Essex County Council

2022/2023

Internal Audit Charter



Protecting the Public Purse



Going Beyond Compliance



Delivering Strategic Value

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1 - Introduction

Internal Audit (IA) 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'.*

This Charter is in place to formally define the Internal Audit Service's role and responsibilities. It supports the work of Internal Audit by setting out it's purpose, scope, independence, authority, professional standards and quality assurance approach.

Attribute Standard 1000 of the Public Sector Internal Audit Standards (PSIAS) requires that the purpose, authority and responsibility of the IA activity must be formally defined within an IA Charter that is consistent with the Definition of Internal Auditing, the Code of Ethics and the PSIAS. It is considered good practice to assign responsibility for the efficiency and effectiveness of IA activity to a Chief Audit Executive (CAE). At Essex County Council (the Council), this role is fulfilled by the Head of Assurance (HoA), who subsequently leads on the functional reporting relationship with the Board. It should be noted that the Council defines the terminology contained within the PSIAS of 'Board' as the Audit, Governance and Standards (AGS) Committee, 'senior management' as the Corporate Leadership Team (CLT) and 'Chief Audit Executive' as the HoA.

The effective operation of IA is a key part of the control environment required for the Council to achieve its objectives and to meet its obligations. This Charter therefore sets out the purpose, activities, scope and responsibilities of the IA function within the Council. It also defines the nature of the CAE's functional reporting relationship with the Audit, Governance and Standards (AGS) Committee (ensuring independence from 1st and 2nd line management); authorises access to records, people and property relevant to the performance of engagements; and defines the scope of IA's activities.

In a local authority context, IA provides independent and objective assurance to the organisation, its Members, the CLT, and assists the s151 Officer in discharging their responsibilities under s151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

More specifically, the Accounts and Audit Regulations 2015 (the regulations) require that 'a relevant authority must undertake an effective IA to evaluate the effectiveness of its risk management, control and governance processes, taking into account PSIAS or guidance'.

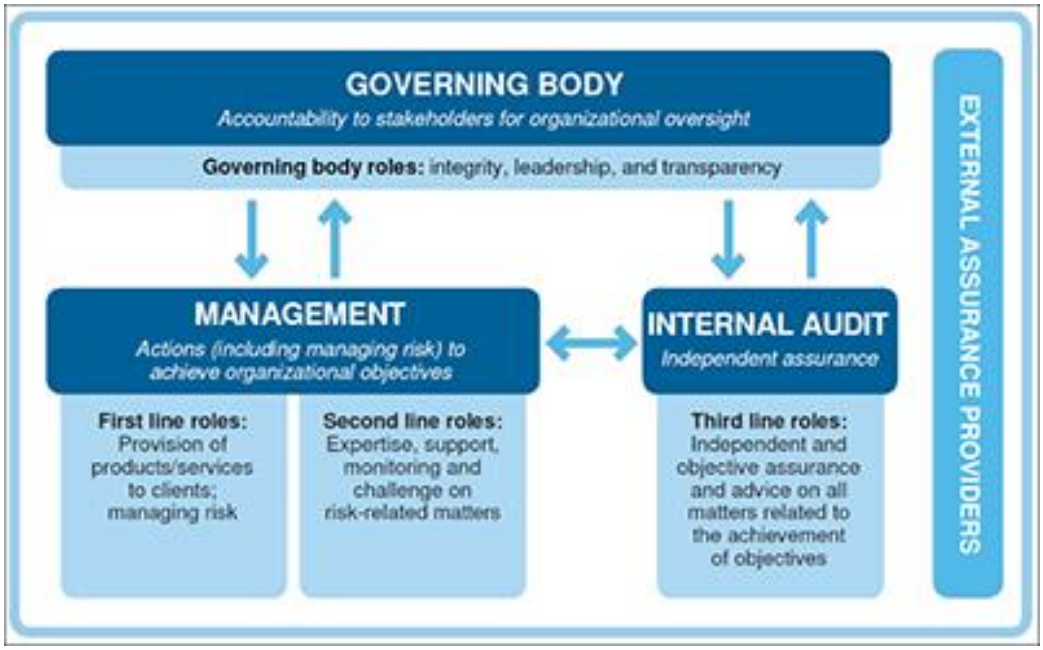
2 - Purpose, Activities and Scope

Purpose

IA's purpose is to provide independent, objective assurance and advice to assist the Council to effectively meet its objectives, manage the risks it is exposed to and add value to the organisation by improving its operations. In doing so, IA supports those charged with governance in discharging their responsibilities and reporting annually on the system of internal control within the Council's Annual Governance Statement.

The IA function is the **third** line in the Council's 'three lines approach' to risk and assurance. The first line comprises the Council's core operational services, and the second line comprises the oversight functions such as risk management.

The following diagram summarises the three lines model and explains where IA fits into the Council's assurance processes.



**(https://na.theiia.org)*

IA provides a service in accordance with the requirements set out in the mandatory PSIAS, comprising the Definition of Internal Auditing and the Code of Ethics. In order to do so, IA adopts a risk-based auditing approach and maintains an IA Manual to support compliance with PSIAS.

Activities and Scope

The role of IA involves the review of the design, adequacy and operating effectiveness of the Council's governance processes, risk management procedures, internal control environment and information systems. IA provides reasonable, but not absolute, assurance as to the adequacy and effectiveness of the Council's governance, risk management and control processes using a systematic and disciplined approach. To fulfil responsibilities in this regard, IA shall:

- Review (using a risk-based approach) the Council's operations, in conjunction with the Risk Management and Assurance functions and other key stakeholders;
- Review the adequacy of the design and effectiveness of controls to manage risks to the organisation and to ensure compliance with policies, plans, procedures and business objectives established by management;
- Review established procedures and systems and propose improvements (including those considered to be good practice advice);
- Assess the reliability and integrity of information.

