

INTERNAL AUDIT CHARTER

Executive Summary

The Internal Audit Charter (Charter) is a formal document that defines the Internal Audit's purpose, authority, and responsibility and is required under the UK Public Sector Internal Audit Standards (PSIAS). The Charter establishes Internal Audit's position within the organisation, including the nature of the Head of Internal Audit's functional reporting relationship with the Standards and Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit's activities.

Best practice is for the Charter to be presented annually for approval and which is set out at Appendix 1.

Whilst there has been some minor updates by way of abbreviations of key terms, the substantive content of the Charter has not changed from the one presented and approved in November 2020.

Recommendations

The Committee is requested to:

RESOLVE That the Internal Audit Charter be approved.

The Committee has the authority to determine the recommendation(s) set out above.

Background Papers: None.

Reporting Person: Graeme Clarke, Director, Mazars LLP
E-Mail: graeme.clarke@mazars.co.uk

Juan Fosco, Manager, Mazars LLP
E-Mail: juan.fosco@mazars.co.uk

Contact Person: Leigh Clarke, Finance Director
Ext. 3277, E-Mail: Leigh.Clarke@woking.gov.uk

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1.0 Introduction

- 1.1 The Internal Audit Charter (Charter) is a formal document that defines the Internal Audit's purpose, authority, and responsibility and is required under the UK Public Sector Internal Audit Standards (PSIAS). The Charter establishes Internal Audit's position within the organisation, including the nature of the Head of Internal Audit's functional reporting relationship with the Standards and Audit Committee (SAC); authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit's activities.
- 1.2 Best practice is for the Charter to be presented annually for approval and which is set out at Appendix 1. This is presented to the Corporate Leadership Team, before then being presented to the SAC for final approval.
- 1.3 Whilst there has been some minor updates by way of abbreviations of key terms, the substantive content of the Charter has not changed from the one presented and approved in November 2020.

2.0 Implications

Financial and Risk

- 2.1 There are minimal financial implications regarding the implementation of internal audit recommendations. Some audit recommendations are designed to improve value for money and financial control. Internal Audit identifies weaknesses in the control environment. Implementation of recommendations, therefore, improves the control environment and hence the management of risk.

Human Resources and Equalities

- 2.2 Some internal audit recommendations need a resource to put in place. There is minimal impact on equalities issues.

Legal

- 2.3 The professional responsibilities of internal auditors are set out within UK Public Sector Internal Audit Standards (PSIAS).

REPORT ENDS

Woking Borough Council

Internal Audit Charter

November 2021



Introduction

The Internal Audit Charter (Charter) sets out the terms of reference and serves as a basis for the governance of Woking Borough Council's (Council) Internal Audit function. It sets out the function's purpose, authority, and responsibility in accordance with the UK Public Sector Internal Audit Standards (PSIAS). The Charter will be reviewed and updated annually and presented to the Standards and Audit Committee (SAC) for approval.

The PSIAS includes a Mission for Internal Audit which is 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'.

Nature and Purpose

The Council has developed a risk management framework which includes:

- Identification of the significant risks in the Council's operations and allocation of a risk owner to each;
- An assessment of how well the significant risks are being managed; and
- Periodic reviews by the Corporate Leadership Team (CLT) of the significant risks, including reviews of key risk indicators, governance reports and action plans, and any changes to the Council's risk profile.

A system of internal control is one of the primary means of managing risk. Consequently, the evaluation of its effectiveness is central to Internal Audit's responsibilities.

The Council's internal control system comprises the policies, procedures and practices, as well as an organisational culture that collectively supports the Council's effective operation in the pursuit of its objectives. The risk management, control, and governance processes enable the Council to respond to significant business risks, be these of an operational, financial, compliance or other nature, and are the direct responsibility of the CLT.

The Council needs assurance over the significant business risks set out in the risk management framework. Also, many other stakeholders, both internal and external, require assurance on the management of risk and other aspects of the Council's business, including Members and regulators. There are also many assurance providers. The internal audit function is the third line of defence in the Council's 'three lines of defence approach' to risk and assurance. The first line of defence comprises the Council's core operational services, and the second line includes the oversight functions such as risk management.

