



Listening Learning Leading

INTERNAL AUDIT CHARTER 2019/2020

SOUTH OXFORDSHIRE DISTRICT COUNCIL AND VALE OF WHITE HORSE DISTRICT COUNCIL

The purpose of this paper is to provide the joint audit and governance committee with the internal audit charter for 2019/20. Responsibility for and ownership of the internal audit charter remains with the organisation. Standard 1000 of the Public Sector Internal Audit Standards (PSIAS) requires the internal audit manager to review the charter periodically but final approval resides with the joint audit and governance committee.

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1. Background

- 1.1. The internal audit charter formally defines the internal audit activity's role, purpose and authority in line with the Public Sector Internal Auditing Standards (PSIAS) and so is vital in demonstrating the internal audit service's compliance with these standards. It establishes internal audit's position within the councils and reporting lines; authorises access to records, personnel and physical property relevant to the performance of audit work; and defines the scope of internal audit activities.
- 1.2. The charter can act as a service level agreement with the strategic management team and audit committee so that there is a clear understanding of the role, purpose and position of internal audit within the organisation and the scope and nature of its work. The document acts as a guide for internal auditors in their daily work, but also assists officers and members of the councils in understanding what internal audit is and how it operates. This is to be reviewed and presented to the joint audit and governance committee on an annual basis.

2. Mission

- 2.1. The purpose of South Oxfordshire District Council and Vale of White Horse District Councils' internal audit team is to provide independent, objective assurance and consulting services designed to add value and improve the councils' operations.
- 2.2. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The internal audit team will help the councils accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

3. Definitions

- 3.1. The PSIAS require that the internal audit charter to defines the terms 'internal auditing', 'board', 'senior management', and 'chief audit executive'.
- 3.2. Internal auditing is 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.
- 3.3. The internal audit manager fulfils the 'chief audit executive' role as defined by the standards.
- 3.4. For the purposes of internal audit work, the 'board' refers to the councils' joint audit and governance committee, which oversees the work of internal audit. The key duties of the board are as follows:
 - approve the internal audit charter (Standard 1000)
 - approve the risk based internal audit plan including the approval of the internal audit budget and resource plan (Standard 1110)
 - receiving communications from the internal audit manager on internal audit performance relative to its plan and other matters (Standard 2020)
 - receive an annual confirmation from the internal audit manager with regard to the organisational independence of the internal audit activity (Standard 1110)
 - receive the results of the quality assurance and improvement programme from the internal audit manager (Standard 1320)

- make appropriate enquiries of the strategic management team and the internal audit manager to determine whether there are inappropriate scope or resource limitations.
- 3.5. For the purposes of internal audit work, 'senior management' is defined as the strategic management team. The role of the strategic management team includes the following key duties:
- input to the risk based internal audit plan (**Standard 2010**)
 - receive periodic reports from the internal audit manager on internal audit activity (**Standard 2060**); that includes follow-up reports (**Standard 2500**)
 - receive the results of the quality assurance and improvement programme from the internal audit manager (**Standard 1320**)
 - identify, evaluate and manage risk within their service areas
 - work with internal audit to provide input to scope
 - ensure that internal audit has full support of management and their teams in completing their work
 - ensure adequate resources are available to support the audit
 - implement time-bound cost effective, and appropriate actions to address internal control weaknesses identified

