

Internal Audit Charter

1. Purpose

- 1.1 In accordance with the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) the purpose, authority and responsibility of the internal audit activity must be formally defined in an Internal Audit (IA) Charter, consistent with the ~~Definition~~ *Mission of Internal Auditing*, ~~the~~ *and the mandatory elements of the International Professional Practices Framework (the Code of Ethics)* ~~Core Principles for the Professional Practice of Internal Auditing~~ *and the Standards* ~~Code of Ethics~~ *the Standards and the Definition of Internal Auditing*.
- 1.2 The London Borough of Hillingdon IA Charter defines the purpose, authority and responsibility of the IA Service within the Council. The Charter establishes the Head of IA's (HIA's) position within the Council including the nature of the HIA's functional reporting relationships. The Charter authorises access to records, personnel and physical properties relevant to the performance of engagement and defines the scope of IA activities.
- 1.3 The HIA is responsible for applying this IA Charter and ensuring it is maintained up to date and, in line with the Public Sector Internal Audit Standards (PSIAs), this IA Charter shall be reviewed periodically, presented to senior management (Corporate Management Team [CMT]) and the Board (which for the purpose of the PSIAs is the Audit Committee) for approval to ensure that it remains relevant to the needs of the Council.

2. Statutory Requirement and Authority

- 2.1 The Local Government Accounts and Audit Regulations 2015 require every local authority to undertake an effective IA to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards (PSIAs) or guidance.
- 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 them discharge their 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.
- 2.3 Deriving from those regulations, and those authorising this Charter, **the IA service has free unrestricted access** and ability to plan and undertake audit assignments necessary to fulfil its scope. To enable full discharge of its duties, the HIA and **the IA service has authority** to:
 - Have right of direct access to the Chair of the Audit Committee;
 - Have unrestricted access to all Council functions, records, property and personnel; and
 - Obtain assistance, where necessary, from Council officers and contractors involved in the subject of audit engagements.

The HIA has overall accountability for ensuring the IA service safeguards information it has obtained and for maintaining confidentiality of information where applicable.

3. Status of Internal Audit within the Council

- 3.1 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.
- 3.2 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.
- 3.3 IA 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.
- 3.4 The Council's IA service is part of the Finance Group and is led by the Head of Business Assurance, as the Council's HIA, who reports directly to the Corporate Director for Finance (& S151 Officer). However, the HIA has unrestricted access to the independent Chair of the Audit Committee, the Chief Executive, External Audit (Ernst and Young), the Leader of the Council and all other Members and staff.
- 3.5 The HIA will annually confirm to the Board (which for the purposes of the PSIAS is the Audit Committee), the organisational independence of the IA activity with any impairments disclosed to the appropriate parties.

4. Objectives and Mission

- 4.1 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"*.
- 4.2 The IA service acknowledges and aspires to achieving the mission of Internal Auditing as provided by the IIA:
"To enhance and protect organisational value by providing stakeholders with risk based and objective assurance, advice and insight."
- 4.3 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.

5. Scope of Internal Audit

- 5.1 The HIA will provide an annual HIA Opinion Statement to the Council, assisting the S151 Officer, through the Board (Audit Committee) in completing the AGS, which forms part of the statutory Statement of Accounts. The AGS provides public assurances about the effectiveness of the Authority's risk management framework, corporate governance arrangements and the system of internal control. The HIA opinion statement (see 3 core areas overleaf) meets the

Authority's statutory requirement under Regulation 6 of the Accounts and Audit (Amendments) (England) Regulations 2015 and is in line with the UK PSIAS.

- (i) **Risk Management** - Risk Management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
- (ii) **Corporate Governance** - Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.
- (iii) **System of Internal Controls** - The system of internal control is a 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 nonfinancial systems.

5.2 In addition to the above **3 core annual opinion areas**, IA may, subject to specific arrangements, undertake engagements in the areas of anti-fraud and anti-corruption as detailed within this IA Charter.

