INTERNAL AUDIT CHARTER FOR NEW FOREST DISTRICT COUNCIL

Introduction

The Internal Audit Charter describes the purpose, authority and responsibility of the internal audit activity. The Principal Auditor (Chief Audit Executive) is responsible for reviewing the charter and presenting it to Service Manager – Finance & Audit (Section 151 Officer) and Executive Board (Executive Management Team) and the Audit Committee (Board) at least annually for review and approval.

The charter is split into the following sections;
1. Regulatory basis for Internal Audit
2. Definition of Internal Auditing
3. Scope and Objectives of Internal Audit
4. Reporting Lines and Authority within the Council
5. Independence and Objectivity including Code of Ethics
6. Resourcing and Quality Standards
7. Standards in Audit Delivery and Management

Regulatory basis for Internal Audit

The Accounts and Audit (England) Regulations 2015, requires that a "relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes." Regulation 6 specifically requires the organisation to annually review the effectiveness of the system of internal control.

The Regulations also adds that the Authority is required to:

(a) make available such documents and records; and

(b) supply such information and explanations;

as are considered necessary by those conducting the internal audit. In this regulation "documents and records" includes information recorded in an electronic form.

Internal Audit also assists the Section 151 Officer in discharging their delegated responsibilities under Section 151 of the Local Government Act 1972 which requires the Council to;

"*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".*

The internal audit activity will govern itself by adherence to Public Sector Internal Audit Standards (PSIAS). The PSIAS includes mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing* (*Standards)*. The PSIAS applies to all internal audit service providers, whether in house, shared services or outsourced.

Council Constitution
Audit arrangements are detailed in the Council's Constitution, within Financial Regulations.

Purpose, Authority and Responsibility (Standards 1000 and 1010)

Purpose (Definition of Internal Auditing)

Internal Auditing is 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 issues.

Scope and Objectives

1. To review, appraise and report on the adequacy of internal controls across the whole organisation (Control Environment*) as a contribution to the proper, economic, efficient and effective use of resources. This includes;
   a. the completeness, reliability and integrity of information, both financial and operational
   b. the systems established to ensure compliance with policies, plans, procedures, laws and regulations
   c. the extent to which the assets and interests are accounted for and safeguarded from loss
   d. the economy, efficiency and effectiveness with which resources are employed and
   e. whether operations are being carried out as planned and objectives and goals are being met.

2. To promote Good Governance arrangements and monitor progress made against governance actions

3. To support the risk management process within the Council

4. To advise on internal control implications on new systems

5. To support in relevant corporate or service projects

6. To add value through advice, facilitation and training (subject to there being no impact on the core assurance work, maintaining independence and availability of skills and resources).

7. Provide a quality fraud investigation service and

8. Support the work of the Audit Committee

These objectives will be delivered through maintaining a high quality internal audit function that meets the needs of the Council, supporting the Section 151 Officer and the Audit Committee in discharging their responsibilities and meeting the requirements of the PSIAS.

*The PSIAS defines the Control Environment as;
"the attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control".

The control environment includes the following elements:

- Integrity and ethical values.

- Management's philosophy and operating style.

- Organisational structure.

- Assignment of authority and responsibility.

- Human resource policies and practices.

- Competence of personnel.

The Council has defined its control environment within the Assurance Framework. The detailed work of internal audit is set out within the risk based internal audit plan which is designed to support the Annual Internal Audit Opinion and Council's Annual Governance Statement. The internal audit plan will be continually reviewed to ensure emerging risks are taken into account throughout the year.

Reporting Lines and Relationships

The Principal Auditor reports to the Section 151 Officer. This enables Internal Audit to remain independent of any service and therefore in its planning and operation.

Internal audit has unrestricted access to the;
- Chief Executive
- Monitoring Officer
- Members including specifically the Chair of the Audit Committee
- all levels of management and
- other Council employees as necessary

CIPFA has published "The Role of the Head of Internal Audit in Public Service Organisations". The Principal Auditor must comply with these requirements in addition to those set out in the PSIAS.

