

Internal Audit & Counter Fraud Shared Service
Medway Council & Gravesham Borough Council

Internal Audit Charter

Medway Council &
Gravesham Borough Council



1. Introduction

The Public Sector Internal Audit Standards (PSIAS) provide a consolidated approach to internal auditing standards across the whole of the public sector. They are an expansion of the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, adding elements specific to the UK public Sector, and are supported by CIPFA's Local Government Application Note to the PSIAS. The 'Standards' form part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which is applicable to all internal audit functions and has been adopted within the PSIAS:



Internal audit activities are delivered by the Internal Audit & Counter Fraud Shared Service for Medway Council and Gravesham Borough Council, which was formed on 1 March 2016. The Internal Audit Team ('Internal Audit') recognises and will comply with the mandatory elements of the PSIAS; the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the Standards themselves.

The Standards require Internal Audit to implement and maintain a Charter, which formally defines the purpose, authority, and responsibility of Internal Audit.

This Charter is designed to meet the requirements of the Standards while also setting out Internal Audit's position within the councils, including functional and operational reporting lines. It also defines the scope of Internal Audit's activities and authorises access to records, personnel and physical properties relevant to the performance of these activities. The Charter will be reviewed and presented to the Senior Management and Boards of both councils on an annual basis for approval.

2. Mission & Core Principles

Under the IPPF, the 'Mission' of internal audit is **'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'** This mission is underpinned by the 'Core Principles', which require the internal audit function to:

- Demonstrate Integrity,
- Demonstrate competence and due professional care,
- Be objective and free from undue influence (independent),
- Align with strategies, objectives, and risks of the organisation,
- Be appropriately positioned and adequately resourced,
- Demonstrate quality and continuous improvement

- Communicate effectively,
- Provide risk-based assurance,
- Be insightful, proactive, and future focused, and
- Promote organisational development.

3. Purpose (Standard 1000)

Internal Audit is a vital component to the council's effective running, and will provide assurance, advice, and insight to help protect and enhance the risk management, internal control, and governance, arrangements.

The IIA defines internal auditing 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”.

Internal Audit's role is designed to support Senior Management to fulfil their own risk, control, and governance responsibilities and provide the Audit Committees with information necessary for them to fulfil their responsibilities and duties.

Internal Audit also has a wider role as a 'critical friend' of both councils, able to confidently challenge current practice, champion best practice, and support management in improvement. This is achieved through Internal Audit providing assurance and consulting activities.

The Mission, Vision, and objectives of Internal Audit are set out in the Internal Audit and Counter Fraud Strategy.

4. Authority (Standard 1000)

Internal Audit is a statutory requirement for local government; the Accounts & Audit Regulations 2015 require local authorities to:

“Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

Deriving authority from those Regulations and those authorising this Charter, Internal Audit is free to plan and undertake any internal audit work necessary to fulfil its responsibilities. To enable full discharge of its duties, Internal Audit has:

- A right of direct access to the Chairs of the Audit Committees and Senior Management,
- Free and unrestricted access to all services, records (including those held electronically), property and personnel (Members, officers and third parties, including contractors) of Medway Council and Gravesham Borough Council that it deems necessary to undertake its work.

5. Responsibility (Standard 1000)

The Section 151 Officer of a local authority is responsible for establishing an internal audit service. Gravesham Borough Council has delegated this responsibility to the Section 151 Officer of Medway Council to deliver the internal audit function through the Shared Service to both councils.

The role of Chief Audit Executive (CAE) is fulfilled by the Head of Internal Audit & Counter Fraud (HIACF), who is responsible for managing the internal audit function in accordance with the IPPF and arrangements set out in this Charter.

