

Internal Audit Charter

March 2021

INTERNAL AUDIT CHARTER

1.0 PURPOSE AND MISSION

- 1.1 The purpose of South Ribble Borough Council's (SRBC) Internal Audit Service is to provide independent, objective assurance and consulting services designed to add value and improve SRBS's operations. The Internal Audit Service helps SRBC accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.
- 1.2 Whilst it is the Council's responsibility to establish and maintain effective risk management and control systems, Internal Audit plays a key role in providing assurance to the Council that these systems are not only in place but are operating effectively. Any necessary action arising as a result of its work is designed to further strengthen the control environment and therefore assist with the achievement of the organisation's objectives.
- 1.3 Responsibility for and ownership of this Charter remains with the Council, however, while responsibility for its periodic review rests with the Shared Service Lead for Audit and Risk (Head of Internal Audit), final approval resides with the Audit Committee.

2.0 MISSION STATEMENT

- 2.1 "To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight"

3.0 STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDIT

- 3.1 The Charter establishes the Framework in which SRBC's Internal Audit Service operates and allows it to meet its professional obligation under the Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors Professional Practices Framework, including its definition of Internal Auditing, Code of Ethics and international standards for the professional practice of Internal Auditing.
- 3.2 For the purposes of clarity, the terms "*Board*" and "*Senior Management*" as referred to in the PSIAS, relate to the Governance Committee and the Senior Management Team. The term "*Chief Audit Executive*" shall refer to the Shared Service Lead for Audit and Risk.
- 3.3 In carrying out its work, the Internal Audit section has regard to the seven principles of public life i.e. Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.

4.0 AUTHORITY

- 4.1 The Internal Audit Section derives authority from the Governance Committee, the Council and statute (Section 151 Local Government Act 1972 and the Accounts and Audit Regulations 2015).
- 4.2 Internal Audit, 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 Service in

fulfilling its roles and responsibilities. The Internal Audit Service will also have free and unfettered access to the Governance Committee.

5.0 ORGANISATIONAL INDEPENDENCE & OBJECTIVITY

- 5.1 The Shared Service Lead for Audit and Risk operationally reports on day to day matters to the Director of Governance who is also the Council's Monitoring Officer and a member of the Senior Management Team. In all other aspects, the Shared Service Lead for Audit and Risk reports to the Governance Committee.
- 5.2 Internal Audit is independent of the Council's other services and has no other executive or operational responsibilities. It is organisationally independent in the planning, operation and reporting of its work and in exceptional circumstances and at his or her discretion, the Shared Service Lead for Audit and Risk has direct access to and freedom to report in his or her name to the Chief Executive and to the Chair of Governance Committee. In addition, the Shared Service Lead for Audit and Risk also has direct access to all senior management.
- 5.3 Shared Service Lead for Audit and Risk Audit will confirm to the Governance Committee, at least annually, the organisational independence of the Internal Audit Service.
- 5.4 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.
- 5.4 The Shared Service Lead for Audit and Risk is also operationally responsible for the Council's Insurance, Business Continuity, Emergency Planning functions and for the administration and development of, and reporting on, the Council's Risk Management Strategy. It is considered prudent that any internal audit engagement covering the above operational areas and the risk management framework, especially for the formation of the annual opinion on the effectiveness of the control environment, would be overseen by a third-party external to the organisation.
- 5.5 In any instances, in addition to those outlined above, where there is any real or perceived impairment to Internal Audit's independence or objectivity, assurance will also be sought from a third-party external to the organisation.

6.0 SCOPE OF ACTIVITIES

- 6.1 The PSIAS state that the provision of assurance services is the primary role of Internal Audit activity and requires the Shared Service Lead for Audit and Risk to provide an annual opinion based on an objective assessment of the adequacy of the framework of governance, risk management and control. As such, the scope of its work relates to all the Council's activities, including those operated through partnerships with other organisations.
- 6.2 The role of Internal Audit is to understand the key risks of the Council and to examine and evaluate the adequacy and effectiveness of the system of risk management and internal control as operated by the Council. Internal Audit, therefore, has unrestricted access to all activities undertaken by the Council, in order to review, appraise and report on:
 - the adequacy and effectiveness of all systems of financial, operational and management control and their operation in practice in relation to the business risks to be addressed;

- the extent of compliance with, relevance of, and financial effect of, policies, standards, plans and procedures established by the Council, and the extent of compliance with external laws and regulations;
- the economy, efficiency and effectiveness with which resources are employed;
- whether operations are being carried out as planned and corporate priorities are being met;
- the extent to which assets and interests are acquired economically, used efficiently, accounted for and safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, poor value for money, fraud or other cause and that business continuity plans exist;
- the suitability, accuracy, reliability and integrity of financial and other management information and the means used to identify, measure, classify and report such information;
- the integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud, and loss of all kinds; and that the process aligns with the Council's corporate priorities;
- the various sources of assurance that are available within the areas being reviewed and the extent to which these sources are effective in mitigating the risks. This is particularly the case where services may be provided in partnership and the Shared Head of Internal Audit will decide, in consultation with all parties, whether Internal Audit will carry out work to derive the necessary assurance or rely on the assurance provided by partners;
- the follow-up action taken to remedy weaknesses identified by Internal Audit review, ensuring that good practice is identified and communicated widely;
- the operation of the Council's corporate governance arrangements;
- the operation of the Council's risk management arrangements.