Authority

Internal Auditors also have access to;
- enter any Council premises or land at any reasonable time, subject to any statutory requirements;
- have access to all records and documents concerning any past or prospective financial transaction of the Council;
- require, and receive, any necessary explanations concerning any matter under examination;
- require any employee of the Council to produce any of the Councils' property or asset under their control.

Independence and Objectivity (Standards 1100, 1110, 1111, 1120 and 1130)

Code of Ethics

All Internal Auditors will conform to the Chartered Institute of Internal Auditors (CIIA's) Code of Ethics. Where members of the Internal Audit team have attained membership with other professional bodies such as: the ICAEW or CIPFA, those officers must also comply with their relevant bodies' ethical requirements. In addition to this, all Internal Auditors will have regard to the Standards of Public Life's "Seven Principles of Public Life". (www.public-standards.gov.uk)

Each member of the team will receive a copy of the Code Ethics and sign up to an annual declaration to confirm that they will work in compliance with the Code of Ethics as well as

Council's standards and policies. Where potential areas of conflict may arise during the year, the auditor will also be required to disclose this. It is critical that all Auditors maintain high standards of integrity, independence, objectivity, confidentiality and competence.

Where an Internal Auditors' conduct does not comply with these standards or codes, disciplinary action may be taken, either by their Employer or by the individual's professional body.

Further Standards and Independence
Internal Auditors must remain independent; therefore Auditors will be independent of the activities audited to enable staff to perform their duties in a way that allows them to make impartial, objective and effective professional judgements and recommendations. As such, Audit staff will not have any operational responsibilities. Further to this, audit staff will not assess specific operations for which they have had any responsibility within the previous year.

The Principal Auditor will report annually to the Section 151 Officer and to Audit Committee that independence and objectivity has been maintained. If this is not the case, disclosure will be made, this for example may be as a result of resource limitations, conflicts of interest or restricted access to records.

Internal Audit Resource Management, Proficiency and Due Professional Care (Standards 1200, 1210, 1220 1230 and 2030)

Resource Management (Standard 2030)
For the audit team to fulfill their responsibilities, the team must be appropriately staffed in terms of numbers, professional qualifications, skills and experience. Resources must be effectively deployed to achieve the approved risk based plan. The mix of available knowledge, skills and other competencies will be considered once the risk based plan is drafted to ensure they are sufficient to deliver the plan.

It is the responsibility of the Principal Auditor to report concerns over a lack of resources to the Section 151 Officer and to the Audit Committee.

If necessary the Principal Auditor will agree with the Section 151 Officer additional (specialist) resources.

Employment of staff will be in compliance with HR policies. External resources will be procured in line with the Council's Financial Regulations and Standing Orders and to Contracts policy.

There is a further specific requirement under the PSIAS that approval be sought from the Audit Committee to engage in any significant additional consultancy services not already included within the audit plan.

Proficiency (Standard 1210)
The Principal Auditor must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

Each job role within the internal audit structure will detail skills and competencies within the approved job description and person specification. In line with New Forest District Council Policy and the PSAIS, each member of the team will be assessed against these predetermined competencies and annual objectives. Any development and training plans will be regularly reviewed, monitored and agreed with officers. This assessment will also take into account competency changes as needed ie. to reflect changing technology and legislation.

Auditors are also required to maintain a record of their continual professional development in line with their professional body. (Standard 1230)

Due Professional Care (Standard 1220)
Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and
- Cost of assurance in relation to potential benefits.

Considering various data analysis techniques and being alert to significant risks that may affect the objectives.

Quality Assurance and Improvement Programme (Standards 1300, 1310, 1311, 1312, 1320, 1321 and 1322)
To enable the Principal Auditor to assess the Internal Audit's activity's conformance to the PSIAS and to aid in the annual assessment of Internal Audit's efficiency and effectiveness and identify opportunities for improvement a Quality Assurance and Improvement Programme (QAIP) has been developed.

