Appendix D

INTERNAL AUDIT CHARTER

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1. INTRODUCTION and CONTEXT

1.1. The Councils Internal Audit service is delivered by LGSS (a Northamptonshire County, Cambridgeshire County and Milton Keynes Unitary Council partnership).

1.2. As austerity continues, the context for local government and for the overall governance, risk and control environment within which it operates is increasingly challenging. Efficiency and transformation programmes are fundamentally altering the nature and structure of the Council. Services have become increasingly sophisticated in their understanding of risk management and may accept greater levels of controlled risk in order to achieve their aims. This is accompanied by greater transparency and scrutiny of public expenditure and governance. This context will affect the overall governance, risk and control environment.

1.3. Internal Audit is required to maintain an Internal Audit Strategy and Charter. The core governance context for Internal Audit is summarised below:

The Accounts and Audit Regulations (2015) sets out that:

A relevant authority must ensure that it has a sound system of internal control which—
(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
(b) ensures that the financial and operational management of the authority is effective; and
(c) includes effective arrangements for the management of risk.

And that:

A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

A relevant authority must, each financial year—
(a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and
(b) prepare an annual governance statement

The Public Sector Internal Audit Standards (PSIAS) issued in April 2013 include the need for risk-based plans to be developed for internal audit and to receive input from management and the 'Board' (usually discharged by the Council's Audit Committee). The work of Internal Audit therefore derives directly from these responsibilities, including:

PSIAS : 2010 - "The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."

PSIAS : 2450 – "The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control."

1.4. The purpose of the audit strategy and charter is to put in place an approach that will enable Internal Audit to deliver a modern and effective service that:

- Meets the requirements of the Public Sector Internal Audit Standards and the Accounts and Audit Regulations;
- Ensures effective audit coverage and a mechanism to provide independent and objective overall assurance in particular to Councillors and management;
- Provides an independent Annual Opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control environment;
- Identifies the highest risk areas of the Council and allocates available internal audit resources accordingly;
- Adds value and supports senior management in providing effective control and identifying opportunities for improving value for money; and
- Supports the S151 officer in maintaining prudent financial stewardship for the Council

1.5. The following definitions apply throughout the Strategy and Charter:

- The Audit Committee – acts as the PSIAS defined Council 'Board'
- The LGSS Chief Internal Auditor – is the PSIAS defined 'Chief Audit Executive'
- CCC Senior Management Team (SMT) – is the PSIAS defined 'senior management' team
- Internal Audit – 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.
- Assurance Services – an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the Council. Egs include financial, performance, compliance, system security and due diligence.
- Consulting Services – Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisations governance, risk management and control processes without the internal auditor assuming management responsibility. Egs include counsel, advice, facilitation and training.

2. STRATEGY / VISION

2.1. Internal Audit will provide the public, Councillors and Council officers with confidence that Council operations are properly governed and controlled, risks are effectively managed and service delivery meets customer need. Where confidence is not possible the service will ensure that the implications and risks are understood to ensure proportionate action is taken. Internal Audit will be responsive to the Council's needs and the risks to which the Council is exposed. The 'Mission' for Internal Audit is therefore:

> 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'

2.2. Internal Audit is not responsible for the control systems it audits. Responsibility for effective internal control rests with the management / executive of the Council. Directors and Heads of Service are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services and achieve approved objectives / policy.

2.3. LGSS Internal Audit will provide a robust high quality audit service that delivers honest, evidenced assurance, by:

- Focusing on what is important
  Deploying its resources where there is most value aligned to the corporate objectives and priorities, the processes to facilitate these and the key risks to their achievement, whilst ensuring sufficient assurance to support the Annual Governance Statement.
- Being flexible and responsive to the needs of the Council
  The Annual Plan will be reviewed quarterly enabling Audit resources to be redeployed as new risks emerge, with the agreement of senior management and the board
- Being outward looking and forward focused
  The service will be aware of national and local developments and of their potential impact on the Council's governance, risk management and control arrangements.
- Providing Assurance
  There is value in providing assurance to senior managers and members that the arrangements they put in place are working effectively, and in helping managers to improve the systems and processes for which they are responsible.
- Balancing independent support and challenge
  Avoiding a tone which blames, but being resolute in challenging for the wider benefit of the Council and residents
- Having impact
  Delivering work which has buy-in and which leads to sustained change
- Enjoying a positive relationship with and being welcomed by the 'top table'
  Identifying and sharing organisational issues and themes that are recognised and taken on board. Working constructively with management to support new developments.

