

# Internal Audit Charter

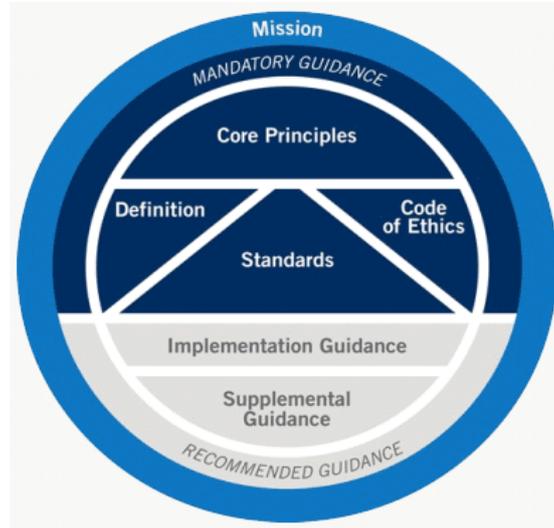
JULY 2020

The logo for Dartford Borough Council, featuring the word "DARTFORD" in a large, bold, blue sans-serif font, with "BOROUGH COUNCIL" in a smaller, blue sans-serif font directly below it. The logo is centered within a light grey rectangular box.

**DARTFORD**  
BOROUGH COUNCIL

## Introduction

The [Public Sector Internal Audit Standards](#) provide a consolidated approach to internal auditing standards across the whole of public sector. They are an expansion of international standards by HM Government, adding elements specific to the UK public Sector. The 'Standards' form part of the wider mandatory <sup>(1010)</sup> elements of the International Professional Practices Framework (IPPF) which is applicable to all UK Local Authorities:



The Standards require Internal Audit to implement and maintain an **Internal Audit Charter** <sup>(1000)</sup>. The Charter defines formally the purpose, authority and responsibility of Internal Audit.

## Mission & Core Principles

The IPPF's overarching mandated Mission for internal audit services is: ***'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'*** The 'Core principles' that underpin delivery of the IPPF mission require internal audit functions to:

- Demonstrate integrity;
- Demonstrate competence & due professional care;
- Be objective and free from undue influence (independent);
- Align with the strategies, objectives and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive, and future-focused; and
- Promote organisational improvement

### Definition of Internal Auditing:

*'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'*

(PSIAS March 2017)

## Authority <sup>(1000)</sup>

All local authorities must make proper provision for internal audit in line with the [Local Audit and Accountability Act 2014](#) and the Accounts and Audit Regulations 2015 (regulation 5). The latter requires authorities to:

***“...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.”***

Deriving authority from those Regulations and those authorising this Charter, Internal Audit is free to plan and undertake any audit work necessary to fulfil its scope <sup>(1110.A1)</sup> (the scope of the service is covered later in this document). To enable full discharge of its duties, Internal Audit:

- Has a right of direct access to the Chair of the Audit Committee and Chief Executive <sup>(1110 PSR & 1111)</sup>;
- Has free and unrestricted access to all services, records (including those held electronically), property and personnel (Members, officers and third parties including contractors) that it deems necessary in order to undertake its work.

## Purpose <sup>(1000)</sup>

Internal audit is a vital component to the Council’s effective running, and will provide assurance, advice and insight to help protect and enhance the internal control, governance and risk management arrangements. The role of internal auditing has a mandatory definition within the Standards, 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’***

The service has a wider role to be the Council’s ‘critical friend’, able to confidently challenge current practice, champion best practice and support management in improvement. This is achieved through internal audit providing assurance and consulting activities.

## Responsibility <sup>(1000)</sup>

Responsibility for maintaining an effective system of internal audit within Dartford Borough Council lies with the Strategic Director (Internal Services).

Provision of the internal audit service is through the **Dartford and Sevenoaks Internal Audit Partnership**, a shared service of audit professionals. The role of Chief Audit Executive (CAE) is fulfilled by the Audit Manager, who is responsible for managing the internal audit service in accordance with the IPPF and arrangements as set out in this Charter.

