



APPENDIX 1



INTERNAL AUDIT CHARTER

2022

Internal Audit Services
Town Hall – Broadway Annex

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INTERNAL AUDIT CHARTER - 2022

Introduction

- 1.1 This charter establishes the framework within which Hyndburn Borough Council's Internal Audit Service operates to best serve the council and to meet its professional obligations under the Public Sector Internal Audit Standards (PSIAS).
- 1.2 The charter defines the purpose, authority and responsibility of internal audit activity, establishes the Internal Audit Service's position within the organisation, authorises access to records, personnel and physical properties relevant to the performance of engagements and defines the scope of internal audit activities.
- 1.3 It will be subject to periodic review by the Head of Audit & Investigation (as the Chief Audit Executive¹) and presented to the Council's Senior Management² and the Board³ for approval.
- 1.4 In the event the Internal Audit Service provides the internal audit function for other organisations external to the Council, the purpose, authority and responsibility of internal audit activity for those organisations is subject to separate charter(s) for those organisations.

Relevant Regulations and Interpretation

- 2.1 The requirement for an internal audit function in local government is set out in the Accounts and Audit Regulations 2015.
- 2.2 Regulation 5 (1) of the Accounts and Audit Regulations 2015 states:
"Internal Audit: 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 audit standards or guidance."
- 2.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for internal audit in local government in the United Kingdom. CIPFA has published Public Sector Internal Audit Standards (PSIAS), which encompass the Mission of Internal Audit and the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing). These documents are therefore mandatory for internal audit in local government in the United Kingdom. And they are supplemented with PSIAS by additional public sector interpretation

¹ The Head of Audit & Investigation is the Council's Chief Audit Executive as defined within the PSIAS

² Corporate Management Team is the Council's Senior Management as defined within the PSIAS

³ Audit Committee is The Board as defined within the PSIAS

and guidance. CIPFA has published a Local Government Advisory Note setting out sector-specific requirements for local government within the United Kingdom.

- 2.4 Hyndburn Borough Council's Internal Audit Service therefore operates in accordance with this mandatory definition, code, standards and advice.
- 2.5 Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs". In its statement on the Role of Chief Financial Officer in Local Government CIPFA has defined 'proper administration' as including compliance with the statutory requirements for accounting and internal audit. It also requires the Chief Executive and Deputy Chief Executive (s151) to ensure an effective internal audit function is resourced and maintained.

Definitions

- 3.1 Both the Global Institute of Internal Auditors and PSIAS set out the following definition of internal auditing:

"Internal auditing 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."

*Global Institute of Internal Auditors, and
Public Sector Internal Audit Standards 2017*
- 3.2 The Global Institute of Internal Auditors and PSIAS also refer to the 'board' and 'senior management' and PSIAS recognises that these terms need to be interpreted in the context of the council's own governance arrangements.
- 3.3 PSIAS defines the board as:

"The highest level of governing board charged with the responsibility to direct and / or oversee the activities and management of the organisation. [...] 'Board' may refer to an audit committee to which the governing body has delegated certain functions."

Public Sector Internal Audit Standards, 2017
- 3.4 Within Hyndburn Borough Council the board is defined as the Audit Committee.
- 3.5 Senior management is defined as the council's Corporate Management Team. This consists of the Chief Executive, Deputy Chief Executive (s151), Executive Director (Legal & Democratic Services), Executive Director (Environment) and Head of Policy & Organisational Development.
- 3.6 PSIAS also refers to the 'chief audit executive' who at Hyndburn Borough Council is deemed to be the Head of Audit & Investigation.

Mission & Core Principles

4.1 The internal audit charter sets out what the internal audit service aspires to accomplish, which is:
“To enhance and protect organisational value by providing risk based and objective assurance, advice and insight.”

4.2 The core principles listed in the PSIAS taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all principles should be present and operating effectively. Failure to achieve any of the principles would imply that an internal audit function was not as effective as it could be in achieving internal audit's mission.