The QAIP includes both internal and external assessments (Standard 1310)

Assessment against QAIP will form part of the annual assessment of the effectiveness of internal audit (contained within the Annual Auditors Report) which is published to the Section 151 Officer, Executive Management Team and Audit Committee. (Standard 1320)

Where there are instances of non conformances to the PSIAS this is reported to the Section 151 Officer, Executive Management Team and Audit Committee. Any significant deviations will be detailed within the Annual Governance Statement. (Standard 1322)

Internal Assessment (Standard 1311)
All Auditors have access to an up to date electronic audit manual, the Internal Audit Charter, Council policies, the PSIAS and application note as well as other references such as TIS Online. In addition the Principal Auditor shares journals, publications and other relevant articles. Where staff are members of bodies such as the CIIA further guidance is available.

To maintain quality, work is allocated to staff with appropriate skills, competence and experience. All levels of staff are supervised. Work is monitored for progress, assessed for quality and to allow for coaching. (Linked to standard 2340)

Targets are set for individual auditors (such as completion of an audit within a set number of days) as well as for the team (i.e. 100% of all main financial audits to be completed). Audit targets and performance indicators are agreed with the Section 151 Officer and the Audit Committee.

In addition to the QAIP, progress made against the annual audit plan and any emerging issues (i.e. fraud risks or governance issues) are reported regularly to Section 151 Officer, Executive Management Team and the Audit Committee. (Linked to standard 2060)

Ongoing assessment of individuals is carried out through regular one to one meetings, stakeholder feedback from post audit questionnaires and formally in the annual appraisal process.

External Assessment (Standard 1312)
In compliance with the PSAIS, external assessment will be carried out at least once every five years. The preferred method would be through self assessment, with an independent validation from a peer review providing there is no conflict of interest and impairment to objectivity in this arrangement.

This arrangement and scope must be agreed with the Section 151 Officer and Audit Committee.

Performance Standards (Standards 2000, 2010, 2020, 2030, 2040, 2050, 2060 and 2070)
In order to give an evidenced based opinion there is a minimum level of coverage required. When planning the work of internal audit, assurances provided by third parties can be considered.

Planning (Standard 2010)
The Principal Auditor develops a risk based audit plan, which can be updated to reflect changing risks and priorities of the organisation, to enable the production of the annual internal audit opinion.

In order to prepare this risk based audit plan, the Principal Auditor considers both the National (i.e. economic climate) and Local issues (corporate plan, service action plans, Medium Term Financial Plan and risk registers and discussions with Service Managers and the Executive Management Team).

A risk assessment of the "Audit Universe" is undertaken by scoring a number of factors, which are weighted to give an overall score which dictates how often the area should be reviewed. (This assessment and model considers the size of the area, the control environment and Inspection regimes).

The plan will consider;
- the need for specialist auditor skills, where they are not available already
- the balance of the range of reviews and sufficient coverage to ensure that External Audit can place reliance on the work of Internal Audit
- Contingency time for ad hoc reviews or fraud investigations
- Sufficient time for audit management including audit planning, development of the annual opinion and attendance at meetings and maintenance of audit policies and procedures (Standard 2040)
- Staff training and development needs
- Liaison time with other assurance providers to share information (standard 2050), such as the External Auditor. The plan will need to consider the details within the Joint Working Protocol.
- Assurances provided by other bodies (see Assurance Framework)

The Principal Auditor reports the risk based audit plan and resource requirements to the Section 151 Officer, Executive Management Team and the Audit Committee for review and approval. For clarity the Audit Committee can approve but cannot direct the audit plan.

Nature of Work (Standards 2100, 2110, 2120 and 2130)

Governance (Standard 2110)
Internal audit will assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organisation;

- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information among the board, external and internal auditors and management.

Specifically internal audit;
- evaluates the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities
- assesses whether the information technology governance of the organisation supports the organisation's strategies and objectives

Risk Management (Standard 2120)
Internal audit evaluates the effectiveness and contributes to the improvement of risk management processes.

The PSIAS requires Internal Audit to;
1. evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

2. address risk consistent with the engagement's objectives and be alert to the existence of other significant risks

3. incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.

4. assist management in establishing or improving risk management processes, but refrain from assuming any management responsibility by actually managing risks.

Control (Standard 2130)
Internal audit assists the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

Internal audit evaluates the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes.

