

Essex County Council Internal Audit Charter

1. Purpose

- 1.1. Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework (IPPF) 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'*.
- 1.2. Internal Audit has adopted the IPPF mission statement for internal auditing being *'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'*.
- 1.3. In a local authority context internal audit provides independent and objective assurance to the organisation, its Members, the Strategic Business Board, and assists the Executive Director for Corporate and Customer Services in discharging her responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.
- 1.4. More specifically the Accounts and Audit Regulations 2015 (the regulations) require that *'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'*.
- 1.5. Public sector internal auditing standards are the Public Sector Internal Audit Standards (PSIAS) as defined by the Institute of Internal Auditors in conjunction with the Chartered Institute of Public Finance and Accountancy. The PSIAS have been adopted by Internal Audit.
- 1.6. In accordance with the regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems.
- 1.7. Essex County Council defines the terminology contained within the PSIAS of 'board' as the Audit, Governance and Standards Committee, 'senior management' as the Strategic Business Board and 'chief audit executive' as the Head of Assurance.

2 Authority

- 2.1 The Internal Audit function has authority to:
 - Access any Council premises, assets, records, documents and correspondence, and control systems.

- Receive any information and explanation related to any matter under consideration.
 - Require any employee of the Council or school maintained by the Council to account for cash, stores or any other asset under his or her control.
 - Access records belonging to third parties (e.g. partners, contractors/delivery vehicles commissioned to deliver services) when required.
 - Directly access the Chief Executive, the Cabinet, the Audit, Governance and Standards Committee and Corporate Scrutiny Committee.
- 2.2 The Internal Audit function will manage all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities.

3. Responsibility

- 3.1 The Head of Assurance is required to provide an annual opinion on the adequacy and the effectiveness of the internal control system for the whole Council. In order to achieve this, the Internal Audit service has the following objectives:
- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources.
 - To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
 - To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.
 - To provide assurance that significant risks to the Council's objectives are being managed. This is achieved primarily by delivering a risk based plan of audit activity including an assessment of the adequacy and effectiveness of the risk management process.
 - To provide advice and support to management to enable an effective control environment to be maintained; for example, advice and guidance on new design and implementation control, particularly through periods of organisational change.

- To promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud and corruption.
 - To investigate allegations of fraud, bribery and corruption (see below)
- 3.2 Audit procedures alone, even when performed with due professional care, cannot guarantee the detection of fraud or corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal Auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and the Counter Fraud Team will investigate allegations of fraud and corruption.
- 3.3 In accordance with the Council's Counter Fraud & Anti-Bribery Strategy and Financial Regulations, members, officers, and staff must report any allegations of fraud to the Head of Assurance (in practice referrals are made to the Counter Fraud Team).

4 Reporting

- 4.1 The PSIAS require the Head of Assurance to report to the top of the organisation:
- The Internal Audit Charter is presented to the Strategic Business Board and approved annually by the Audit, Governance and Standards Committee.
 - The annual Internal Audit Plan is compiled by the Head of Assurance with input from the Chief Executive, Executive Directors, Executive Director for Corporate and Customer Services (s151 Officer), the Monitoring Officer and other key stakeholders. It is then presented to the Audit, Governance and Standards Committee for approval.
 - The adequacy, or otherwise, of the level of Internal Audit resources (as determined by the Head of Assurance) and the independence of Internal Audit will be reported annually to the Audit, Governance and Standards Committee with the annual Internal Audit Plan.
 - The Internal Audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
 - Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to the Chief Executive, Executive Director for Corporate and Customer Services, Monitoring Officer, the Portfolio Holder with responsibility for Finance and to the Audit, Governance and Standards Committee on at least a quarterly basis.
 - Any significant consulting activity not already included in the Audit Plan and which might affect the level of assurance work undertaken will be reported to the Audit, Governance and Standards Committee.

- Any significant outcomes from Internal Audit's Quality Assurance and Improvement Programme will be reported to the Chief Executive, Executive Director for Corporate and Customer Services (section 151 officer) and the Audit, Governance and Standards Committee.
- Any instances of non-conformance with the PSIAS must be reported to the Strategic Business Board and the Audit, Governance and Standards Committee and will be included in the Head of Assurance Annual Report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

5 Independence

5.1 The Head of Assurance has direct access to the:

- Executive Director for Corporate and Customer Services (s151 officer)
- Chief Executive
- Chair of the Audit, Governance and Standards Committee
- Monitoring Officer
- Any other member of the Strategic Business Board

5.2 The independence of the Head of Assurance is further safeguarded by ensuring that the annual appraisal of the postholder is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chairman of the Audit, Governance and Standards Committee contribute to the appraisal of the Head of Assurance. This is consistent with the requirements of the PSIAS.

5.3 It is recognised that the Head of Assurance also has other operational responsibilities. It is important to ensure that these services are appropriately considered in respect of the audit planning cycle and management of planned audit activity management arrangements (full detail and rationale is provided in Appendix 1).

5.4 *Annual internal audit plan* - The risk based internal audit plan is approved by the Audit, Governance and Standards Committee and the nominated S151 Officer (the Executive Director for Corporate & Customer Services). There should be a statement within the draft plan explaining why operational areas under the control of the Chief Audit Executive are excluded.

5.5 *Undertaking internal audit assurance activity* - Where internal audit activity is included in the final plan, terms of reference should be agreed directly with the S151 officer, who will also agree the reporting lines. The S151 officer will also decide (on the approval of the audit plan) whether the review should be

undertaken by the in-house team or by an externally commissioned provider (e.g. specialist support).