4.3 The 10 Core Principles:

1. Demonstrates integrity
2. Demonstrates competence and due professional care
3. Is objective and free from undue influence (independent)
4. Aligns with the strategies, objectives and risks of the organisation
5. Is appropriately positioned and adequately resourced
6. Demonstrates quality and continuous improvement
7. Communicates effectively
8. Provides risk-based assurance
9. Is insightful, proactive and future focused
10. Promotes organisational improvement

Responsibilities

5.1 The Regulations set out that the Council must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk.

5.2 It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. PSIAS makes clear that the provision of this assurance is internal audit's primary role and that this requires the Head of Audit & Investigation to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control.

5.3 This assessment will be supported by the identification, analysis, evaluation and documentation of sufficient information on each individual audit engagement, and the completion of sufficient audit engagements to support an overall opinion for the Council as a whole. The scope of internal audit's work therefore encompasses all of the council's functions and services and all of its activities.

5.4 The requirement to be independent and objective means that the Internal Audit Service cannot assume management responsibility for risk management, control or governance processes. However the Internal Audit Service may support management by providing consultancy services. These are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control. They will also contribute to the overall assurance opinion.

5.5 Accountability for responses to the Internal Audit Service's advice and recommendations for action lies with the council's managers, who either accept and implement the advice or accept the risks associated with not taking the action. Advice, including where the Internal Audit Service has been consulted about significant changes to internal control systems, is given without prejudice to the right of the Internal Audit Service to review and recommend further action on the relevant policies, procedures, controls and operations at a later date.

5.6 The Head of Audit & Investigation will provide an annual report incorporating an overall opinion, a summary of the work that supports that opinion, a statement of conformity with PSIAS, and the results of the quality assurance and improvement programme.

5.7 A note of the responsibilities of the Corporate Management Team ('senior management') and the Audit Committee ('the board') in relation to the internal audit function are set out in the appendix to this charter. The Internal Audit Service's responsibilities are set out in the PSIAS and these are supported by detailed operational policies and procedure that are regularly reviewed and updated as necessary.

Independence, Objectivity and Integrity

6.1 The PSIAS define independence as "freedom from conditions that threaten the ability of the Internal Audit Service to carry out its responsibilities in an unbiased manner". To assist Internal Audit to carry out the role and constructively challenge senior managers of the Council, the Head of Audit & Investigation holds a senior position.

6.2 The Internal Audit Service remains independent of the council's other functions and, with the exception of its support to management in relation to counter fraud and investigatory work, no member of the Internal Audit Service has any executive or operational responsibilities. Auditors are expected to deploy impartial and objective professional judgement in all their work, whether on audit work or investigations.

- 6.3 The Internal Audit Service's work programme and priorities are determined in consultation with 'senior management' and 'the Board', but remain a decision for the Head of Audit & Investigation. The Head of Audit & Investigation has direct access to and freedom to report in their own name and without fear or favour to all officers and members and specifically the Audit Committee. They have the opportunity to meet with the Chair of the Audit Committee at any time.
- 6.4 The independence of the Head of Audit & Investigation is further safeguarded by ensuring that their remuneration and performance development review are not inappropriately influenced by those subject to audit.
- 6.5 All auditors make an annual declaration of their interests and update this during the year as necessary, and where any auditor has a real or perceived conflict of interest this is managed to maintain the operational independence of the service as a whole. If independence of objectivity are impaired in fact or appearance, then the nature of the impairment is disclosed as appropriate. The Head of Audit & Investigation makes an annual declaration that the internal audit function is operationally independent.
- 6.6 All auditors have read and are aware of the obligations placed on them by the PSIAS and specifically the Code of Ethics. They each acknowledge that they must adhere to the Code of Ethics and demonstrate integrity, objectivity, competence and confidentiality in the discharge of all their duties.

Reporting Lines and Relationships

- 7.1 The Head of Audit & Investigation reports functionally to the Audit Committee and organisationally to the Deputy Chief Executive as s151 Officer. They also have access to all 'senior management' including the Chief Executive and Monitoring Officer.
- 7.2 The Head of Audit & Investigation has regular access to the Chair of Audit Committee and reports to their meetings as set out in their terms of reference.
- 7.3 Corporate Management Team and Audit Committee are responsible for approving the annual internal audit plan.
- 7.4 The Head of Audit & Investigation, the Internal Audit Service as a whole and the Council adhere to the requirements of CIPFA's Statement on the Role of the Head of Internal Audit.
- 7.5 The Internal Audit Service and the external auditor liaise on the planning and outcomes of respective audit work to share assurance opinions and avoid the duplication of work.