For the purposes of this Charter the following definitions apply:

- **The Board:** Those charged with governance. For Dartford this role is fulfilled by the Audit Board. The Board is responsible for approving the Charter and Audit Plan, and has oversight of the external assessment process. The Board will receive progress updates including the results of work undertaken and outcomes of the Quality Assurance Improvement Programme (defined later in this document).
- **Senior Management:** Those responsible for executive leadership and direction. For Dartford this role is fulfilled by the Senior Management Team. Senior Management is engaged in approving the Charter, reviews and comments on the Audit Plan, and will receive the results of internal audit work as set out in the scope of this Charter.

The Audit Manager reports functionally to the Audit Board, and, with respect to activities undertaken at Dartford, reports administratively to the Strategic Director (Internal Services).

### Independence & objectivity <sup>(1100)</sup>

Internal Audit will remain free from undue interference in determining the scope and nature of its work and communicating its results. The Audit Manager will consider independence and objectivity as part of each audit and will confirm independence and objectivity at least annually to the Audit Board.

Auditors must maintain *'an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made'* <sup>(PSIAS March 2017)</sup>. Maintaining objectivity requires auditors to be impartial and to avoid conflicts of interests that may otherwise impact on their professional judgement.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- Is not authorised to perform executive or operational responsibilities
- Cannot initiate or approve accounting transactions (outside of administration of the service)
- Cannot direct the activities of any Council employee (outside of administration of the service)
- Has the freedom and authority to report in its own name
- Recognises and addresses potential conflicts of interest through internal audit staff not undertaking an audit for at least 1 year in an area where they have had previous operational roles <sup>(1130.A1)</sup> and through adherence to the Council's declaration of interest processes

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to 'Senior Management' and 'the Board'.

### Due Professional Care <sup>(1200)</sup>

Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work is designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal auditors have a duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity and objectivity. Internal auditors will appraise themselves of the 'Mission', 'Core Principles', 'Definition of Internal Auditing', the 'Code of Ethics' and the 'Standards' and will work in accordance with them in the conduct of their duties.

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They have a direct, personal responsibility to report any suspicions of fraud, corruption or improper conduct to the Audit Manager in accordance with agreed procedures.

Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used for personal gain, and will be managed in accordance with data protection and relevant information governance policies.

## Scope of Internal Audit Activities

### Assurance

Internal Audit work includes tasks that support the annual Audit Opinion. This assurance work covers three areas:

- **Internal Control:** The process for assuring achievement of the Council's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and non-financial systems.
- **Corporate Governance:** The system of rules, practices and processes by which the Council is directed and controlled.
- **Risk Management:** The process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.

In addition to those three core areas Internal Audit may, subject to specific arrangements, undertake engagements in the areas of non-audit work, counter fraud and operational risk management as detailed in this Charter.

### Internal Audit Plan <sup>(2010)</sup>

The Audit Manager produces an Annual Risk Based Internal Audit Plan to determine the priorities of the internal audit activity. The plan is developed in consultation with management, taking into account of the Council's priorities, objectives, risk management framework and internal audits own judgement of risks.

Senior Management Team is consulted on the Annual Risk Based Internal Audit Plan, which details internal audit activities for the forthcoming year. The plan is reported to the Audit Board for approval.

A resource assessment will be conducted each year by the Audit Manager as part of the risk based audit plan to ensure that the resources needed to achieve that plan are appropriate, sufficient, and can be effectively deployed <sup>(2030)</sup>. The Audit Manager is responsible for delivery of the plan and providing updates of progress throughout the year.

## Non Audit Work

### Consultancy <sup>(1000)</sup>

Internal Audit resource may sometimes be more usefully focused towards providing advice and consultancy rather than assurance. Consultancy (such as advice, guidance and training) are activities undertaken by internal audit that are intended to add value and improve governance, risk management and control processes.

As such, the Standards allow for consultancy work to be completed, providing that safeguards are in place to manage any potential or perceived impairment to independence and objectivity <sup>(1112 PSR)</sup>. For Dartford non-audit work may be commissioned providing that:

- The nature, objective and scope are defined and agreed
- The request has been approved by a member of the Senior Management Team
- The service has the right skills, experience and available resource, and
- Internal Audit involvement does not constitute a conflict of interest and will not involve assuming a management role

The Audit Manager is responsible for ensuring all requests are reviewed in accordance with the above criteria before making the final decision. With respect to significant requests, defined as those which require the purchase of additional resources or amendment to the agreed audit plan, the Audit Manager will seek approval from the Chair of the Audit Board and the Strategic Director – Internal Services.

