

London Borough of Barnet Internal Audit Charter

July 2021

1. Introduction

This Internal Audit Charter 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. It 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 Council Management Team - CMT) and the board (defined as the Audit Committee) for approval.

2. Mission & Definition of Internal Audit

The Public Sector Internal Audit Standards (PSIAS) state that the Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation: **To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.**

Internal Audit is defined in the 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.”

The Accounts and Audit Regulations 2015 state a relevant authority must 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. The PSIAS (comprising the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing) 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 and Core Principles of Internal Audit

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.

The PSIAS include 10 Core Principles which, taken as a whole, articulate internal audit effectiveness and these are adhered to within the internal audit service at London Borough of Barnet:

- 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.

4. Organisational Independence

The Internal Audit function sits within the Assurance Directorate, which provides independent oversight and assurance to CMT 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.

Should this change, for example if the chief audit executive (Head of Internal Audit) begins to undertake non-audit activities, appropriate safeguards will be put in place to ensure independence and objectivity is maintained. For example, if the Head of Internal Audit is tasked with undertaking operational activities, internal audit review of these activities would be undertaken by the internal audit provider, currently Price Waterhouse Coopers (PwC), and the resultant reports signed off by a sponsor within CMT.

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

The Director of Assurance 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) other than as an audit client.

5. Status of Internal Audit

The Head of Internal Audit (Chief Internal Auditor) reports to the Director of Assurance 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”.

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.

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.

For clarity, the Council’s contracts with Capita allow for the following:

‘Subject to the Authority’s obligations of confidentiality, the Service Provider shall upon request provide the Authority (and/or its agents or representatives) within two (2) Business Days (unless agreed otherwise by the parties acting reasonably) with all reasonable co-operation and assistance in relation to each audit, including:

- a) all information reasonably requested by the Authority within the permitted scope of the audit;
- b) reasonable access to any Service Provider’s Premises and to any equipment used (whether exclusively or non-exclusively) in the performance of the Services;
- c) reasonable access to the Service Provider’s systems; and
- d) reasonable access to Staff.’

6. Responsibility of Audit Committee

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.

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.

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, critical, high and medium priority recommendations and associated agreed actions.

7. The role of Statutory Officers

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 CMT meetings and are responsible for providing comments on audit recommendations and action taken to resolve those.

8. Delivery of the Audit Service

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

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.

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.

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.

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.

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.

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.

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

9. Scope

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. 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.

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.

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 Internal Audit and Corporate Anti-Fraud colleagues.

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 Director of Assurance, the Chief Internal Auditor or any member of the CAFT.

Through close liaison between the Director of Assurance 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

The effective operation of internal audit relies upon all directors, managers and staff at the Council and its partners 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 (1 of 5)

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 critical, high, medium or low risk or advisory.

Internal Audit Reporting (2 of 5)

Non-Schools audits:

Assessments will be based on the following criteria:

Note: the criteria should be treated as examples, not an exhaustive list. There may be other considerations based on context and auditor judgement.

Findings rating	Description
Critical 40 points per finding	Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance. Mass strike actions etc Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny i.e. front-page headlines, TV. Possible criminal, or high profile, civil action against the Council, members or officers. Cessation of core activities, Strategies not consistent with government's agenda, trends show service is degraded. Failure of major Projects – elected Members & SMBs are required to intervene Major financial loss – Significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council; Critical breach in laws and regulations that could result in material fines or consequences
High 10 points per finding	Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale & performance of staff. Significant impact on the reputation or brand of the organisation; Scrutiny required by external agencies, regulators etc. Unfavourable external media coverage. Noticeable impact on public opinion Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome med – term difficulties High financial loss Significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences
Medium 3 points per finding	Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale & performance of staff. Moderate impact on the reputation or brand of the organisation; Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage. Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service action will be required. Medium financial loss - Small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences
Low 1 point per finding	Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale Internal Review, unlikely to have impact on the corporate image. Minor impact on the reputation of the organisation Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines. Minimal financial loss – Minimal effect on project budget/cost. Minor breach in laws and regulations with limited consequences
Advisory 0 points per finding	An observation that would help to improve the system or process being reviewed or align it to good practice seen elsewhere. Does not require a formal management response.

Internal Audit Reporting (3 of 5)

Schools audits:

Simplified descriptions are used within Schools audit reports as the issues that are typically raised in school audit reports do not correspond with the descriptions used for non-schools audits.

Note: the criteria should be treated as examples, not an exhaustive list. There may be other considerations based on context and auditor judgement.

Findings rating	Description
Critical 40 points per finding	Critical issue where action is considered imperative. Action to be effected immediately.
High 10 points per finding	Fundamental issue where action is considered imperative to ensure that the School is not exposed to high risks, also covers breaches of legislation and policies and procedures. Action to be effected within 1 to 3 months.
Medium 3 points per finding	Significant issue where action is considered necessary to avoid exposure to risk. Action to be effected within 3 to 6 months.
Low 1 point per finding	Issue that merits attention/where action is considered desirable. Action usually to be effected within 6 to 12 months.
Advisory 0 points per finding	An observation that would help to improve the system or process being reviewed or align it to good practice seen elsewhere. Does not require a formal management response.

