INTERNAL AUDIT CHARTER

1. Purpose of this Charter

1.1   The Local Government Accounts and Audit Regulations 2021 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.

1.2   In accordance with the PSIAS and 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 Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework.

1.3   The Hillingdon Council 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.

1.4   The HIA is responsible for applying this IA Charter and ensuring it is maintained in line with the PSIAS. This IA Charter shall be reviewed and presented to the Board (which for the purpose of the PSIAS is the Audit Committee) for approval. The Charter will be reviewed every three years, or sooner if significant changes have been made by the Corporate Management Team (CMT) to ensure that it remains relevant to the needs of the Council.

2. Internal Audit Objectives and Mission

2.1.   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".

2.2.   Internal audit acts primarily to provide the Audit Committee and Senior Management with the information necessary for them to fulfil their own responsibilities and duties. 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.

3. Scope of Internal Audit

3.1. The scope of internal audit activities includes all activities conducted by the Council. The IA Plan identifies those activities that have been identified as the subject of specific internal audit engagements.

3.2. The HIA will provide an Annual HIA Opinion Statement for the Council through the Audit Committee. The HIA opinion statement will cover the three core areas below and be in line with the UK PSIAS:

- Risk Management - Risk Management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.

- Corporate Governance - Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.

- 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.

3.3. 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, the Chief Executive, External Audit, the Leader of the Council and all other Members;

- Have unrestricted access to all Council functions, records, property and personnel required to plan and undertake audit assignments necessary to fulfil its scope; and

- Obtain assistance, where necessary, from Council officers and contractors involved in the subject of audit engagements.

3.4. 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.

3.5. 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.

3.6. When the auditors receive confidential information, it shall be kept confidential at all times, except as required by law or as provided for in regulatory, ethical or other professional declarations.

Wider Remit of Business Assurance

3.7. Consulting and Advisory Services - 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. 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.

3.8. Third Parties - 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.

3.9. Anti-Fraud & Anti-Corruption - IA's role in any fraud or corruption related work will be in accordance with the Council's Counter Fraud Strategy. However, Internal Auditors will have sufficient knowledge to evaluate the risk of fraud and the controls in place to manage these risks during their audit work. Audit procedures alone cannot guarantee that fraud and corruption will be detected. In the event that internal audit suspect fraud is occurring, this will be referred to management in line with the Counter Fraud Strategy.

3.10. Major Projects - The IA service will be informed of major projects which may impact on the control environment. 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.

3.11. Risk Management - IA will be guided by the IIAs position paper on The Role of Internal Auditing in Enterprise-Wide Risk Management and therefore 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. Safeguards put in place, include :

- Any Internal Audit review of risk management will be undertaken by an external provider to enhance independence and objectivity in this area

- The Corporate Director of Finance, as Chief Finance Officer, being responsible for preparing and promoting the Authority's risk management policy statement throughout the authority; and

- 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.

4. Responsibilities

Professional Standards

4.1. The HIA and IA team have responsibility to undertake their work at all times in accordance with the PSIAS, the IIA's Code of Ethics, 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.

4.2. 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.

Risk Based IA Strategy and Plan

4.3. In order to deliver the annual IA opinion statement it is vital to have a comprehensive risk-based IA plan to determine the priorities of the IA activity, consistent with the wider IA Strategy and organisation objectives.

4.4. The overarching 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 quarterly IA progress reports.

4.5. IA will also consider the scope of the work of other assurance providers when developing the IA Plan, to avoid any duplication and ensure optimal audit coverage. Where any reliance is placed upon the work of others, IA is still responsible for ensuring there is adequate evidence to support conclusions and opinions reached by the internal audit activity.

Management of Engagements

4.6. For each individual IA engagement, a detailed Terms of Reference (ToR) will be prepared and discussed with the relevant managers. The ToR will establish the engagement's objective, key risks, scope, timing and resource allocations for the review. Each IA engagement will be sponsored by a member of CMT.

4.7. 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.

4.8. 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 material weaknesses.

4.9. The HIA will have systems in place to ensure that internal auditors obtain and record sufficient evidence to support their conclusions and engagement results. This includes management supervision to ensure objectives are achieved, quality assured and staff developed.

4.10. A summary report will be issued to appropriate parties following the conclusion of each IA engagement, including the review sponsor and relevant key contact(s). The report includes an executive summary highlighting the 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.

