



**Internal Audit
Charter & Strategy**

Executive summary

The Internal Audit Charter defines the purpose, authority and responsibility of Harborough District Council's Internal Audit service. It establishes the scope of the Internal Audit service and outlines how the service complies with statutory requirements and professional standards.

The key principles of Harborough District Council's Internal Audit service are as follows:

- Internal Audit provides an Annual Internal Audit Opinion based on an objective and comprehensive assessment of the Council's framework of governance, risk management and control.
 - Internal Audit provides advice and consultancy services with the aim of adding value and improving organisational governance, risk management and control.
 - All the Council's activities fall within the scope of Internal Audit, and the Internal Audit service has a complete right of access to all records and property held by Harborough District Council and to all officers of the Council.
 - Internal Audit operates in compliance with Public Sector Internal Audit Standards (PSIAS) and the Chartered Institute of Internal Auditors' Code of Ethics.
 - Internal Audit is independent and may report directly to the Chief Executive and the Chair of the Audit & Standards Committee. Regular reporting on audit activity is provided to the Section 151 Officer, Corporate Management Team and the Audit & Standards Committee.
 - Internal Audit team consists of qualified and part-qualified professionals in assurance and accounting. The service is committed to professional development and continuous quality assurance and improvement.
 - Internal Audit staff have a professional duty to operate in ethical way; be honest; and demonstrate integrity at all times, working in line with the Council's Code of Conduct.
 - The Internal Audit Charter is regularly reviewed and approved annually by the Audit & Standards Committee and senior management.
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1 PURPOSE, MISSION STATEMENT AND DEFINITION**Purpose of the Charter and Strategy**

1.1 The purpose of this Internal Audit Charter is to define Internal Audit's purpose, authority and responsibility. It establishes the Internal Audit activity's position within the Council and reporting lines; authorises access to records, personnel and physical property relevant to the performance of audit work; and defines the scope of Internal Audit activities. The Charter and Strategy should enable Internal Audit to deliver a modern and effective service that:

- Meets the requirements of the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations;
- Ensures effective audit coverage and a mechanism to provide independent and objective overall assurance in particular to Councillors and management;
- Provides an independent Annual Opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control environment;
- Identifies the highest risk areas of the Council and allocates available Internal Audit resources accordingly;
- Adds value and supports senior management in providing effective control and identifying opportunities for improving value for money; and
- Supports the S151 officer in maintaining prudent financial stewardship for the Council.

Internal Audit Mission Statement

1.2 The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Definition of Internal Audit

1.3 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 processes.

2 CONTEXT

- 2.1 The Council's Internal Audit service is delegated to North Northamptonshire Council's Internal Audit service, led by the Chief Internal Auditor.
- 2.2 The core governance context for Internal Audit is summarised as follows:

The Accounts and Audit Regulations (2015) set out that:

A relevant authority must ensure that it has a sound system of internal control which—

(a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;

(b) ensures that the financial and operational management of the authority is effective; and

(c) includes effective arrangements for the management of risk.

And that:

A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

A relevant authority must, each financial year—

conduct a review of the effectiveness of the system of internal control required by regulation 3; and prepare an annual governance statement.

The Public Sector Internal Audit Standards (PSIAS) issued in 2017 include the need for risk-based plans to be developed for Internal Audit and to receive input from management and the 'Board' (usually discharged by the Council's Audit Committee). The work of Internal Audit therefore derives directly from these responsibilities, including:

PSIAS 2010 - "The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals."

PSIAS 2450 - "The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisations framework of governance, risk management and control".

2.3 The following definitions have been applied to the PSIAS terminology throughout this document:

Terminology	Definition for Harborough District Council
'Board', as per PSIAS	The Audit & Standards Committee
'Chief Audit Executive', as per PSIAS	The Chief Internal Auditor
'Senior management'	Senior Management Team
'Assurance services'	An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the Council. Examples include financial, performance, compliance, system security and due diligence.
'Consultancy services'	Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisations governance, risk management and control processes without the Internal Auditor assuming management responsibility. Such examples would include advice, facilitation and training.

