

TONBRIDGE AND MALLING BOROUGH COUNCIL

INTERNAL AUDIT CHARTER 2011

1. Introduction

This charter establishes the role and terms of reference of the Internal Audit function within Financial Services. It will be subject to routine review and approval by the Audit Committee.

2. Code of Practice

The Internal Audit Section will adopt the CIPFA Code of Practice for Internal Auditors in the United Kingdom 2006 (or subsequent updates) as the standard for providing “proper internal audit practices” as required by the Accounts and Audit (Amendment) (England) Regulations 2006 S.I. 564.

3. Definition of Internal Audit

“Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.” – *CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006*.

4. Objectives and Responsibilities of Internal Audit

As an independent appraisal function within the authority, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources. In addition, the other objectives of the function are to:

- support the Director of Finance to discharge duties as Proper Officer
- support the Audit Committee to discharge their duties
- contribute to and support the Financial Services objective of ensuring the provision of, and promoting the need for, sound financial systems
- support the corporate Best Value process
- to promote the development of an embedded Risk management system throughout the Council
- provide a quality benefits fraud investigation service which safeguards public money.

The main areas of the Chief Internal Auditor's responsibility within the authority are to:

- Review, appraise and report on:
 - the extent to which the assets and interests are accounted for and safeguarded from loss
 - economical and efficient use of resources
 - the soundness, adequacy and application of internal controls
 - compliance with policies, procedures, laws and regulations
 - the adequacy of risk monitoring systems
 - the suitability and reliability of financial and other management data, including aspects of performance measurement
 - the arrangements in place for partnerships.
 - investigate all frauds and irregularities.
 - manage and investigate housing benefit/council tax benefit fraud.
 - advise on internal control implications of new systems.
 - to investigate and report on concerns raised through the Confidential Reporting Code.

In order to perform these functions there are four main principles that will be observed by Internal Audit in carrying out their function: -

- Integrity
- Objectivity
- Competence
- Confidentiality

Full definitions of these principles are contained within the CIPFA Code of Practice for Internal Auditors in the United Kingdom 2006.

Internal Audit staff will be required to complete an annual declaration of any interests that could influence their adherence to the four principles in section 4.3 above. Any declared interests will be taken into account in the allocation of work from the Audit Plan.

Internal Audit can also provide, if resources permit, independent and objective services including consultancy and fraud related work. Consultancy work is defined in the Code of Practice as a range of services, beyond Internal Audit's assurance services, agreed with and provided to assist management in meeting the objectives of the organisation. It may include advice, facilitation, training, advisory services, fraud investigation and irregularity related work.

5. Location of Internal Audit

Internal Audit is located within Financial Services in accordance with the Financial Procedure Rules, under the direction of the Proper Officer, the Director of Finance.

6. Reporting Lines and Relationships of Internal Audit

The Chief Internal Auditor will have sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management in the organisation. The position of the Chief Internal Auditor in the management structure should reflect the influence he or she has on the control environment and he or she will not report or be managed at a lower organisational level than the corporate management team.

All audit assignments will be the subject of formal reports. Draft reports will be sent to the manager responsible for the area under review, for agreement to the factual accuracy of findings. After agreement, the reports will be issued in accordance with Financial Procedure Rule 7.6 to the Chief Officer of the Service under review, with a copy sent to the Director of Finance. A copy of audit reports relating to Financial Services will be sent to the Chief Executive. A copy of the report and working papers will be retained in the Internal Audit Section and a copy will be sent to the authority's external auditors.

The Chief Internal Auditor will report any issues considered to be significant to Management Team prior to them being reported to the Audit Committee.

The Chief Internal Auditor will regularly report to the Audit Committee on the work of the Internal Audit Section. At least once a year the Chief Internal Auditor should report on: -

- Internal Audit Charter
- Resourcing of Internal Audit
- Audit Planning
- Adequacy of Management response to Internal Audit advice and recommendations
- The outturn of Internal Audit work
- Arrangements for quality assurance and performance management processes of Internal Audit
- Arrangements for co-operation between Internal Audit, External Audit and review bodies.

The Chief Internal Auditor will prepare a high level statement on how the Internal Audit service will be delivered and developed. This will be contained within the above Audit Planning report. A requirement within this strategy will be to state how the assurance for the annual statement on internal control will be demonstrated. This will include how the Chief Internal Auditor will contribute to the review of the

organisation's corporate governance arrangements, risk management processes and key internal control systems.

Internal Audit will be subject to same working protocols as any other member of staff. However, Internal Audit staff are in the position of being likely to deal with a number of stakeholders. They will be required to consider the implications within the Data Protection Act and if in doubt seek guidance.