- Strengthening the governance of the Council
  Being ambassadors for and encouraging the Council towards best practice in order to maximise the chances of achieving its objectives, including the provision of consultancy and advice.

2.4. The Internal Audit Service maintains an ongoing and comprehensive understanding of:

- Local Government / Public Sector
- The Council and its community
- Professional Audit and Corporate Governance standards

2.5. All staff within the audit service hold a relevant professional qualification, part qualification or are actively studying towards a relevant qualification. All participate in continuing professional development, both in relation to specific audit skills e.g. contract audit, and softer skills e.g. communication skills.

3. AUTHORITY

3.1. In accordance with PSIAS, the Chief Internal Auditor has full responsibility for the operation and delivery of the Internal Audit function including the production and execution of the audit plan and subsequent audit activities. The annual audit plan will be agreed in consultation with relevant officers, the Audit Committee, and the senior management team.

3.2. Internal Audit's authority is documented and defined within the Council's Constitution and Financial Regulations. Internal Audit's remit extends across the entire control environment of the Council.

3.3. Internal Audit has unrestricted access to all Council and partner records and information (whether manual or computerised systems), officers, cash, stores and other property, it considers necessary to fulfil its responsibilities. Internal Audit may enter Council property and has unrestricted access to all locations and officers without prior notice if necessary.

3.4. All Council contracts and partnerships shall contain similar provision for Internal Audit to access records pertaining to the Councils business held by contractors or partners.

3.5. All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities.

3.6. The Audit Committee (as the Board) shall be informed of any restriction unduly placed on the scope of Internal Audit's activities which in the opinion of the Chief Internal Auditor prevent the proper discharge of IA functions.

3.7. The Chief Internal Auditor and individual audit staff are responsible and accountable for maintaining the confidentially of the information they receive during the course of their work.

3.8. To provide for independence the day to day management of the Internal Audit Service is undertaken by the Chief Internal Auditor who reports to the Audit Committee. This accords with the Public Sector Internal Audit Standards which requires the Chief Internal Auditor to report to the very top of the organisation.

3.9. The Chief Internal Auditor has direct and unrestricted access to the CCC Chief Executive, Section 151 Officer, Directors, External Audit and Audit Committees at his/her discretion, including private meetings with the Chair of the Audit Committee.

4. INDEPENDENCE & OBJECTIVITY

4.1. Independence is essential to the effectiveness of the internal audit service; so it will remain free from interference in all regards. This shall include, but not be limited to, matters of audit selection, scope, procedure, frequency, timing or report content.

4.2. Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They 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.

4.3. In addition to the ethical requirements of the various professional bodies, each auditor is required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest and declare any potential 'conflict of interest' on allocation of an audit. Any potential impairments to independence or objectivity will be declared prior to accepting any work.

4.4. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, 'approve' procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgment. Where auditors have previously been involved in any of these activities or consultancy work they will be prohibited from auditing those areas for at least 2 years. Where appropriate, audits are rotated within the team to avoid over-familiarity and complacency

4.5. The Chief Internal Auditor will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit service.

5. HOW THE SERVICE WILL BE DELIVERED

5.1. Audit Planning

The audit plan guides the work of the service during the year. The planning principles are:

- Focusing assurance effort on the most important issues, the key obligations, outcomes and objectives, critical business processes and projects, and principal risks; pitching coverage therefore at both strategic and key operational aspects
- Maintaining up to date awareness of the impact of the external and internal environment on control arrangements
- Using a risk assessment methodology to determine priorities for audit coverage based as far as possible on management's view of risk in conjunction with other intelligence sources e.g. corporate risk register, audit risk scores
- Taking account of dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs, but recognising in a resource constrained environment there will be situations when not all needs can be met which is where risk

management is key

- Being flexible so that the plan evolves through the year in response to emerging risks and issues
- Providing for the delivery of key commitments, such as work done in support of the External Auditor thus reducing the external audit fee, and to deliver governance and anti-fraud responsibilities
- Including provision for responding to requests for assistance with special investigations, consultancy and other forms of advice from management and sources.

Annex A illustrates the Planning cycle and the processes through which individual assignments are undertaken, reports issued and opinions given.

The number of available audit days to the Internal Audit Service will be reviewed to be sufficient to enable the audit service to deliver the risk based plan in accordance with professional standards. This takes into account the fact that additional resource will be procured as and when necessary e.g. for technical IT audits, when significant resource is diverted through unplanned work. The focus on the high risk areas will reduce the overall coverage required.

