



## Shared Internal Audit Service

### Internal Audit Charter

#### 1. Introduction

- 1.1 Camden and Islington Councils (the Councils) operate a Shared Internal Audit Service (the Shared Internal Audit Service). This Charter sets out the purpose, authority and responsibility of the Shared Internal Audit Service.
- 1.2 In accordance with the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), and the Public Sector Internal Audit Standards (PSIAS), the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Mission of Internal Audit* and the mandatory elements of the International Professional Practices Framework (the *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics*, the *Standards* and the *Definition of Internal Auditing*).
- 1.3 The Head of Internal Audit is responsible for applying this Charter and ensuring that it is maintained in line with the PSIAS. The Head of Internal Audit will periodically review this Charter to ensure that it remains relevant to the needs of the Councils, and will present the Charter to the respective Audit Committees for approval.

#### 2. Definitions

- 2.1 Within the PSIAS, the terms 'board' and 'senior management' need to be interpreted in the context of the governance arrangements at each organisation. For the purposes of this Charter, the following definitions apply:

<b>The Board:</b>	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 Camden, this shall mean the Audit and Corporate Governance Committee, and at Islington, this shall mean the Audit Committee.
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	For the purpose of this Charter, both Councils' Committees will be collectively referred to as the 'Audit Committees'.
<b>Senior management:</b>	Those responsible for the leadership and direction of the Councils (i.e. the Corporate Management team and their respective Directorate Management teams).
<b>Consulting activities:</b>	Internal Audit advice and guidance to management on risk and control issues within individual systems to improve those systems and processes where necessary.
<b>Standards:</b>	Public Sector Internal Audit Standards (PSIAS), as well as mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework (IPPF), including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing and the Definition of Internal Auditing.

### 3. Purpose and Mission

- 3.1 The management of the Councils are responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The Shared Internal Audit Service is not responsible for designing and implementing control systems and managing risks.
- 3.2 The purpose of the Shared Internal Audit Service is to provide independent, objective assurance and consulting services (via the respective Audit Committee, Chief Executive, Section 151 Officer and senior management), in order to add value and improve operations.
- 3.3 The mission of the Shared Internal Audit Service is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight. The Shared Internal Audit Service helps the Councils to accomplish their objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management and control processes.
- 3.4 This is achieved through providing a combination of risk based assurance and consulting activities. The assurance suite of work involves assessing how well the systems and processes are designed and operating in order to effectively mitigate risk, while consulting activities aid with the improvement in systems and processes where necessary.
- 3.5 The response of the Councils to the activity of the Shared Internal Audit Service should also lead to the strengthening of governance arrangements and the control environment, and therefore, contribute to the achievement of strategic objectives.

#### Statutory Requirements

- 3.6 The Councils have a statutory duty to maintain an adequate and effective Internal Audit function in accordance with proper Internal Audit practices of the Accounts and Audit Regulations (2015).
- 3.7 Section 151 of the Local Government Act 1972 also states that *‘every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs’*. To this end, the CIPFA Statement of the Role of Chief Financial Officer in Local Government also states that the Chief Financial Officer must:
- Ensure an effective Internal Audit function is resourced and maintained; and
  - Ensure that the authority has put in place effective arrangements for the Internal Audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA’s Code of Practice on Local Authority Accounting in the United Kingdom.

## 4. Standards for the Professional Practice of Internal Auditing

- 4.1 The Shared Internal Audit Service adheres to the PSIAS, which encompass the mandatory elements of the IIA’s IPPF (*the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing*), and the Local Government Application Note provided by the Chartered Institute of Public Finance Association (CIPFA).
- 4.2 Shared Internal Audit Service staff will also have due regard to the Seven Principles of Public Life, as defined by the Committee on Standards in Public Life.

## 5. Authority

- 5.1 The Shared Internal Audit Service is responsible for providing assurance to its key stakeholders, including the Chief Executives, Senior Management, Audit Committees, and in particular the Chief Financial Officers, to assist them with discharging their statutory responsibilities under Section 151 of the Local Government Act 1972, as described above.
- 5.2 The Head of Internal Audit reports functionally to the respective Audit Committees, and organisationally to the Directors of Finance at both Councils. The Directors of Finance at each Council will provide the Head of Internal Audit with the resources necessary to fulfil the Council’s requirements and expectations as to the robustness and scope of the internal audit opinion.
- 5.3 The Head of Internal Audit also has direct and unfettered access to the Chief Executives, who carry the responsibility for the management of their respective Councils, and for ensuring that the principles of good governance are reflected in sound management arrangements.

- 5.4 Where it is considered necessary to the proper discharge of internal audit activity, the Head of Internal Audit will also have 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 Internal Audit will also communicate and interact directly with the Audit Committees' Chairs including in between Audit Committee meetings, as deemed appropriate.
- 5.5 To establish, maintain and assure that the Shared Internal Audit Service has sufficient authority to fulfil its duties, the Audit Committees of each Council will:
- Approve the internal audit charter;
  - Approve the risk based internal audit plan;
  - Receive communications from the Head of Internal Audit on the performance of the Shared Internal Audit Service, related to its plan and other matters.
- 5.6 The Shared Internal Audit Service shall:
- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information;
  - Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports; and
  - Obtain assistance from the necessary personnel of the Councils, as well as other specialised services from within or outside the Councils, in order to complete the engagement.