Summaries of consultancy engagements will be communicated to the Board as part of the regular reporting of internal audit activities.

## Risk Management

Internal Audit provides a strategic advisory role for risk management which may include developing the risk management strategy with Management Team. This role, along with providing training and advice / coaching are all roles that are legitimate internal audit roles as defined by the IIA's position paper on *The Role of Internal Auditing in Enterprise-Wide Risk Management*. In taking these roles, the following safeguards to independence are in place:

- Internal separation of duties between the officers co-ordinating risk management and those undertaking audits
- Overall responsibility for the risk management sits with Senior Management Team and the Audit Board, and risk management is reported as a separate function to the internal audit service
- Resource to provide risk management services is made available and reported in the audit plan, agreed by the Audit Board
- Internal Audit do not set the risk appetite for the Council, or take operational responsibility for risk actions
- Any review or internal audit of the effectiveness of the risk management process will be undertaken independently from outside of the audit partnership. This enables independent assurance to be provided to the Board

## Counter Fraud

The role of internal audit with regards to Counter Fraud is set out in the [Anti-Fraud and Corruption Strategy](#). Internal audit may assist or lead in the identification and investigation of suspected internal fraudulent activity. This may include referrals through the Council's [Whistleblowing Policy](#), the [National Fraud Initiative](#), or matters identified during the course of internal audit work. Internal Audit also maintains the Whistleblowing policy and operates the whistleblowing helpline and email addresses. Such investigations and responsibilities present a potential impairment to independence. Should assurance on these activities be required, it will be commissioned from a third party. The outcomes of counter fraud work are communicated to Senior Management and the Audit Board where appropriate to do so.

## Management Responsibilities

To be effective, the Internal Audit service requires full co-operation of senior management. In approval of this Charter, the Audit Board and the Strategic Director – Internal Services direct management to co-operate with the Internal Audit service in the delivery of their work. This includes, but is not limited to, engagement in the planning process for individual audits, acting as audit sponsors, providing access to appropriate records, personnel and systems, responding to draft reports and implementing audit actions in line with agreed timescales.

Senior management will also update the Audit Manager of significant proposed changes to processes, systems, organisational structure, newly identified significant risks and cases of suspected or detected fraud, corruption or impropriety.

Senior management will also ensure that the Internal Audit service has sufficient resources to fulfil the Risk Based Internal Audit Plan as agreed by the Audit Board.

## Reporting <sup>(2400)</sup>

The Audit Manager will deliver an **annual opinion** <sup>(2450)</sup> a report that can be used by the organisation to inform its Annual Governance Statement. The audit opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of internal controls, governance and risk management. The annual report will incorporate as a minimum:

- The scope including the time period covered for the opinion
- Scope limitations
- Consideration of all related projects including the reliance on other assurance providers
- A summary of the information that supports the opinion
- The risk or control framework or other criteria used as a basis for the overall opinion
- The overall opinion, judgment or conclusion reached
- A statement on conformance with the Public Sector Internal Audit Standards, the independence of the service, and the results of the Quality Assurance and Improvement Programme.

Internal audit will communicate the results of audit reviews, consultancy engagements, and updates on the performance of the internal audit activity to Senior Management and the Audit Committee.

## Quality Assurance and Improvement Programme <sup>(1300)</sup>

The audit partnership has a quality assurance programme that covers internal and external assessments.

**Internal assessments** <sup>(1311)</sup>: The Partnership conducts an annual self-assessment against the Standards and has an action plan in place to ensure areas of non-compliance are improved. Audit Management review and sign-off all stages of the audit process to ensure scope, fieldwork and conclusion of the work is consistent with the Standards.

**External assessment** <sup>(1312)</sup>: The Partnership had an External Quality Assessment in 2015 and a follow-up in 2017. Results and subsequent follow-up actions were reported to the Audit Committee. A new full external quality assessment is due to be completed by an independent body in 2020/21.

## Review

The Charter will be reviewed annually and any changes reported to the Audit Committee for approval.

The Audit Manager will disclose any areas of non-conformance <sup>(1322)</sup> with the Code of Ethics or the Standards, including the impacts on the overall scope or operation of the internal audit activity to senior management and the Audit Committee if identified.

The Charter is authorised within Dartford Borough Council with the agreement of the Chairman of the Audit Board and Strategic Director – Internal Services.

Agreed by Audit Board: **July 2020**