In order to deliver the Annual Audit Plan at the required quality and professionalism we strive to ensure that the team has the required mix of skills and experience. The use of external experts e.g. IT auditors compared to employing or developing these expensive resources in house is constantly under review to ensure that the service delivers a high quality product at best value for money. Future recruitment will take into account the expertise and skills required to fill any gaps within the current service.

The breadth of coverage within the plan necessitates a wide range of high quality audit skills. The types of audit work undertaken include:

- Risk based system audit
- Compliance audit
- IT audit
- Procurement and contract management audit
- Project and programme audits
- Risk Management
- Fraud/investigation work
- Value for money audit
- Control self-assessment techniques
- Consultancy and advice

Internal Audit may procure external audit resource to enhance the service provision as necessary.

5.2. Internal Audit Annual Opinion

Each year the Chief Internal Auditor will provide a publicly reported opinion on the effectiveness of governance, risk and control, which also informs the Annual Governance

Statement. This will be supported by reliable and relevant evidence gathered though all work undertaken by Internal Audit during the year.

5.3. Conduct of work

The principles of how we conduct our work are:

- Focusing on what is important to the Council and in the ultimate interests of the public
- Striving continuously to foster buy-in and engagement with the audit process
- Ensuring findings and facts reported are accurate and informed by a wide evidence base, including requesting information from ex-employees and other stakeholders where appropriate
- Ensuring that risks identified in planning are followed through into audit work
- Ensuring that the right skills and right approaches are in place for individual assignments,
- Suggesting actions that are pragmatic and proportionate to risk, tailored for the best result and take into account the culture, constraints and the cost of controls
- Focusing as a rule on ensuring compliance with existing processes and systems and reducing bureaucracy rather than introducing new layers of control
- Being resolute in challenging; taking account of views, escalating issues and holding our position when appropriate
- Driving the audit process by agreeing deadlines, meeting these on our part, and escalating non-response promptly in order to complete our work
- Having high standards of behaviour at all times.

5.4. Reporting

The reports produced by the service are its key output. The reporting principles are:

- Providing balanced evidence-based reports which recognise both good practice and areas of weakness
- Reporting in a timely, brief, clear and professional manner
- Ensuring that reports clearly set out assurance opinions on the objectives/risks identified in planning work
- Always seeking management's response to reports so that the final report includes a commitment to action
- Sharing reports with senior management and members, identifying key themes and potential future risks so that our work has impact at the highest levels
- Sharing learning with the wider organisation with a view to encouraging best practice across the Council.

A written report will be prepared and issued following the conclusion of each internal audit engagement, including follow up audits; unless in the opinion of the Audit Services Manager a written report is unnecessary.

Each report will:

- provide an evidenced opinion on the adequacy of the governance, risk and control processes;
- identify inadequately addressed risks and non-effective control processes;
- detail agreed actions including explanation for any corrective action that will not be implemented;
- provide management's response and timescale for corrective action
- provide management's explanations for any risks that will not be addressed
- Identify individuals responsible for implementing agreed actions

Senior Management shall ensure that agreed corrective actions are introduced.

All audits and follow ups receiving a weak or limited audit opinion will be highlighted to the senior management team, and the Audit Committee. Regular reports to the Audit Committee shall highlight each weak / limited report until controls have been restored to satisfactory levels at least.

To assist the manager/reader in easily identifying the areas that are well managed and the significance of areas of concern, actions, objectives and overall assurance opinions are categorised using three key elements as summarised below (and set out in detail at Annex B):

1) Assess and test the CONTROL ENVIRONMENT,

2) Test COMPLIANCE with those control systems, and

3) Assess the ORGANISATIONAL IMPACT of the area being audited.

5.5. Actions / Recommendations

Actions are categorised dependent on the risk as follows:

Importance	What this means
Essential	Action is imperative to ensure that the objectives for the area under review are met
Important	Requires actions to avoid exposure to significant risks in achieving objectives for the area
Standard	Action recommended to enhance control or improve operational efficiency

5.6. Follow up

All Essential and Important actions are followed up in accordance with the agreed action implementation dates. Further follow ups are undertaken as required. The Internal Audit Service will review their role in this area with the aim of promoting the action owner to

proactively inform Internal Audit and provide evidence when an action has been fully implemented to inform the follow up process. Such an approach emphasises the need for managers to deliver required improvements without prompting, reinforcing their accountabilities.