For the purposes of this Charter the following definitions apply:

- The Audit Committees: Those charged with governance. For Medway this role is fulfilled by the Audit Committee and for Gravesham this role is fulfilled by the Finance & Audit Committee. The Board will:
 - Approve the Internal Audit Charter,
 - Approve the Internal Audit resource budget,
 - Approve the risk-based Internal Audit Plans,
 - Receive reports from the Head of Internal Audit & Counter Fraud on Internal Audit's performance relative to its plans and other matters,
 - Receive the annual opinion on the overall control environment of each council.
- Senior Management: Those responsible for executive leadership and direction. For Medway this role is fulfilled by the Corporate Management Team and for Gravesham this role is fulfilled by the Management Team. Senior Management is engaged in approving the Charter, reviews, and comments on the Internal Audit Plans, and will receive the results of Internal Audit work as set out in the scope of this Charter.

The Head of Internal Audit & Counter Fraud reports functionally to the Audit Committees, reports in their name to these Committees, and has direct rights of access to the Chairs of these Committees. Administratively, the Head of Internal Audit & Counter Fraud reports to the Chief Operating Officer of Medway Council and the Director (Corporate Services) at Gravesham Borough Council (s151 Officers). See Appendix 1.

The key responsibilities of Internal Audit include:

- Developing flexible risk-based Internal Audit Plans in consultation with Senior Management and presented periodically to the Audit Committees for approval,
- Delivering high quality assurance work focused on the effectiveness of risk management, control, and governance arrangements, to help the councils to achieve their objectives,
- Monitoring the status of agreed management actions and providing regular updates to Senior Management and the Audit Committees, including highlighting significant risks,
- Providing responsive consultancy services, acting as a critical friend and the provision of advice & information on matters relating to risk management, control, and governance,
- Liaison with external auditors and other assurance providers to seek optimal assurance coverage.

The Head of Internal Audit & Counter Fraud (as Chief Audit Executive) is responsible for producing an annual opinion on the overall adequacy and effectiveness of the framework of risk management, control, and governance for each council.

6. Independence & objectivity (Standard 1100)

Internal Audit will remain free from undue interference by any element in the organisation, including matters of the selection, scope, procedures, frequency, timing, or report content of work. The Head of Internal Audit & Counter Fraud will confirm to the Audit Committees of each council, at least annually, the organisational independence and objectivity of Internal Audit through the annual review of this Charter.

Internal Auditors must maintain 'an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made' Maintaining objectivity requires Internal Auditors to be impartial and to avoid conflicts of interests that may otherwise impact on their professional judgement.

As such, officers within Internal Audit will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

In order to achieve a degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure that Internal Audit:

- will have no direct operational responsibility or authority over any of the activities audited,
- will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment,
- has the freedom and authority to report in its own name,
- recognises and addresses potential conflicts of interest through Internal Auditors not undertaking an audit for at least one year in an area where they have had previous operational roles, and
- will not allocate assurance engagements to individual Internal Auditors who have undertaken consultancy engagements for the specific function until at least one year after the consultancy engagement was completed.

Internal Auditors are required to notify the Internal Audit Manager or Head of Internal Audit & Counter Fraud of any potential impairments to their independence when work is allocated to them. All Internal Auditors are required to submit annual declarations of interest or no interest, the results of which assist the allocation of work to the team.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to Senior Management and the Audit Committees.

As Head of Internal Audit & Counter Fraud, the Chief Audit Executive has responsibility for counter fraud activities at Both Medway Council and Gravesham Borough Council. As such, Internal Audit cannot provide independent assurance over the counter fraud activities of either council. Instead, independent assurance over the effectiveness of these arrangements will be sought from an external supplier of internal audit services on a periodic basis.

7. Proficiency & Due Professional Care (Standard 1200)

Internal Auditors will conduct themselves at all times in accordance with the principles contained in the Code of Ethics (Competence, Confidentiality, Integrity and Objectivity). They will also behave in accordance with the Seven Principles of Public Life (Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, Leadership) and the Employee Code of Conduct.

Internal Auditors will perform work with due professional care, competence, and diligence. Internal Auditors cannot be expected to identify every control weakness or irregularity, but their work is designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal Auditors have a duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, and objectivity. Internal Auditors will appraise themselves and conduct all work in accordance with the IPPF and the PSIAS.