Access to Information

- 8.1 The Internal Audit Service has the right of unrestricted and direct access to the Council's records (however held), assets, premises and officers. In the event the Council enters into partnership arrangements with external organisations, the Council ensures that the same rights of audit access apply to partners' records, assets, premises and officers. The Internal Audit Service has the authority to obtain all such information and explanations as it considers necessary to fulfil its responsibilities. The Internal Audit Service's rights of access may or may not be subject to prior notice which extends to partner organisations. The Internal Audit Service will determine this based on the circumstances of the work or audit engagement it is conducting.
- 8.2 Internal auditors respect the value and ownership of information they receive and reports they produce, and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. They are prudent in the use and protection of information acquired in the course of their duties and shall not use information for any personal gain or in a manner that would be contrary to the law or detrimental to the Council's legitimate and ethical objectives.
- 8.3 If the Internal Audit Service is refused access to premises, land, records or a refusal of explanation occurs, then this will be progressed through the various tiers of management / senior management and to Audit Committee as required.

Internal Audit Resources

- 9.1 Hyndburn Borough Council has taken the strategic decision to provide its internal audit service in-house and is committed to providing a service that meets the best quality standards. However, the Head of Audit & Investigation has decided that, to meet the requirement that audit engagements are performed with proficiency and due professional care, it will obtain additional support where specialist knowledge is required. All such work remains under the direction and authority of the Head of Audit & Investigation.
- 9.2 The Deputy Chief Executive as s151 ensures that internal audit resources are sufficient to meet its responsibilities and achieve its objectives. If the Head of Audit & Investigation or Audit Committee considers that the level of audit resources in any way limits the scope of internal audit, or prejudices the ability of the Internal Audit Service to deliver a service consistent with its statutory and related requirements, they will advise the Council accordingly.
- 9.3 Nonetheless, the Internal Audit Service has finite resources and its workforce is therefore deployed to meet an annual internal audit plan that pays regard to the relative risks accepted and levels of assurance required by the Council.

Competency

- 10.1 The Head of Audit & Investigation is required to hold appropriate professional audit qualifications. This is defined as full membership of the Chartered Institute of Internal Auditors or equivalent. It is expected that the senior auditor will hold the Association of Accounting Technicians (AAT) qualification or equivalent. Auditors are encouraged to obtain the AAT qualification if not already held.
- 10.2 The Council's Performance Development Review process is applicable to all staff within the Internal Audit Service, which supports continuous staff performance appraisal and development.

Quality Assurance and Improvement

- 11.1 The Head of Audit & Investigation operates a quality assurance and improvement programme (QAIP) that both monitors the on-going performance of internal audit activity and periodically assesses the Internal Audit Service's compliance with PSIAS. This includes both internal and external assessments and is set out in the QAIP.
- 11.2 The results of the QAIP including any areas of non-conformance with PSIAS are reported annually to the Corporate Management Team and the Audit Committee.

Non-Audit Work: investigations and counter-fraud services

- 12.1 PSIAS recognises that the Internal Audit Service may go beyond the work needed to meet its assurance responsibilities and provide services to support management, including consultancy services or assistance with the investigation of suspected fraud or corruption. Such services apply the professional skills of internal audit and contribute to the overall assurance opinion.
- 12.2 The Head of Audit & Investigation is a named point of contact for the Council's whistle-blowing arrangements and where appropriate investigates instances of suspected or actual fraud, corruption or impropriety.
- 12.3 The Head of Audit & Investigation also facilitates the Council's participation in the National Fraud Initiative, which matches data from the Council's information systems with information held by other bodies to identify potentially fraudulent activity.
- 12.4 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is management's responsibility. Internal Auditors will however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

12.5 The Head of Audit & Investigation should be informed of all suspected or detected fraud, corruption or impropriety and will consider the implications for their opinion on the adequacy and effectiveness of the relevant controls, and the overall internal control environment.

