

Internal Audit Charter

2023

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INTERNAL AUDIT CHARTER

Effective April 2023

The Council considers its Internal Audit Services to be a key component of its governance framework. This Charter provides a framework for the conduct of Internal Audit in Huntingdonshire District Council and has been approved by the Council's Corporate Governance Committee.

The key provisions of this Charter are set out below.

Internal Audit Service

The Council's internal audit service is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Independence & Objectivity

The internal audit service will remain free from interference by any element in the Council and its scope shall not be restricted in anyway. It shall be free to review the arrangements of any aspect of service delivery, finance or governance irrespective of whether those arrangements are provided directly or indirectly (via partnerships, contractually or any other business arrangement).

The objectivity, impartiality, integrity and conduct of all Internal Audit staff must be above reproach at all times.

Authority

Internal auditors are authorised to 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 the Internal Audit Service to meet its responsibilities. All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities.

Confidentiality

All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for the conduct of internal audit activities. The Internal Audit Manager and individual audit staff (including contractors and external service providers performing work on behalf of internal audit) are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

Reporting

The Internal Audit Manager shall submit to the Corporate Governance Committee, no later than the date at which the Council's annual governance statement is approved, an annual report and formal audit opinion.

1. Purpose and mission of Internal Audit

The Internal Audit Service (IAS) has been established to:

- provide independent, objective assurance, advice and insight to the Council on its operations.
- enhance and protect value, by assisting management in improving the delivery of the Council's objectives and operations through evaluating, challenging and improving the effectiveness of risk management, control and governance processes.
- The purpose of Huntingdonshire District Council's (HDC's) internal audit service is to provide independent, objective assurance and consulting services designed to add value and improve HDC's operations. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The internal audit service helps HDC accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

2. Mandatory Guidance and Professional Standards

The IAS will govern itself by adhering to the Public Sector Internal Audit Standards (PSIAS)¹ as required by regulation 5 of the Accounts and Audit (England) Regulations 2015.

Guidance issued (the Local Government Application Note) and endorsed by the Relevant Internal Audit Standard Setters as applying to local government will also be adhered to along with the Council's relevant policies and procedures and the internal audit manual.

The Internal Auditors are also governed by the policies, procedures, rules and regulations established by the Council. These include, but are not limited to, the Codes of Financial Management and Procurement, the Anti-Fraud and Corruption Policy and the Code of Conduct.

The Council's Internal Auditors will additionally adhere to the Code of Ethics as contained within the PSIAS and will also demonstrate due professional care in the course of their work.

3. Authority

The Internal Audit Manager will report functionally to the Corporate Governance Committee (CGC) and administratively (ie day to day operations) to the Director of Finance and Corporate Resources (S.151 Officer).

To establish, maintain and assure that HDC's internal audit service has sufficient authority to fulfil its duties, the CGC will:

- Approve the internal audit services' charter
- Approve the risk-based internal audit plan

¹ The PSIAS are based upon the Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing*.

- Receive the annual audit opinion
- Receive communications from the Internal Audit Manager on the internal audit service's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the internal audit manager to determine whether there is inappropriate scope of resource limitations.

The Internal Audit Manager (IAM) will have:

- free and unrestricted access to, and communicate and interact directly with, the CGC and the right to attend all of its meetings, and hold private meetings without management present.
- the right to meet with the Chairman of the CGC and/or the relevant Cabinet Portfolio Holder to discuss any matters or concerns that have arisen from internal audit work.

The CGC authorises the Internal Audit Service to:

- have full, free, and unrestricted access to all functions, records, property and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of HDC, as well as other specialised services from within or outside HDC, in order to complete the engagement.

4. Organisation and Relationship with Members & Senior Management

Within the PSIAS, the terms 'Chief Audit Executive,' 'Board' and 'Senior Management' are used to describe key elements of the organisation's governance, and the ways in which they interact with Internal Audit. The PSIAS require that the terms are defined in the context of the governance arrangements in each public sector organisation, in order to safeguard the independence and objectivity of Internal Audit. The following interpretations are applied, so as to ensure the continuation of the current relationships between Internal Audit and other key bodies at the Council.

Chief Audit Executive

This is the Internal Audit Manager at HDC. They report to the S.151 Officer and has access to the Managing Director should it be required.

Board

This is the Corporate Governance Committee and oversees the work of Internal Audit. The Committee has delegated responsibility to be the Council's Audit Committee on behalf of the Council.

The internal audit service shall report functionally to the Corporate Governance Committee.

Senior Management

This is fulfilled by the Corporate Leadership Team (Managing Director/Head of Paid Service and the two Corporate Directors) and Senior Leadership Team (CLT plus other Directors, Assistant Directors and Heads of Service). To ensure effective

liaison between Internal Audit and senior management, Internal Audit has regular, free and unrestricted access to the Directors and Heads of Service.

The Council's Monitoring Officer is shared with two other councils, but the IAM has unrestricted access to him.

External Audit

Internal Audit will establish and maintain an open relationship with the external auditor and other assurance providers. 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.