There are inherent limitations in any system of internal control and thus errors or irregularities may occur and not be detected by IA's work. Unless specifically requested and agreed, IA will not perform substantive testing of underlying transactions. Audit procedures alone 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.
IA 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. However, any significant consulting activity not already included in the IA Plan and which might affect the level of assurance work undertaken will be reported to the AGS Committee.

3 - Independence and Authority

Independence

IA has organisational independence, has no executive role, nor does it have any direct responsibility for the implementation of or operation of systems. Organisational independence is reported annually via the approval of the annual IA Plan and presentation of the IA Annual Report and Audit Opinion. IA also complete declarations of interest statements to highlight and avoid any conflicts of interest.

To ensure independence, IA is directly accountable to the Chair of the AGS Committee. For operational purposes, IA will liaise with the Council's s151 Officer



Authority

IA derives authority through the AGS Committee and has unrestricted rights of access to all Council records and information, cash, stores and other property or assets it considers necessary to fulfil its responsibilities. IA may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice.

IA therefore 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 AGS Committee and the Council's scrutiny committees.

Any restriction (management or other) on the scope of IA's activities will be reported to the AGS Committee.

IA is accountable for the safekeeping and confidentiality of any information and assets acquired in the course of its duties and execution of its responsibilities.

Where the CAE has roles and/or responsibilities that fall outside of internal auditing, the PSIAS require that safeguards must be in place to limit impairments to independence or objectivity. When asked to undertake any such 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)'.*

Potential Risks – The perceived conflicts to independence:

1. The composition of the annual IA Plan (e.g. the exclusion of areas controlled by the CAE)

2. IA assurance activity undertaken on the areas controlled by the CAE

Process to ensure Independence:

1. The risk-based IA Plan is approved by the AGS Committee and the s151 Officer

2. A statement is included within the Draft IA Plan explaining why any operational areas under the Chief Audit Executive have been excluded

The independence of the CAE is further safeguarded by ensuring that the performance management of the postholder is not inappropriately influenced by those subject to audit. This is achieved by providing the opportunity for both the Chief Executive and the Chairman of the AGS Committee to contribute feedback. This is consistent with the requirements of the PSIAS.

It is recognised that the CAE 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 arrangements.

Where audit activity under the remit of the CAE is included in the IA Plan, Terms of Reference are reviewed and signed off by the Council's Monitoring Officer. The Monitoring Officer may also decide whether the review should be undertaken by the in-house team or by an external provider.

4 - Responsibility

Audit Planning
The annual IA Plan is compiled by the CAE with input from the Chief Executive, Executive Directors, s151 Officer, the Monitoring Officer and other key stakeholders. It is then presented to the AGS Committee for approval.

The IA Plan is based on a risk assessment, identifying business objectives, key risks impacting those objectives and taking into consideration input from management and other key stakeholders.

If needed, adjustments can be made to the IA Plan during the year (e.g. as a result of emerging risks and issues, or due to changes in approach to specific audits) but any such changes will require approval by the s151 Officer and communication to the AGS Committee.

Audit Execution

IA is responsible for planning, conducting, reporting and following up on audit assignments included in the IA Plan, and deciding on the scope and timing of audits. Audit fieldwork should be conducted in a professional and timely manner. Reporting of results will include an open process to agree with management the facts, validity and practicality of implementing audit recommendations.

IA is responsible for reporting to management and the AGS Committee significant issues relating to the processes and activities identified in an audit assignment, including potential improvements to those processes.

IA will monitor the implementation of actions by management in response to audit findings and will be responsible for the closure of completed actions.

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 CAE (in practice referrals are made to the Counter Fraud Team).

Reporting

The PSIAS require the CAE to report to the Board and Senior Leaders:

- An IA Charter.
- An annual IA Plan.
- The IA budget (in compliance with the PSIAS).

IA will also report on the following:

- The adequacy, or otherwise, of the level of IA resources (as determined by the CAE) and the independence of IA.
- Performance against the IA Plan and any significant risk exposures and control issues arising from audit work.
- Any significant consulting activity not already included in the risk-based IA Plan and which might affect the level of assurance work undertaken.
- Any significant outcomes from IA's Quality Assurance and Improvement Programme.
- Any instances of non-conformance with the PSIAS.

Interaction with Other Control and Assurance Activities

IA shall communicate on an on-going basis with other assurance providers (such as External Audit) in order to help ensure optimal audit coverage and reduce the risk of duplication of effort and unnecessary costs.

5 - Professional Standards and Quality Assurance

Professional Standards

IA must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. In performing their duties, IA must at all times exercise due professional care. IA therefore adheres to PSIAS, the Institute of Internal Auditors' mandatory Standards including the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (Standards).

Full details of the PSIAs can be accessed via:
https://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards

Quality Assurance

IA is subject to a Quality Assurance and Improvement Programme which covers all aspects of IA activity. This consists of an annual self-assessment of the service and its compliance with the PSIAS, on-going performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

The CAE is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

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

It is also a requirement that IA must be appropriately resourced. The CAE is responsible for appointing the staff to deliver the IA service and will ensure that appointments are made to ensure an appropriate mix of qualifications, experience and audit skills.

In addition to in-house IA resource, the CAE may engage the use of external resources where it is considered appropriate, including the use of specialist providers e.g. IT internal audit provision.

The CAE is responsible for ensuring that the resources of IA are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby the CAE concluded that resources were deemed insufficient, the CAE must formally report this to the s151 Officer and the AGS Committee.

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- **Counter Fraud Team (CounterFraud.Team@essex.gov.uk)**