6.3 The Internal Audit Service will provide consultancy advice to management on all aspects of risk and control, on best financial practice, on interpretation of Financial and Contracts Procedure Rules, and on security arrangements. In addition, the section provides support and training on the GRACE system, all aspects of counter fraud, corruption, bribery and anti-money laundering.

6.4 The Internal Audit Service will undertake special investigations in cases of suspected fraud or irregularity. Financial Procedure Rules and the Council's Anti-Fraud and Corruption Policy require the Shared Service Lead for Audit and Risk to be notified immediately of all discovered or suspected cases of fraud, corruption or other financial irregularity.

7.0 RESPONSIBILITIES

7.1 The Shared Service Lead for Audit and Risk, is responsible for: -

- managing the Internal Audit Section and determining the scope and methods of audit activity;
- ensuring that Internal Audit staff operate within current auditing standards. For local authority auditors, these are mandatory and are laid down in the UK Public Sector Internal Audit Standards (PSIAS);
- ensuring that Internal Audit staff operate within ethical standards concerning professional behaviour issued by CIPFA (Statement of Professional Practice on Ethics) and the PSIAS (Code of Ethics);

- ensuring that Internal Audit staff have an impartial, unbiased attitude and avoid conflicts of interest;
- identifying areas of operation for Internal Audit review. Developing the Annual Audit Plan based on an assessment of materiality, risk factors and previous assurance, identifying the resources required to achieve the plan;
- Ensure trends and emerging issues that could impact upon South Ribble are considered and communicated to senior management and the Audit Committee as appropriate;
- consulting and agreeing the contents of the Annual Audit Plan with Senior Managers and Senior Management Team;
- submitting the Annual Audit Plan to the Governance Committee for approval;
- implementing the approved Annual Audit Plan;
- maintaining a suitably resourced, professional audit staff with sufficient knowledge, skills and experience to carry out the audit plan; in the event that resources are insufficient through either additional work being required or a loss of staff, the Shared Service Lead for Audit and Risk shall report this with a view to seeking approval for either additional temporary resources or a report be issued to Governance Committee informing them of the shortfall in resources and seeking their approval to a reduction in the audit plan;
- Review and adjust the audit plan as necessary, in response to changes in the Council's risks, operations, programmes, systems and controls and agree any changes with the Governance Committee;
- reporting to Management on the results of audit activities, identifying and agreeing improvements where necessary;
- giving an indication of the level of assurance that can be provided to Management and Governance Committee on the results of its audit work, using the Three Lines of Defence;
- reviewing and reporting on the Council's risk management arrangements;
- reviewing the effectiveness of progress taken by Management to implement agreed actions;
- submitting audit reports to Governance Committee on an ongoing basis and then on a periodic basis submitting audit plan work progress reports, including Internal Audit performance indicators and an annual Internal Audit report to the Governance Committee. The annual report must include a statement on conformance with the PSIAS;
- providing the Audit Committee with an annual opinion of the overall adequacy and effectiveness of the Council's internal control systems, in accordance with the Accounts and Audit Regulations, and at the same time providing assurance to the S 151 officer in relation to the above systems. This opinion will be an important element of the council's review of the effectiveness of its control environment and will be used by the council to inform its Annual Governance Statement.
- reviewing and reporting on the Council's Corporate Governance Framework to the Governance Committee;

8.0 REPORTING AND MONITORING

- 8.1 A written report will be prepared and issued by the Shared Service Lead for Audit and Risk following the conclusion of each Internal Audit engagement and will be distributed as appropriate.

The Internal Audit report may include management's response and corrective action taken or to be taken regarding the specific findings and recommendations. Management's response will 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 Service will be responsible for appropriate follow-up of findings and recommendations. All significant findings will remain in an open issues file until cleared. Internal Audit results will also be communicated to the Governance Committee.

9.0 PERIODIC ASSESSMENT

- 9.1 The Shared Service Lead for Audit and Risk is responsible also for providing periodically a self-assessment on the Internal Audit Service as regards its consistency with the Audit Charter (purpose, authority and responsibility) and performance relative to its Plan.
- 9.2 In addition, the Shared Service Lead for Audit and Risk will communicate to the Senior Management Team and the Governance Committee on the Internal Audit Service's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years.