Internal Auditors will 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. They have a direct, personal responsibility to report any suspicions of fraud, corruption, or improper conduct to the Head of Internal Audit & Counter Fraud in accordance with agreed procedures. All counter fraud related activity will be handled by the Counter Fraud Team and results of this activity will be used to inform the Head of Internal Audit & Counter Fraud's (as Chief Audit Executive) annual opinion and the risk-based plan.

Internal Auditors will operate with strict accountability for confidentiality and safeguarding of records and information, and in compliance with the requirements of the General Data Protection Regulations (GDPR). There will be no unauthorised disclosure of information unless there is a legal or professional requirement (subject to an obligation to keep information confidential) to do so. Confidential information gained in the course of internal audit work will not be used for personal gain and will be managed in accordance with data protection and relevant information governance policies.

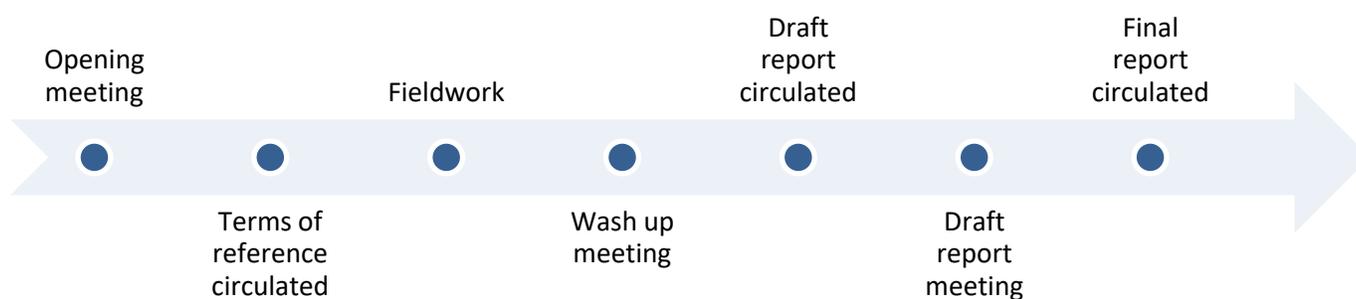
Internal Auditors will be subject to Disclosure and Barring Service (DBS) checks to comply with security requirements for access to any of the computer systems of each council.

8. Scope of Services

The scope of Internal Audit activities includes all activities conducted by the Medway Council and Gravesham Borough Council and extends to the entire control environment, including those services provided in partnership or under contract with external organisations. There are no restrictions.

The work of Internal Audit can be categorised into two key areas:

- **Assurance services** – an objective examination of evidence for the purpose of providing an independent opinion on, risk management, control, and governance processes regarding an entity, operation, function, process, system, or other subject matter. This work will primarily be delivered through planned reviews, though may also include responsive engagements, the nature and scope of which will be determined by Internal Audit. Whether planned or responsive, significant engagements (taking more than five days) will result in a formal report with an opinion and if necessary, agreed management actions. Examples include financial, performance and compliance reviews, verification of data/claims, confirmation of procurement awards, project support.



- **Consultancy services** – advisory and related client service activities, the nature and scope of which are set by the client, are intended to add value, and improve an organisation’s risk management, control, and governance processes without assuming management responsibility. These engagements will support the Head of Internal Audit & Counter Fraud’s (as Chief Audit Executive) annual opinion but will not replace assurance engagements. Examples include counsel, advice, facilitation, training.

The Head of Internal Audit & Counter Fraud (as Chief Audit Executive) cannot give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control within their area of accountability. They should ensure that appropriate and adequate risk management, control systems, accounting records, financial processes and governance arrangements exist (the control environment), without depending on Internal Audit to identify weaknesses or control failures.

The Head of Internal Audit & Counter Fraud (as Chief Audit Executive) will assist with the implementation of the counter fraud policies/strategies and the investigation of fraud and irregularities in line with the policies/strategies and the constitutions of both Medway Council and Gravesham Borough Council.

