

Hart District Council
Internal Audit Charter

June 2022

1. Introduction

A professional, independent and objective internal audit service is one of the key elements of good governance.

This Charter provides a framework for the conduct of Internal Audit at Hart District Council and describes the purpose, authority and responsibilities of the Internal Audit.

The Charter has been prepared to meet the requirements of the 2017 Public Sector Internal Audit Standards (PSIAS) and should be read alongside them. The PSIAS provide specific guidance on how internal audit should be carried out, how the internal audit function should be managed and assessed for effectiveness. PSIAS also includes the mandatory elements of the Global Institute of Internal Auditors' International Professional Practice Framework, namely:

- Mission of Internal Audit
- Definition of Internal Audit
- Core Principles and international standards for the professional practice of internal auditing
- Code of Ethics

2. Statutory Requirement

Internal Audit is a statutory service as defined by the Accounts and Audit Regulations 2015, which require the Council to maintain an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account PSIAS or guidance.

The same regulations also require any officer or Member of the Council to make available such documents and records and supply such information and explanations as are considered necessary by those conducting the audit.

In addition, the Council's S151 Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's affairs. To perform that duty the S151 Officer relies amongst others, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.

3. Public Sector Internal Audit Standards

Internal audit shall adhere to the PSIAS and associated guidance.

This Charter adopts the following two PSIAS definitions:

Mission of Internal Audit

The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Definition of Internal Audit

Internal auditing is an independent objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objects by bringing a systemic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Through these definitions Internal Audit aims to provide assurance that proper arrangements are in place to support the Council's delivery of economic, efficient and effective services and so achieve its vision, priorities and values.

4. Relationship with the Audit Committee and Senior Management

Audit Committee

The Council has established an Audit Committee which fulfils the requirements of the Board as set out in PSIAS. The Audit Committee is responsible for the effectiveness of the governance, risk and control environment within the Council.

Internal Audit shall report functionally to the Audit Committee. The Audit Committee will:

- approve the Internal Audit Charter.
- approve the risk based internal audit work plan.
- receive updates on the progress of work undertaken against the work plan.
- receive an annual report and opinion from the Internal Audit Manager on the effectiveness of the Council's governance framework.
- obtain reassurance as to whether there are any limitations placed on the scope of work or against approved budgeted resources.

The Internal Audit Manager shall:

- have direct and unrestricted access to the Audit Committee and the right to attend all its meetings.
- when considered appropriate, have private meetings with the Audit Committee.
- have the right to meet with the Chairman of the Audit Committee and/or the relevant Cabinet Portfolio Holder to discuss any matters or concerns that have arisen from internal audit work.
- participate in the Audit Committee's review of its own remit and effectiveness.

Senior Management

The Senior Leadership Team (SLT) fulfil the role of senior management as defined by the PSIAS.

The S151/Head of Corporate Services shall support the Internal Audit Manager by ensuring that there are robust systems of risk management and internal control and an effective internal audit function¹.

The Internal Audit Manager shall:

- report administratively to the Head of Corporate Services/S151; and
- have direct and unrestricted access to Senior Management.

5. Organisational Independence

Independence is essential to the effectiveness of internal audit. It will remain free from all conditions or interference that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner. This shall include, but not be limited to matters of audit selection, scope of work, procedure, frequency, timing or audit report content.

Internal audit will have no direct operational responsibility or authority over any audited activity. Internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment. They shall not assess any operations for which they had responsibility in the previous 12 months.

The Internal Audit Manager will confirm to the Audit Committee annually, the organisational independence of internal audit. They shall also disclose to the Audit Committee any interference and its related implications in determining the scope of internal auditing, performing work and/or communicating results.

The Council shall appoint a Client Manager to oversee the work of the internal audit service at such a time when the Internal Audit Manager is not a directly employed member of staff. The Client Manager shall be responsible for ensuring that the service is delivered in accordance with contractual agreements and delivering the administrative tasks associated with such agreements. The Client Manager shall not interfere with Internal Audit Manager's organisational independence.