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework 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.'

Within the Council, Internal Audit Services, including the Head of Internal Audit (HoIA) role on behalf of the Council, are contracted out and delivered by Mazars LLP. Internal Audit provides independent and objective assurance to the organisation, its Members, the Chief Executive, the CLT, and the Chief Finance Officer to help them discharge their responsibilities relating to the proper administration of the Authority's financial affairs under S151 of the Local Government Act 1972.

Also, the Accounts and Audit Regulations (2015) specifically require the provision of internal audit services. In line with regulations, Internal Audit provides independent assurance on the adequacy and effectiveness of the Authority's governance, risk management and internal control systems.

In particular, Internal Audit carries out assurance and consulting activities across all aspects of the Council's business, based on a programme agreed with the SAC. In doing so, Internal Audit works closely with the Authority's risk owners, service line risk teams, and the CLT.

In addition to providing independent assurance to various stakeholders, Internal Audit helps identify areas where the Council's existing processes and procedures can be developed to improve how risks in these areas are managed. Public money is safeguarded and used economically, efficiently and effectively. In carrying out its work, Internal Audit liaises closely with the CLT and management in the service lines.

The independent assurance provided by Internal Audit also assists the Council in reporting annually on the effectiveness of the internal control system included in the Council's Annual Governance Statement (AGS).

Authority and Access to Records, Assets and Personnel

Internal Audit has unrestricted right of access to all Council records and information, both manual and computerised, cash, stores and other property or assets it considers necessary to fulfil its responsibilities. Internal Audit may enter Council property and has unrestricted access to all locations and officers where necessary on-demand and without prior notice. The right of access to other bodies funded by the Council should be set out in funding conditions.

Any restriction (management or other) on the scope of Internal Audit's activities will be reported to the SAC.

Internal Audit is accountable for the safekeeping and confidentiality of any information and assets acquired in its duties and execution of its responsibilities.

Internal Audit will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised and which external audit would need to discharge their responsibilities.

Responsibility

The HoIA is required to provide an annual opinion to the Council and the Chief Finance Officer and the Chief Executive, through the SAC, on the adequacy and the effectiveness of the Council's risk management, control and governance processes. To achieve this, Internal Audit will:

- Coordinate assurance activities with other assurance providers (such as the external auditors, etc.) such that the assurance needs of the Council, regulators and other stakeholders are met in the most effective way.
- Evaluate and assess the implications of new or changing systems, products, services, operations and control processes.
- Carry out assurance and consulting activities across all aspects of the Council's business based on a risk-based plan agreed with the SAC.
- Provide the Chief Finance Officer, Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls associated with the management of risk in the area being audited.
- Issue periodic reports to the CLT and the SAC summarising results of assurance activities.
- Promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud.
- Assist in the investigation of allegations of fraud, bribery and corruption within the Council and notifying management and the SAC of the results.
- Assess the adequacy of remedial action to address significant risk and control issues reported to the SAC. Responsibility for remedial action in response to audit findings rests with line management.

There are inherent limitations in any internal control system, and thus errors or irregularities may occur and not be detected by Internal Audit's work. Unless specifically requested and agreed, Internal Audit will not perform substantive testing of underlying transactions.

When carrying out its work, Internal Audit will provide line management with comments and report breakdowns, failures or weaknesses of internal control systems, and recommendations for remedial action. However, Internal Audit cannot absolve line management of responsibility for internal controls.

Internal Audit will support line managers in determining measures to remedy deficiencies in risk management, control and governance processes and compliance to the Council's policies and standards and monitor whether such actions are implemented on a timely basis.

Where appropriate, Internal Audit will undertake assurance or consulting activities for the benefit of the Council in organisations wholly owned or controlled by the Authority. Internal Audit may also assure the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

The SAC is responsible for ensuring that Internal Audit is adequately resourced and afforded a sufficiently high standing within the organisation, necessary for its effectiveness.

