



Internal Audit Shared Service

Internal Audit Charter

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Introduction

Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of London Boroughs of Camden and Islington.

It assists London Boroughs of Camden and Islington in accomplishing their objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the risk management, control, and governance processes operating in both councils.

Definitions

For the purposes of this Charter, the following definitions apply:

The Board: The governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At both LB Camden and Islington this shall mean the Audit Committee.

Senior Management: Those responsible for the leadership and direction of the Councils.

Role & Purpose

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2011, which states that a relevant body must:

‘undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.

The standards for ‘proper practices’ in relation to internal audit, are laid down in the Public Sector Internal Audit Standards 2013 (‘the Standards’).

Each Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Councils that these arrangements are in place and operating effectively. Each Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

The role of internal audit is best summarised through its definition within the Standards, 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’

Professionalism

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to LB Camden and Islington relevant policies and procedures and the internal audit activity's standard operating procedures manual.

Authority

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Audit Committee.

Organisation

The responsibility for maintaining an adequate and effective system of internal audit within LB Camden & Islington lies with the respective Directors of Finance, as the authority's Chief Finance Officers (S151 Officer).

For the Councils, internal audit is provided by internal council employees and through a partnership arrangement with PWC.

The Head of Audit is responsible for effectively managing the internal audit activity in accordance with the 'Definition of Internal Auditing', the 'Code of Ethics' and 'the Standards'.

The Head of Audit reports functionally to the Audit Committees, and organisationally to the Director of Finance who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of each Council's affairs.

The Head of Audit has direct access to the Chief Executives who carry the responsibility for the proper management of their Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

Where it is considered necessary to the proper discharge of internal audit function, the Head of Audit has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit Committees).

The Head of Audit will communicate and interact directly with the Audit Committees, including in executive sessions and between Audit Committee meetings as appropriate.

Internal Audit Resources

The Head of Audit will be professionally qualified (CIPFA, CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The Director(s) of Finance will provide the Head of Audit with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Head of Audit will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Head of Audit can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

Senior Management and the Audit Committee will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to senior management and the Audit Committee for approval. The Head of Audit will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to senior management and the Audit Committee.

If the Head of Audit, the Audit Committee or Senior Management considers that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Director(s) of Finance accordingly.

The Head of Audit must seek approval from the Audit Committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

Independence and objectivity

The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to senior management and the Board;
- reports functionally to the Board;
- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team;
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements; and
- ensures the planning process recognises and addresses potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles.

The Head of Audit will confirm to the Audit Committee, at least annually, the organisational independence of the internal audit activity

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to Senior Management and the Board. The nature of the disclosure will depend upon the impairment.

To ensure the independence of the Head of Audit is safeguarded and that remuneration and performance assessment are not inappropriately influenced by those subject to audit, the Chief Executive will both countersign and contribute feedback to the performance appraisal of the Head of Audit. Feedback will also be sought from the Chair of the Governance Committee.

Responsibility

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of each Council's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit include:

- Consistency of operations or programmes with established objectives and goals and effective performance.
- Effectiveness and efficiency of operations and employment of resources
- Compliance with significant policies, plans, procedures, laws, and regulations
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets.

Internal Audit is responsible for evaluating all processes ('audit universe') of the entity including governance processes and risk management processes. It also assists the Audit Committee in evaluating the quality of performance of external auditors and maintains proper degree of coordination with internal audit.

Internal audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Audit Committee or management, as appropriate.

Based on its activity, Internal audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to Senior Management, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee.

Internal audit plan

At least annually, the Head of Audit will submit to the Audit Committee an internal audit plan for review and approval, including risk assessment criteria. The internal audit plan will include timing as well as budget and resource requirements for the next fiscal year. The Head of Audit will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee. Prior to submission to the Audit Committee for approval, the plan may be discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

Scope of Internal Audit Activities

The Head of Audit is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

A range of internal audit services are provided to form the annual opinion. The approach is determined by the Head of Audit and will depend on the level of assurance required, the significance of the objectives under review to the organisations success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls. Additionally, proactive fraud reviews will be incorporated within the plan to deter and detect fraud, covering known areas of high risk.

Managers are required to report all suspicions of theft, fraud and irregularity to the Head of Audit. The Head of Audit manages and controls all investigations and will ensure that investigators are fully trained in carrying out their responsibilities.

Where there is evidence that Council staff are committing fraud, internal audit will liaise with Human Resources and the department concerned, invoking disciplinary action as appropriate. The decision on whether to invoke criminal proceedings will be made by the Head of Audit in conjunction with the relevant officers.

The monitoring of the Council's Anti-Fraud Strategy will be the responsibility of the Head of Audit, as part of the monitoring of the internal audit annual plan.

Internal audit also facilitate the Council's participation in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

Reporting and monitoring

A written report will be prepared and issued by the Head of Audit or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Audit Committee.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

Periodic assessment

The Head of Audit is responsible also for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

In addition, the Head of Audit will communicate to senior management and the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.



ISLINGTON

Signed by:

Head of Audit for LB Camden & Islington

Date

Director of Finance

LB Camden

Date

LB Islington

Date

Chief Executive Officer

LB Camden

Date

LB Islington

Date

Chairman of the Audit Committee

LB Camden

Date

LB Islington

Date