6. Due Professional Care

Internal auditors must comply with the Institute of Internal Auditors Code of Ethics as set out in PSIAS. In addition, internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life (commonly known as the Nolan Principles).

Internal auditors must exhibit due professional care when carrying out their work and whilst gathering, evaluating and communicating information about the activity or process being examined. They must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others.

Internal auditors with real or perceived conflicts of interests, impairments of independence or objectivity whether in fact or appearance, must inform the Internal Audit Manager as soon as these issues become apparent. The Internal Audit

¹ CIPFA publication "The Role of the CFO in public sector organisations"

Manager shall inform the Head of Corporate Services of any disclosures and take appropriate action to address these issues as they arise.

7. Authority & Confidentiality

Internal auditors (including all third-party internal audit service providers whose work is directed by the Internal Audit Manager) shall have full, free and unrestricted access to all services and functions, premises, assets, employees, elected members, suppliers and contractors, records and other documentation and information that the Internal Audit Manager considers necessary to enable internal audit to fulfil its responsibilities.

All employees and elected members are required to assist the internal audit activity in fulfilling its roles and responsibilities. All records, documentation and information accessed by internal auditors whilst undertaking internal audit activities shall be used solely for that purpose. Individual internal auditors are responsible and accountable for maintaining the confidentiality of the information they receive during their work.

8. Internal Audit Management

The Council shall appoint a professionally qualified and suitably experienced Internal Audit Manager who shall determine the priorities of, manage and deliver the internal audit service in accordance with this Charter.

The Internal Audit Manager shall:

- ensure they have a comprehensive understanding of the Council's systems, structures and operations so allowing the preparation of a risk-based audit plan that is closely aligned to the need to provide assurance against the Council's strategic priorities, key business objectives and risks, as contained or identified within its Corporate Plan, Service Plans, risk register and framework of assurance.
- review and adjust the audit plan as necessary, in response to changes in the Council's risks, operations, programs, systems and controls.
- coordinate with other assurance providers to avoid overlap or duplication in audit plan coverage.
- when preparing the audit plan consider whether internal audit resources are sufficient to meet its responsibilities and achieve its objectives.
- report annually the impact and consequence of any resource limitations to the Audit Committee who will then recommend to Cabinet whether to accept the consequence identified or seek an increase in internal audit resource.
- use the resources allocated to internal audit to appoint external experts or specialists to assist in the delivery of the internal audit plan.
- put in place arrangements that ensure they are notified of all suspected or detected instances of non-welfare fraud, corruption, or impropriety to allow them to assess the impact on the control environment.
- assist in the investigation of allegations of fraud and corruption in line with the Council's Anti-Fraud and Corruption Strategy.

- promote a counter-fraud culture across the Council to aid the prevention and detection of fraud.
- maintain a quality assurance and improvement programme to ensure that all audit work is completed to high standards and in accordance with PSAIS and the standards, practices and procedures set out in the internal audit manual.
- undertake an annual review of the development and training needs of internal audit staff and arrange for appropriate training to be provided.
- establish effective relationships with managers at all levels.

9. The Scope of Internal Audit Activities

The Council has in place three lines of defence to effect control. The first line of the defence is the Council's day-to-day operational controls. The second line of defence are management controls. The third line of defence is independent inspection, both internal and external.

Internal audit shall be free to examine and evaluate operations, resources and services regardless of where they sit within the three lines of defence.

To identify audit plan coverage, activities are prioritised based on risk, using a combination of internal audit and management risk assessments (as detailed by risk registers) and consultations with key stakeholders. This shall result in the preparation of an audit plan that delivers reviews across the following areas:

Assurance activities: the results of which will directly influence the annual opinion on the adequacy and effectiveness of the control environment.

Advisory activities: results of which will contribute to the opinion on the adequacy and effectiveness of the control environment.