5.7. Quality Assurance

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards;
- All Council Policies and Procedures;
- Professional standards and Code of Ethics required by auditor's respective professional bodies;
- Internal Audit Strategy, Charter and Audit Manual; and
- All relevant legislation

The Chief Internal Auditor maintains an appropriate Quality Assurance Framework and reports on this annually. The framework includes:

- An audit manual documenting methods of working
- Supervision and review arrangements
- Customer feedback arrangements
- Quality Standards
- Annual Internal review
- Periodic external reviews
- Performance measures, including:
    - Proportion of Plan completed, including spread of areas covered
    - Proportion of agreed actions implemented
    - Proportion of Weak / Limited Assurance opinion reports that improve to at least satisfactory as at follow up.
    - Productive/direct time as a % of total time
    - Customer satisfaction levels

The completion of every assignment shall be monitored against:

- end to end time
- days taken to complete
- time between key audit stages e.g. draft issue to final report issue
- customer satisfaction

The Audit Committee, Senior Management Team, the Section 151 Officer receive regular updates on audits completed, the assurance opinions and actions implemented. Weak and limited opinion reports and key actions not implemented are discussed in more detail as appropriate with SMT, the Section151 Officer and / or the Audit Committee.

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of:

- ongoing performance monitoring;

- an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards;
- an external assessment at least once every five years by a suitably qualified, independent assessor;
- a programme of Continuous Professional Development (CPD) for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies;
- the Chief Internal Auditor holding a professional qualification (current Chief Internal Auditor is a member of CIMA) and being suitably experienced;
- encouraging, and where appropriate acting on, Customer feedback

6. AUDIT COMMITTEE OVERSIGHT

The Chief Internal Auditor will provide regular update reports to the Audit Committee to advise on the progress in completing the audit plan, the outcomes of each internal audit engagement, and any significant risk exposures and control issues identified during audit work.

The Chief Internal Auditor will also provide an annual report giving an opinion on the overall adequacy and effectiveness of the control environment which will be timed to support the Council's Annual Governance Statement. In addition the Audit Committee will:

- approve any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken
- approve, but not direct, changes to the audit plan
- be informed of results from the quality assurance and improvement programme
- be informed of any instances of non-conformance with the Public Sector Internal Audit Standards.

