

MID KENT AUDIT

Internal Audit Charter

(2016/17 Update Track Changes Version)

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Swale Borough Council



Internal audit charter

1. The Internal Audit Charter (the 'Charter') is the formal document that defines internal audit's purpose, authority and responsibility at Swale Borough Council (the 'Council'). The Charter establishes ~~internal audit's~~ the Audit Partnership's position within the authority, including the nature of the Head of Audit Partnership's functional reporting relationships. The Charter also authorises access to records, personnel and physical properties relevant to the performance of engagement and defines the scope of internal audit activities.
2. Final approval of the Charter resides with the Audit Committee, but it will be reviewed each year by the Head of Audit Partnership in consultation with the Audit Partnership Board.

Comment [RC1]: Change made to harmonise terminology in the document.

Mission

3. The Audit Partnership acknowledges and aspires to achieving the mission of Internal Auditing provided by the Institute of Internal Auditors (IIA):

To enhance and protect organisational value by providing stakeholders with risk based, ~~and objective~~ and reliable assurance, advice and insight.

Comment [RC2]: Minor change to reflect updates to the Internal Audit Mission in the International Professional Practices Framework (IPPF) launched July 2015.

Scope of work

4. The scope of the Audit Partnership's work includes, in the first instance, tasks in support of the annual Head of Internal Audit Opinion. This work covers three areas:

Internal Control

5. The system of internal control is a process for assuring achievement of the Council's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and non-financial systems.

Corporate Governance

6. Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.

Risk Management

7. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
8. In addition to those three core areas the Audit Partnership may, subject to specific arrangements, undertake engagements in the areas of counter fraud, operational risk management or advisory as discussed elsewhere in this Charter.

Authority of internal audit

9. Internal Audit is a statutory service as defined within the Accounts and Audit Regulations ~~2011-2015~~ (the 'Regulations') which require the Council ~~to maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards.~~
10. Deriving authority from those Regulations and those authorising this Charter, the Audit Partnership has free and unrestricted ability to plan and undertake audit assignments deemed necessary to fulfil its scope.
11. To enable full discharge of its duties, the Head of Audit Partnership and his team are authorised to:
- Have a right of direct access to the Chair of the Audit Committee;
 - Have unrestricted access to all functions, records, property and personnel;
 - Obtain assistance where necessary from Council officers and contractors involved in subject of audit engagements.
12. The Head of Audit Partnership and his team are not authorised to perform any operational duties for the Council, initiate or approve accounting transactions (except where directly related to the administration of the service) and direct the activities of any Council employee (except insofar as they have been appropriately assigned to assist engagements, or as described within the safeguards in this Charter).

Comment [RC3]: Wording updated to reflect revised R5 in 2015 Regulations.

Responsibility

13. The Head of Audit Partnership and his team have responsibility to undertake their work at all times in accordance with the Public Sector Internal Audit Standards (the 'Standards') ~~and~~ the IIA's Code of Ethics (the 'Code') and the broader International Professional Practices Framework (IPPF) which applies across the global practice of internal audit. In addition, those members of the team who have membership of professional bodies will comply with the relevant requirements of that organisation. Undertaking work in accordance with the Standards will include:
- Developing a flexible risk-based audit strategy and annual plan in consultation with senior management and presented annually to the Audit Committee for review and approval. The Audit Committee will also be invited to review and approve significant changes to the plan;
 - Tracking the status of agreed management actions and providing regular updates to the Audit Committee, including escalation of items of significant risk;
 - Issuing period reports to senior management and the Audit Committee summarising results of internal audit work;

Comment [RC4]: See comment above.

- Continuing liaison with the Council’s external auditors and other assurance providers to seek optimal assurance coverage;
- Communicating regularly with relevant stakeholders on progress of the **internal audit service**Audit Partnership, its work and findings; and
- Keeping the Shared Services Board (and so, the Corporate Services Director) informed on the performance of the internal audit service.

Reporting lines

14. The Head of Audit Partnership has responsibility for day to day management of the **internal audit team**Audit Partnership. The Head of Audit Partnership reports administratively to the Director of Mid Kent Services and, with respect to activities undertaken at the Council, reports functionally to the Corporate Services Director as the Council’s representative on the Audit Partnership Board. Organisationally, the Head of Audit Partnership reports to the Audit Committee. The Head of Audit Partnership also has a direct right of access to the Chief Executive as and when required.
15. Should the Head of Audit Partnership not be satisfied with the response of senior management to or engagement with a given audit review this will be highlighted to the relevant Director in the first instance and escalated to the Audit Committee if the matter remains unresolved.

Independence and objectivity

16. The **internal audit service**Audit Partnership is and will remain free from interference in determining the scope and nature of its work and communicating its results. The Head of Audit Partnership will comment on and affirm the independence and objectivity of the service in individual reports and, at least annually, in summary reports to the Audit Committee. The summary reports will consider and report separately to the Committee on each area of the Audit Partnership’s functions.

