



## APPENDIX 1



# INTERNAL AUDIT CHARTER AND MANDATE

2025

Internal Audit Services  
Town Hall – Broadway Annex

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# INTERNAL AUDIT CHARTER AND MANDATE - 2025

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## 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 applicable professional standards.
- 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 Executive<sup>1</sup>) and presented to the Council's Senior Management<sup>2</sup> and the Board<sup>3</sup> 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.
- 1.5 Where the Internal Audit Service provides either the Internal Audit function or ad hoc assurance to an external organisation, its work is also set out in an engagement letter agreed with that organisation.

## Relevant Regulations and Interpretation

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) is the relevant standard setter for Internal Audit in local government in the United Kingdom. From 1<sup>st</sup> April 2025, the Global Internal Audit Standards (GIAS) as the Application Note: Global Internal Audit Standards in the UK Public Sector replace the Public Sector Internal Audit Standards (PSIAS). Hyndburn Borough Council's Internal Audit Service therefore operates in accordance with this mandatory definition, code, standards and advice.
- 2.2 The new Global Internal Audit Standards are organised into five domains:
  - i.) Purpose of Internal Auditing
  - ii) Ethics and Professionalism
  - iii) Governing the Internal Audit Function
  - iv) Managing the Internal Audit Function

<sup>1</sup> The Head of Audit & Investigation is the Council's Chief Audit Executive as defined within the GIAS

<sup>2</sup> Corporate Management Team is the Council's Senior Management as defined within the GIAS

<sup>3</sup> Audit Committee is The Board as defined within the GIAS

v) Performing Internal Audit Services.

2.3 These domains encompass 15 principles and 52 standards that provide comprehensive guidance for Internal Audit practices. The principles within these domains emphasise the importance of serving the public interest, maintaining ethical conduct, ensuring effective governance, managing audit functions effectively, and performing audit services with due diligence.



## Global Internal Audit Standards

### Five Domains, 15 Principles



## Authority and Requirement for Effective Internal Audit

3.1 The authority and requirement for Internal Audit in local government is established under the Local Government Act 1972 and the Accounts and Audit Regulations 2015, specifically:

### **Local Government Act 1972:**

*Section 151: Requires every local authority to make arrangements for the proper administration of their financial affairs, which includes measures to prevent and detect fraud.*

### **Accounts and Audit Regulations 2015:**

*Part 2, Section 3: Mandates that local authorities must have sound systems of internal control, which include arrangements for the management of risk, control and governance processes, encompassing counter fraud measures.*

## Authority and Requirement for Effective Counter Fraud Arrangements

3.2 This is defined in:

### **Local Government Act 1972:**

*Section 151: Requires every local authority to make arrangements for the proper administration of their financial affairs, which includes measures to prevent and detect fraud.*

*Section 222: Empowers local authorities to prosecute or defend legal proceedings if it is considered expedient for the promotion or protection of the interests of its inhabitants. This includes prosecuting individuals who commit fraud against the authority.*

### **Accounts and Audit Regulations 2015:**

*Part 2, Section 3: Mandates that local authorities must have sound systems of internal control, which include arrangements for the management of risk, control and governance processes, encompassing counter fraud measures.*

### **Economic Crime and Corporate Transparency Act 2023 (ECCTA 2023):**

*Section 199 of ECCTA 2023 comes into force from 1<sup>st</sup> September 2025. It creates a new offence, under which an organisation will be liable where a specified fraud offence is committed by an employee or agent, for the organisation's benefit, and the organisation did not have reasonable fraud prevention procedures in place. It is a defence for the organisation to prove that, at the time the fraud offence was committed, it had in place such prevention procedures as it was reasonable in all circumstances to expect the body to have in place.*

## **Definitions**

- 4.1 Both the Global Institute of Internal Auditors and Chartered Institute of Internal Auditors defines Internal Auditing as:  
*“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.”*
- 4.2 Within Hyndburn Borough Council the board is defined as the Audit Committee.
- 4.3 Senior management is defined as the Council’s Corporate Management Team. This consists of the Chief Executive, Executive Director (Resources and s151 Officer), Executive Director (Legal & Democratic Services and also Monitoring Officer), and Executive Director (Environment).
- 4.4 The ‘chief audit executive’ at Hyndburn Borough Council is deemed to be the Head of Audit & Investigation.

## **Responsibilities**

5.1 The responsibilities detailed below ensure that the Internal Audit function operates effectively and adds value to the organisation by providing assurance and insights on governance, risk management and control processes.