4. Code of ethics

- 4.1. The internal audit function is required to comply with the PSIAS. The relevant internal audit standard setters, which include the Chartered Institute of Public Finance and Accountancy (CIPFA) in respect of local government, have adopted the common set of PSIAS from 1 April 2013 and these were last revised from 1 April 2017. The PSIAS encompasses the mandatory elements of the Chartered Institute of Internal Auditors (CIIA) International Professional Practices Framework (IPPF). Compliance with the PSIAS is subject to a quality assurance and improvement programme in line with that specified in the standards.
- 4.2. The PSIAS incorporate a code of ethics to promote an ethical and professional culture. Auditors are required to comply with this code, as well as any code of ethics from other professional bodies they belong to and any code of ethics required by the councils. The PSIAS code of ethics sets out four principles which Internal Audit will adhere to. The four principles are integrity, objectivity, confidentiality and competency.
- 4.3. In addition to the PSIAS code of ethics, the internal audit team will adhere to the five values set out by the South Oxfordshire and Vale of White Horse district councils:
- we act with integrity and show respect
 - we are accountable
 - we are passionate about our business
 - we strive for simplicity
 - we love success
- 4.4. Internal auditors will also have regard to:
- the councils' policies and procedures including financial regulations
 - the internal audit charter and the internal audit manual
 - the committee on standards of public life's "Seven Principles of Public Life"
 - the relevant requirements of their professional body.
- 4.5. The internal audit manager will report periodically to senior management and the joint audit committee regarding the internal audit team's conformance to the code of ethics and the PSIAS.

5. Core principles

- 5.1. The PSIAS set out 10 core principles that internal audit must follow to be considered effective:
- demonstrates integrity
 - demonstrates competence and due professional care
 - is objective and free from undue influence (independent)
 - aligns with the strategies, objectives, and risks of the organisation
 - is appropriately positioned and adequately resourced
 - demonstrates quality and continuous improvement
 - communicates effectively
 - provides risk-based assurance
 - is insightful, proactive, and future-focused
 - promotes organisational improvement

6. Authority

- 6.1. To establish, maintain, and assure that the councils' internal audit team has sufficient authority to fulfil its duties, the joint audit and governance committee will:
- approve the internal audit charter (**Standard 1000**)
 - approve the risk-based internal audit plan (**Standard 1110**)
 - receive communications from the internal audit manager on the internal audit team's performance relative to its plan and other matters (**Standard 2020**)
- 6.2. The joint audit and governance committee authorises the internal audit team to:
- have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
 - allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.

7. Reporting

- 7.1. PSIAS 1110 states that the internal audit manager must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities and reporting to the board is the generally accepted method of helping to ensure that organisational independence is attained.
- 7.2. The internal audit manager will have organisational independence by reporting functionally to the joint audit and governance committee and administratively (i.e., day-to-day operations) to the head of finance.
- 7.3. The PSIAS state that within local government, many internal audit managers are line managed by the chief finance officer (head of finance) and organisations do not need to alter this arrangement where appropriate functional reporting arrangements are in place that do not compromise the independence and objectivity of the internal audit manager, in particular the principle that the internal audit manager must be independent of the audited activities.
- 7.4. The internal audit manager will have unrestricted access to, and communicate and interact directly with, the joint audit and governance committee, including in private meetings without management present.

- 7.5. The internal audit manager will confirm to the joint audit and governance committee, at least annually, the organisational independence of the internal audit team.

8. Internal audit independence

- 8.1. The internal audit manager will ensure that the internal audit team remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the internal audit manager determines that independence or objectivity may be impaired, or perceived to be so, the details of impairment will be disclosed to appropriate parties.
- 8.2. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:
- assessing specific operations for which they had responsibility within the previous three years
 - performing any operational duties for the councils or its affiliates
 - initiating or approving transactions external to the internal audit team
 - directing the activities of any council employee not employed by the internal audit team, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors
- 8.3. Internal auditors will:
- disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties
 - exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined
 - make balanced assessments of all available and relevant facts and circumstances.
 - take necessary precautions to avoid undue influence, by their own interests, or by others in forming judgments
 - adopt an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others
- 8.4. Should internal audit provide advice and support, regarding risk and controls, such as during the design and implementation of new systems, then independence will be preserved by ensuring that the person providing this support takes no part in any subsequent audit.
- 8.5. Where the internal audit manager has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.
- 8.6. The internal audit manager reports administratively to the Head of Finance; however in addition the internal audit manager has a direct reporting line to the co-chairs of the Joint Audit and Governance Committee (JAGC) and the Chief Executive.

