



# 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 Institute of Internal Auditors (IIA) Global Internal Audit Standards and UK Public Sector Application Note.
- 1.2 In accordance with the Global Internal Audit Standards the purpose, authority and responsibility of the internal audit activity must be formally defined in an Internal Audit (IA) Charter.
- 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 Global Internal Audit Standards. This IA Charter shall be reviewed and presented to 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 Purpose

- 2.1. IA is defined in the IIA Global Internal Audit Standards as “an independent, objective assurance and advisory service 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 governance, risk management, and control processes.”
- 2.2. The purpose of the internal audit function is to strengthen the Council’s ability to create, protect, and sustain value by providing the Audit Committee and Senior Management with independent, risk-based, and objective assurance, advice, insight, and foresight. 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.
- 2.3. The Internal audit function is most effective when:
  - Internal auditing is performed by competent professionals in conformance with The IIA’s Global Internal Audit Standards and Public Sector Application Note.
  - The internal audit function is independently positioned with direct accountability to the Audit Committee

- Internal auditors are free from undue influence and committed to making objective assessments.

### 3. Scope of Internal Audit

- 3.1. The scope of internal audit activities includes all activities conducted by the Council.
- 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 Global Internal Audit Standards:
  - 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
  - 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. The IA service will also provide advisory services to management as appropriate for the Council. Before any advisory 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.
- 3.6. 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.

- 3.7. 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.

## 4. HIA Roles and Responsibilities

### Ethics and Professionalism

- 4.1. The HIA and IA team have responsibility to undertake their work at all times in accordance with the Global Internal Audit Standards, the UK Public Sector Application Note and the IIA's Code of Ethics. Those members of the IA team who have membership of professional bodies will also comply with the relevant requirements of that organisation.
- 4.2. The HIA will ensure that internal auditors:
- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
  - Understand, respect, meet, and contribute to the legitimate and ethical expectations of the Council and be able to recognise conduct that is contrary to those expectations.
  - Encourage and promote an ethics-based culture in the Council
  - Report behavior that is inconsistent with Council's ethical expectations, as described in applicable policies and procedures.

### Objectivity

- 4.3. The HIA will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the HIA determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.
- 4.4. Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.
- 4.5. Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:
- Assessing specific operations for which they had responsibility within the previous year.
  - Performing operational duties for the Council or its affiliates.
  - Initiating or approving transactions external to the internal audit function.

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

#### 4.6. Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the HIA, Audit Committee, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

### **Managing the Internal Audit Function**

#### 4.7. The HIA has the responsibility to:

- Develop a risk-based internal audit plan that considers the input of the Audit Committee and senior management. Discuss the plan with the Audit Committee and senior management and submit the plan to the Audit Committee for review and approval.
- Review and adjust the internal audit plan, as necessary, in response to changes in Council's business, risks, operations, programs, systems, and controls.
- Communicate with the Audit Committee and senior management if there are significant changes to the internal audit plan.
- Communicate the impact of resource limitations on the internal audit plan to the Audit Committee and senior management.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards and the UK Public Sector Application Note.
- Follow up on all 'high' and 'medium' risk rated audit findings to confirm the implementation of agreed action plans and communicate the results to the Audit Committee and senior management.
- Ensure the internal audit service collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact Council and communicate to the Audit Committee and senior management as appropriate.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the internal audit function.

- Ensure adherence to Council's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the Audit Committee and senior management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the HIA cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the Audit Committee.

### **Communication with the Audit Committee and Senior Management**

4.8. The HIA will report quarterly to the Audit Committee and senior management. This includes reporting on:

- The internal audit function's mandate.
- The internal audit plan and performance relative to its plan.
- Internal audit budget and resource requirements
- Significant revisions to the internal audit plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards and action plans to address the internal audit function's opportunities for improvement.
- Significant risk exposures, control issues, and other areas of focus for the Audit Committee that could interfere with the achievement of the Council's strategic objectives.
- Results of assurance and advisory reviews
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond the Council's risk appetite.

### **Management of Engagements**

4.9. Internal auditors will:

- provide a detailed Terms of Reference for each review establishing the engagement's objective, key risks, and scope.
- promptly communicate findings and conclusions to management, proposing recommendations to address any identified weaknesses.
- obtain and record sufficient evidence to support their conclusions and engagement results.
- issue a balanced, clear and concise summary report following the review, including a management action plan setting out the agreed actions to address the findings identified.

- Submit a quarterly IA progress report to CMT and the Audit Committee summarising IA performance and work carried out in the period.
- Submit an Annual IA report to CMT and the Audit Committee including the statutory HIA opinion statement on the Council's internal control, risk management and corporate governance arrangements.

## 5. Audit Committee & Senior Management Responsibilities

### Audit Committee Oversight

5.1. To establish, maintain, and ensure that the Council's internal audit function has sufficient authority to fulfill its duties, the Audit Committee will:

- Discuss with the HIA and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- Ensure the HIA has unrestricted access to and communicates and interacts directly with the Audit Committee, including in private meetings without senior management present.
- Discuss with the HIA and senior management other topics that should be included in the internal audit charter.
- Participate in discussions with the HIA and senior management about the "essential conditions," described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- Review and approve the internal audit charter with the HIA to consider changes affecting the service, such as the employment of a new HIA or changes in the type, severity, and interdependencies of risks to the Council.
- Approve the risk-based internal audit plan.
- Provide input to senior management on the appointment and removal of the HIA, ensuring adequate competencies and qualifications and conformance with the Global Internal Audit Standards.
- Provide input to senior management on the HIA's performance.
- Receive communications from the HIA about the internal audit function including its performance relative to its plan.
- Ensure a quality assurance and improvement program has been established and review the results annually.
- Make appropriate inquiries of senior management and the HIA to determine whether scope or resource limitations are inappropriate.

### Senior Management

5.2. In order to be effective, the IA service requires the full co-operation of senior management.

5.3. 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 internal audit plan as directed by the Audit Committee.

## 6. Organisation Position & Reporting Relationships

- 6.1. The HIA will be positioned at a level in the organisation that enables IA services and responsibilities to be performed without interference from management, thereby establishing the independence of the IA function.
- 6.2. The HIA will report functionally to the Audit Committee and administratively (for example, day-to-day operations) to the Director of Finance. This positioning provides the organisational authority and status to bring matters directly to senior management and the Audit Committee without interference, and supports the internal auditors' ability to maintain objectivity.
- 6.3. The HIA will confirm to the Audit Committee, at least annually, the organisational independence of the IA function. If the governance structure does not support organisational independence, the HIA will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The HIA will disclose to the Audit Committee any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the IA function's effectiveness and ability to fulfil its mandate.

### Changes to the Mandate and Charter

- 6.4. Circumstances may justify a follow-up discussion between the HIA, Audit Committee, and senior management on the IA Mandate or other aspects of the IA Charter. Such circumstances may include but are not limited to:
  - A significant change in the Global Internal Audit Standards.
  - A significant reorganisation within the organisation.
  - Significant changes in the HIA, Audit Committee, and/or senior management.
  - Significant changes to the Council's strategies, objectives, risk profile, or the environment in which the Council operates.
  - New laws or regulations that may affect the nature and/or scope of IA services.

## 7. Quality Assurance

### Quality Assurance Improvement Programme (QAIP)

- 7.1. The HIA will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement.
- 7.2. Annually, the HIA will communicate with the Audit Committee and senior management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing

monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team.

### **Reporting Internal Audit Performance**

- 7.3. 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.
- 7.4. 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.