

Internal Audit Charter

1. Introduction

1.1 This document sets out the Internal Audit service vision and clarifies the role and responsibilities of the London Borough of Barnet Internal Audit Service and the audited services. This Charter underpins the Audit Strategy & Annual Plan approved by the members of the Audit Committee. The Head of Internal Audit will periodically review this Charter and present it to senior management (defined as the Strategic Commissioning Board Assurance subgroup) and the board (defined as the Audit Committee) for approval.

2. Definition of Internal Audit

2.1 Internal Audit is defined in the Public Sector Internal Audit Standards (PSIAS) 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.”

2.2 The Accounts and Audit Regulations 2011 state that there is a statutory obligation on local authorities to have an adequate and effective system of internal audit. The PSIAS (comprising the ‘Definition of Internal Auditing’, the ‘Code of Ethics’ and the ‘Standards’) and CIPFA’s Local Government Application Note are mandatory in nature and both are adhered to in the operation of London Borough of Barnet’s Internal Audit service. Our auditors also have due regard to the Seven Principles of Public Life, as defined by the Committee on Standards in Public Life (Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, Leadership).

3. Purpose of Internal Audit

3.1 The objective of Internal Audit is to assist officers and members in the effective discharge of their responsibilities. To this end, internal audit furnishes them with assurance, analysis, appraisals, counsel and information concerning the activities reviewed and risks not mitigated adequately. This objective includes promoting effective control at reasonable cost.

4. Organisational Independence

4.1 The Internal Audit function sits within the Assurance Group, which provides independent oversight and assurance to the Strategic Commissioning Board (SCB) and to elected members. For every review undertaken, potential conflicts of interest will be considered. To be able to achieve Internal Audit’s objectives, the Head of Internal Audit and internal audit staff play no role in any of the Council’s operational

activities. Thus the Internal Audit function is able to carry out independent reviews of the areas subject to audit.

4.2 The Assurance Director is also the Monitoring Officer, and has a commissioning role for the Legal Shared Service. To avoid a conflict of interest, the Assurance Director will not be involved in any internal audit reviews that concern the Harrow and Barnet shared legal service (HB Public Law).

4.3 Any reviews that need to be undertaken of the Assurance Group (for example, governance, elections, corporate anti-fraud or risk management) will, where appropriate, be undertaken through the internal audit provider, currently Price Waterhouse Coopers (PwC), to ensure independence and objectivity to the review.

5. Status of Internal Audit

5.1 The Head of Internal Audit (Chief Internal Auditor) reports to the Assurance Assistant Director and has a statutory reporting line to the Chief Executive. The Chief Internal Auditor supports the Chief Executive and the section 151 officer to discharge their responsibilities with regard to “making proper arrangements for the financial affairs of the Council”.

5.2 The Head of Internal Audit has direct access to the Audit Committee and Chief Executive and reports in his / her own name to members. He/she is able to meet with the Chair of the Audit Committee in private for the purposes of the role.

5.3 Internal Audit has the authority to:

- enter any Council land or premises;
- have access to all records, documents, correspondence, personnel and assets of the Council (including contractors as far as the contract allows);
- receive such information and explanation as are necessary to fulfill its responsibilities; and
- require any employee of the Council to produce cash, stores or any other Council property under his or her control.

6. Responsibility of the Audit Committee

6.1 The Audit Committee is responsible for endorsing the Internal Audit & Anti-Fraud Strategy and Annual Plan. It is also responsible for approving any periodic revisions to the Internal Audit Charter.

6.2 During the course of the financial year, progress reports of internal audits carried out, with their outcomes, will be reported to members. These progress reports will include the opinions given for each audit, where appropriate.

6.3 The Audit Committee has requested details of any audits given limited or no assurance within the quarter. The detail will include the background to the audit, the findings, high and medium priority recommendations and associated management comments.

7. The role of Statutory Officers

7.1 The role of the Chief Executive, Section 151 officer, and the Monitoring officer is to provide feedback on the Internal Audit and Anti-Fraud Strategy and Annual Plan prior to it being approved by the Audit Committee. During the year, statutory officers receive progress reports from the Head of Internal Audit at Strategic Commissioning Board (SCB) Assurance meetings and are responsible for providing comments on audit recommendations and action taken to resolve those issues as reported by Internal Audit.