Consulting services: these will be advisory in nature and requested by management. Consultancy work not already included in the audit plan and which may affect the level of other assurance activities undertaken will be reported to the Audit Committee.

10. Outsourced or Shared Services.

Where the Council delivers its services through outsourced or shared services (e.g., Waste, Streets and Grounds Maintenance, Business Rates, Council Tax, Legal) the Internal Audit Manager shall liaise with the respective organisations internal audit service to discuss and agree the scope of assurance that the Council will receive from the organisation. This information will be considered by the Internal Audit Manager when preparing the annual audit plan.

The responsible Heads of Service and the Monitoring Officer shall ensure that all contractual agreements for outsourced or shared services incorporate appropriate rights of access for internal audit to conduct audits relating to any aspect of the performance of the contract.

11. Reporting and Monitoring

Communicating Internal Audit Findings

At the conclusion of a review, findings will be communicated to the appropriate manager. This may be done verbally or through a written report or memorandum.

The written report/memorandum will:

- include an overall assurance opinion on the adequacy of the governance, risk, and control processes.
- identify inadequately addressed risks and non-effective control processes.
- detail agreed corrective action (after considering that the cost of assurance is proportional to the potential benefits) and timescales for implementation.
- identify issues of good practice.

When corrective action has not been agreed, the Internal Audit Manager will escalate the matter to the appropriate manager, consistent with the assessment of the risk identified.

The Internal Audit Manager shall regularly review and report to senior management, the progress made by managers in introducing the agreed corrective actions. Senior Management are responsible for ensuring that agreed corrective actions are introduced.

Reporting to the Audit Committee

The Audit Committee will be provided with periodic updates on internal audit work. The updates shall cover significant findings and actions, significant risk exposures (including fraud risks) and control issues and provide information on the status of the agreed internal audit work plan.

Amendments and revisions to the audit plan shall also be reported and agreed by the Audit Committee.

Full copies of closed internal audit reports will be issued to Audit Committee members on a quarterly basis. A summary of the internal audit reports findings shall be presented to the Audit Committee.

The Internal Audit Manager shall present an annual report to the Audit Committee that meets the requirements of the PSIAS. The annual report, which shall be timed to support the Council's annual governance statement will contain an opinion that provides reasonable assurance (rather than absolute assurance) on the overall adequacy and effectiveness of the Council's control environment.

12. Quality Assurance & Improvement

The Internal Audit Manager shall maintain a quality assurance and improvement programme (QAIP) that meets the requirements of PSIAS.

The QAIP will be designed to provide SLT and the Audit Committee with assurance that internal audit:

- performs its work in accordance with this charter.
- operates in an effective and efficient manner.
- is adding value and continually improving the service it provides.

The Internal Audit Manager will:

- undertake an annual review of the effectiveness of internal audits compliance with PSIAS.
- arrange for an external independent review of internal audit to be undertaken at least once every five years.

The results of the reviews shall be reported to senior management and the Audit Committee. Instances of non-conformance with the PSIAS, including the impact of any such non-conformance, must also be reported to the Audit Committee. Any significant deviations must be considered for inclusion in the annual governance statement.

Any improvement plans arising from either the self-assessment or the external independent review shall be prepared and reported to both Senior Management and the Audit Committee.

All third-party internal audit providers who are engaged to support delivery of the internal audit plan shall also comply with the PSIAS quality and assurance standard and be required to provide copies of external independent review reports to the Internal Audit Manager and if appointed, the internal audit Client Manager.

13. Relationships with external audit

Internal Audit will establish and maintain an open relationship with the external auditor. Internal audit will plan its activity so that there is adequacy of audit coverage and to minimise duplication of assurance effort. However, the work of internal audit will not be driven by external audit's own priorities. External audit will have full and free access to all internal audit strategies, plans, working papers and reports.

14. Review of the Charter

The Internal Audit Manager will review this Charter each year and report the outcome of that review to SLT and the Audit Committee. Approval of the Charter shall be the responsibility of the Audit Committee. This version was approved on the 26 July 2022.

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