

Internal Audit Charter

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Rich Clarke, Head of Audit Partnership
Lead Officer and Report Author	Rich Clarke, Head of Audit Partnership
Classification	Public
Wards affected	All

Executive Summary

The report proposes an updated Internal Audit Charter. The Charter is a key document that sets out the roles and responsibilities of the Council's internal audit service and its relationships with officers and Members. It is updated to reflect changes in standards and audit practice, most notably to reflect the Committee's expressed wish for greater engagement where internal audit issues adverse audit opinions.

Purpose of Report

Decision

This report makes the following recommendations to this Committee:

1. That the internal audit charter be approved.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	16 September 2019

Internal Audit Charter

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendation will by itself materially affect achievement of corporate priorities. However, it will support the Council's overall achievement of its aims by enhancing its governance.	Rich Clarke Head of Audit Partnership
Cross Cutting Objectives	The recommendation is not directly relevant to the cross cutting objectives, but will enhance the Council's overall governance.	4 September 2019
Risk Management	See body of report.	
Financial	The proposals set out in the recommendation are all within already approved budgetary headings and so need no new funding for implementation.	
Staffing	We will deliver the recommendation with our current staffing.	
Legal	Accepting the recommendations help will fulfil the Council's duties under the Accounts & Audit Regulations 2015. Failure to accept the recommendations without agreeing suitable alternatives may place the Council in breach.	
Privacy and Data Protection	Accepting the recommendation will increase the volume of data held by the Council. We will hold that data in line with our retention schedules.	
Equalities	The recommendation does not propose a change in service therefore will not require an equalities impact assessment	
Public Health	The recommendation will not negatively impact on population health or that of individuals.	
Crime and Disorder	The recommendation will not in itself have any impact on crime and disorder.	
Procurement	The recommendation requires no new procurement to implement.	

2. INTRODUCTION AND BACKGROUND

- 2.1 Public Sector Internal Audit Standards (the “Standards”) prescribe a Charter that sets out the purpose, authority and responsibility of the Council’s internal audit service. The Charter also affirms and accepts the professional standards governing the practice of internal audit at the Council.
- 2.2 This Committee approved a previous version of the Internal Audit Charter. The Council must review and update the Charter periodically to reflect changes in Standards and practice, most notably the 2017 update to Standards. The Charter attached for approval draws from a model document published by the Institute of Internal Audit (IIA), adapted for the Council’s circumstances and edited for clarity.
- 2.3 An Audit Charter is prescribed by Public Sector Internal Audit Standards (Standard 1000) and is a foundational document setting out the size and scope of the service. A partial extract, describing the Standards requirement is below:

1000 Purpose, Authority and Responsibility

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity’s purpose, authority and responsibility. The internal audit charter establishes the internal audit activity’s position within the organisation, including the nature of the chief audit executive’s functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

Public sector requirement

The internal audit charter must also:

- define the terms ‘board’ and ‘senior management’ for the purposes of internal audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

1000.A1

The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

1000.C1

The nature of consulting services must be defined in the internal audit charter.

- 2.4 Later this year the internal audit service will undergo an External Quality Assessment on conformance with the Standards. Ahead of that assessment provides a good opportunity to revisit the Charter and update it for changes to Standards and development of audit practice. We have also taken the opportunity to clarify and simplify the Charter.

2.5 Notable sections of the Charter include:

- Confirmation of adherence to the Standards and various other regulatory and professional guidance (paragraphs 3-5 of the Charter)
- Description of the Committee's role in support internal audit's independence and effectiveness (paragraphs 8-10 of the Charter)
- Confirmation of Mid Kent Audit's operational independence and details of how to identify and resolve conflicts of interest (paragraphs 12-19)
- The quality standards of internal audit and how these will be maintained (paragraphs 21-25)
- Responsibilities of the Head of Audit Partnership for the service (paragraphs 26-27).

2.6 We also draw to Members' attention the final bullet point under paragraph 8 in the Charter: "[The Committee will support the work of internal audit by] requiring suitable explanations of planned actions from lead officers, including through attendance in person, following adverse engagement opinions".

2.7 This section, an addition to previous Charters, reflects discussion at the previous Committee. In that discussion, Members expressed a desire to help support improvement in the Council's operation and governance by engaging directly with areas receiving adverse (that is, *weak* or *poor*) audit opinions.

2.8 The Charter sets out that expectation but is not prescriptive on how it is exercised. This is because the circumstances of adverse audit opinions, of which we see 2-4 in a typical year, will vary between those with quickly remedied technical issues to those with more deep-rooted or pervasive weaknesses. Accordingly, we expect the nature and extent of Members engagement will vary but will have a baseline assumed level of seeing the audit report in full, receiving a report in person from a relevant service officer and at least one follow up note subsequently when matters reach resolution.

2.9 Therefore, how we expect to see the process work is that on issue of a draft adverse audit report the Head of Audit Partnership will contact the Chair and Vice Chair of the Committee. This will begin a discussion about when and how the report might come to Committee after its final issue.

2.10 Sometimes a service will provide additional evidence that satisfies audit concerns so that the final report receives a positive assurance opinion (that is, *Sound* or *Strong*). In that instance the Head of Audit Partnership will advise the Chair and Vice Chair of the Committee and the report will not typically come to the Committee save as in summary as part of scheduled overall reporting on audit progress.

2.11 If the final report receives an adverse opinion, it will typically appear in full at the next suitable meeting of the Committee accompanied by a report from the relevant lead officer setting out the way forward on addressing concerns raised by the audit.

3. AVAILABLE OPTIONS

- 3.1 Having an internal audit charter is a duty set by the Accounts & Audit Regulations in their direction to adhere to the Standards.
 - 3.2 The Council currently has a Charter. That remains valid unless and until replaced. However it has fallen somewhat behind developments in Standards and also no longer accords to the practice of internal audit at the authority. For example, it does not clearly set out the required quality standards. The current Charter also does not set out clearly the Committee's expectations following adverse audit opinions.
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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 We recommend the Committee approves the attached Charter. This will ensure continued adherence to professional Standards and the Council holds a Charter which fully and accurately sets out the purpose, authority and responsibilities of internal audit at the Council.
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5. RISK

- 5.1 The risks associated with this proposal, including the risks if the Council does not act, have been considered in line with the Council's Risk Management Framework. We are satisfied that the risks associated are within the Council's risk appetite and will be managed as per the Policy.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 The Charter reflects discussion in previous Committee meetings, especially on the role of the Committee following issue of adverse audit opinions. More broadly, the Charter has been shaped by continuing discussions with officers and Members and reflects the current position of internal audit within the Council.
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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION

- 7.1 The Charter will become effective once approved.
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8. REPORT APPENDICES

- Appendix 1: Internal Audit Charter (September 2019)
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9. BACKGROUND PAPERS

The Charter draws on various sources of external professional guidance and standards. These are hyperlinked within the document.