 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. This includes:
- Evaluating risk exposure relating to achievement of the organisation's strategic objectives.
 - Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
 - Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation.
 - Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
 - Evaluating the effectiveness and efficiency with which resources are employed.
 - Evaluating operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
 - Monitoring and evaluating governance processes.
 - Monitoring and evaluating the effectiveness of the organisation's risk management processes.
 - Evaluating the degree of coordination between internal and external providers of assurance – sharing information and coordinating activities to ensure proper coverage.
 - Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation.
 - Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
 - Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
 - Evaluating specific operations at the request of the Board or management, as appropriate.
- 7.2 The **<organisation>** is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the organisation that these arrangements are in place and operating properly.
- 7.3 The provision of assurance is, therefore, the primary role for internal audit. This role requires the Chief Audit Executive to provide an annual internal audit opinion and report which is timed to inform the Annual Governance Statement and is based on

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an objective assessment of the framework of governance, risk management and control.

- 7.4 Internal Audit may also undertake non-assurance work including fraud related and consultancy work, at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources.
- 7.5 The Chief Audit Executive should be made aware of major new systems and proposed initiatives. The Chief Audit Executive should consider what if any audit work needs to be done to help ensure risks are properly identified and evaluated and appropriate controls built in.

8 Role of Internal Audit in Fraud Related Work

- 8.1 Managing the risk of fraud and corruption is the responsibility of management. The Chief Audit Executive will be informed of all suspected or detected fraud, corruption or impropriety to inform their opinion on the internal control environment and Internal Audit's work programme.
- 8.2 At the request of management, Internal Audit may go beyond the work needed to meet its assurance responsibilities and assist with, for example, the investigation of suspected fraud and corruption.

9 Internal Audit Plan

- 9.1 At least annually, the Chief Audit Executive will submit to senior management and the Board an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next financial year. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to senior management and the Board.
- 9.2 The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Board. The Chief Audit Executive will review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Board through periodic activity reports.

10 Reporting and Monitoring

- 10.1 A written report will be prepared and issued by the Chief Audit Executive or designee following the conclusion of each internal audit engagement (assurance) and will be distributed as appropriate. Internal audit results will also be communicated to the Board.

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- 10.2 The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.
- 10.3 The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.
- 10.4 The Chief Audit Executive will periodically report to senior management and the Board 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 senior management and the Board.
- 10.5 The Chief Audit Executive is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

11 Quality Assurance and Improvement Programme

- 11.1 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 identifies opportunities for improvement.
- 11.2 The Chief Audit Executive will communicate to senior management and the Board on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.