

Internal Audit Charter 2021-22

Internal Audit Charter

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Internal Audit Charter

Introduction

This Charter defines the purpose, authority and responsibility of internal audit. The Internal Audit Charter establishes the internal audit activity's position within the Council; authorises access to records; and defines the scope of internal audit activities.

All UK public sector internal audit service providers work to the Public Sector Internal Audit Standards (PSIAS).

The PSIAS use generic terms that, in Denbighshire County Council's case, are translated as:

PSIAS	DCC
Chief Audit Executive	Chief Internal Auditor
Senior Management	Senior Leadership Team (SLT)
The Board	Governance & Audit Committee

The PSIAS require the Chief Internal Auditor to develop and maintain an up to date Internal Audit Charter to establish:

- Internal Audit's purpose, mission and position within the Council
- The Chief Internal Auditor's functional reporting relationship with the CEO and Governance & Audit Committee
- Authorisation for Internal Audit to access records, personnel and physical properties relevant to the performance of its work
- The scope of Internal Audit's work, including the nature of its assurance role, consultancy services and its involvement in anti-fraud and corruption work
- Arrangements for resourcing the Internal Audit service
- Arrangements for avoiding conflicts of interest within the Internal Audit service

The Chief Internal Auditor will review the Charter each year and present it to the Governance & Audit Committee for final approval.

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Our Purpose

The PSIAS include mandatory elements of the Chartered Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF):

- Definition of Internal Auditing
- Core Principles
- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing

Definition of internal auditing:

“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”. *(PSIAS)*

Within the Council, Internal Audit is one of the cornerstones of effective governance. Our annual internal audit opinion and other reports are a key element of the framework of assurance that is used to complete the Annual Governance Statement. We give assurance to elected members and management, highlighting areas for improvement.

Our role is a unique one, providing effective challenge and acting as a catalyst for positive change and continual improvement in governance in all its aspects. Our role is particularly important when the Council is facing uncertain and challenging times.

Our Mission

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight” *(PSIAS)*

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Our Objectives

- Provide independent assurance and advice to management and elected members on risk management, governance and internal control
- Develop and promote our role to make a significant contribution to modernise the Council and deliver efficiencies and improve services for our customers
- Add value in all areas of our work, providing excellent service to our customers

Code of Ethics

All members of the Internal Audit service make an annual declaration that they agree to comply with the IIA Code of Ethics as follows:

Ethic	Principle
Integrity	The integrity of internal auditors establishes trust and this provides the basis for relying on their judgement.
Objectivity	Internal auditors demonstrate the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interest or by others in forming judgements.
Confidentiality	Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
Competency	Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.

In addition, our annual declaration states that we will declare any interests we may have in any services that we review; and have read the PSIAS, Code of Ethics, Council's Code of Conduct for Officers and have due regard to the Nolan Principles of Public Life.

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Core Principles for the Professional Practice of Internal Auditing

Our internal audit approach is underpinned by the following Core Principles:

- Demonstrate integrity
- Demonstrate 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

In addition, the Chief Internal Auditor will be appropriately experienced and hold a professional qualification (CCAB or CMIIA) and is responsible for:

- Developing an annual internal audit plan based on an understanding of the significant risks to which the Council is exposed.
- Submitting the plan to the Corporate Governance & Audit Committee and Senior Leadership Team for review and agreement.
- Implementing the plan and reporting any amendments that may occur.
- Ensuring compliance with the Standards.
- Developing and maintaining co-operative relationships with management, other internal auditors, external auditors and other review bodies to ensure the most effective audit coverage is achieved.
- Maintaining a professional internal audit team with sufficient knowledge, skills and experience to carry out the plan.
- Providing an annual opinion as to the adequacy and effectiveness of the Council's control environment including any issues which should be considered for inclusion in the Council's Annual Governance Statement.

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Internal Audit Positioning and Reporting Lines

The Chief Internal Auditor has a functional reporting line to the Head of Business Improvement & Modernisation, but also has direct access on internal audit issues to the Council's S151 Officer, the CEO, Cabinet, Governance & Audit Committee and Scrutiny Committees.

These extended reporting lines provide Internal Audit with sufficient independence of the activities that it reviews to enable our auditors to perform their duties objectively, allowing us to make impartial and effective professional judgements and raise issues for improvement.

The Head of Business Improvement & Modernisation reviews the Chief Internal Auditor's performance with input and feedback from the CEO and Chair of the Governance & Audit Committee. This ensures that the Chief Internal Auditor's opinion and scope of work cannot be limited or affected by his functional line management position within the Council.

Governance & Audit Committee monitor the effectiveness of Internal Audit's activities. It should be involved in the selection process when/if an internal audit service provider changes, the appointment or termination of the Chief Internal Auditor and in ensuring that internal audit is adequately resourced.

The Chief Internal Auditor will ensure that the Internal Audit service remains free from all conditions that threaten the ability of Internal Auditors to perform their work in an unbiased manner. Internal Auditors have no direct operational responsibilities or authority over any of the activities audited. In the exceptional circumstance where this is required, the approval of the Governance & Audit Committee will be obtained and safeguards put in place to protect our independence and objectivity.

The Chief Internal Auditor took on a temporary role to manage the Project Management Team that sits within the Business Improvement & Modernisation Service during 2020-21. This arrangement ended in March 2021. In order to maintain the independence of the Internal Audit service, the Senior Auditors will continue to undertake responsibility for reviewing audits relating to this team for a period of time. This will include the matter of audit selection, scope, frequency, timing and report content and the Senior Auditors will

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report directly to the Section 151 Officer if appropriate to maintain independence and objectivity.