9. Internal Audit Plan (Standard 2010)

At least annually, the Head of Internal Audit & Counter Fraud will undertake a risk-based assessment to determine the priorities for internal audit activity and develop a risk based Internal Audit Plan for each council. The plans will:

- be developed in consultation with Senior Management,
- take into account the council's priorities and objectives,
- consider the risk management framework,
- consider the work of other assurance providers, and
- also be based upon Internal Audit's own judgement of risks.

The Internal Audit Plans will be presented to Senior Management and the Audit Committees for review and approval. These plans will be reviewed and adjusted, as necessary, in response to changes in the business, risks, operations, programs, systems, and controls. Any such changes to the agreed plan will be reported to the Audit Committees for approval via the periodic progress reports.

The Chief Audit Executive is responsible for ensuring the team has sufficient and appropriate resources that can be deployed effectively to deliver plans containing sufficient assurance and consultancy work to form an opinion on the overall control environment of each council. The Internal Audit Plans will include a resource budget for the period and will note the impact of any resource limitations. The Audit Committees will also receive notification of changes to projected resource as part of the periodic progress updates.

10. Reporting (Standard 2400)

A written report will be prepared and issued by the Head of Internal Audit & Counter Fraud or designee following the conclusion of each significant engagement, with the specific distribution of each report agreed in the Terms of Reference issued before the work commences. All final reports will be issued to the relevant Service Manager/Head of Service, Assistant Director/Chief Officer, Director, and the Chief Executive; all reports with financial elements will also be issued to the Section 151 Officers and all reports with legal elements will also be issued to the Monitoring Officers.

Management actions agreed as a consequence of assurance engagement findings will be followed up by Internal Audit and will follow an escalation process to address any significant findings that remain open. Internal Audit will not revise the assurance opinions given in final reports based on the results of follow up work.

On a periodic basis, a summary of Internal Audit's activity and the results of internal audit engagements will be reported to Senior Management and the Audit Committees. These reports will include the outcomes and progress updates of follow up in relation to agreed management actions.

The Head of Internal Audit & Counter Fraud (as Chief Audit Executive) will deliver an annual opinion report to each council that can be used by the organisation to inform its Annual Governance Statement and support the Statement of Accounts. This opinion will relate to the overall adequacy and effectiveness of the organisation's framework of risk management, internal controls, and governance and will incorporate as a minimum:

- The scope, including the time period covered for the opinion,
- Scope limitations,
- Consideration of all related projects including the reliance on other assurance providers,
- A summary of the information that supports the opinion,
- The risk or control framework or other criteria used as a basis for the overall opinion,
- The overall opinion, judgment or conclusion reached,

- A statement on conformance with the Public Sector Internal Audit Standards, the independence of the service, and the results of the Quality Assurance and Improvement Programme.

The opinion will be supported by the content of the annual report, which will include a statement on the organisational independence of Internal Audit and conformance with the Code of Ethics, a summary of the outcomes of all assurance and consultancy engagements undertaken during the year, a summary of the performance of the team in line with the Quality Assurance & Improvement Programme, and the status of agreed management actions resulting from assurance engagements.

11. Quality Assurance & Improvement Programme (Standard 1300)

The Internal Audit & Counter Fraud Shared Service is committed to providing a high-quality internal audit function that meets the needs of its stakeholders and adds value to both councils. It aims to support the achievement of strategic objectives by providing independent, insightful assurance on risk management, control, and governance.

Internal Audit will maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of internal audit activity, which will deliver this commitment by:

- Providing a system for monitoring and evaluating effectiveness and conformance with the Standards,
- Ensuring compliance with the Code of Ethics and council Codes of Conduct,
- Creating mechanisms to identify and implement improvements,
- Embedding a culture of continuous improvement within the team,
- Meeting client expectations / demonstrating our importance to the councils,
- Facilitating the Chief Audit Executive's statement on conformance with the PSIAS.

The QAIP will cover the results of periodic internal and external assessments, supervision of engagements, Key Performance Indicators, and customer feedback questionnaires. The Head of Internal Audit & Counter Fraud will review the QAIP on an annual basis and present to Senior Management and the Audit Committees for approval. The Audit Committees will receive details of outputs against the QAIP as part of their periodic progress updates.