3 STRATEGY

- 3.1 Internal Audit will provide the public, Councillors and Council officers with confidence that Council operations are properly governed and controlled, risks are effectively managed and service delivery meets customer need. Where confidence is not possible the service will ensure that the implications and risks are understood to ensure proportionate action is taken. Internal Audit will be responsive to the Council's needs and the risks to which the Council is exposed.
- 3.2 Internal Audit is not responsible for the control systems it audits. Responsibility for effective internal control rests with the management / executive of the Council. Directors and Heads of Service are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services and achieve approved objectives / policy.
- 3.3 Internal Audit will provide a robust, high quality audit service that delivers honest, evidenced assurance, by:
- **Focusing on what is important**
Deploying its resources where there is most value aligned to the corporate objectives and priorities, the processes to facilitate these and the key risks to their achievement, whilst ensuring sufficient assurance to support the Annual Governance Statement.
 - **Being flexible and responsive to the needs of the Council**
The Annual Plan will be reviewed quarterly enabling Audit resources to be redeployed as new risks emerge, with the agreement of senior management and the board
 - **Being outward looking and forward focused**
The service will be aware of national and local developments and of their potential impact on the Council's governance, risk management and control arrangements.
 - **Providing Assurance**
There is value in providing assurance to senior managers and Members that the arrangements they put in place are working effectively, and in helping managers to improve the systems and processes for which they are responsible.
 - **Balancing independent support and challenge**
Avoiding a tone which blames, but being resolute in challenging for the wider benefit of the Council and residents.
 - **Having impact**
Delivering work which has buy-in and which leads to sustained change.
 - **Strengthening the governance of the Council**
Being ambassadors for, and encouraging the Council towards, best practice in order to maximise the chances of achieving its objectives, including the provision of consultancy and advice.
 - **Enjoying a positive relationship with and being welcomed by the 'top table'**
Identifying and sharing organisational issues and themes that are recognised and taken on board. Working constructively with management to support new developments.
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- 3.4 The Internal Audit Service maintains an ongoing and comprehensive understanding of:
- Local Government / Public Sector issues;
 - The Council and its community; and
 - Professional Audit and Corporate Governance standards.
- 3.5 All staff within the Internal Audit service hold a relevant professional qualification, part qualification or are actively studying towards a relevant qualification. All participate in continuing professional development, both in relation to specific audit skills e.g. contract audit, and softer skills e.g. communication skills.
- 3.6 The mandatory core principles for the Professional Practice of Internal Auditing underpin the way in which the service is delivered and are embedded in ways of working, as detailed in this Charter. The principles ensure Internal Audit:
- 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.
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4 AUTHORITY

- 4.1 In accordance with the PSIAS, the Chief Internal Auditor has full responsibility for the operation and delivery of the Internal Audit function including the production and execution of the audit plan and subsequent audit activities. The annual audit plan will be agreed in consultation with relevant officers, the Audit & Standards Committee, and the senior management team.
 - 4.2 Internal Audit's remit extends across the entire control environment of the Council.
 - 4.3 Internal Audit has unrestricted access to all Council and partner records and information (whether manual or computerised systems), officers, cash, stores and other property, it considers necessary to fulfil its responsibilities. Internal Audit may enter Council property and has unrestricted access to all locations and officers without prior notice if necessary.
 - 4.4 All Council contracts and partnerships shall contain similar provision for Internal Audit to access records pertaining to the Council's business held by contractors or partners.
 - 4.5 All employees are required to assist the Internal Audit activity in fulfilling its roles and responsibilities.
 - 4.6 The Audit & Standards Committee (as the Board) shall be informed of any restriction unduly placed on the scope of Internal Audit's activities which in the opinion of the Chief Internal Auditor prevent the proper discharge of Internal Audit functions.
 - 4.7 The Chief Internal Auditor and individual audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.
 - 4.8 To provide for independence, the day to day management of the Internal Audit Service is undertaken by the Chief Internal Auditor who reports to the Audit & Standards Committee. This accords with the Public Sector Internal Audit Standards which requires the Chief Internal Auditor to report to the very top of the organisation.
 - 4.9 The Chief Internal Auditor has direct and unrestricted access to the Council's Chief Executive, Section 151 Officer, Directors, External Audit and Audit & Standards Committee at their discretion, including private meetings with the Chair of the Audit & Standards Committee.
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5 ETHICS, INDEPENDENCE & OBJECTIVITY