5.2 **Role of Internal Audit**

Internal Audit provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. It helps organisations achieve their objectives by systematically evaluating and improving the effectiveness of risk management, control, and governance processes. This services adds value by:

- Identifying areas for improvement
- Ensuring compliance with laws and regulations
- Providing insights that enhance decision-making and organisation performance

5.3 **Board / Audit Committee**

- Ensure the Internal Audit function is independent and has sufficient resources
- Approve the Internal Audit charter
- Approve the risk based internal audit plan
- Oversee the performance and effectiveness of the Internal Audit function

5.4 **Chief Executive (CEO and Senior Management)**

- Support the Internal Audit function by providing access to necessary information and resources
- Ensure that management actions are taken in response to Internal Audit recommendations
- Foster an organisational culture that values Internal Audit and risk management

5.5 **Chief Audit Executive (CAE)**

- Develop and maintain a risk-based audit plan
- Ensure the Internal Audit function adheres to the IIA standards and other relevant standards
- Report on the Internal Audit function's performance and findings to the board and audit committee

5.6 **Internal Auditors**

- Conduct audit engagements in accordance with the Global Internal Audit Standards and the Internal Audit Charter
- Maintain objectivity, integrity, and confidentiality
- Communicate audit findings and recommendations clearly and effectively
- Maintain professional competence through continuous training and development

## 5.7 External Auditors

- Collaborate with the Internal Audit function to enhance audit coverage and efficiency
- Consider the work of Internal Auditors when planning and conducting external audits
- Share relevant findings and insights with the Internal Audit function

## Independence, Objectivity and Integrity

6.1 Everyone in the public sector must comply with the Nolan Principles, which include selflessness, integrity, objectivity, accountability, openness, honesty and leadership. However, Internal Audit has additional requirements for independence, objectivity and integrity.

### 6.2 Independence

Internal Auditors must be free from conditions that threaten their ability to perform their duties impartially. This means:

- **Organisational Independence:** The Internal Audit function must report functionally to the board or audit committee, ensuring it has the authority to act independently
- **Individual Independence:** Internal Auditors must avoid conflicts of interest and not engage in activities that could impair their unbiased judgement.

### 6.3 Objectivity

Internal Auditors must maintain an unbiased mental attitude and avoid conflicts of interest. This requires:

- **Professional Judgement:** Internal Auditors should not subordinate their judgement to others and must make decisions based on objective criteria
- **Impartiality:** Auditors must perform their work without any bias, ensuring that their findings and recommendation are based solely on evidence

6.4 These requirements ensure that Internal Auditors can provide reliable and objective assurance and consulting services, thereby enhancing the effectiveness of governance, risk management and control processes within the organisation.

## Reporting Lines and Relationships

### 7.1 Functional Reporting

The Head of Audit & Investigation reports functionally to the Audit Committee. This ensures that the Internal Audit function operates independently from management and can provide unbiased assurance.

### 7.2 Organisational Reporting

The Head of Audit & Investigation reports organisationally to the Executive Director (Resources) who is also s151 Officer. This reporting line supports the administrative needs of the Internal Audit function.

#### **7.3 Direct Access**

The Head of Audit & Investigation has direct access to the Chief Executive Officer (CEO), the Executive Director (Resources), who is also the Council's Finance Officer under Section 151 of the Local Government Act 1972, and other senior leaders, including the Monitoring Officer. This access ensures that the Internal Audit function can communicate important findings and recommendations directly to those in positions of authority.

#### **7.4 Regular Access to Audit Committee**

The Head of Audit & Investigation has regular access to the Chair of Audit Committee, which typically meets 4 times a year. The Head of Audit & Investigation reports to each meeting of the committee under its terms of reference. The committee is responsible for approving the annual internal audit plan and overseeing the performance of the Internal Audit function.

### **Access to Information**

#### **8.1 Right of Access for Internal Audit**

Internal Auditors respect the value and ownership of information they receive and the 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 any manner that would be contrary to the law or detrimental to the council's legitimate and ethical objectives.

#### **8.2 The Internal Audit function has unrestricted direct access to all records, premises, and personnel necessary to perform its duties effectively. These rights of access apply equally to partner organisations that have links with or provide services on behalf of the Council, where the Council has a statutory or contractual entitlement to exercise such a right. These rights shall be included in all contractual arrangements entered into with such organisations. This right of access is essential to ensure that Internal Auditors can carry out their responsibilities without any limitations or hindrances.**

#### **8.3 Access to Records**

Internal Auditors have authority to access all records, documents, data, and correspondence relating to Council business, regardless of whether the format they are held (physical form or electronically). This includes any unofficial funds operated by an employee as part of their duties. This access allows auditors to gather the evidence needed to evaluate the effectiveness of risk management, control, and governance processes, or to aid any investigation.

### **8.3 Access to Personnel**

Internal Auditors have the authority to interview any employee or officer of the organisation to provide such explanations, information or other assistance concerning any matter under examination as part of any audit engagement. This access is crucial in understanding processes, identifying potential issues, and obtaining insights that may not be evident from documents alone.

