

TENDRING DISTRICT COUNCIL INTERNAL AUDIT

INTERNAL AUDIT CHARTER - MARCH 2017

1. INTRODUCTION

The CIPFA Public Sector Internal Audit Standards (PSIAS) require that the Chief Audit Executive produces an Internal Audit Charter that is consistent with the Standards, and the Definition of Internal Auditing and the Code of Ethics contained within the Standards.

The Internal Audit Charter defines the purpose, authority and responsibility of the Internal Audit function within the Council.

The Standards require that the Charter be subject to periodic review, and be formally approved by the Audit Committee. These reviews are to be undertaken by the Audit and Governance Manager and reported to the Committee at least annually.

This version of the Internal Audit Charter has been produced in **March 2017, and replaces that approved in March 2016.**

2. DEFINITION OF ROLES

The Standards use the terms Board, Senior Management and Chief Audit Executive.

In this Charter, and with regard to compliance with the PSIAS, the following definitions apply: -

PSIAS	TDC
Board	Audit Committee
Senior Management	Management Team
Chief Audit Executive	Audit and Governance Manager

Throughout this document the titles used by this Council have been used for clarity purposes.

3. REQUIREMENT FOR INTERNAL AUDIT

The Accounts and Audit Regulations 2015 requires that **“a relevant body 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”**.

Tendring District Council is a relevant body, as defined by the Regulations.

Compliance with the Public Sector Internal Audit Standards fulfils the requirements set in the Regulations.

The role of the Internal Audit function includes the discharge of statutory requirements relating to internal audit.

4. COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS)

The PSIAS, the definition of Internal Auditing and the Code of Ethics within the standards, are mandatory. Arrangements will be made to ensure that the Internal Audit function operates in accordance with the PSIAS, **and that the core principles for the professional practice of Internal Auditing as detailed in the standards are present and operating effectively**. In the event that circumstances prevent full compliance, appropriate equivalent safeguards or measures will be adopted as permitted by the standards, and the Audit Committee made aware. The Audit and Governance Manager's Annual Report will take into account any issues of non-compliance.

The Audit and Governance Manager is responsible for maintaining an up to date Internal Audit Manual which details the framework adopted to meet the requirements set by the standards.

Internal Auditors will ensure that **in undertaking** their duties **they demonstrate integrity, competence and** due professional care and **operate** in line with the requirements of the standards, and its embedded code of ethics.

The Audit and Governance Manager will make arrangements for compliance / quality reviews to be undertaken, in accordance with the PSIAS requirements, **both at individual audit level and for the service as a whole** and for the results of **service** reviews to be reported to the Audit Committee, together with any actions necessary to achieve full compliance.

5. MISSION, PURPOSE, RESPONSIBILITY, OBJECTIVES AND SCOPE OF INTERNAL AUDIT

The mission of the Internal Audit function is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

The purpose of the Internal Audit function is to: -

- provide independent, objective assurance to the Council on its operations and control environment
- deliver an effective, cost effective, proactive and innovative function that meets the needs of the Council, **and is aligned with its strategies, objectives and risks.**
- add value by assisting management to improve the delivery of Council objectives and operations through the evaluating and challenging the effectiveness of risk management, control and governance processes
- add value by assisting management to improve the delivery of Council objectives and operations by the provision of consultancy and best practice advice.

The key responsibilities and objectives for the Internal Audit function are to: -

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- provide an Internal Audit services that discharges the Council's statutory responsibilities with regard to internal audit
- provide a service that is compliant with the requirements of the PSIAS
- contribute to the Council's governance, risk and assurance arrangements
- enable the Audit and Governance Manager to provide an annual opinion on the overall adequacy and effectiveness of the Council's control environment
- deliver a quality service that strives to continually improve
- communicate effectively on risk and control issues, identified or that the Council might be exposed to, providing insightful, proactive and future-focused solutions where appropriate, that promote improvement to the Council's risk and control frameworks.

The scope of Internal Audit includes: -

- undertaking independent risk based reviews to provide assurance on the effectiveness, efficiency and legality of management and service delivery arrangements
- undertaking ad hoc reviews as requested by management
- undertaking / participating in investigations including those in relation to potential fraud, corruption, bribery or irregularity
- undertaking proactive anti-fraud work examining emerging fraud risks and potential exposures identified
- providing consultancy and advice on major projects, and ad hoc advice upon demand
- dissemination to the organisation of best practice

The scope of the Internal Audit function's remit includes the Council's entire control environment, not just financial controls – this includes assurance and monitoring mechanisms, including risk management arrangements. It also extends to any services provided through partnership arrangements, or by external providers.