Comment [RC5]: To allow reporting on separate independence procedures that may operate around risk, counter fraud, audit and advisory

Accountability

17. The Head of Audit Partnership, in the discharge of his duties, will be accountable to the Audit Committee and the Corporate Services Director (through the Audit Partnership Board). This will include the provision of an annual Head of Audit Opinion as well as periodic reporting on significant issues and audit findings.

Management responsibilities

18. To be effective, the **internal audit service**Audit Partnership requires full co-operation of senior management. In approval of this Charter the Audit Committee and the Corporate Services Director direct management to co-operate with **internal audit**the Audit Partnership in the delivery of the service. This includes, but is not limited to, agreeing suitable briefs for audit engagements, acting as audit sponsors, providing access to appropriate records,

personnel and systems, responding to draft reports and implementing management actions in line with agreed timescales.

19. Senior management also undertakes to keep the ~~internal audit service~~Audit Partnership abreast of significant proposed changes in processes, systems or organisation, newly identified significant risks and all suspected or detected fraud, corruption or impropriety.
20. Senior management will also ensure that the ~~internal audit service~~Audit Partnership has access to sufficient resources to fulfil the audit plan as directed by the Audit Committee. Responsibility for arranging and deploying resources in fulfilment of the plan rests with the Head of Audit Partnership.

Non Audit Work

Consultancy

21. The Standards allow that Internal Audit resource may sometimes be more usefully focused towards providing advice rather than assurance. Where appropriate, the service may act in a consultancy capacity by giving guidance, providing that:
 - The objectives of the engagement address governance, risk management or internal control,
 - The request has been approved by a member of Senior Management Team,
 - The service has the right skills, experience and available resource, and
 - ~~Internal audit's~~The Audit Partnership's involvement will not constitute a conflict of interest, compromise the appearance or fact of its independence and will not involve assuming a management role in providing advice.
22. The Head of Audit Partnership is responsible for ensuring all requests are reviewed in accordance with the above criteria and for making the final decision. The specific role of ~~Internal Audit~~the Audit Partnership in any particular engagement will be agreed with the sponsor, documented within the assignment plan and reported to the Audit Committee at the next opportunity.
23. With respect to significant requests, defined as those which require the purchase of additional resources or amendment to the agreed audit plan, the Head of Audit Partnership will consult the Chair of the Audit Committee before accepting the engagement.

Risk Management

24. ~~Internal Audit's~~The Audit Partnership's role ~~is in~~ Risk Management will be guided by the Institute of Internal Auditors position paper on *The Role of Internal Auditing in Enterprise-Wide Risk Management* ~~and documented in the Council's Risk Management Strategy.~~

~~Internal Audit~~The Audit Partnership will not undertake roles defined as inappropriate by that guidance. ~~Inappropriate roles include setting the Council's risk appetite, imposing a risk management process and taking on full accountability for risk management. Where Internal Audit undertake roles defined as 'legitimate internal audit roles with safeguards' the nature and extent of those safeguards will be agreed with the Corporate Services Director and reported to the Audit Committee.~~

25. ~~The position paper lists the following as legitimate internal audit roles with safeguards:~~

- ~~• Co-ordinating risk management activities,~~
- ~~• Consolidated risk reporting,~~
- ~~• Developing a risk approach for approval and its subsequent maintenance,~~
- ~~• Facilitating identification and evaluation of risks, and~~
- ~~• Coaching management in responding to risks.~~

26. ~~The Council's Risk Management Strategy allows for the Audit Partnership to undertake all of those roles, providing safeguards are in place and agreed through the Audit Charter. The safeguards include:~~

- ~~• Internal separation of duties within the Audit Partnership, managed through the Deputy Head of Audit Partnership role. The Deputy Head of Audit Partnership will lead on reviews of the risk management approach which are reported separately to the Audit Committee and sponsored by the Corporate Services Director.~~
- ~~• The Audit Partnership's resource input into risk management will be approved each year by the Audit Committee through the Audit Plan and monitored through update reports.~~
- ~~• Overall responsibility for approving the risk management approach remains Cabinet acting on the advice of the Council's Senior Management Team. The Audit Committee retains its constitutional role of conducting its own assessments on the effectiveness of the Council's risk management approach which may, if required, also include independent review.~~

~~24-27. Although not a part of the Council's internal controls, the Audit Committee may also draw assurance from any work completed by the Council's external auditors in completing their work supporting the Value for Money conclusion.~~

Counter Fraud

28. ~~Internal Audit's~~The Audit Partnership's role on Counter Fraud will be in accordance with the Council's *Counter Fraud Strategy* and with the resources approved by the Audit Committee in the Annual Audit Plan.

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29. This role may include developing and maintaining relevant policies, including an overall *Counter Fraud Strategy* for approval by appropriate officer and Member groups as required by the Council's constitution.