8. Delivery of the Audit Service

8.1 The Head of Internal Audit is responsible for preparing the Audit Strategy and Annual Plan and for delivering the audit service in accordance with that document and this Charter. To ensure that this can be achieved, there are appropriate arrangements, including reviewing the internal audit budget, for:

- determining and planning the audit work carried out; and
- providing the appropriate resources to carry out the work

8.2 The Annual Plan agreed with the Audit Committee confirms that if, during the course of the year, the Head of Internal Audit believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, this will be brought to the attention of the Audit Committee.

8.3 The Internal Audit service provides a combination of 'Assurance' and 'Consulting' activities, as classified under the PSIAS. Assurance work involves assessing how well systems and processes are designed and working. Consulting activities help to improve systems and processes where needed, generally known as advisory work. Examples include providing advice on implementing new systems and controls before they are established, facilitation and training.

8.4 When advice requested from Internal Audit would be classified as 'consulting' services under the PSIAS, if the level of resources required to complete the work could lead to the planned 'assurance' work programme for the year not being achievable, approval will be sought from the Audit Committee before the engagement is accepted.

8.5 In the case where 'consulting' advice is requested from Internal Audit, if the area is considered significantly high a risk by Internal Audit, the cost will be met from the Internal Audit budget.

8.6 In the case where 'consulting' advice is requested from Internal Audit, if the area **is not** considered significantly high a risk by Internal Audit, the service making the request will need to pay for the consulting service if they wish to proceed with the review.

8.7 To maintain independence, any auditor involved in consulting activity will not have involvement in the audit of that area for at least 12 months before or after the consulting activity.

8.8 Management's responsibilities including decisions on governance, risk management and controls will remain with management and not with the advisor.

9. Role and Scope

9.1 It is the responsibility of the Head of Internal Audit to provide senior management and the Audit Committee with an annual report on the work of the Service. This Report includes an opinion on the control environment. The control environment comprises the systems of governance, risk management and internal control. Thus all of the Council's activities are included in the scope of internal audit.

9.2 The work of the Service is, therefore, planned to achieve this opinion and will include evaluation of:

- the risk management system;
- the effectiveness of systems in relation to the business risks of delivery units, including alignment with the Council's strategic goals, and assessing their adequacy in operation;
- external assurances provided by the auditors of bodies external to the Council but providing services on its behalf;
- compliance with the Council's standing orders, financial regulations, corporate and directorate codes, legislation and other regulations;
- the extent to which assets are acquired in accordance with Council regulation, used appropriately and efficiently, accounted for and protected from losses of all kinds arising from waste, extravagance, poor value for money, fraud or misuse;
- the suitability, accuracy, reliability and integrity of management information, including financial information, and its effective use; and
- the operation of the Council's governance arrangements.

9.3 The Head of Internal Audit's annual report will include:

- the opinion;
- a summary of the work that supports the opinion; and,

- a statement of conformance with the PSIAS and the results of the quality assurance and improvement programme derived from the internal or external assessment of the Internal Audit service.

9.4 The Strategy and Annual Plan is owned by the Internal Audit and Corporate Anti-Fraud team. The risk of fraud is a standard consideration across all audit reviews undertaken. Close liaison occurs between the Internal Audit and Corporate Anti-Fraud colleagues.

9.5 In accordance with the Council's Financial Regulations all Council Members and employees are personally responsible for ensuring that they (and any subordinates) are aware of the Council's Counter Fraud Framework and the procedures and policies within it. All suspected or detected fraud, corruption or impropriety must be reported to the Assurance Assistant Director, the Chief Internal Auditor or any member of the CAFT.

9.6 Through close liaison between the Assurance Assistant Director and the Head of Internal Audit, it is ensured that any instances of suspected or detected fraud will be known and will be considered when planning internal audit reviews.

10. Managers' responsibilities with regard to Internal Audit

10.1 The effective operation of internal audit relies upon all directors, managers and staff at the Council playing a full and co-operative part in the process. To achieve this, it is vital that the following responsibilities are accepted if the full benefits of the internal audit service are to be realised. These are:

- Strategic level involvement to inform the annual audit plan;
- Operational level involvement with individual audits;
- Being open and honest with audit staff;
- Making staff and records available when requested;
- Responding to draft audit reports in the agreed timescale;
- Confirming risks and providing details of actions to mitigate risks with timescales for implementation that are achievable; and
- Implementing the agreed actions (by the agreed date) arising from the audit.