## **6. Independence and Objectivity**

- 6.1 The Head of Internal Audit will ensure that the Shared Internal Audit Service remains free from conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Head of Internal Audit determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.
- 6.2 Internal Auditors will maintain an unbiased attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.
- 6.3 Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:
- Assessing specific operations for which they had responsibility within the previous year;

- Performing any operational duties for the Councils or its affiliates;
  - Initiating or approving transactions external to the Shared Internal Audit Service; and
  - Directing the activities of any employee of the Councils not employed by the Shared Internal Audit Service, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.
- 6.4 Where the Head of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.
- 6.5 Internal auditors will:
- Disclose any impairment of independence or objectivity, in fact or appearance, to the Head of Internal Audit and appropriate parties;
  - Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined;
  - Make balanced assessments of all available and relevant facts and circumstances; and
  - Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.
- 6.6 The Head of Internal Audit will confirm to the Audit Committees, at least annually, the organisational independence of the Shared Internal Audit Service.
- 6.7 The Head of Internal Audit will disclose to the Audit Committees any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

## **7. Scope of Internal Audit Activities**

- 7.1 The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committees and senior management on the adequacy and effectiveness of governance, risk management, and control processes for Camden and Islington Councils.
- 7.2 The Head of Internal Audit is also responsible for providing an annual audit opinion and report that can be used to inform the Annual Governance Statement. The annual opinion will conclude on the overall adequacy and effectiveness of each organisation's framework of governance, risk management and control, and may be based on:
- A summary of internal audit work carried out for the relevant period;
  - Follow-up on the implementation of recommendations;
  - Any significant governance issues as reported within each Council's Annual Governance Statement; and
  - The annual review of the effectiveness of Internal Audit.

- 7.3 A range of Internal Audit services are provided to form the annual opinion. The approach is determined by the Head of Internal Audit and will depend on the level of assurance required, the significance of the objectives under review to the organisation's success, the risks inherent in the achievement of those objectives, and the level of confidence required that controls are well designed and operating as intended. Internal audit assessments may include evaluating whether:
- Risks relating to the achievement of strategic objectives are appropriately identified and managed;
  - The actions of officers, directors, employees, and contractors are in compliance with Camden/Islington's policies, procedures, and applicable laws, regulations, and governance standards;
  - The results of operations or programmes are consistent with established goals and objectives;
  - Operations or programmes are being carried out effectively and efficiently;
  - Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact Camden/Islington Council;
  - Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity; and
  - Resources and assets are acquired economically, used efficiently, and protected adequately.
- 7.4 The Head of Internal Audit will report periodically to senior management and the Audit Committees regarding:
- The Shared Internal Audit Service's purpose, authority, and responsibility;
  - The Shared Internal Audit Service's plan and performance relative to its plan;
  - The Shared Internal Audit Service's conformance with The IIA's Code of Ethics and Standards and, where apt, action plans to address any significant conformance issues;
  - Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committees ;
  - Results of audit engagements or other activities;
  - Any response to risk by management that may be unacceptable to the Councils.
- 7.5 The Head of Internal Audit also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed.
- 7.6 Opportunities for improving the efficiency of governance, risk management and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

#### Consultancy and Advisory Services

- 7.7 The Shared Internal Audit Service may perform consulting and advisory services related to governance, risk management and control as appropriate for each Council. It may also evaluate specific operations at the request of the Audit Committee or management, as appropriate. Before any consultancy work is agreed, the Head of Internal Audit will ensure that Shared Internal Audit Service has the appropriate skills, resources and approval to undertake the review. The Head of Internal Audit will also ensure that appropriate safeguards are in place to preserve objectivity in areas subject to future internal audit activity.

#### Counter Fraud

- 7.8 The Shared Service's role in any fraud or corruption related work will be in accordance with the Councils' respective Anti-Fraud and Corruption Strategies and with resources approved by the Audit Committee in the annual audit plans. However, Internal Auditors will have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation. In addition, the service may assist or lead, as needed, in the identification and investigation of suspected fraudulent activities within the Council and notify senior management and the Audit Committees of the results.
- 7.9 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.

#### Risk Management

- 7.10 The Councils' Risk Manager reports to the Head of Internal Audit. Safeguards will be put in place to ensure that functions deemed as inappropriate in the IIA's guidance on *The Role of Internal Auditing in Enterprise-Wide Risk Management*, are not undertaken by Internal Audit. Safeguards will be put in place to ensure that the Audit Committee and senior management receive separate, clear and objective messages from each function.
- 7.11 Any Internal Audit review of risk management will be undertaken by an external provider.