Engagement Planning

13.1 For each audit engagement an audit brief should be prepared, discussed and agreed with the relevant manager(s). The audit brief should incorporate the objectives, scope and timing for the audit engagement, its resources and reporting requirements.

13.2 Audit engagements are undertaken using a risk based approach which will consider the probability of significant errors, fraud and non-compliance.

Performing the Engagement

14.1 Auditors are required to identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives. The evidence supports their conclusions, professional judgements and recommendations and therefore must be factual and accurate.

Communicating Results

15.1 The results of all audit engagements are reported, including the objective, scope, all material facts, conclusions, recommendations, actions plans, any limitations and contain the internal auditor's opinion.

15.2 Draft reports are discussed with the managers for factual accuracies. Any significant issues should have been brought to the attention of management during the engagement to allow for immediate action to be taken.

15.3 Managers are required to give responses to each recommendation, detailing the responsible officer for each action and the target date for completion. Where there is disagreement over the actions to be taken, this is recorded in the action plan with the residual risks highlighted.

15.4 Where these risks are deemed to be high, they are reported to the Deputy Chief Executive, relevant Director and the Audit Committee to ensure that risk registers are updated where relevant.

Monitoring Progress of Actions Agreed

16.1 Once an audit recommendation has been agreed with management it becomes an action agreed. The Internal Audit Service checks progress made on the actions agreed following an audit engagement. It is management's responsibility to implement and provide relevant evidence of the agreed actions to the Internal Audit Service. Progress is reported to the Audit Committee.

Appendix: Responsibilities

Responsibilities in relation to the Internal Audit Service

The Council's Corporate Management Team ('senior management')

The Corporate Management Team will:

1. Consider the Internal Audit Charter, including the Internal Audit Service's purpose and authority, the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework.
2. Consider and contribute to the development of the risk-based internal audit plan, supporting its completion within the Council.

3. Make appropriate enquiries to determine whether there is inappropriate scope and / or resource limitation to the Internal Audit Service.
4. Receive reports from the Head of Audit & Investigation on the Internal Audit Service's performance and audit findings, including the Head of Audit & Investigation's annual internal audit report and opinion for the year.
5. Consider the scope of the external assessment and internal quality assurance and improvement programme, and receive and consider the results of both, including areas of non-conformance with the PSIAS.

The Audit Committee ('the Board')

The Audit Committee will:

1. Approve the Internal Audit Charter.
2. Approve the risk-based internal audit plan, including the Internal Audit Service's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
3. Approve significant interim changes to the risk-based internal audit plan and resource requirements.
4. Make appropriate enquiries of both management and the Head of Audit & Investigation to determine if there are any inappropriate scope or resource limitations.
5. Consider reports from the Head of Audit & Investigations on internal audit's performance during the year. These will include:
 - Updates of the audit engagements internal audit has carried out with details of any actions agreed with management together with any issues of concern as a result of such audit work.
 - To update the Audit Committee at least annually on the results of the quality assurance and improvement programme.
 - Reports to Audit Committee on instances where the Internal Audit Service does not conform to the PSIAS and Local Government Application Note for said PSAS. This will consider whether the non-conformance is significant enough that it must be included in the annual governance statement.
6. Consider the Head of Audit & Investigation's annual internal audit report and opinion:

- The statement of the level of conformance with the PSIAS and Local Government Application Note and the results of the quality assurance and improvement programme that supports the statement.
- The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion, which will assist the committee in reviewing the annual governance statement which is produced by Accountancy Services.

7. Consider issues from specific audit engagements as required / requested.
8. Receive reports outlining the action taken where the Head of Audit & Investigation has concluded that management has accepted a level of risk that may be unacceptable to the council or there are concerns about progress with the implementation of actions agreed.
9. Contribute to the quality assurance and improvement programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
10. Support the development of effective communication with the Head of Audit & Investigation.
11. Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.