For the purpose of ensuring that an adequate working relationship exists within Internal Audit the following procedures should be followed: -

- (a) management – Auditors will be able to approach managers directly in order to obtain information relating to the audit that they are working on. They will supply a copy of final audit reports and can deal direct with any questions of fact or opinion that arise. If an auditor is asked to provide information outside their audit remit they should pass the request to the Chief Internal Auditor or Audit Manager in order to ensure consistency of advice.
- (b) other internal auditors – all internal audit files and test data should be available to all internal auditors for the purpose of carrying out their audits. Where there are any conflicts or concerns these should be raised initially with Chief Internal Auditor.
- (c) external auditors- external auditors should be given a copy of all final audit reports electronically. They should also have access to internal audit files upon request. Auditors may discuss their audits with the external auditor. If an auditor is asked to provide information outside their audit remit they should pass the request to the Chief Internal Auditor or Audit Manager in order to ensure consistency of advice. Where there are any matters that may lead to escalation then the Auditor should inform the Chief Internal Auditor so that the relevant Chief Officer can be made aware of the situation.
- (d) other regulators and inspectors – All auditors should comply fully with external inspectors and supply any audit evidence requested. However, the Chief Internal Auditor or Audit Manager should be the conduit for dealing with any queries arising from the inspection.
- (e) elected members – Protocols for dealing with Members are set out in the Constitution. As a general guide any requests from Members for specific information should be channelled through the Director of Finance. Members of the Audit Committee have a direct right of access to the Chief Internal Auditor and vice-versa.

7. Audit Independence

The Council has a responsibility to make adequate budgetary provision for internal audit to maintain independence.

As far as is practicable, Internal Audit will not participate in the day-to-day operation of any systems of internal financial control. However, in strict emergency situations only, audit personnel may be called upon to carry out special projects.

Members of the internal audit section will be expected to contribute to the general management and conduct of business through membership of working groups and participation in ad hoc exercises.

Upon request from the Director of Finance, appropriate specialists from departments other than Finance should be made available to take part in any audit or review requiring specialist knowledge.

Safeguards exist to maintain independence in the form of reporting protocols. Where an area of audit falls under the responsibility of the Chief Internal Auditor then any audits will be carried out independently by an Auditor and reviewed by the Audit Manager. Where an area of audit falls under the responsibility of the Director of Finance then a copy of the audit report will be sent to the Chief Executive.

Although the Director of Finance is the Line Manager for Internal Audit all reports relating to Internal Audit matters from the Internal Audit Section will be sent independently in the name of the Chief Internal Auditor.

The Chief Internal Auditor will have right of direct access to: -

- Management Team
- Chief Executive
- Audit Committee
- All partnership agreements and supporting documentation

Where internal audit staff have been consulted during system, policy or procedure development, they are precluded from reviewing and making comments during the first audit review of that system.

Where a new member of the Audit Team has been appointed from a post elsewhere in the Authority they will be precluded from carrying out the next audit of that system.

Where it is considered practical, audits of the main accounting systems will be rotated between auditors to maintain the independence of the review.

8. Organisational Control Environment

Responsibility for Corporate Governance and Risk Management is a corporate responsibility. When constructing an annual audit plan the Chief Internal Auditor will include an audit of any significant risks that have been identified as part of the Corporate Governance process.

Internal Audit will report on the Corporate Governance arrangements of the Council within the Annual Corporate Governance Statement.

The Chief Internal Auditor will review all partnership agreements to ensure that adequate controls exist and that access to all appropriate records is available to enable this review to take place.

All Internal Audit activity is carried out in accordance with the financial rules, with specific authority for the audit function contained in Financial Procedure Rules s7.

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

9. Audit Opinion

As part of the audit process all system audits will contain an audit opinion on the level of assurance that can be placed upon the system. These opinions will be reported to Members of the Audit Committee and will be used for the Chief Internal Auditor to provide an opinion on the overall adequacy and effectiveness of the Council's internal control environment.

10. Internal Audit Right of Access

The right of access for Internal Audit is set out in section 7 of the Council's Financial Procedure Rules. For the purpose of conducting internal audit enquiries the Director of Finance or his/her authorised representative shall be entitled to:

- Enter any Council premises or land at reasonable times;
- Have access to all records, documents and correspondence relating to any Council business;
- Require and receive such explanations as may be necessary concerning any matter under examination;
- Require any employee of the Council to produce cash, stores or any other Council property under his/her control.
- Although every effort will be made to time audits to fit in with services Internal Audit have the right to conduct unannounced audits.

11. Audit Style and Content

The primary task of Internal Audit is to review the systems of internal control operating throughout the authority, and in this will adopt a predominantly systems-based approach to audit.