Other Internal Audit Service Providers

Internal Audit will also liaise with other Internal Audit Service providers, where shared service arrangements and contracting arrangements exist. An Internal Audit Shared Service Protocol is agreed and in place and regular communication with the other providers is held.

5. Independence & Objectivity

Independence and objectivity are essential to the effectiveness of the internal audit service and the assurance function. The Internal Audit Service 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, procedure, frequency, timing or report content. If the Internal Audit Manager determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors must exhibit the highest level of professional objectivity in 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 in forming judgments.

Internal audit staff with real or perceived conflicts of interests must inform the IAM as soon as these issues become apparent so that appropriate safeguards can be put in place.

Internal audit staff will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for HDC or its affiliates.
- Initiating or approving transactions external to the internal audit service.

- Directing the activities of any HDC employee not employed by the internal audit service, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Internal Audit has no operational responsibilities or authority over any of the activities audited. The IAM will confirm to the CGC, at least annually, the organisational independence of the internal audit service. They will disclose to the CGC any interference and its related implications in determining the scope of internal auditing, performing work and/or communicating results.

There are other activities with Internal Audit involvement that may be considered to impact on objectivity: assisting with the Annual Governance Statement, Whistleblowing Log and annual report, National Fraud Initiative work, and writing and review of the Local Code of Corporate Governance. Whilst internal audit are involved, these may be considered as other activities that they will not be able to provide independent assurance on.

6. Authority & Confidentiality

Internal auditors (including contractors and external service providers engaged to perform work on behalf of the IAM) 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 IAM considers necessary to enable the IAS to meet its responsibilities. All employees and members are required to assist the internal audit activity in fulfilling its roles and responsibilities.

All records, documentation and information accessed in the course of 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 the course of their work.

7. Scope and objectives of Internal Audit activities

Assurance activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Corporate Governance Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for HDC, based around the audit plan. This assists the Chief Audit Executive's responsibility to give an annual internal audit opinion based on an objective assessment of the Council's framework of governance, risk management and internal control.

Where the Council provides 'shared services' to, or receives 'shared services' from other organisations, the IAM shall liaise with the other organisations' internal audit service and agree the scope of the assurance that is to be provided or received and take account of that requirement when preparing the annual audit plan.

Consultancy and Advice

Internal Audit also has a secondary role, whereby it can provide consultancy services which are advisory in nature and generally performed at the request of the Council to facilitate improved governance, risk management and control, and potentially contribute to the annual audit opinion.

A risk-based Audit Plan will be prepared each year to determine the appropriate level of audit coverage to allow for an annual audit opinion, which can then assist with the generation of the Council's Annual Governance Statement. Audit work performed will seek to enhance the Council's overall internal control environment. In the event of deficiencies in arrangements being identified during audit assignments, Internal Audit will put forward recommendations aimed at improving existing arrangements and restoring systems of internal control to a satisfactory level, where relevant.

Managing the risk of fraud and corruption is the responsibility of management. The Council has a separate in-house Fraud Team. However, as part of the scope of Internal Audit, it will be alert in all its work to the risks and exposures that could allow fraud or corruption to occur and will monitor the extent and adequacy of risk controls built into systems by management, sharing this information with External Audit and other corporate investigators.

8. Audit Resource

The Internal Audit function is carried out by a small in-house team supported by a contracted-out IT audit provision.

Internal Audit Management

The Council shall appoint an IAM who will determine the priorities of, manage and deliver the internal audit service in accordance with this Charter.

The IAM will be professionally qualified (CMIIA, CCAB, or equivalent) and have wide internal audit management experience, to enable them to deliver the responsibilities of the role.

The IAM will ensure that the Internal Audit Service has access to staff that have an appropriate range of knowledge, skills, qualifications and experience to deliver requisite audit assignments. The type of reviews that will be provided in year include systems reviews, consultancy input to new / modified systems, and special investigations. In the event of special investigations being required, there is limited contingency in the Audit Plans to absorb this work. However, additional resources may need to be made available to the Internal Audit Service when such input is necessary.

9. Responsibility

The Internal Audit Manager has the responsibility to:

- Submit, at least annually, to senior management and the Corporate Governance Committee a risk-based internal audit plan for review and

approval. *They will have a comprehensive understanding of the Council's systems, structures and operations so allowing the preparation of a risk-based internal audit plan [each half year or at least annually] 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.
- Communicate to senior management and the CGC any significant interim changes to the audit plan.
- Ensure the engagements of the audit plan are executed, including objectives and scope, assignment of appropriate and adequately supervised resources, documentation of work programs and testing, and communication of results with recommendations to appropriate parties.
- Monitor the implementation of agreed corrective actions and report periodically to senior management and the CGC any corrective actions not implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the Internal Audit service collectively possesses or obtains the knowledge, skills and other competencies needed to meet the requirements of the internal audit charter.
- report annually the impact and consequence of any resource limitations to the CGC, who will then recommend to Cabinet whether or not to accept the consequence identified or seek an increase in internal audit resource.
- maintain a quality assurance and improvement programme to ensure that all audit work is completed to high standards and in accordance with the standards, practices and procedures as 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.
- put in place arrangements that ensure internal audit is notified of all suspected or detected instances of non-welfare fraud, corruption or impropriety and in conjunction with the Corporate Fraud Team Leader:
 - promote a counter-fraud culture within the Authority
 - determine the most appropriate method of investigating allegations.
- establish effective relationships with managers at all levels.

