



INTERNAL AUDIT CHARTER

To Corporate Management Team: March 2014

To Audit Committee: March 2014

INTERNAL AUDIT CHARTER

This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

The Charter will be reviewed annually and presented to the Audit Committee for approval.

SERVICE OBJECTIVE

The key objective for Internal Audit is to complete sufficient work in order to enable it to provide an independent and objective annual opinion on the adequacy and effectiveness of the Council's system of internal control, established to enable it to achieve its objectives.

This includes the Council's working arrangements with partners, contractors and third parties.

In doing this, Internal Audit aims to:

- deliver a high quality, cost effective service in line with best practice and professional standards
- work constructively with management to support new developments and major change programmes
- be pragmatic and proportionate with its recommendations, having regard not just to risk, but also the cost of controls
- be flexible and responsive to the needs of the organisation in all its work
- promote an anti-fraud and corruption culture within the organisation.

RESPONSIBILITIES

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 effectiveness of risk management, control and governance processes'*¹.

In a local authority, internal audit:

- provides independent and objective assurance to the organisation, its Members and the Corporate Management Team regarding the design and operation of its governance, risk management and control processes
- assists the Head of Finance and Resources in discharging his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is a management responsibility to:

- establish and maintain appropriate governance arrangements and internal control systems

¹ Institute of Internal Auditors

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- ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

STATUTORY ROLE

Internal Audit is a statutory service in the context of the Accounts and Audit (England) Regulations 2011, which state that:

“A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices, and any officer or member of that body shall, if the body requires:

- *make available such documents of the body which relate to its accounting and other records as appear to be necessary for the purpose of the audit*
- *supply the body with such information and explanation as the body considers necessary for that purpose.”*

The statutory role is recognised and endorsed within the Council’s Financial Regulations, which provide the authority for auditors to:

- enter, at any reasonable time, any premises or land owned, leased or controlled by the Council
- examine all records, documents, correspondence or information held by employees, members, contractors or other third parties, pertinent to their audit work
- obtain such information and explanations from any employee, member, contractor or third party as necessary concerning their audit work to enable them to fulfil their duties
- require any employee, member, contractor or third party to produce for examination, Council assets (including cash) under their control.

INDEPENDENCE AND ACCOUNTABILITY

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 auditors have no operational responsibilities. Where the Head of Internal Audit is responsible for other services, arrangements are in place for ensuring that any internal audit work is subject to appropriate independence and that any conflicts of interest are avoided.

Internal Audit determines its priorities in consultation with 'Those Charged with Governance'. The Head of Internal Audit has direct access to and freedom to report in her own name and without fear of favour to, all officers and Members and particularly 'Those Charged with Governance' including the Chief Executive and Chair of the Audit Committee. This independence is further safeguarded by ensuring that the Head of Internal Audit’s annual appraisal / performance review is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of Audit Committee contribute to this performance review. The Head of Internal Audit must confirm to the Audit Committee, at least annually, on the organisational independence of the service.

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Internal Audit may also provide consultancy services at the request of the organisation, **which would include activities like providing advice, facilitation and training.** In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit.

Accountability for the response to the advice and recommendations of Internal Audit lies with management, who either accept and implement the advice or formally reject it.

All Internal Audit staff are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

INTERNAL AUDIT SCOPE

The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessments (including those set out within Council's risk registers). Extensive consultation also takes place with key stakeholders.

The framework used for evaluating the Council's governance, risk management and control arrangements (as required by the Standards) is set out in the supporting Strategy.

If circumstances arise whereby assurances are to be provided to parties outside the Council, the nature of and approach to be adopted to providing them will be discussed with relevant senior management.

The Head of Internal Audit can consider accepting proposed consulting engagements (should resources allow), based on their potential to improve the management of risks, add value and improve the organisation's operations. Accepted engagements must also be included in the audit plan.

REPORTING LINES AND RELATIONSHIPS

Responsibility for ensuring that statutory internal audit arrangements are in place has been delegated to the Head of Finance & Resources (Section 151 Officer) (who is a member of the Corporate Management Team) on behalf of the Corporate Director for Corporate Services. These arrangements form a key element of the Council's framework for corporate governance.

Therefore the Head of Finance & Resources discharges the administrative responsibilities for managing the internal audit service whilst it reports functionally to the Audit Committee. Details of the functional role of the Audit Committee in this respect are set out in its Terms of Reference (including its annual work programme).

In discharging this function role, the Audit Committee receives reports that cover the results of internal audit activity and details of internal audit performance, including progress on delivering the audit plan.

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In addition, Internal Audit provides an annual report and opinion to senior management and the Audit Committee on the adequacy and effectiveness of the Council's system of internal control including its governance, risk management and control arrangements.

The Head of Internal Audit also:

- **has regular briefings individually with the Chief Executive and Corporate Directors / Director including the Corporate Director for Corporate Service whose remit covers the Audit Committee**
- **reports at least quarterly on audit matters to the Corporate Management Team which includes the Head of Paid Service, Section 151 Officer and Monitoring Officer**
- **sits on the Council's Good Governance Group which includes the Section 151 Officer and Monitoring Officer and reports to the Head of Paid Service.**

Full details of how internal audit works with key officers, members and groups are set out in the Strategy, Appendix 2d, How We Will Work With You.

INTERNAL AUDIT STANDARDS

There is a statutory requirement for Internal Audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards' (PSIAS) as defined by Institute of Internal Auditors (IIA) in conjunction with the Chartered Institute of Public Finance and Accountancy (CIPFA). These Standards have been adopted by the Council's Internal Audit service. With regard to the application of these Standards only, the Council's 'Audit Committee' takes the role of the 'board' and 'Corporate Management Team', that of 'senior management'.

In accordance with the Standards, Internal Audit is subject to a quality assurance and improvement regime. This consists of an annual self assessment of the service against the PSIAS, ongoing performance monitoring and an external assessment at least every five years by a suitably qualified, independent assessor. The results of all of this activity are reported to the Corporate Management Team and the Audit Committee, along with details of any instances of non-conformance. Where non-conformance is considered significant, this will also be included within the Council's Annual Governance Statement.

The Accounts and Audit (England) Regulations 2011 requires local authorities to produce an annual governance statement in accordance with proper practices. CIPFA's Delivering Good Governance guidance has been given 'proper practice' status by the Department for Communities and Local Government for this purpose. Therefore, the Head of Internal Audit aims to comply with the CIPFA Statement on The Role of the Head of Internal Audit in Public Service Organisations 2010, as required by the guidance.

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INTERNAL AUDIT RESOURCES

It is a requirement that Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and maintain their professional competence through an appropriate ongoing development programme.

The Head of Internal Audit is responsible for appointing the staff of the Internal Audit Service and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.

In addition to in-house audit staff, the Head of Internal Audit may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

The Head of Internal Audit is responsible for ensuring that the resources of the Internal Audit Service are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby she concluded that resources were insufficient, she must formally report this to the Corporate Director for Corporate Services and, if the position is not resolved, to the Audit Committee.

The Internal Audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.

FRAUD AND CORRUPTION

Managing the risk of fraud and corruption is the responsibility of management not Internal Audit. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption. The Counter Fraud & Investigation service provided by Thurrock Council will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy.

The Head of Internal Audit must also be informed of all suspected or detected fraud, corruption or impropriety in order to consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for the annual opinion on the control environment.