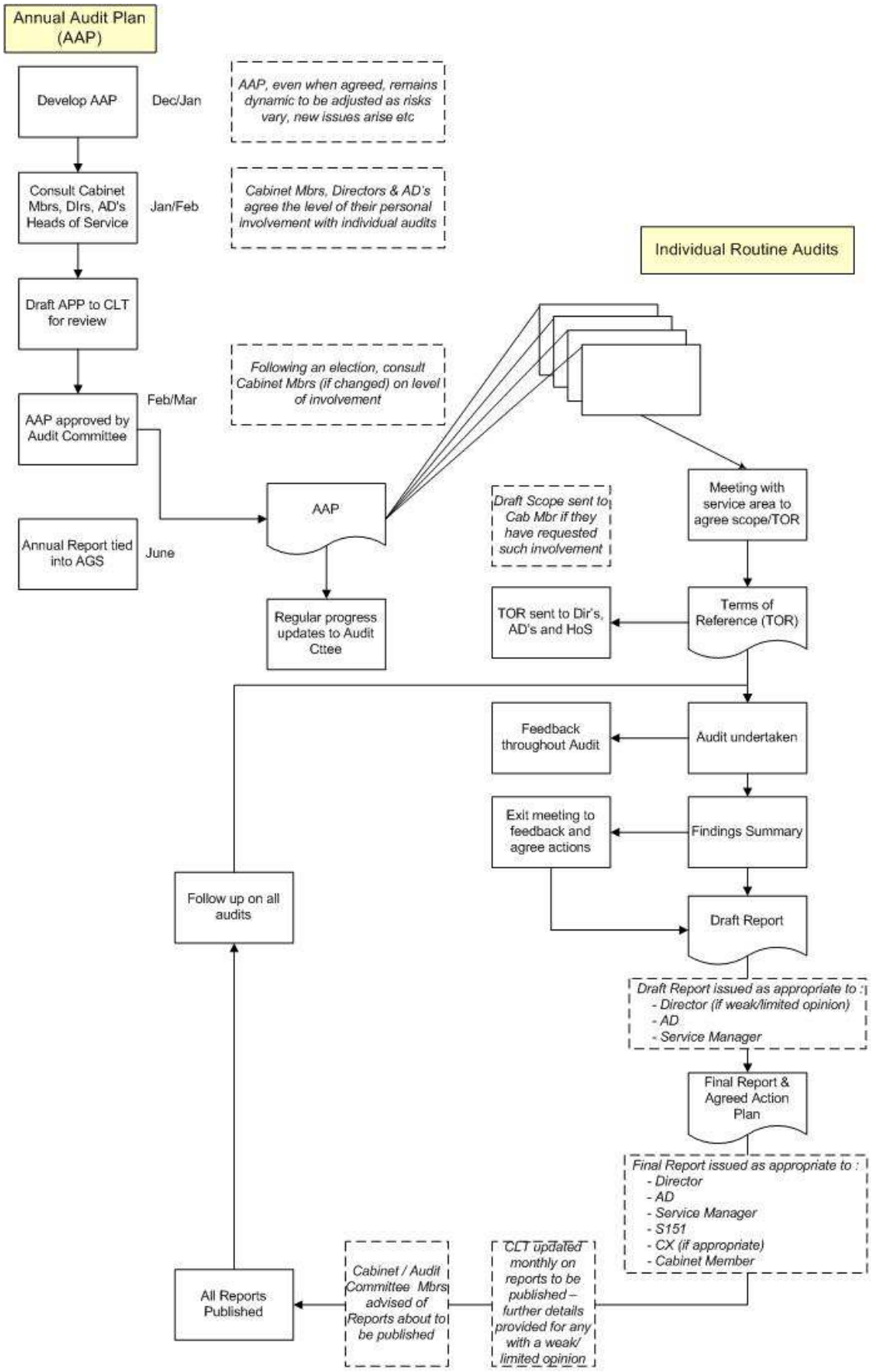
7. ANTI-FRAUD and ASSOCIATED ISSUES

The Chief Internal Auditor will ensure that all work is undertaken and all staff are conversant with the Council's Anti-Fraud policies and culture, including:

- Anti-Fraud and Corruption policy
- Whistleblowing policy
- Anti-Money Laundering Policy

All Internal Audit staff will be alert to possibility of fraud during all work but are not responsible for identifying fraud.

Annex A


Annual Audit Plan (AAP)
Develop AAP
Dec/Jan
AAP, even when agreed, remains dynamic to be adjusted as risks vary, new issues arise etc
Consult Cabinet Mbrs, Dirs, AD's Heads of Service
Jan/Feb
Cabinet Mbrs, Directors & AD's agree the level of their personal involvement with individual audits
Draft APP to CLT for review
Following an election, consult Cabinet Mbrs (if changed) on level of involvement
AAP approved by Audit Committee
Feb/Mar
Annual Report tied into AGS
June
AAP
Regular progress updates to Audit Cttee
Individual Routine Audits
Draft Scope sent to Cab Mbr if they have requested such involvement
Meeting with service area to agree scope/TOR
TOR sent to Dir's, AD's and HoS
Terms of Reference (TOR)
Feedback throughout Audit
Audit undertaken
Exit meeting to feedback and agree actions
Findings Summary
Follow up on all audits
Draft Report
Draft Report issued as appropriate to :
- Director (if weak/limited opinion)
- AD
- Service Manager
Final Report & Agreed Action Plan
Final Report issued as appropriate to :
- Director
- AD
- Service Manager
- S151
- CX (if appropriate)
- Cabinet Member
All Reports Published
Cabinet / Audit Committee Mbrs advised of Reports about to be published
CLT updated monthly on reports to be published – further details provided for any with a weak/ limited opinion

Annex B

INTERNAL CONTROL ASSESSMENT

Control Environment Assurance	
Level	**Definitions**
Substantial	There are minimal control weaknesses that present very low risk to the control environment
Good	There are minor control weaknesses that present low risk to the control environment
Satisfactory	There are some control weaknesses that present a medium risk to the control environment
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment

Compliance Assurance	
Level	**Definitions**
Substantial	The control environment has substantially operated as intended although some minor errors have been detected.
Good	The control environment has largely operated as intended although some errors have been detected
Satisfactory	The control environment has mainly operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact	
Level	**Definitions**
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Where specific compliance reviews are undertaken e.g. grant certification, the following definitions are used to assess the level of compliance in each individual reviewed, albeit each certification usually requires the Chief Internal Auditor and Managing Director to formally certify compliance with grant conditions

Opinion for Compliance Audits – Levels of Compliance	
Level	**Definitions**
High	There was significant compliance with agreed policy and/or procedure with only minor errors identified.
Medium	There was general compliance with the agreed policy and/or procedure. Although errors have been identified there are not considered to be material.
Low	There was limited compliance with agreed policy and/or procedure. The errors identified are placing system objectives at risk.

Individual audits are reported to relevant Manager / Service area, Finance Director and the Chief Executive. Periodic summary reports are issued to the Audit Committee.

An Annual Audit Opinion is then constructed based upon the years' work and formally reported to the Senior Management Team, the audit committee and relevant stakeholders to inform Annual Governance Statement and Accounts.