Internal Audit Reporting (4 of 5)

Level of Assurance:

Level of assurance	Description
No 40 points or more	There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.
Limited 18– 39 points (non-schools) 20-39 (schools)	There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.
Reasonable 7– 17 points (non-schools) 7-19* (schools)	An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses but these do not undermine the system’s overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere. *For schools audits the threshold for moving into Limited Assurance is higher (19 points as opposed to 17 points). This is because there are 17 different audit scope areas in a schools audit making it possible to accumulate a high number of points through Low priority findings. Our analysis of past reports has shown that this would lead to a disproportionate increase in the number of schools receiving a Limited Assurance rating under the points based system.
Substantial ✓✓✓ 6 points or less	There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice.

Internal Audit Reporting (5 of 5)

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.

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

The output of a 'consulting' activity under the PSIAS (see section 8) 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 new issue further detail will be provided to the Audit Committee within the quarterly exceptions report.

When issuing all final reports, the Chair of the appropriate Theme Committee will be included on the distribution list to ensure they receive a timely overview of the relevant audit findings in their area.

All audit reports, once issued as final, will be made available on the Council's intranet to ensure that officers can readily access them.

All "Limited" or "No" assurance reports will be published on the Council's website.

For audit reports considered as 'Assurance' activities under the PSIAS (see section 8), when "Limited" or "No" assurance reports are initially reported, it is expected that an appropriate officer, at Assistant Director / Strategic Lead level or above, will attend the Audit Committee to answer any questions from Members. This requirement will not apply to: Schools audits; "Reasonable" assurance reports including one high priority recommendation; or when 'Consulting' activities are first reported.

For audit reports considered as either 'Assurance' or 'Consulting' activities under the PSIAS (see section 8), including Schools Audits, when critical or high priority recommendations are not implemented within the agreed timescales, it is expected that an appropriate officer, at Assistant Director / Strategic Lead level or above, will attend the Audit Committee to answer any questions from Members.

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 2015. The Head of Internal Audit's opinion is used to support the Annual Governance Statement.

12. Liaison with other auditors and review agencies

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.

Officers within the Assurance Directorate 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.

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

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.

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.

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

Definitions

The Public Sector Internal Audit Standards (PSIAS) require the Internal Audit Charter to define the terms ‘Board’ and ‘Senior Management’ for the purposes of internal audit activity. The definition of Audit Committee has also been included for completeness. Internal Audit engagements being delivered under PSIAS (central government, local government, health) must include these definitions, tailored to the client as appropriate.

<p>Board</p>	<p>The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Throughout this document, the term ‘Board’ refers to the Council Management Team (CMT).</p>
<p>Audit Committee</p>	<p>The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.</p>
<p>Senior Management</p>	<p>The individuals at the highest level of organisational management who have day-to-day responsibility for managing the organisation.</p> <p>Throughout this document, the term ‘Senior Management’ refers to Chief Executive, S151 Officer and Director of Assurance.</p>
<p>Chief Audit Executive</p>	<p>Chief Audit Executive describes a person in a senior position responsible for effectively managing the internal audit activity. The specific job title of the Chief Audit Executive may vary across organisations.</p> <p>Throughout this document, the term ‘Chief Audit Executive’ refers to Head of Internal Audit and this role is fulfilled by an officer with this job title, who sits within the Assurance Directorate.</p>

Version control

Version	Date	Author(s)	Summary of Changes
V1	24 July 2013	Caroline Glitre, Head of Internal Audit	N/A
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)
V3	08 July 2016	Clair Green, Assurance Assistant Director	<ul style="list-style-type: none"> Amendment of risk rating criteria and confirmation of what is reported to Audit Committee (section 11)
V4	20 March 2017	Caroline Glitre, Head of Internal Audit	<ul style="list-style-type: none"> Updated to reflect the 2016 PSIA's (sections 2 and 3) Addition of Schools audit rating descriptions and scoring approach (section 11)
V5	2 July 2018	Caroline Glitre, Head of Internal Audit	<ul style="list-style-type: none"> Updated to reflect the 2017 PSIA's (section 4) Updated to confirm that the Chair of the appropriate Theme Committee will receive a copy of all audit reports, all reports will be published on the Council's intranet for staff to access and all "Limited" and "No" assurance reports will be published on the Council's website (section 11)
V6	31 May 2021	Berniece Sarsah, Internal Audit Manager	<ul style="list-style-type: none"> Additional Paras in Section 4: Organisational objectivity and independence of HIA Addition Paras in Section 11: Distribution and publishing of Final Audit Reports