#### Third Parties

- 7.12 The Shared Internal Audit Service may carry out assurance work for third parties (i.e. organisations outside of the Councils), where requested and deemed appropriate to do so. This may include charitable, voluntary sector and other community-based organisations. Assurances provided to third parties are provided in line with the assurance provided to the Councils, as described within this Charter.
- 7.13 The Head of Internal Audit is also the Head of Internal Audit for the North London Waste Authority (NLWA). A separate internal audit plan is agreed annually with senior management and key stakeholders of NLWA, and engagements are delivered by the Shared Internal Audit Service. As part of this arrangement, internal audit services are also provided the London Energy Ltd, an NLWA subsidiary.

- 7.14 All internal audit, consultancy and advisory, and assurance work provided to third-party organisations is carried out in accordance with the standards and requirements set out within this Charter.
- 7.15 The shared service operates a co-sourced delivery model, with a portion of the annual plans delivered by an external provider. The provider is required to work to the same standards and audit methodology as detailed within this Charter.

## 8. Responsibility

- 8.1 The Head of Audit will be professionally qualified (CMIIA, CCAB or equivalent) and will have wide internal audit and management experience.
- 8.2 The Head of Internal Audit has the responsibility to:
- Submit, at least annually, to senior management and the Audit Committees, a risk based internal audit plan for review and approval;
  - Identify the resources required to deliver the audit plan and communicate to senior management and the Audit Committees of both Councils the impact of resource limitations on the internal audit plan. The Head of Audit can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources;
  - Review and adjust the internal audit plan, as necessary, in response to changes in Camden or Islington's objectives, business, risks, operations, programmes, systems, and controls;
  - Communicate to senior management and the Audit Committees any significant interim changes to the internal audit plan. This includes advising, for whatever reason, where internal audit is unable to provide assurance on any significant risks within the timescale envisaged;
  - Seek approval from the Audit Committees for any significant additional consulting services that are not already included in the audit plan;
  - Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programmes and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties;
  - Follow up on findings and recommendations, as outlined in the Internal Audit Methodology, and report periodically to senior management and the Audit Committees of both Councils any corrective actions not effectively implemented.
  - Deliver an annual audit opinion and report that can be used by each Council to inform its annual governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisations framework of governance, risk management and control;
  - Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld;

- Ensure the Shared Internal Audit Service collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter;
- Ensure trends and emerging issues that could impact on the Councils are considered and communicated to senior management and the Audit Committees as appropriate;
- Ensure emerging trends and successful practices in internal auditing are considered;
- Establish and ensure adherence to policies and procedures designed to guide the Shared Internal Audit Service;
- Ensure adherence to the Councils' relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committees;
- Ensure conformance of the Shared Internal Audit Service with the Public Sector Internal Audit Standards.

## 9. Reporting and Monitoring

- 9.1 For each audit engagement, the Shared Internal Audit Service will ensure that a terms of reference is prepared and agreed with the auditees and key stakeholders, setting out the scope of the audit.
- 9.2 On completion of the audit, a written report will be prepared and issued which, where appropriate, will provide an audit opinion/assurance statement on the effectiveness of the control environment in place. The Internal Audit report will also include management's response and action 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 agreed actions to be taken and an explanation for any recommendations that will not be implemented.
- 9.3 Internal Audit may also undertake work which does not contribute explicitly to the overall audit opinion. These may include certification of grant claims or consulting activities where Internal Audit provide independent and objective advice and guidance to management on risk and control issues within individual systems to improve those systems and processes where necessary. Where such work is undertaken, this will be set out as part of Internal Audit's annual report. In order to protect Internal Audit's independence and minimise the impact on the delivery of the overall plan, and as set out in the sections above, the Head of Internal Audit will give due consideration to the appropriateness of undertaking such work.
- 9.4 The Shared Internal Audit Service will also be responsible for appropriate follow-up of agreed action. All significant findings will remain in an action tracker until cleared. A summary of Internal Audit findings, as well as follow ups will be communicated to senior management and the Audit Committee via interim and annual audit reports. Any significant emerging risks which arise in year will be reported as they occur.

## 10. Quality Assurance and Improvement Programme

- 10.1 The PSIAS include ten Core Principles, which when taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective and achieve its mission, all Principles must be present and operating effectively:
- 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; and
  - Promotes organisational improvement.
- 10.2 The Shared Internal Audit Service will develop a Quality Assurance and Improvement Programme (QAIP) that covers internal audit activity. The QAIP will seek to provide reasonable assurance to stakeholders that the Shared Internal Audit Service:
- Conforms with the above principles;
  - Performs its work in accordance with the PSIAS (including the Definition of Internal Auditing and Code of Ethics) and the CIPFA Statement on the role of the Head of Internal Audit;
  - Operates in an effective and efficient manner;
  - Is perceived by stakeholders as adding value and continually improving operations;
  - Undertakes both periodic and on-going internal assessments, and commissions an external assessment at least once every five years.
- 10.3 The Head of Internal Audit will communicate to senior management and the Audit Committees the outcomes of the QAIP, including results of ongoing internal self-assessments and external assessments conducted at least every five years by a qualified, independent assessor (outside of Camden and Islington Councils).