5.3 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 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.

6. Responsibility

Professional Standards

- 6.1 The HIA and their team have responsibility to undertake their work at all times in accordance with the PSIAS (the 'Standards') and, the IIA's Code of Ethics (the 'Code') and the broader International Professional Practices Framework (IPPF) which applies across the global practice of IA. Those members of the IA team who have membership of professional bodies will comply with the relevant requirements of that organisation.
- 6.2 Deriving from those regulations, and those authorising this Charter, the IA service has free unrestricted ability to plan and undertake IA assignments necessary to fulfil its scope. IA undertakes work in accordance with the Standards as set out below.

Risk Based IA Strategy and IA Plan

- 6.3 The IA plan is a crucial component of the annual IA opinion statement provided by the HIA to those charged with governance. In order to deliver this assurance it is vital to have a comprehensive risk-based IA plan to determine the priorities of the IA activity, consistent with the organisation's goals. The overarching IA plan is presented to the Council's Corporate Management Team (CMT) and Audit Committee for approval. This plan is supplemented by quarterly operational risk based IA plans for approval. Any significant deviation from the approved quarterly IA plans will be communicated to senior management and the Audit Committee through quarterly IA progress reports.
- 6.4 The quarterly IA plan is undertaken based on a documented risk assessment, enabling the HIA 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 a review and for ensuring that information requested is accurate, timely and reliable.

- 6.5 The quarterly IA plan, including resource requirements and limitations, is presented to CMT and Audit Committee for approval. Any significant deviation from the approved IA plan will be communicated to CMT and the Audit Committee through periodic activity progress reports.

Management of Engagements

- 6.6 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 service objectives, key risks, scope, timing and resource allocations for the review. Each IA engagement will be sponsored by a member of 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 identified weaknesses. The HIA will inform the Council (via the Audit Committee) of any remaining material weaknesses.
- 6.7 The HIA will have systems in place to ensure that internal auditors obtain and record sufficient evidence to support their conclusions and engagement results to demonstrate the adequacy of evidence obtained to support professional judgements made. This includes management supervision to ensure objectives are achieved, quality assured and staff developed.
- 6.8 A report is issued to appropriate parties 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 (risk response) they propose to address the risk(s) identified.

Follow-up

- 6.9 IA follows-up all 'High' and 'Medium' 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 impact of not taking action (Tolerating the risk) have been understood and accepted at a sufficiently senior management level.

Management Responsibilities

- 6.10 In order to be effective, **the IA service requires full co-operation of senior management**. 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.
- 6.11 Senior management must also keep the IA service abreast of significant proposed changes in processes, systems, newly identified significant risks and all suspected or detected fraud or corruption. Senior management will also ensure that the IA service has access to sufficient resources in order to deliver the IA plan as directed by the Audit Committee. Responsibility for the deployment of resources in delivery of the IA plan rests with the HIA.

7. Reporting Lines

Reporting Lines

- 7.1 The Head of Business Assurance, in his role as HIA, has overall responsibility for the day to day management of the IA service. The HIA reports administratively to the Corporate Director of Finance.

- 7.2 Organisationally, the HIA reports to the Audit Committee. The HIA also has direct right of access to the Chief Executive, Chair of Audit Committee and Leader of the Council as and when required, as set out at para. 3.4.
- 7.3 In agreement with those charged with governance, 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.
- 7.4 The IA service will maintain effective relationships with management within the Council, including consultation in the IA planning process at quarterly planning level and with respect to individual reviews. The HIA will share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

Staff Training and Development

- 7.5 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.
- 7.6 The HIA holds a professional qualification (CMIIA, CCAB, or equivalent) and be suitably experienced. All IA staff will be properly trained to fulfil 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.