9. Internal audit objectives

- 9.1. Internal audit provides an independent and objective opinion to the councils on the overall adequacy and effectiveness of the councils' framework of governance, risk management and control. It may also undertake consulting services at the request of

the councils, subject to there being no impact on the core assurance work and the availability of skills and resources.

- 9.2. Consulting services are defined as advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.
- 9.3. The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence to provide independent assessments to the joint audit and governance committee, strategic management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the councils. Internal audit assessments include evaluating whether:
- risks relating to the achievement of the councils' strategic objectives are appropriately identified and manage
 - the actions of the councils' officers, directors, employees, and contractors comply with the councils' policies, procedures, and applicable laws, regulations, and governance standards
 - the results of operations or programs are consistent with established goals and objectives
 - operations or programs are being carried out effectively and efficiently
 - established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the councils
 - information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity
 - resources and assets are acquired economically, used efficiently, and protected adequately
- 9.4. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.
- 9.5. The internal audit manager will consider relying upon the work of other internal and external assurance and consulting service providers as needed, subject to approval of the strategic management team and joint audit and governance committee. The internal audit team may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit team does not assume management responsibility.
- 9.6. The internal audit manager will disclose to the joint audit and governance committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

10. Internal audit responsibility

10.1. The internal audit manager will report periodically to senior management and the joint audit and governance committee regarding:

- the organisational independence of internal audit and any restrictions on the scope of internal audit's work, or its ability to report its findings, and related implications
- the internal audit team's purpose, authority, and responsibility (charter)
- the internal audit team's plan and performance relative to its plan
- the internal audit team's conformance with the IIA's code of ethics and the PSIAS, and action plans to address any significant conformance issues
- significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the joint audit and governance committee
- results of audit engagements or other activities
- any response to risk by management that may be unacceptable to the councils.

10.2. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

10.3. The internal audit manager has the responsibility to:

1. Review, appraise and report on:

- the adequacy and effectiveness of the system on internal controls
- compliance with corporate policies, procedures, controls and regulations
- compliance with legislation and statutory obligations
- the application of good practice in corporate governance and the management of risk
- the operations in place to establish and monitor the achievement of the councils' objectives

2. Report the following activity in relation to the annual internal audit plan:

- submit, at least annually, to senior management and the joint audit and governance committee a risk-based internal audit plan for review and approval
- communicate to senior management and the joint audit and governance committee the impact of resource limitations on the internal audit plan
- review and adjust the internal audit plan, as necessary, in response to changes in the councils' business, risks, operations, programmes, systems, and controls
- communicate to senior management and the joint audit and governance committee any significant interim changes to the internal audit plan
- ensure trends and emerging issues that could impact the councils and internal audit plan are considered and communicated to senior management and the joint audit and governance committee as appropriate

3. Review audit work to ensure:

- each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties

- audit recommendations are followed up and the status is reported periodically to senior management and the joint audit and governance committee
4. Monitor the internal audit team to ensure:
 - the principles of integrity, objectivity, confidentiality, and competency are applied and upheld
 - the internal audit team collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter
 5. Assist officers and members in the effective discharge of their responsibilities.
 6. Provide assurance that keys risks are being managed effectively and that appropriate controls are in place.
 7. Conduct special projects that contribute to the achievement of the councils' objectives. The nature and scope of the work may include facilitation, training, consultancy, and advisory services but this list is not exhaustive.
 8. Conduct independent internal investigations where directed by management.

11. External parties

- 11.1. If internal audit provides assurance or consulting services to an external party (e.g. town and parish councils), the internal audit manager will obtain formal approval from the head of finance and the joint audit and governance committee to engage with the external party.
- 11.2. A formal engagement letter will be signed by both parties, which will clarify the terms and conditions of the audit engagement and include limitations of scope. The engagement letter will include the following information:
 - audit objectives
 - audit period
 - scope of work
 - approach
 - timings
 - audit fees
- 11.3. The internal audit manager will ensure that audit fees are calculated in line with council and statutory regulations. Audit fees will not exceed the expenditure incurred in delivering the services to the external party.