Fraud

Whilst it is not a primary role of Internal Audit to detect fraud, it does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud. Internal Audit can do additional work, although it cannot be prejudicial to this primary role. Typical activities may include;

- Investigating the cause of fraud
- Responding to whistleblowers
- Considering fraud in every audit
- Making recommendations to improve processes
- Review fraud prevention controls and detection processes put in place by management

Audit Delivery

Engagement Planning (Standards 2200, 2201, 2210, 2220, 2230 and 2240)

For each engagement, a brief should be prepared, discussed and agreed with relevant managers. The brief should establish the objectives, scope and timing for the audit assignment and its resources and reporting requirements. Audit work is undertaken using a risk based audit approach, which will consider the probability of significant errors, fraud and non compliance. Adequate criteria will be needed to evaluate the nature of internal audit's work. Criteria can be extended to consider value for money assessments.

Performing the Engagement (Standard 2300, 2310, 2320, 2330 and 2340)

Auditors are required to identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives. This evidence supports their conclusions, professional judgements and recommendations and therefore must be factual and accurate. This data is held in compliance with the Councils' retention policies.

Communicating Results (Standards 2400, 2410, 2420, 2421, 2430, 2431, 2440 and 2450)

The results of all engagements are reported, including the objective, scope, all material facts, conclusions, recommendations, action plans, any limitations and where appropriate contain the internal auditors' opinion.

Table 1 provides the levels of opinion that can be provided with a short description;

Table 1

Opinion	Description
Substantial Assurance	Strong system of control designed and operating effectively. Any weaknesses found were low impact and do not significantly affect the key controls of the objectives of the system.
Reasonable Assurance	A sound system of internal control but minor weaknesses were found in the system design or compliance. Results would not have a material risk to the achievement of the system objectives.
Limited Assurance	Some weakness in the system of control designed or the level of compliance which result in risk to the achievement of system objectives.
No Assurance	Fundamental weaknesses have been identified such that many key controls are absent or not operating effectively which may put at risk the achievement of the corporate control objective.

Table 2 provides a description of the three priority levels given to recommendations, together with a expected timeframe for implementation; (The framework for scoring recommendations is contained within the audit manual).

Table 2

Priority	Description
High	Fundamental weakness which presents immediate risk. Requires urgent attention. Actions are monitored.
Medium	Significant control weakness where the risk is not imminent or only a moderate nature. Needs addressing but not urgent. Actions are monitored.
Low	The weakness or opportunity for improvement where the risk poses no great threat and is relatively minor. Action is only recommended for consideration. Actions followed up six monthly up or on next audit (whichever is the sooner).

Contents of draft reports are discussed with managers for factual accuracies. It is important to bring significant issues to the attention of management during the course of engagement to allow for immediate action.

Managers are required to give responses to each recommendation, detailing the responsible officer for each action and the target date for completion. Where there is disagreement over the actions to be taken, this is recorded in the action plan with the residual risks highlighted. Where these risks are deemed to be high, they are reported to the Section 151 Officer, Executive Management Team and the Audit Committee and that risk registers are updated where relevant.

Internal Audit reports are available to the public, however no personal data is disclosed in compliance with the Data Protection Act.

Overall Opinions (Standard 2450)
The annual Internal Auditors report is prepared by the Principal Auditor. This opinion is used to inform the Annual Governance Statement. This report must conclude on the overall adequacy and effectiveness of the Councils' framework of governance, risk management and control giving an overall opinion, summary of the work undertaken to support this opinion (including any reliance placed on work by other assurance providers), a statement on the conformance with the PSIAS, the results of the QAIP and any external assessors improvement recommendations, disclosure of any impairments or limitations. If an unfavourable opinion is given, the reasons for this must be given.

Monitoring Progress (Standard 2500) and Communicating Unacceptable Levels of Risk (Standard 2600)
Internal Audit tracks progress made on all recommendations. It is the responsibility of the manager to implement and provide relevant evidence of the agreed actions to Internal Audit. Any overdue high priority recommendations are reported to the Audit Committee.

The findings and follow up reviews inform future audit planning.