- 5.1 Independence is essential to the effectiveness of the Internal Audit service; so it will remain free from interference in all regards. This shall include, but not be limited to, matters of audit selection, scope, procedure, frequency, timing or report content.
 - 5.2 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
 - 5.3 The Internal Audit service assists with counter fraud work for the Council. Internal Audit lead on investigating whistleblowing referrals relating to fraud and corruption, and financial impropriety and also support with co-ordinating the National Fraud Initiative (NFI) data matching exercises. The handling of matches arising from the data matching is the responsibility of the service leads.
 - 5.4 In addition to the ethical requirements of the various professional bodies, each auditor is required to sign an annual declaration of interest to ensure that the allocation of audit work avoids conflict of interest and declare any potential 'conflict of interest' on allocation of an audit. Any potential impairments to independence or objectivity will be declared prior to accepting any work.
 - 5.5 Internal Auditors also sign acceptance of the Internal Auditor's Code of Ethics on an annual basis.
 - 5.6 Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, 'approve' procedures, install systems, prepare records, or engage in any other activity that may impair the Internal Auditor's judgment. Where auditors have previously been involved in any of these activities or consultancy work they will be prohibited from auditing those areas for at least two years. Where appropriate, audits are rotated within the team to avoid over-familiarity and complacency.
 - 5.7 The Chief Internal Auditor will confirm to the Audit & Standards Committee, at least annually, the organisational independence of the Internal Audit service – usually as part of the annual report.
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6 HOW THE SERVICE WILL BE DELIVERED

Audit Planning

6.1 The audit plan guides the work of the service during the year. The planning principles are:

- Focusing assurance effort on the most important issues, the key obligations, outcomes and objectives, critical business processes and projects, and principal risks; pitching coverage therefore at both strategic and key operational aspects;
- Maintaining up to date awareness of the impact of the external and internal environment on control arrangements;
- Using a risk assessment methodology to determine priorities for audit coverage based as far as possible on management's view of risk in conjunction with other intelligence sources e.g. corporate risk register, audit risk scores;
- Taking account of dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs, but recognising in a resource constrained environment there will be situations when not all needs can be met which is where risk management is key;
- Being flexible so that the plan evolves through the year in response to emerging risks and issues;
- Providing for the delivery of key commitments, such as work done in support of the External Auditor thus reducing the external audit fee, and to deliver governance and antifraud responsibilities; and
- Including provision for responding to requests for assistance with special investigations, consultancy and other forms of advice.

6.2 The number of available audit days to the Internal Audit Service will be reviewed to be sufficient to enable the audit service to deliver the risk based plan in accordance with professional standards. This takes into account the fact that additional resource will be procured as and when necessary e.g. for technical IT audits, when significant resource is diverted through unplanned work. The focus on the high risk areas will reduce the overall coverage required.

6.3 In order to deliver the Annual Audit Plan at the required quality and professionalism, Internal Audit strive to ensure that the team has the required mix of skills and experience. The use of external experts e.g. IT auditors compared to employing or developing these expensive resources in house is constantly under review to ensure that the service delivers a high quality product at best value for money. Future recruitment will take into account the expertise and skills required to fill any gaps within the current service.

