

## Internal Audit Charter

### 1. Purpose

- 1.1 The London Borough of Hillingdon Internal Audit (IA) Charter describes the *purpose*, *authority*, *responsibility* and position of the IA Service within the London Borough of Hillingdon. The Head of Internal Audit (HIA) is responsible for applying this IA Charter and ensuring it is kept up to date. The IA Charter shall be reviewed annually and be approved by the Board (Audit Committee) to ensure that it remains relevant to the needs of the Council.

### 2. Statutory Requirement

- 2.1 The Local Government Accounts and Audit Regulations 2011 require every local authority to maintain an adequate and effective IA of its accounting records and its systems of internal control. IA's work will be performed with due professional care in accordance with these regulations and in line with the UK Public Sector Internal Audit Standards (PSIAS).
- 2.2 The IA service is responsible for providing assurance to all of its key stakeholders including the Audit Committee, senior management and in particular the Chief Financial Officer to help him discharge his statutory responsibilities under Section 151 (S151) of the Local Government Act 1972. An effective IA service will be seen as a catalyst for improvement at the core of the Council and will become recognised across the Council as a value added, trusted advisor and business assurance provider.

### 3. Responsibilities and Objectives

- 3.1 IA is defined in the PSIAS 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"*.
- 3.2 IA is not responsible for control systems and managing risks. Responsibility for effective internal control and management of risks rests with the management of the Council.

### 4. Status of Internal Audit within the Council

- 4.1 IA will be independent of all activities that it audits to enable internal auditors to perform their duties in a way that allows them to make professional and impartial judgements and recommendations.
- 4.2 The IA activity will remain free from interference by any element in the Council, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not engage in any activity that may impair their judgement or objectivity.

- 4.3 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.
- 4.4 The IA service is part of the Finance Group and is led by the HIA who reports directly to the Corporate Director for Finance (& S151 Officer). The HIA also has unrestricted access to the independent Chair of the Audit Committee, the Chief Executive, External Audit (Deloitte), the Leader of the Council and all other Members and staff. The HIA will also confirm to the Board (which for the purposes of the PSIAS is the Audit Committee), at least annually, the organisational independence of the IA activity.

## 5. Authority and Rights of Access to Obtain Information

- 5.1 IA's authority is defined in statute and internally is derived from policies, procedures, rules and regulations established by the Council. This includes the IA Charter, the Council's Financial Regulations and the Employee Code of Conduct and Conditions of Service.
- 5.2 IA, with strict accountability for confidentiality and safeguarding information, is authorised to have full and unrestricted access to all Council records (both manual and computerised), Council property, and personnel pertinent to carrying out any engagement. All employees are requested to assist IA in fulfilling its roles and responsibilities. IA will also have free and unrestricted access to the Audit Committee.

## 6. Scope of Internal Audit

- 6.1 The HIA is required to give an annual opinion to the Council and to the S151 Officer, through the Audit Committee, on the overall adequacy and the effectiveness of the Council's risk management, internal control and governance arrangements. In support of this, IA undertakes risk based assurance reviews.
- 6.2 IA also has the responsibility to provide consulting and advisory services to management relating to risk management, control and governance as appropriate for the Council. The IA service may also evaluate specific operations at the request of the Audit Committee or senior management, as appropriate. Before any consultancy work is agreed, the HIA will ensure that IA has the appropriate skills, resources and approval to undertake the review. The HIA will also ensure that appropriate safeguards are in place to preserve objectivity in areas subject to future IA activity. This may include assigning this work to a different internal auditor.

## 7. Fraud and Corruption

- 7.1. IA does not have responsibility for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. IA procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. The Council's Corporate Fraud Investigations Team provides expertise in investigating fraud, corruption and malpractice. There is active joined-up working between IA and the Corporate Fraud Investigations Team.
- 7.2. Management has a responsibility to promptly inform the HIA of all suspected or detected fraud, corruption or improprieties. This allows consideration to be given to the adequacy of the relevant controls, and to evaluate the implication of fraud and corruption in informing the opinion on the Council's internal control environment.

## 8. Professional Standards

- 8.1. In undertaking its work, IA adopts the professional standards set out in the PSIAS. These have been set in collaboration with the UK Chartered Institute of Internal Auditors and the Chartered Institute of Public Finance & Accountancy.

## 9. The Internal Audit Plan

- 9.1. The IA plan is a crucial component of the annual assurance statement provided by the HIA to those charged with governance. In order to deliver this assurance it is vital to have a comprehensive IA plan which gives sufficient risk-based coverage. The HIA will seek to coordinate the IA plan using a risk based methodology, including input from senior management, the Audit Committee and other Members. The HIA seeks to ensure that the most effective IA coverage is achieved which focuses on the Council's key risks. Managers are required to ensure that key staff are available to IA during the agreed period of an IA review and for ensuring that information requested by IA is accurate, timely and reliable.
- 9.2. The IA plan is presented to the Council's Corporate Management Team (CMT) and Audit Committee for approval. Any significant deviation from the approved IA plan will be communicated to senior management and the Audit Committee through periodic activity progress reports.

