

## Internal Audit Charter

**This Charter sets out the purpose, authority and responsibility of Harrow Council's Internal Audit function, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* (and also the Committee on Standards of Public Life's *Seven Principles of Public Life*) and the *Standards* as set out in the Public Sector Internal Audit Standards.**

**It establishes Internal Audit's position within the organisation, including the nature of the Head of Internal Audit's functional reporting relationship with the 'board' (the Governance, Audit, Risk Management & Standards Committee); authorises access to records, personnel and physical properties relevant to the performance of audit reviews; and defines the scope of internal audit activities.**

### **Mission**

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

### **Purpose**

The Accounts and Audit Regulations 2015 state that '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 auditing standards or guidance'.

The Public Sector Internal Audit Standards (PSIAS), encompassing the *Definition of Internal Auditing*, *Code of Ethics* and the *Standards* themselves, constitute 'proper practice' under the Accounts and Audit (England) Regulations 2015 and are therefore mandatory for Local Authority internal audit functions.

Internal auditing is defined by the PSIAS *Definition of Internal Auditing* as 'an independent and objective assurance and consulting activity designed to add value and improve the 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'.

### **Authority/Access**

In carrying out their duties and responsibilities, Internal Audit shall be entitled to have full and unrestricted access to all of the Council's activities, records, assets, cash, stores, property, personnel and information (both manual or computerised) which is considered to be necessary to properly fulfil its function. This includes unrestricted access to alternative delivery vehicles wholly/majority own by the Council e.g. limited companies/partnerships. Access to other vehicles e.g. joint ventures will be agreed on a case by case basis. Internal audit may enter

Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Council staff are expected to provide every possible assistance to facilitate the progress of audits.

Access rights also apply to other third parties / organisations as permitted through contract, partnering and shared service arrangements. Internal audit has the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

Internal audit will consider all requests from the external auditor for access to any information, files or working papers obtained or prepared during audit work that has been finalised, and which external audit need to discharge their responsibilities.

### **Responsibility/Objectives**

The Council's Head of Internal Audit (HIA) is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Governance, Audit, Risk Management & Standards (GARMS) Committee, on the overall adequacy and the effectiveness of the Council's framework of governance, risk management and control. In order to achieve this, the Internal Audit function has the following objectives:

- to provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources;
- to provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures;
- to provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes;
- to provide assurance that significant risks to the Council's objectives are being managed;
- to provide advice and support to management to enable an effective control environment to be maintained;
- to promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud.

### **Scope**

The scope of Internal Audit encompasses, but is not limited to:

- the examination and evaluation of the adequacy and effectiveness of Harrow Council's governance, risk management, and internal control processes in relation to its goals and objectives;
- reviewing and evaluating compliance with policies, plans, procedures, laws and regulations;
- assessing the reliability and integrity of information;
- the safeguarding of assets.

Internal Audit's scope covers all Harrow Council's services and budgets including schools, HRA, shared services where Harrow is the lead authority and other alternative delivery vehicles.

## **Reporting/Independence**

The Public Sector Internal Audit Standards require the Head of Internal Audit to report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. This is achieved by the Head of Internal Audit being line managed by the Director of Finance (s151 Officer) and reporting functionally to the GARMS Committee.

Functional reporting to the GARMS Committee is demonstrated by the committee:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- approving the internal audit resource plan (as part of the annual plan);
- receiving regular reports from the HIA on Internal Audit's performance against the plan.

The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.

The HIA also has free and unfettered access to:

- Chief Executive / Head of Paid Service;
- Director of Finance & Assurance (S151 Officer);
- GARMS Committee Chair;
- Monitoring Officer;
- CSB/Senior management;
- External Audit.

The independence of the HIA is further safeguarded by the Chief Executive and the Chair of the GARMS Committee providing feedback on the HIA's performance as part of the annual performance appraisal to ensure that the assessment is not inappropriately influenced by those subject to audit.

All staff in the Internal Audit Team are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the GARMS Committee. To maintain independence, any audit

staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

The HIA has managerial responsibility for the Corporate Anti-Fraud Team (CAFT), the Risk Management function and for the preparation of the Annual Governance Statement as well as for Internal Audit. An annual declaration on Internal Audit's organisational independence will be made annually in the report to the GARMS Committee on the draft annual plan. Internal Audit does not undertake any other non-audit activities.

### **Communication of Results**

Draft internal audit reports are disseminated to managers who have been directly involved in the audit to confirm the accuracy of the report's findings and to respond to the report's recommendations. Final reports that include management's responses to recommendations will be disseminated to those who received the draft report plus the relevant senior managers i.e. Divisional Director and the Corporate Director.

Green, amber/green and amber assurance reports will be reported in summary to the Corporate Strategic Board (CSB) and the Governance, Audit, Risk Management and Standards (GARMS) Committee at mid-year and year-end. Red/amber and red assurance reports will be reported in full to CSB and the GARMS committee once they are finalised.

Release of draft reports to members will be at the discretion of the Head of Internal Audit but will remain private and confidential.

### **Annual Plan Process**

In compliance with the PSIAS requirement annually a risk based internal audit plan of work is developed by the Head of Internal Audit to determine the priorities of the internal audit service for the coming year to support the Council's vision and priorities.

The plan will be developed taking into account the Council's risk management framework, including the risk maturity of the organisation. The Chief Executive, Corporate Directors, Divisional Directors, the Director of Finance (S151 Officer) and other senior management will be consulted and their input used to help assess risks not specifically linked to the Corporate or Directorate risk registers and a documented risk assessment will be undertaken for such reviews included in the plan.

The development of the plan will also take into account the requirement for the Head of Internal Audit to produce an annual internal audit opinion on the Council's framework of governance, risk management and control, reported each year in the Internal Audit Year-end report.

## **Due Professional Care**

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards.
- All Council Policies and Procedures
- All relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies.

## **Definitions**

The Public Sector Internal Audit Standards uses the terms 'board' and 'senior management' and requires these terms to be defined by each public sector organisation in relation to the internal audit function.

At Harrow the term 'board' has been defined as the Governance, Audit, Risk Management & Standards Committee which acts as the Council's audit committee.

The term 'senior management' refers to members of the Corporate Strategic Board (CSB).

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