Comment [RC6]: Specifically required for audit to be able to take ownership of corporate counter fraud policies in a way consistent with the Standards.

25-30. The Audit Partnership may also undertake training and awareness raising activity for officers and Members on the Council's *Counter Fraud Strategy* and related policies and procedures. Such training will be undertaken in consultation with appropriate officer groups.

31. ~~Internal Audit~~The Audit Partnership may assist or lead, as needed, in the identification and investigation of significant suspected fraudulent activities within the Council and notify Management and the Audit Committee of the results. This may include examining matches identified by the National Fraud Initiative, the Kent Intelligence Network or any other data matching activities.

26-32. Where a significant investigation requires purchase of additional resource or amendment to the agreed audit plan the Head of Audit Partnership will consult the Chair of the Audit Committee after discussion with the Corporate Services Director.

Major Projects

27-33. ~~Internal Audit~~The Audit Partnership will be informed of major projects and their progress through continuing discussion with Management. ~~Internal Audit~~The Audit Partnership's response to major projects will be proportionate to the risk in terms of the inclusion of specific audit work within the annual audit plan. Where a project team seeks advice or further support from Internal Audit, we will treat that request as one for consultancy support as described from paragraph 21.

Relationships

28-34. The Head of Audit Partnership and the audit team are involved in a wide range of relationships whose quality are-is important in supporting the effective delivery of the audit function.

Relationships with management

29-35. The ~~internal audit service~~Audit Partnership will maintain effective relationships with managers at the Council. This will include consultation in the audit planning process both at an overall plan level and with respect to the scope of individual audit projects as well as regular meetings with key stakeholders. Timing of audit work will also be agreed in conjunction with Management.

Relationships with external auditors and regulators

30-36. The ~~internal audit service~~Audit Partnership and Grant Thornton LLP have an established and sound working relationship described in more detail within the *Internal/External Audit*

Protocol presented to the Audit Committee in March 2014. ~~We-Each~~ will continue to rely upon and draw from each other's work subject to the limits and duties determined by our respective responsibilities and professional standards. This enables ~~us to~~ evaluate ~~evaluation~~ and review of work ~~and only leading to~~ re-performance only where necessary. ~~We-The Audit Partnership and Grant Thornton LLP will~~ meet regularly and share ~~our~~ plans and reports.

~~31-37.~~ The ~~internal audit service~~ Audit Partnership will also take account of the results and reports from any other external inspections or reviews when planning and undertaking audit work. Where appropriate the Head of Audit Partnership or appropriately delegated representative will represent the service in consultation and discussion with external agencies, inspectors or regulators.

Relationships with Members

~~32-38.~~ The Head of Audit Partnership will be the first point of contact for Members, in particular members of the Audit Committee. However, ~~we-the Audit Partnership~~ places great store in gaining and maintaining an effective working relationship with Members and so will foster good contacts throughout the internal audit service as appropriate.

~~33-39.~~ The Head of Audit Partnership will have the opportunity to meet separately (that is, without other officers in attendance) with the Chair of the Audit Committee and other Members if desired.

Standards of internal audit practice

~~34-40.~~ This Charter recognises the mandatory nature of the IIA definition of Internal Auditing and Code of Ethics ~~and~~ the Public Sector Internal Audit Standards and the IPPF. The ~~Internal Audit team~~ Audit Partnership comply with these standards.

Quality assurance

~~35-41.~~ The Standards require that audit be subject to a quality assurance and improvement programme. For ~~Mid Kent Audit~~ the Audit Partnership, that programme incorporates both internal and external elements.

Internal assurance

~~36-42.~~ All ~~of our~~ audit engagements are subject to review by management ~~and the Head of~~ Audit Partnership prior to finalisation. These reviews seek to ensure that work undertaken is consistent with the Standards, consistent with the risks associated with the area under review and that conclusions are supported by detailed work undertaken. ~~We will vary~~ The Audit Partnership varies the range and scope of reviewers to help maintain consistency and support learning within the service.

External assurance

~~37.43.~~ An external assessment must be conducted at least once every five years by a qualified, independent assessor from outside the organisation. The ~~service's~~ Audit Partnership's most recent such assessment was completed by the Institute of Internal Auditors in 2014, with results reported to the Audit Committee. The Head of Audit Partnership will keep the need for external assurance under review and discuss options with the Corporate Services Director and the Audit Committee as the need arises.

This Charter is authorised within Swale Borough Council:

Corporate Services Director: Mark Radford

Audit Committee Chairman: Councillor ~~Patricia Sandle~~Nicholas Hampshire

With the agreement of:

Head of Audit Partnership: Rich Clarke

Mid Kent Services Director: Paul Taylor

Agreed by Audit Committee: ~~25 March 2015~~ 9 March 2016

Next Review required: Annually