11. Internal Audit Reporting

11.1 All audit assignments will be subject to a formal report. At the end of the "audit fieldwork", a draft report will be issued to the accountable manager for the activity under review, for the factual accuracy of the findings to be confirmed. The reports will identify any risks associated with the internal control environment and recommend actions to address any deficiencies. Reports will contain recommendations that are considered to be high, medium or low priority for attention.

11.2 Assessments will be based on the following criteria:

High – Significant risk that objectives will not be met efficiently and effectively, there will be breaches of legislation policies or procedures, or that fraud or irregularity will not be prevented or detected. Ideally should be mitigated within 3 months unless the nature of work required to mitigate the risk does not easily allow this.

Medium – Some risk that objectives will not be met efficiently and effectively, there will be breaches of legislation policies or procedures or that fraud or irregularity will not be prevented or detected. Ideally, should be mitigated within 6 months unless the nature of work required to mitigate the risk does not easily allow this.

Low – Issues of best practice that merit attention/where action is considered desirable. Ideally, action to be effected within 6 months to 1 year.

11.3 Following a meeting to discuss the draft report and its risks/recommendations, (or a written response from the accountable manager) an action plan will be prepared and included in the final report.

11.4 It is the accountable manager's responsibility to confirm agreement to the reported risks and to agree to recommendations, or suggest alternatives, and timescales that are realistic and achievable.

11.5 The output of a 'consulting' activity under the PSIAS (see 8.3) will be in the form of a management letter as opposed to an audit report. A summary of the management letters issued will be reported to the Audit Committee as part of the Internal Audit quarterly progress update, along with confirmation of how any potential independence threats have been managed. Where the consulting activity identifies a significant issue further detail will be provided to the Audit Committee within the quarterly exceptions report.

11.6 For audit reports considered as 'Assurance' activities under the PSIAS (see 8.3), when High priority recommendations are initially reported, it is expected that an appropriate officer, at Assistant Director level or above, will attend the Audit Committee to answer any questions from Members. This requirement will not apply when 'Consulting' activities are first reported.

11.7 For audit reports considered as either 'Assurance' or 'Consulting' activities under the PSIAS (see 8.3), when High priority recommendations are not implemented within the agreed timescales, it is expected that an appropriate officer, at Assistant Director level or above, will attend the Audit Committee to answer any questions from Members.

11.8 At the end of the financial year, the Head of Internal Audit prepares an Annual Report which includes an opinion, based on the internal audits carried out during the year, on the internal control environment. This is Internal Audit's contribution to the annual review of effectiveness of the control environment required by the Accounts and Audit (England) Regulations 2011. The Head of Internal Audit's opinion is used to support the Annual Governance Statement.

12. Liaison with other auditors and review agencies

12.1 Internal audit is involved in a wide range of internal and external relationships. The quality of these relationships will have a significant impact on the effective delivery of audit and review services to the Council. Effective relationships will maximise the scarce resources available and minimise disruption to audited services.

12.2 Officers within the Assurance Group work closely with Capita in line with an agreed protocol that both clarifies and puts in place practical arrangements around the relevant Audit, Fraud and Risk contract clauses in both the CSG and Re contracts. A protocol is also in place with the Barnet Group.

12.3 Internal auditors and external auditors have differing roles. Wherever possible, audits will be organised to provide sufficient assurance to the other set of auditors. Regular meetings will be held between the Head of Internal Audit and the Council's appointed external audit manager to discuss audit plans, joint working and other matters of mutual interest.

13. Quality and Improvement Programme

13.1 The Head of Internal Audit is responsible for developing a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated.

13.2 To comply with the PSIAS an external assessment will be carried out of the Internal Audit service at least once every five years. This external assessment will be undertaken as part of the London Borough Peer Review framework, with the Chief Executive and the Chair of the Audit Committee sponsoring the review.

13.3 The work of the service is also reviewed by the External Auditor as part of the annual accounts audit.

Version control

Version	Date	Author(s)	Summary of Changes
V1	24 July 2013	Caroline Glitre, Head of Internal Audit	
V2	30 April 2015	Caroline Glitre, Head of Internal Audit	<ul style="list-style-type: none">• Expanded description of Advisory work (section 8)• More explicit referral to how officers should notify Assurance Group on suspected or detected fraud (section 9)• Description of reporting of Advisory work (section 11)• Reference to protocols in place with Capita and the Barnet Group (section 12)• Reference to the Quality and Improvement Programme (section 13)