Where the Council works in partnership with other organisations, the Internal Audit function will provide a service as agreed between the partner organisations. The nature of assurances to be provided will be consistent with the requirements of the Standards, the governance arrangements applicable to the partnership, and the terms of engagement for the assignments undertaken.

The Internal Audit function does not currently provide a service to any third party organisation, but may do so in the future if appropriate to do so. The nature of assurances to be provided in such circumstances will be consistent with the requirements of the Standards, the rules and regulations governing the organisation in question, and the terms of engagement contractually entered into.

The Audit and Governance Manager will ensure that the planned Internal Audit work in any financial year provides sufficient coverage of the key financial, and other, systems to enable an opinion on the effectiveness of the Council's control environment to be formed. In lieu of work undertaken directly by the Internal Audit function, the Audit and Governance Manager may place reliance on assurances provided by other assurance providers where he deems it appropriate to do so.

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Consideration will be taken, in determining where Internal Audit activity should be focussed, of the Council's assurance and monitoring mechanism's including risk management arrangements.

The Internal Audit function can provide consultancy and advice to the functions of the Council and its management, usually of a one off and ad hoc nature. It may also be involved in assignments to aid development of new and improvement of existing processes. Mechanisms are in place to maintain independence and divisions of duty.

Arrangements will be maintained to ensure that a quality assurance programme is in place that meets the requirements of the PSIAS.

6. ORGANISATIONAL INDEPENDENCE OF INTERNAL AUDIT

The Internal Audit function will be independent of the activities that it audits to enable auditors to perform their duties in a manner that facilitates impartial, objective and effective professional judgements and recommendations.

A mechanism will be maintained that enables conflicts of interest, including previous employment responsibilities **and any one off non audit duties undertaken**, to be identified and recorded. Internal Auditors will not be allowed to undertake assignments / elements of assignments where a conflict of interest has been identified or to audit records where impartiality cannot be demonstrated.

The Audit and Governance Manager has some other operational responsibilities of a governance nature. Arrangements will be maintained to ensure that the post holder is not involved in audits on such areas in either an operational or supervisory role to maintain independence. **The team have no other non-audit operational responsibilities within their job roles.**

The Audit and Governance Manager will report at least annually to the Audit Committee on the organisational independence of the Internal Audit function.

7. ACCOUNTABILITY, REPORTING LINES AND RELATIONSHIPS

The Internal Audit function is located within the Corporate Services Department. The Audit and Governance Manager's line manager is the **Head of Finance, Revenues and Benefits Services** (S151 Officer). The Audit and Governance Manager has a right of direct access to the Corporate Director (Corporate Services) as directorate head. In addition the Audit and Governance Manager has a right of direct access to the Management Team, the Chief Executive and Corporate Directors / Head of Department individually, and Members.

The Audit and Governance Manager has the right to meet privately with the Audit Committee, when necessary.

The arrangements for working relationships with elected members shall follow the requirements of the Protocol on Member / Officer relations within the Council's Constitution, and codes of conduct.

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All Internal Audit reporting, at both officer and Member level, shall be by the Audit and Governance Manager in his own name.

Following each audit the Audit and Governance Manager will report directly to the relevant Corporate Director / Head of Department providing an assurance ranking based upon the results of the assignment undertaken, with any material issues being drawn to the attention of the Council's s151 officer, other statutory officers or Management Team as appropriate to the circumstance. The results of each audit will be reported to the Audit Committee.

Corporate Directors / Head of Department are responsible for ensuring that appropriate action is taken to resolve issues reported by Internal Audit. The Internal Audit function will have in place mechanisms to obtain assurance that actions have been appropriately implemented, and to report any significant issues arising from this to the Audit Committee.

The Council's Audit Committee has responsibility for receiving reports on Internal Audit from the Audit and Governance Manager. Reports will be produced in formats that meet any criteria laid down by the PSIAS.

The Audit and Governance Manager may be required to provide assurance to external parties, such as grant funding bodies, where so requested. He will ensure that such engagements are conducted reflecting any requirements set by such bodies, and professional standards.

The Audit and Governance Manager will maintain a dialogue with Corporate Directors / Head of Department to ensure that emerging risks, and operational changes, are reflected in the work programme for Internal Audit at the earliest opportunity.

The Audit and Governance Manager Audit will develop and maintain relationships with the Council's external auditors and other review bodies, taking account of the differing roles and responsibilities of each organisation.