The Chief Internal Auditor will be required to manage the provision of a complete audit service to the authority which will include systems, regularity, computer and contract audit in addition to the investigation of housing and council tax benefits fraud. In discharge of this duty, the Chief Internal Auditor will:

- prepare a rolling three-year strategic risk-based audit plan in consultation with departmental senior management, for formal ratification by Director of Finance, Management Team and the Audit Committee. This strategic plan will be regarded as flexible rather than as an immutable expression of audit policy
- translate the strategic plan into annual plans for formal agreement with the Director of Finance Management Team and the Audit Committee.
- ensure a system of close supervision of audit work, and maintain a review of audit files through the supervisory structure
- ensure a system of computer audit within the authority is implemented and maintained
- maintain a small unit within the section specifically for the investigation of benefits fraud, staffed with specialist fraud officers
- prepare, for agreement with the Chief Executive and Director of Finance, annual reports on audit and benefits fraud investigation activities for presentation to the Audit Committee.

In order to establish an audit presence and to create sound informal lines of communication, as much audit work as possible will be done on location. Internal Audit testing may go beyond the records and adopt a more 'physical' approach for example: - inspecting stock.

12. Audit Resource

The staffing structure of the section will comprise a mix of qualified, technician and trainee posts with a mix of professional specialist skills to reflect the varied functions of the section. Where necessary budget provision will be made in order to purchase external specialist skills if considered necessary. The role of Audit Manager will be provided through a partnership agreement with Gravesham Borough Council.

Every effort will be made to preserve objectivity by ensuring that all audit members of staff are free from any conflicts of interest and do not undertake any non-audit duties, with the exception of risk management and other high-priority duties and the exigencies of the service.

13. Audit Training

The Chief Internal Auditor will carry out a continuous review of the development and training needs of all audit and benefits fraud investigation personnel and will arrange in-service training covering both internal and external courses.

Specific resources will be devoted to specialised training in relation to computer audit and benefits fraud to keep abreast of developments.

Under the Code all internal auditors are charged with a personal responsibility to continue their professional development.

14. Audit Competence and Standards

The Chief Internal Auditor is to ensure that those engaged in internal audits possess appropriate skills and experience with the appropriate level of supervision in order to carry out internal audits with care and integrity.

The internal auditors are to operate in accordance with the standards and practice statements issued by CIPFA, Institute of Internal Auditors and other relevant professional bodies. They are also to observe the Code of Ethics issued by the Institute of Internal Auditors that calls for high standards of honesty, objectivity, diligence and loyalty.

The Chief Internal Auditor is to maintain a process of review of the Internal Audit function to provide reasonable assurance that its work conforms to the relevant standards and the requirements of this Charter. The review process is to be on-going and is to include adequate supervision of work performed, an internal review process and an external review process.

15. Responsibilities of the Chief Internal Auditor

The CIA should develop a monitoring and review programme to ensure that due professional care is achieved and maintained.

The CIA should ensure that procedures are in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct.

The CIA should make provision to avoid potential conflicts of interest and for the appropriate training and continuing professional development of all internal audit staff.

16. Responsibilities of the Audit Manager

The Audit Manager will prepare the annual audit plan and process it to endorsement by Members of the Audit Committee.

The Audit Manager will assist the CIA to organise the workload of the individual auditors and monitor their progress during the completion of audits. This will include the preparation of audit briefs and agreement with clients on the work to be undertaken.

The Audit Manager will carry out reviews of audits undertaken to ensure that they meet the requirements of the CIPFA Code of Practice.

The Audit Manager will liaise with external auditors to agree workload for them to place reliance on the work of Internal Audit.

17. Individual Auditor

The Code of Practice for Internal Audit states that individual auditors are personally responsible for applying due professional care to their own work and conducting themselves appropriately. They should : -

- be fair and not allow prejudice or bias to override objectivity
- declare any interest that could be perceived to be conflicting or could potentially lead to conflict
- not accept any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the organisation)
- use reasonable care in obtaining sufficient, relevant and reliable evidence on which to base their conclusions, professional judgements and recommendations
- be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest
- have sufficient knowledge to identify indicators that fraud or corruption may have been committed
- disclose all material facts known to them which if not disclosed, could distort their reports or conceal unlawful practice, subject to confidentiality requirements
- disclose any non-compliance with the standards set out in the Code
- not use any information they may obtain in the course of their duties for personal benefit or gain

18. Related Documents

This document is one of a series that, together, constitute the policies of the authority in relation to anti-fraud and corruption. The other documents are:

- anti-fraud and corruption policies
- confidential reporting code
- fraud guidelines
- benefits fraud prosecution policy
- data matching policy.