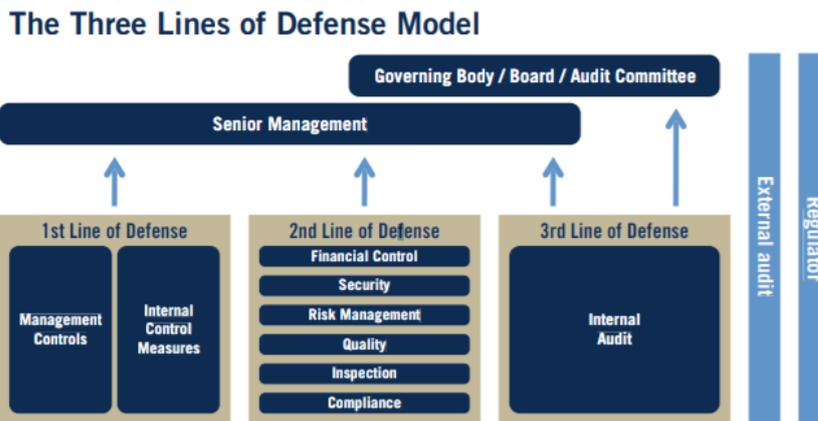
12. Corporate fraud

- 12.1. The primary responsibility for the prevention and detection of fraud lies with management, who are also responsible for managing the risk of fraud, bribery and corruption. In support of this, 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 when performing their individual audits. Auditors will have sufficient knowledge to identify indicators that fraud or corruption may have been committed.
- 12.2. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal audit does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption.

- 12.3. Any evidence or reasonable suspicion of an irregularity relating to funds, property or records shall be reported immediately to the internal audit manager in accordance with the anti-fraud, bribery and corruption policy.
- 12.4. The internal audit manager will ensure incidents of suspected fraud are reported timely to the monitoring officer.

13. Risk management

- 13.1. To ensure the effectiveness of the councils’ risk management framework, the joint audit and governance committee and the strategic management team need to be able to rely on adequate line functions within the council.



Adapted from ECIIA/FERMA Guidance on the 8th EU Company Law Directive, article 41

- 13.2. The 'Three Lines of Defence' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:
- first line of defence: functions that own and manage risk
 - second line of defence: functions that oversee or specialise in risk management, compliance
 - third line of defence: functions that provide independent assurance

- 13.3. Internal audit forms the third line of defence. The independent internal audit function will, through its risk-based approach to audit work, provide assurance to the joint audit and governance committee and strategic management team. This assurance will cover how effectively the organisation assesses and manages its risks and will include assurance on the effectiveness of the first and second lines of defence. It will encompass all elements of the councils’ risk management framework (from risk identification, risk assessment and response, to communication of risk related information) and all categories of organisational objectives: strategic, ethical, operational, reporting and compliance.

14. Quality assurance and improvement programme

- 14.1. The PSIAS require the internal audit manager to develop and maintain a quality assurance and improvement programme (QAIP) to enable the internal audit activity to be assessed against the PSIAS for conformance. The QAIP must include both internal and external assessments: internal assessments are both ongoing and periodical and external assessments must be undertaken at least once every five years.
- 14.2. The internal audit team will maintain a quality assurance and improvement programme that covers all aspects of the internal audit team. The programme will include an evaluation of the internal audit team’s conformance with the PSIAS and an evaluation of whether internal auditors apply the IIA’s code of ethics. The programme will also assess the efficiency and effectiveness of the internal audit team and identify opportunities for improvement.

14.3. The internal audit manager will communicate to senior management and the joint audit and governance committee on the internal audit team's quality assurance and improvement programme, including results of internal assessments (both ongoing and periodic). At least once every five years, an external, qualified independent assessor or assessment team will assess the quality assurance and improvement programme.

15. Approvals

Internal audit manager	Date
Head of finance	Date
Chief Executive Officer	Date
Joint audit and governance committee chairman (SODC)	Date
Joint audit and governance committee chairman (VWHDC)	Date