10. Reporting and Monitoring

Internal Audit Reports

The process followed for completing each audit is set out in Table 1 below.

At the conclusion of each audit assignment, where appropriate, a written Internal Audit report will be issued to the appropriate manager and Director/SLT Lead that:

- Provides an assurance opinion, but not provide absolute assurance, on the adequacy of the governance, risk and control processes of the area reviewed. This will contribute to the annual opinion on the internal control environment which, in turn, informs the Annual Governance Statement.
- identifies points arising from the audit and non-effective controls.

- details agreed corrective actions and timescales for implementation.
- identifies issues of good practice.

When corrective action has not been agreed, reporting will be escalated to a level consistent with the IAM's assessment of the risk.

The IAM 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.

TABLE 1: Working Arrangements During Audits	
Stage	Commentary
Audit Brief	Set up and agreed with manager and SLT Lead/Assistant Director
Fieldwork	Assignment undertaking including interviews, testing.
Wash-up Meeting	At conclusion of fieldwork, a set of findings will usually be provided ahead of the wash-up meeting. Issues raised for reporting (if not already provided during course of fieldwork) are discussed and corrective actions and implementation dates agreed.
Draft Audit report	Produced following completion of fieldwork / wash- up meeting. Head of Service or equivalent / Line Manager to formally respond including acceptance of actions and timescales to implement.
Final Audit Report	Internal Audit incorporates any changes agreed from the draft and re-issues as a final for acceptance.
Final Closed Report	The final report is issued to the any action owners, Service Manager, relevant Head of Service &/or Director and S.151 Officer.

Internal Audit reports include actions which are agreed with management and given a priority rating, plus an overall audit assurance opinion. All reports with a limited or little assurance opinion are notified to SLT.

Audit Assurance Opinions	
Opinion	Description
Substantial	No weaknesses in the level of control for managing the material inherent risks within the system. Testing shows that controls are being applied consistently and system objectives are being achieved efficiently, effectively and economically apart from any excessive controls which are identified in the report.
Adequate	minor weaknesses in the level of control for managing the material inherent risks within the system. Some control failings have been identified from the systems evaluation and testing which need to be corrected. The control failings do not put at risk achievement of the system's objectives
Limited	weaknesses in the level of control for managing the material inherent risks within the system. Too many control failings have been identified from the systems evaluation and testing. These failings show that the

	system is clearly at risk of not being able to meet its objectives and significant improvements are required to improve the adequacy and effectiveness of control.
Little	major, fundamental weaknesses in the level of control for managing the material inherent risks within the system. The weaknesses identified from the systems evaluation and testing are such that the system is open to substantial and significant error or abuse and is not capable of meeting its objectives.

Reporting to senior management and the Corporate Governance Committee

The Internal Audit Manager will report periodically regarding:

- the internal audit services's purpose, authority and responsibility
- the internal audit services's plan and performance relative to its plan
- conformance with the IIA's Code of Ethics and Standards, and action plan to address significant conformance issues.
- Audit reports with a limited or little assurance opinion (reported to SLT)
- Resource requirements
- Any response to risk by management that may be unacceptable to HDC.
- periodic updates on the work of the IAS (provided to CGC). The updates will cover significant findings and actions and provide information on the status of the agreed audit work plan. Amendments and revisions to the audit plan will be reported and agreed by the CGC.
- Significant issues identified will be referred through to senior management for inclusion in the Annual Governance Statement.

Final closed internal audit reports will be issued to CGC members on a request basis.

The IAM shall present an annual report to the CGC. The annual report shall be timed to support the Council's annual statement of assurance on corporate governance and include an opinion on the overall adequacy and effectiveness of the control environment.

11. Quality and assurance programme

The PSIAS require that the Internal Audit develops and maintains a quality assurance and improvement programme (QAIP) that covers all aspects of the Internal Audit activity, and includes both internal and external assessments.

Internal Assessments:

Internal Assessments must include on-going monitoring of the performance of the internal audit activity and these are reported as part of the annual report.

The PSIAS additionally require periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of Internal Audit practices. This obligation is satisfied by the HoIA performing an annual self-assessment of the effectiveness of Internal Audit. Presenting this information enables members to be assured that the Internal Audit Service is operating in a satisfactory manner such that reliance can be placed on the subsequent annual audit opinion provided by the IAM.

External Assessments:

PSIAS requests that external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external verification.

The IAM will discuss with the Committee and the Section 151 Officer the form of the external assessment and the qualifications and independence of the external assessor or assessment team.

Improvement plans arising from periodic reviews of internal audit will be prepared as appropriate and progress reported to senior management and the CGC in the Internal Audit annual report.

12. Review of the Charter

The IAM will review the Internal Audit Charter each year and report the outcome of that review to the CGC.

Approval of the Charter shall be the responsibility of the CGC.

This version was approved by CGC on the 27 April 2023.