Reporting

4.11. The Head of Internal Audit & Risk Assurance has overall responsibility for the day-to-day management of the IA service. The HIA reports administratively to the Corporate Director of Finance (and S151 Officer).

4.12. 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.

4.13. In agreement with those charged with governance, the HIA will determine the way in which findings will be reported. Findings will be discussed with key officers at the conclusion of each piece of work, however Corporate Directors will be immediately informed of any significant weaknesses identified.

4.14. 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. All IA assurance reports issued include an assurance opinion and recommendations based on the IA Assurance Levels and Recommendation Risk Rating definitions outlined in the IA Manual.

4.15. The IA service will maintain effective relationships with management within the Council, including consultation in the IA planning process and with respect to individual reviews.

4.16. 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.

4.17. A quarterly IA progress report is submitted to CMT and the Audit Committee summarising IA performance and work carried out in the period. These reports will provide an update on the progress made against the delivery of the IA Plan and provide details of IA work completed to date, the assurance opinions given, and the number and type of recommendations made.

4.18. At the end of the audit year an annual IA report is presented to CMT and the Audit Committee. This provides the statutory HIA opinion statement on the Council's internal control, risk management and corporate governance arrangements. The individual assurance ratings help determine the overall audit opinion at the end of the financial year, although other factors such as implementation of IA recommendations will have a bearing too. The annual IA report contributes to the assurances underpinning the Council's Annual Governance Statement (AGS).

Follow-up

4.19. 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 recommendations that have passed their implementation date. These procedures will ensure that the impact of not taking action have been understood and accepted at a sufficiently senior management level.

4.20. A summary of progress towards implementing IA recommendations will be included in the quarterly IA progress reports to CMT and the Audit Committee. This includes highlighting the number of recommendations that have not been actioned in the agreed timescales and the extension that has been agreed.

4.21. This approach provides greater accountability to senior managers to manage their actions, and provides greater transparency and assurance to CMT, the Audit Committee and other key stakeholders over the timely implementation of recommendations.

Staff Training and Development

4.22. 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.

4.23. 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.

Management Responsibilities

4.24. In order to be effective, the IA service requires the 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.

4.25. Senior management will 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 information and resources in order to deliver the IA plan as directed by the Audit Committee.

5. Quality Assurance

Professional Standards

5.1. The IA activity will govern itself by adherence to IIA's mandatory guidance and PSIAS, including the Definition of Internal Auditing, the Code of Ethics and the IPPF.

5.2. IA will apply the four Attribute Standards and the eight 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. IA staff will apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

5.3. 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.

5.4. 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.

Staff Training and Development

5.5. 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.

Quality Assurance Improvement Programme (QAIP)

5.6. The internal audit function will develop and maintain a QAIP designed to gain assurance that the work of IA is compliant with the PSIAS and achieves its objectives. The QAIP will include client feedback questionnaires issued at the completion of each audit, internal performance monitoring arrangements and key performance indicators.

5.7. As required by PSIAS an external assessment of the service will also be performed at least every five years. The programme will include an evaluation of the internal audit activity's conformance with The Standards and an evaluation of whether the internal auditors apply The IIA's Code of Ethics. The plan will assess the efficiency and effectiveness of internal audit and identify opportunities for improvement.

5.8. The results of the QAIP and progress against any improvement plans will be reported to CMT and the Audit Committee through quarterly IA progress reports, as well as within the Annual IA Report.

Reporting Internal Audit Performance

5.9. A summary of actual IA performance against targeted performance will be reported to CMT and the Audit Committee as part of the quarterly IA progress reports. These results will allow all stakeholders to measure the performance and robustness of the IA team and also provide an indicator on how effectively the Council is at managing its risks.

5.10. Key performance Indicators (KPIs) will be agreed with the CMT and Audit Committee. Any IA KPIs set will need management co-operation to enable them to be achieved, IA can influence the results, but they cannot completely control them. It is therefore important that interpretation of the IA KPIs is not taken in isolation, as other factors should be taken into account.

Individual Internal Audit Staff Performance

5.11. As well as the KPIs for quarterly reporting to CMT and the Audit Committee, a further set of performance measures will be used to monitor and assess the performance of individual IA staff. These operational KPIs form the basis of the performance targets for IA staff and are aligned to the detailed IA procedures. The IA standards aim to ensure that all IA staff follow a consistent process for each piece of IA work and that the planned IA programme is completed within agreed timescales and to the required quality standards.