Scope of Activities

As highlighted in the previous section, there are inherent limitations in any system of internal control. Internal Audit, therefore, provides the Members via the SAC, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the Council's governance, risk management and control processes using a systematic and disciplined approach by:

- Assessing and making appropriate recommendations for improving the governance processes, promoting appropriate ethics and values, and ensuring effective performance management and accountability;
- Evaluating the effectiveness and contributing to the improvement of risk management processes; and
- Assisting the Council in maintaining effective controls by evaluating their adequacy, effectiveness and efficiency and by promoting continuous improvement.

The scope of Internal Audit's value-adding activities includes evaluating risk exposures relating to the Council's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

Reporting

For each engagement, Internal Audit will issue a report to the lead auditee identified for each internal audit and the Chief Finance Officer or their nominee, and a summary of the report to the CLT and the SAC.

The PSIAS require the HoIA to report at the top of the organisation, and this is done in the following ways:

- The Internal Audit Charter is reported to the CLT and presented to the SAC annually for formal approval.
- The annual risk-based plan is compiled by the HoIA taking account of the Council's risk management framework and after input from members of the CLT. It is then presented to the CLT and then to SAC annually for comment and formal approval.
- The internal audit budget is reported to Executive and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the HoIA) and the independence of internal audit will be reported at least annually to the SAC through the annual HoIA report.
- Performance against the annual risk-based plan and any significant risk exposures and breakdowns, failures or weaknesses of internal control systems arising from internal audit work are reported to the CLT and SAC on a quarterly basis.
- Any significant consulting activity not already included in the risk-based plan and which might affect the level of assurance work undertaken will be reported to the SAC
- Any instances of non-conformance with PSIAS must be reported to the CLT and the SAC and will be included in the annual HoIA report. If there is significant non-conformance, this may be included in the Council's AGS.

Independence

The HoIA has free and unfettered access to the following:

- Chief Executive;
- Chief Finance Officer;
- Monitoring Officer;
- Chair of the SAC; and
- Any other member of the CLT.

The independence of the HoIA is further safeguarded as the service is contracted. Also, their annual appraisal ensures it is not inappropriately influenced by those subject to internal audits.

To ensure that internal auditor objectivity is not impaired and that any potential conflicts of interest are appropriately managed, all internal audit staff are required to make an annual personal independence responsibilities declaration via the contracted suppliers' procedures which include deadlines for:

- Annual Returns (a regulatory obligation regarding independence, fit and proper status and other matters which everyone in the contracted supplier must complete);
- Personal Connections (the system for recording interests in securities and collective investment vehicles held by partners, directors and managers, and their immediate family members); and
- Continuing Professional Development (CPD).

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, 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 SAC. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for a period of at least 12 months.

External Auditors

The External Auditors fulfil a statutory duty. Effective collaboration between Internal Audit and the External Auditors will help ensure effective and efficient audit coverage and resolution of issues of mutual concern. Internal Audit will follow up on the implementation of internal control issues raised by External Audit. Internal Audit and External Audit liaise periodically to:

- Plan the respective internal and external audits;
- Discuss potential issues arising from the external audit; and
- Share the results of significant issues arising from audit work.

Due Professional Care

The following standards bind the Internal Audit function:

- Chartered Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- PSIAS;
- Relevant Authority Policies and Procedures; and
- Relevant legislation.

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 and an external assessment by a suitably qualified, independent assessor at least once every five years. An independent EQA of our internal audit services was undertaken in 2019 with full compliance with PSIAS confirmed.

A programme of Continuous Professional Development CPD is maintained for all staff working on internal audit engagements to ensure that auditors preserve and enhance their knowledge, skills and audit competencies to deliver the risk-based plan. The HoIA is required to hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

Performance Measures

In seeking to establish a service that is continually improving, we acknowledge it is essential that we agree on measures by which Internal Audit should demonstrate both that it is meeting the Council's requirements and improving over the life of the contract. This will be both through quantifiable factors within Key Performance Indicators (KPIs) and additionally through a number of measures to further seek to establish the value derived from internal audit. These measures had been agreed with the SAC and Chief Finance Officer in March 2021.