8. RESPONSIBILITY OF THE AUDIT COMMITTEE AND ROLE OF STATUTORY OFFICERS WITH REGARDS TO INTERNAL AUDIT

The role of the Audit Committee with regards to Internal Audit is laid out in the Council's Constitution. The role regarding Internal Audit includes:

- Considering the Audit and Governance Manager's Annual Report and opinion.
- Considering reports on the operation of Internal Audit and summaries of specific internal audit reports.
- Considering reports from Internal Audit on **significant** agreed actions not implemented within a reasonable timescale.

To fulfil this role, and to meet the requirements of the PSIAS, the Committee in considering reports on the operation of Internal Audit will also receive and approve: -

- The Annual Internal Audit Plan
- Internal Audit Plan updates during the year

- The Internal Audit Charter

The Head of Paid Service (Chief Executive) has responsibility for the discharge of the functions of the Council, and would therefore be advised regarding any issues of a significantly material nature arising during audits. The post holder also has a responsibility regarding the effective discharge of the Internal Audit function.

The s151 Officer (**Head of Finance, Revenues and Benefits Services**) has responsibility for ensuring that the Audit and Governance Manager provides the Internal Audit service required by the Council, and is advised of any issues of a material nature identified during audits / provided with assurance as appropriate to aid in meeting his statutory obligations.

The Monitoring Officer (**Head of Governance and Legal Services**) has responsibility for the lawfulness and fairness of decision making, and any issues of this nature identified during audits will be drawn to the post holders attention / assurance provided as appropriate to aid the postholder to meet their statutory obligations.

9. FRAUD AND CORRUPTION

Managing the risk of fraud and corruption lies with management. The Internal Audit function does not have responsibility for the prevention and detection of fraud and corruption. Internal Auditors will be alert in the work undertaken to risks and exposures that could allow fraud or corruption to occur, **and where appropriate will agree and report on control improvements to mitigate such risks and exposures.**

The Council's Constitution (Financial Procedure Rules) requires that Corporate Directors / Head of Department report any financial irregularity or suspected irregularity to the designated Head of Internal Audit immediately. The Council's Fraud and Corruption Strategy confirms these arrangements.

The Audit and Governance Manager will take into account any reported irregularities in preparing his annual opinion, in preparing the risk based annual internal audit plan, and in scoping any related audits.

The Internal Audit plan each year can include a provision of time for proactive anti fraud and corruption work to examine emerging fraud risks and potential exposure, and any other proactive anti fraud activities appropriate to promote an effective anti fraud and corruption culture throughout the Council.

The Audit and Governance Manager will make provision in the plan to enable reactive work to be undertaken as a result of any irregularity reported where he considers it appropriate for the Internal Audit function to undertake, or be involved in, any investigation required.

10. INTERNAL AUDIT RESOURCE REQUIREMENTS

The Public Sector Internal Audit Standards require that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. However the Account and Audit Regulations / PSIAS are not prescriptive regarding the level of resources required.

The level and nature of resources required for each year's plan will be considered as part of the annual audit planning process to ensure that the resources

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available are deemed sufficient taking account of changes to the audit universe, changes to exposure of the organisation to risk, and developing professional standards.

The resources available will be maintained, both in terms of staffing levels and proficiency, at a level sufficient to deliver the approved plan to an acceptable standard, and to meet the requirements of the PSIAS.

Provision may be made to enable the use of resources from elsewhere within the Council or externally as appropriate to cover any skills gaps related to the audit engagements planned.

Any changes to the functions of the Council, the risks the Council is exposed to, the requirement for ad hoc work, and the development of audit techniques may change the baseline position. The Internal Audit Plan is intended to be flexible and mechanisms exist to update it during each year as required.

If at any time an imbalance between resources available and those required to deliver an effective Internal Audit function arises, then this will be drawn to the attention of the Audit Committee, together with proposed solutions.

11. RIGHT OF ACCESS

The right of access for Internal Audit to records, assets, personnel and premises shall be consistent with the requirements of the Accounts and Audit Regulations. The right of access is also contained in the Council's Constitution.

The right of access shall extend to any resources bought in to supplement the in house team, in undertaking audits.

Internal Audit shall have, for the purposes of internal audit, the right of access to all establishments operated by the Council, all records held by the Council, all assets and personnel. Where the Council enters into partnership arrangements, or outsources functions, the contractual arrangements shall include provision for the right of access by the Council's Internal Auditors to all records and assets that relate to the Council. The Council's Internal Auditors shall have authority to obtain such information and explanations as are considered necessary to fulfil their internal audit responsibilities.

Internal Auditors will treat information they receive / see in the course of their duties as confidential, only disclosing such information where there is a legal or professional requirement to do so.