- 5.6 All staff in Internal Audit are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.
- 5.7 Internal Audit may also provide consultancy services, such as advice and guidance on new design and implementation control, particularly through periods of organisational change. Consultancy work may be driven by risk-based planning but may also be at management request where the organisation's risk and control systems and processes are embryonic or not yet mature, for example where there is no system of risk management or control framework to assure.
- 5.8 Consultancy is defined using the IIA global glossary definition as '*advisory and related client service activities, the nature and scope of which are agreed with the client (i.e. service management) and which 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*'.
- 5.9 However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit, Governance and Standards Committee.

6 Internal Audit Resources

- 6.1 It is a requirement that Internal Audit must be appropriately resourced. The Head of Assurance is responsible for appointing the staff to deliver the internal audit service and will ensure that appointments are made to ensure an appropriate mix of qualifications, experience and audit skills.
- 6.2 In addition to in-house internal audit resource, the Head of Assurance may engage the use of external resources where it is considered appropriate, including the use of specialist providers e.g. IT internal audit provision.
- 6.3 The Head of Assurance is responsible for ensuring that the resources of Internal Audit are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby the Head of Assurance concluded that resources were deemed insufficient, the Head of Assurance must formally report this to the Executive Director for Corporate and Customer Services and the Audit, Governance and Standards Committee.

7. Due Professional Care and effectiveness

- 7.1. The Internal Audit service adheres to the following standards:
- UK Public Sector Internal Audit Standards

- Institute of Internal Auditors' International Code of Ethics
 - IPPF Core Principles
 - Seven Principles of Standards in Public Life (Nolan Principles)
 - All Council Policies and Procedures
 - All relevant legislation
- 7.2. The IPPF Core Principles articulate the characteristics of an effective internal audit service. For an internal audit service to be considered effective, the IPPF requires that all Core Principles must be present and operating effectively.
- 7.3. Internal Audit therefore commits to operating in accordance with the IPPF's Core Principles, which requires it to:
- demonstrate integrity
 - demonstrate competence and due professional care
 - be objective and free from undue influence (i.e. operate independently)
 - align with the strategies, objectives and risks of the organisation
 - be appropriately positioned and adequately resourced
 - demonstrate quality and continuous improvement
 - communicate effectively
 - provide risk-based assurance
 - be insightful, proactive and future-focused
 - promote organisational improvement.
- 7.4. Internal Audit is subject to a Quality Assurance and Improvement Programme which covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, on-going performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.
- 7.5. The Head of Assurance is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

- 7.6. A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies.

Head of Assurance (Chief Audit Executive) – Independence Arrangements Background

The Head of Assurance role is the Council's Chief Audit Executive but this role also incorporates leadership responsibility for a range of other assurance services (namely insurance, business continuity, emergency planning, health and safety, emergency planning, risk management and counter fraud).

This appendix sets out how the Council will ensure that the requirements of independence are met to ensure that ECC's arrangements comply with the Public Sector Internal Audit Standards (PSIAS) which, for local government, are adopted by CIPFA.

Independence requirements

The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). Additional requirements and interpretations for the UK public sector have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF

The PSIAS (see Annex A) states that *'where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity'*. There is a more detailed interpretation:

*'The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organisational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as **periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.***

There is also additional interpretation for the Public Sector:

'When asked to undertake any additional roles/responsibilities outside of internal auditing, the chief audit executive must highlight to the board any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics as well as any relevant requirements set out by other professional bodies to which the CAE may belong. The board must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity (see also Standard 1000 Purpose, Authority and Responsibility).'

It should be noted that the 'board' in Essex County Council's Audit Charter is defined as the Audit, Governance and Standards Committee.

Potential risks

The perceived conflicts to independence:

- The composition of the annual internal audit plan (e.g. exclusion of the areas controlled by the Chief Audit Executive).
- Internal audit assurance activity undertaken on the areas controlled by the Chief Audit Executive.

Proposed process to ensure independence

Annual internal audit plan

The risk based internal audit plan is approved by the Audit, Governance and Standards Committee and the nominated S151 Officer (the Executive Director for Corporate and Customer Services).

ECC will ensure that there is a statement within the draft plan explaining why operational areas under the control of the Chief Audit Executive have been excluded.

Undertaking internal audit assurance activity

Where internal audit activity relating to services for which the chief audit executive is accountable, ECC will ensure that the terms of reference for the audit are agreed directly with the S151 officer, who will also agree the reporting lines.

When approving the annual Audit Plan, the S151 officer will also decide whether the review should be undertaken by the in-house team or by an externally commissioned provider.

Extract from Public Sector Internal Audit Standards (CIPFA) – Independence and Objectivity

1100 Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work.

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels.

1110 Organisational Independence

The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

Interpretation:

Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- approving the internal audit charter
- approving the risk based internal audit plan
- approving the internal audit budget and resource plan
- receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters
- approving decisions regarding the appointment and removal of the chief audit executive
- approving the remuneration of the chief audit executive, and
- making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

Public sector requirement

The chief audit executive must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

Public sector interpretation

Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.

1110.A1

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.

1111 Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

1112 Chief Audit Executive Roles Beyond Internal Auditing

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

Interpretation:

The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organisational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.

Public sector interpretation

When asked to undertake any additional roles/responsibilities outside of internal auditing, the chief audit executive must highlight to the board any potential or perceived impairment to independence and objectivity having regard to the principles contained within the *Code of Ethics* as well as any relevant requirements set out by other professional bodies to which the CAE may belong.

The board must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity (see also Standard 1000 Purpose, Authority and Responsibility).

1120 Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

1130 Impairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1

Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2

Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

1130.A3

The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.

1130.C1

Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2

If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

Public sector requirement

Approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.