6.4 The breadth of coverage within the plan necessitates a wide range of high quality audit skills. The types of audit work undertaken include:

- Risk based system audit
 - Compliance audit
 - IT audit
 - Procurement and contract management audit
 - Project and programme audits
 - Fraud/investigation work
 - Consultancy and advice
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- 6.5 Internal Audit may procure external audit resource to enhance the service provision as necessary.

Internal Audit Annual Opinion

- 6.6 Each year the Chief Internal Auditor will provide a publicly reported opinion on the effectiveness of governance, risk and control, which also informs the Annual Governance Statement. This will be supported by reliable and relevant evidence gathered through all work undertaken by Internal Audit during the year.

Conduct of work

- 6.7 The principles of how the Internal Audit work is conducted are:

- Focusing on what is important to the Council and in the ultimate interests of the public;
- Ensuring that risks identified in planning are followed through into audit work;
- Agreeing the scope, objectives and any limitations of audit coverage at the outset of every assignment;
- Ensuring that the right skills and right approaches are in place for individual assignments;
- Striving continuously to foster buy-in and engagement with the audit process;
- Ensuring findings and facts reported are accurate and informed by a wide evidence base, including requesting information from other stakeholders where appropriate;
- Informing management of key findings at the earliest, appropriate opportunity;
- Suggesting actions that are pragmatic and proportionate to risk, tailored for the best result and take into account the culture, constraints and the cost of controls;
- Focusing, as a rule, on ensuring compliance with existing/expected processes and systems and reducing bureaucracy rather than introducing additional, unnecessary layers of control;
- Being resolute in challenging; taking account of views, escalating issues and holding position when appropriate;
- Driving the audit process by agreeing, and delivering to, deadlines and escalating non-response promptly in order to complete assignments; and
- Maintaining high standards of behaviour at all times.

Reporting

- 6.8 The reports produced by the service are its key output. The reporting principles are:

- Providing balanced evidence-based reports which recognise both good practice and areas of weakness;
 - Reporting in a timely, brief, clear and professional manner;
 - Ensuring that reports clearly set out assurance opinions on the objectives/risks identified in planning work;
 - Always seeking management's response to reports so that the final report includes a commitment to action;
 - Sharing reports with senior management and Members, identifying key themes and potential future risks so that audit work has impact at the highest levels; and
 - Sharing learning with the wider organisation with a view to encouraging best practice across the Council.
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6.9 A written report will be prepared and issued following the conclusion of each Internal Audit engagement, including follow up audits; unless in the opinion of the Chief Internal Auditor a written report is unnecessary.

6.10 Each report will:

- provide an evidenced opinion on the adequacy of the governance, risk and control processes;
- identify inadequately addressed risks and non-effective control processes;
- detail agreed actions including explanation for any corrective action that will not be implemented;
- provide management's response and timescale for corrective action;
- provide management's explanations for any risks that will not be addressed; and
- Identify individuals responsible for implementing agreed actions.

6.11 Senior Management shall ensure that agreed corrective actions are introduced.

6.12 Individual audits are reported to relevant service manager, Director, the Chief Executive and the Chair (and Vice Chair) of the Audit & Standards Committee. Periodic summary reports are issued to the Audit & Standards Committee and any reports receiving an opinion of Limited Assurance or below are presented to the Committee in full.

6.13 To assist the manager/reader in easily identifying the areas that are well managed and the significance of areas of concern, actions, objectives and overall assurance opinions are categorised using three key elements as summarised below (and set out in detail at Annex A):

- 1) Assess and test the **control environment**;
- 2) Test **compliance** with those control systems; and
- 3) Assess the **organisational impact** of the area being audited.