## 10. Management of Internal Audit Engagements and Follow-up

- 10.1. For each IA engagement, a detailed Terms of Reference (ToR) will be prepared and discussed with the relevant managers. The ToR will establish the engagement's key risks and scope for the review that is aligned to service objectives. Each engagement will be sponsored by a member of the CMT and engagements intended to provide an IA assurance opinion will be undertaken using a risk-based approach. IA will promptly communicate its findings and conclusions to management, proposing recommendations to address any weaknesses. The HIA will inform the Council (via the Audit Committee) of any remaining material weaknesses.
- 10.2. A report is issued following the conclusion of each IA engagement and is distributed to the review sponsor and relevant key contact(s). The report includes an executive summary with a particular emphasis on risk management, internal control and governance strengths and weaknesses identified during the review. A management action plan is appended to reports (where applicable) which provides management with the opportunity to respond to the recommendation(s) raised and set out what action they propose to address the risk(s) identified.
- 10.3. The HIA will have systems in place to ensure that internal auditors obtain and record sufficient evidence to support their conclusions and that they can demonstrate the adequacy of evidence obtained to support professional judgements. IA will follow-up all but 'low' risk-rated recommendations to establish if management has taken appropriate action to address any weaknesses identified. Escalation procedures are in place for any management responses that are judged to be inadequate in relation to the identified risk. These procedures will ensure that the risks of not taking action have been understood and accepted at a sufficiently senior management level.

## 11. Staff Training and Development

- 11.1. IA will be appropriately staffed in terms of numbers, professional qualifications and experience, having regard to the IA objectives and to the standards set out in the PSIAS. The staffing of IA will be kept under review by the HIA and the Audit Committee.

- 11.2 All IA staff will be properly trained to fulfill their roles and responsibilities and they will each maintain their professional competence through an appropriate on-going professional development programme. When necessary, in-house IA resources will be supplemented by external resources.

## 12. Proficiency and Due Professional Care

- 12.1. IA will abide by the Code of Ethics set out in the PSIAS. IA staff are bound by the two essential components of the Code of Ethics: 1) *Principle*; and 2) *Rules of Conduct*, applicable to the four elements of a) Integrity; b) Objectivity; c) Confidentiality; and d) Competency. IA will apply the four *Attribute Standards* and the seven *Performance Standards* set out in the PSIAS. Any instances of non-conformance with the Code of Ethics or the PSIAS that impact the scope or operation of IA activity will be reported to CMT and the Audit Committee. Internal auditors will also abide by the Committee on Standards of Public Life's *Seven Principles of Public Life*.
- 12.2. IA staff must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility. The HIA must hold a professional qualification (CMIIA, CCAB, or equivalent) and be suitably experienced.

- 12.3 The HIA will maintain and regularly review a register of the internal auditors' declarations of business and personal interests. If there are occasions where internal auditors undertake non-IA activities including the development, design or implementation of systems, then that individual will not subsequently perform an IA review of those systems.

## 13. Reporting

- 13.1. In agreement with those charged with governance (CMT and the Audit Committee), the HIA will determine the way in which findings will be reported. Standards will be set for reporting and will include arrangements for the review and approval of reports by the HIA before issue. Reports will be balanced, clear, concise and constructive and will be issued within laid-down timescales.
- 13.2. The HIA will provide a written annual report to those charged with governance timed to support the Council's Annual Governance Statement. The annual report will provide the statutory opinion on the overall adequacy and effectiveness of the Council's system of internal control, risk management framework and corporate governance arrangements. The report will also include a summary of the work that supports the opinion, a statement on conformance with the PSIAS and the results of the IA quality assurance process (as detailed in section 14 below).

- 13.3 IA may carry out assurance work for third parties (i.e. organisations outside of the Council). Assurances provided to third parties are provided in line with the assurance provided to the Council, as described within this document.

## 14. Quality Assurance

- 14.1. The work of IA will be controlled at each level of operation to ensure that a continuously effective level of performance is being maintained. The HIA will develop a Quality Assurance and Improvement Programme (QAIP) designed to gain assurance that the work of IA is compliant with the PSIAS and achieves its objectives. The QAIP will cover all aspects of the IA activity, including but not limited to:
- Client Feedback Questionnaires (CFQs) that are sent out at the completion of each audit;
  - A self-assessment of the IA service each year and its compliance with the PSIAS; and
  - On-going internal performance monitoring and reporting by the HIA, as well as an external assessment at least once every five years by a suitably qualified, independent assessor.