Authority

The Council's Financial Regulations stipulate Internal Audit's rights of access, providing the service with authority to:

- Access all Council premises at reasonable times
- Access all assets, records, documents, correspondence and systems
- Receive any information and explanation considered necessary concerning any matter made under consideration
- Require any employee of the Council to account for cash or any other Council asset under his or her control
- Access records belonging to third parties, such as contractors, when required.

The Chief Internal Auditor attends Governance & Audit Committee and will meet independently with the Chair of Governance & Audit Committee periodically and has right of access to all Governance & Audit Committee members.

Scope of Internal Audit Activity

The Internal Audit service is very proactive and innovative, constantly aiming to improve. We have a customer-focused approach to audit planning, project scoping and service delivery, involving elected members, senior management and operational staff.

Our Internal Audit Assurance Plan links closely to the Council's Governance Assurance Framework, taking account of other assurances that the Council may receive, internal or external, to prevent duplication and co-ordinate regulatory work. It also takes account of discussions with senior management.

Our work provides a risk-based approach that allows the Chief Internal Auditor to form and evidence her opinion on the control environment to support the Council's Annual Governance Statement.

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Internal Audit is not responsible for managing the risk of fraud – this lies with the Council’s senior management. Internal Auditors have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the Council, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

The Council’s Financial Regulations and investigation procedures require managers to inform the Chief Internal Auditor of any suspected financial irregularities. The Chief Internal Auditor retains the right to decide on an appropriate course of action, which may mean a joint investigation or investigation by the service. All investigation reports should be sent to the Chief Internal Auditor for inclusion in a report on fraud investigations within the Internal Audit Annual Report. We will also consider any control issues identified in the fraud investigation in terms of the impact on current and future internal audit activity.

Internal Audit occasionally provide guidance and advice e.g. on new systems or may help to develop new processes using our specific skills. Services may also occasionally ask us to carry out specific projects on a consultancy basis for a fee. The Chief Internal Auditor will accommodate such requests only where there is sufficient capacity to carry out the work to the required standard. We make it clear from the outset that we are working on a consultancy basis and are not giving audit assurance on these occasions.

The PSIAS permit assurance services to be provided where internal audit has previously performed consulting services. This will only be the case where the consulting/advisory work completed has not impaired objectivity. Individual objectivity will be managed when assigning resources to the engagement.

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Resources

The Governance & Audit Committee has the responsibility to ensure the internal audit function is sufficiently resourced and has the required skills and competencies required to meet the Council's audit needs.

The service structure remains the same, so the team continues to be 6FTE. This comprises of the Chief Internal Auditor, three Senior Auditors and two Auditors.

We have a well-qualified and experienced team, mainly following the Chartered Institute of Internal Auditors qualification route (CIA) at Senior Auditor level and Association of Accounting Technicians (AAT) for the Auditor role. The Chief Internal Auditor holds the CMIIA and is a Certified Information Systems Auditor (CISA).

In accordance with the Public Sector Internal Audit Standards, the Chief Internal Auditor will advise senior management and the Governance & Audit Committee of any changes to resources that are likely to affect the completion of the planned work which may impact the ability to provide the necessary assurance.

Internal Audit Plan

At least annually, the Chief Internal Auditor will submit to senior management and the Governance & Audit Committee an internal audit plan for review and approval. The internal audit plan will consist of a list of audit priorities and resource requirements for the next financial year. The Chief Internal Auditor will communicate the impact of resource limitations and significant interim changes to senior management and the Governance & Audit Committee.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Governance & Audit Committee. The Chief Internal Auditor will review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Governance & Audit Committee through the Internal Audit Update Report.

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Reporting and Monitoring

A written report will be prepared and issued by the Internal Auditor following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Governance & Audit Committee.

The internal audit report will include management's response and corrective action taken or to be taken in regard to the specific findings. Management's response will be incorporated into an action plan which will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will follow-up all low assurance and no assurance areas and report the results to the Governance & Audit Committee. A representative from the Service will be asked by the Committee to attend to explain the action taken to address identified weaknesses.

The Chief Internal Auditor will periodically report to senior management and the Governance & Audit Committee on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Governance & Audit Committee.

Quality Assurance and Improvement

The Chief Internal Auditor maintains the quality assurance and improvement programme which covers all aspects of Internal Audit's activities. The programme includes internal and external assessments to evaluate Internal Audit's conformance with the Mission Statement, the Core Principles of Internal Auditing and the International Standards and application of the Code of Ethics.

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Internal Assessments

The Accounts and Audit Regulations (Wales) 2014 places a statutory obligation on the Council to conduct a review of effectiveness of internal audit at least once a year. This comprises of:

- Ongoing monitoring of the performance of the internal audit activity
- Periodic self-assessment of the internal audit activity against the PSIAS.

External Assessments

PSIAS require an External Assessment to be conducted at least once every five years by a qualified, independent assessor from outside the Council.

An external assessment was carried out in 2017-18 on a peer review basis organised through the Welsh Chief Auditors Group. The results were reported to Corporate Governance & Audit Committee in November 2018 which concluded that:

“The overall opinion following the external validation of Denbighshire County Council Internal Audit Service is that it generally conforms with the PSIAS. Some opportunities for further improvement have been identified as shown in this report but none of the items of partial or non-conformance are considered to be a significant failure to meet the Standards”.

Actions to address items of partial conformance have been completed as reported to the Governance & Audit Committee.

Any known instances of non-conformance with the PSIAS will be reported to the Corporate Governance & Audit Committee and any significant deviations will be considered for inclusion in the Council’s Annual Governance Statement.