8. Other Internal Audit Work

Wider Remit of Business Assurance

- 8.1 The IA activity sits within the Council's Business Assurance service. The role of the Head of Business Assurance incorporates wider responsibilities of Counter Fraud, Information Governance (as the Council's Senior Information Risk Owner (SIRO), Business Continuity, Risk Management, Insurance as well as Health & Safety. Whilst expanding the remit of Business Assurance we will continue to focus on delivering consistently high quality value added IA reviews to help services to succeed. This will be undertaken in-such-a-way through the application of appropriate safeguards to maintain ~~our~~ independence and objectivity to ensure an unbiased assessment ~~of the Council's control environment, having regard to the principles contained within the Code of Ethics.~~

Third Parties

- 8.2 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.

Consulting and Advisory Services

- 8.3 IA may perform consulting and advisory services related to governance, risk management and controls as appropriate for the Council. IA may also evaluate specific operations at the request of the Audit Committee or CMT, as appropriate. Based on its activity, IA is responsible for reporting significant risk exposures and control issues identified to the Audit Committee/ CMT.

Anti-Fraud & Anti-Corruption

- 8.4 IA's role in any fraud or corruption related work will be in accordance with the Council's Anti-Fraud and Anti-Corruption Strategy and with resources approved by the Audit Committee in the Quarterly IA Plans. However, Internal Auditors will have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation. In addition, IA may assist or lead, as needed, in the identification and investigation of suspected fraudulent activities within the Council and notify Management and the Audit Committee of the results.

Major Projects

- 8.5 The IA service will be informed of major projects and their progress through continued discussion with Management and attendance at project working groups, where invited to attend. Where a project team seeks advice or further support from the IA service, we will treat the request as one for consultancy support and make appropriate arrangements to ensure future objectivity is not impaired.

Risk Management

- 8.6 Business Assurance will be guided by the IIAs position paper on [The Role of Internal Auditing in Enterprise-Wide Risk Management](#) and therefore Business Assurance will not undertake any roles defined as inappropriate by that guidance. Inappropriate roles include setting the Council's risk appetite, imposing a risk management process and taking on full accountability for risk management. The position paper lists the following as legitimate roles (with safeguards):
- Co-ordination of risk management activities;
 - Consolidating risk reporting;
 - Developing a risk approach for approval and its subsequent maintenance;
 - Facilitating identification and evaluation of risks; and
 - Coaching management in responding to risks.
- 8.7 The Council's Risk Management Policy and Guidance defines the role of Business Assurance in relation to risk management, including safeguards put in place, which include:
- Internal separation of duties within the Business Assurance team, managed through the roles of Business Assurance Manager and the Senior Internal Audit Manager. Any Internal Audit review of risk management will be undertaken by an external provider to enhance independence and objectivity in this area.
 - The Cabinet holding responsibility for approving the Authority's risk management policy statement and strategy.
 - The Corporate Director of Finance, as Chief Finance Officer, being responsible for preparing the Authority's risk management policy statement and for promoting it throughout the authority;
 - The Audit Committee will monitor and review, but not direct, the authority's risk management arrangements, including regularly reviewing the corporate risk register and seeking assurances that action is being taken on risk related issues.

9. Ethics

Code of Ethics

- 9.1. 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.
- 9.2. 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*.

Due Professional Care and Competency

- 9.3. IA staff will apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

Independence and Objectivity

- 9.4. 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.

10. Quality Assurance

Professional Standards

- 10.1. The IA activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics and the International Professional Practices Framework (IPPF), incorporating the Mandatory Standards.
- 10.2. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activities performance to ensure that engagements are performed with proficiency and due professional care. In addition, IA will adhere to the Council's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

Staff Training and Development

- 10.3. All IA staff will be properly trained (ref para. 7.5) to fulfil 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.

Quality Assurance Improvement Programme

- 10.4. 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 maintains 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;
 - 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.

- 10.5 The results of the QAIP and progress against any improvement plans will be reported to Senior Management and the Board through quarterly IA progress reports, as well as within the Annual IA Report.
- 10.6 To demonstrate conformance with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.