### **8.4 Access to Property**

Internal Auditors have the authority to require any employee of the Council to produce cash, stores, or any other Council property under his or her control.

### **8.5 Access to Computer Systems**

Internal Auditors have the authority to access all Council computer systems as and when required. This ensures that auditors can review electronic records, data, and systems to perform comprehensive audits. These rights of access are fundamental to the Internal Audit function's ability to provide independent and objective assurance. Any restrictions on access to records, premises, personnel, or computer systems would impair the audit function's independence and objectivity, thereby reducing its effectiveness.

### **8.6 To ensure that all aspects of the Internal Audit function can operate effectively and provide comprehensive assurance to the organisation, these rights of access apply equally to Investigations Services that form part of the Internal Audit function.**

## **Internal Audit Resources and Effectiveness**

### **9.1 Sufficiency of Resources**

The Internal Audit function shall be provided with sufficient resources, including professional audit staff possessing the necessary knowledge, skills, experience, and professional qualifications to effectively fulfil its responsibilities. This includes resources for counter fraud and investigation work designed to comply with the four pillars of the Fight Fraud and Corruption Locally Strategy, these being: Govern, Acknowledge, Prevent, and Pursue.

### **9.2 Continuous Professional Development**

The Internal Audit staff shall engage in continuous professional development to maintain and enhance their competencies, ensuring they remain current with industry standards and best practices.

### **9.3 Access to Specialised Skills**

The Internal Audit function shall have access to specialised skills from within or outside the organisation as necessary to address specific audit requirements and complexities, including counter fraud and investigation activities.

### **9.4 Independence and Objectivity**

Internal Audit resources shall be independent and objective, free from any conflicts of interest, to ensure unbiased and effective audit activities.

### 9.5 Adequate Budget

The Internal Audit function shall be allocated an adequate budget to meet its objectives and execute its audit plan effectively, ensuring the necessary resources are available, including those required for counter fraud and investigation work.

### 9.6 Responsibility for Internal Audit Resources

The responsibility for ensuring that Internal Audit resources are in place lies with the Corporate Management Team and the Audit Committee. The Audit Committee reviews and approves the Internal Audit Plan and resource requirements, ensuring that the Internal Audit function is adequately resourced. Section 10.01 of the Global Internal Audit Standards (GIAS) requires the Head of Audit & Investigations to seek budget approval from the Audit Committee. However, within the Council, senior management is responsible for allocating and approving service budgets. Despite this, the Audit Committee plays a crucial role in ensuring that sufficient budget and resources are allocated to Internal Audit. They can raise concerns with management if they believe additional budget and resources are necessary to support the Internal Audit function effectively. Additionally, the Head of Audit will promptly communicate the impact of insufficient financial resources to the Audit Committee and senior management, as per the GIAS requirements.

9.7 The Audit Committee can make recommendations to senior management and the governing body regarding the adequacy of resources for the Internal Audit function. The Head of Audit & Investigation is responsible for managing the Internal Audit function, identifying resource needs, and presenting these needs to the committee. The Head of Audit & Investigation ensures that the Internal Audit team has the necessary skills and competencies to perform their duties, including those related to counter fraud and investigations work. The committee ensures that the Internal Audit function remains independent and objective, and it monitors the implementation of the Internal Audit plan and use of resources, including resources for counter fraud and investigation as part of the service.

9.8 Section 4.1 of the GIAS requires the Head of Audit & Investigation to report to the Audit Committee if resources are not adequate to fulfil the internal audit mandate effectively. This ensures that the Internal Audit function can operate independently and provide the necessary assurance and advisory services without any limitations.

## Competency

10.1 The Head of Audit & Investigation is required to hold appropriate professional audit qualifications. These are defined as full membership of one of the institutes of the Consultative Committee of Accountancy Bodies (CCAB) or professional membership of the Chartered Institute of Internal Auditors (CIIA). It is expected that senior auditors will either hold or be close to and actively working towards full professional qualification but, exceptionally, they may be qualified by experience at a demonstrably professional level.

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 GIAS. 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 GIAS are reported annually to the Corporate Management Team and the Audit Committee. This report will include information regarding:

- The scope and frequency of both the internal and external assessments
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- Conclusions of assessors
- Corrective action plans

## **Non-Audit Work**

12.1 The Head of Internal Audit shall maintain independence and objectivity in the performance of their duties. To ensure this, the Head of Internal Audit & Investigation shall not have responsibilities for non-audit functions that could impair their professional judgement.

12.2 The Internal Audit function operates the Investigation Service for the council. The Head of Audit & Investigation is a named point of contact for the Council's whistleblowing arrangements and where appropriate investigates instances of suspected or actual fraud, corruption or impropriety. 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.

12.3 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.

12.4 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.