Actions / Recommendations

6.14 Actions are categorised dependent on the risk as follows:

Category	Definition
High	Action is imperative to ensure that the objectives for the area under review are met
Medium	Requires actions to avoid exposure to significant risks in achieving objectives for the area
Low	Action recommended to enhance control or improve operational efficiency

Follow up

6.15 All High and Medium actions are followed up in accordance with the agreed action

implementation dates. Further follow ups are undertaken as required. The Internal Audit Service will review their role in this area with the aim of promoting the action owner to proactively inform Internal Audit and provide evidence when an action has been fully implemented to inform the follow up process. Such an approach emphasises the need for managers to deliver required improvements without prompting, reinforcing their accountabilities.

Quality Assurance

6.16 The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards (PSIAS);
- Professional standards and Code of Ethics required by auditor's respective professional bodies;
- Internal Audit Strategy, Charter and Audit Manual; and
- All relevant legislation.

6.17 The Chief Internal Auditor maintains an appropriate Quality Assurance Framework and reports on this annually. The framework includes:

- An audit manual documenting methods of working
- Supervision and review arrangements
- Customer feedback arrangements
- Quality Standards
- Annual Internal review
- Periodic external reviews
- Performance measures, including:
 - Proportion of audit plan completed
 - Productive/direct time as a % of total time
 - Customer satisfaction levels

6.18 The completion of every assignment shall be monitored against:

- end to end time
- days taken to complete
- time between key audit stages e.g. draft issue to final report issue
- customer satisfaction

6.19 The Audit & Standards Committee, senior management and the Section 151 Officer receive regular updates on audits completed, the assurance opinions and actions implemented. Weak and limited opinion reports and key actions not implemented are discussed in more detail as appropriate with management, the Section 151 Officer and / or the Audit & Standards Committee.

6.20 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of its activity. This consists of:

- ongoing performance monitoring;
 - an annual self-assessment of the service and its compliance with the UK Public
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Sector Internal Audit Standards (PSIAS);

- an external assessment at least once every five years by a suitably qualified, independent assessor;
 - a programme of Continuous Professional Development (CPD) for all staff to ensure that auditors maintain and enhance their knowledge, skills and audit competencies;
 - the Chief Internal Auditor holding a professional qualification (current Chief Internal Auditor is a member of CIPFA) and being suitably experienced; and
 - encouraging, and where appropriate acting upon, customer feedback.
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7 AUDIT & STANDARDS COMMITTEE OVERSIGHT

- 7.1 The Chief Internal Auditor will provide regular update reports to the Audit & Standards Committee to advise on the progress in completing the audit plan, the outcomes of each Internal Audit engagement, and any significant risk exposures and control issues identified during audit work.
- 7.2 The Chief Internal Auditor will also provide an annual report giving an opinion on the overall adequacy and effectiveness of the control environment which will be timed to support the Council's Annual Governance Statement. In addition the Audit & Standards Committee will:
- approve any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken;
 - approve, but not direct, changes to the audit plan;
 - be informed of results from the quality assurance and improvement programme; and
 - be informed of any instances of non-conformance with the Public Sector Internal Audit Standards.

8 ANTI-FRAUD AND ASSOCIATED ISSUES

- 8.1 The Chief Internal Auditor will ensure that all work is undertaken in accordance with, and all staff are conversant with, the Council's Counter Fraud policies and culture, including:
- Counter Fraud and Corruption policy
 - Whistleblowing policy
 - Anti-Money Laundering Policy
- 8.2 All Internal Audit staff will be alert to possibility of fraud during assignments but auditors are not responsible for identifying fraud.
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Annex A

Internal control assessment

Control Environment Assurance	
Level	Definitions
Substantial	There are minimal control weaknesses that present very low risk to the control environment
Good	There are minor control weaknesses that present low risk to the control environment
Satisfactory	There are some control weaknesses that present a medium risk to the control environment
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment

Compliance Assurance	
Level	Definitions
Substantial	The control environment has substantially operated as intended with no notable errors detected.
Good	The control environment has largely operated as intended although some errors have been detected.
Satisfactory	The control environment has partially operated as intended although errors have been detected.
Limited	The control environment has not operated as intended. Significant errors have been detected.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact	
Level	Definitions
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

