



London Borough of Hackney

**Internal Audit Charter
2018 - 2019**

Internal Audit Charter

1. Introduction

- 1.1 This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards (PSIAS). The Charter will be reviewed annually and presented to the Audit Committee for final approval.

2. Mission, Definition and Core Principles

- 2.1 The Mission of Internal Audit is to “Enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”
- 2.2 Internal Audit is defined by the Public Sector Internal Audit Standards (PSIAS) as *“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.”*
- 2.3 The Core Principles of Internal Auditing which, taken as a whole, articulate internal audit effectiveness, are as follows:
- Demonstrate integrity.
 - Demonstrate competence and due professional care.
 - Be objective and free from undue influence, i.e. be independent.
 - Be aligned with the strategies, objectives and risks of the organisation.
 - Be appropriately positioned in the organisation and be adequately resourced.
 - Demonstrate quality and continuous improvement.
 - Communicate effectively.
 - Provide risk based assurance.
 - Be insightful, proactive and future –focused.
 - Promote organisational improvement.

3. Purpose

- 3.1. In a local authority internal audit provides independent and objective assurance to the organisation, its elected members, senior management and in particular to the Chief Financial Officer to help him discharge his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.
- 3.2. In addition, the Accounts and Audit Regulations (2015) specifically require an internal audit function and state that a relevant body 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'. The standards for 'proper practices' in relation to internal audit are laid down in the PSIAS.
- 3.3. The Council's Financial Procedure Rules (FPR 4) state "a continuous internal audit, under the independent control and direction of the Group Director, Finance and Corporate Resources, shall be arranged to carry out an examination of accounting, financial and other operations of the Council."

4. Authority and Access to Records

- 4.1. In undertaking their duties and responsibilities, auditors and investigators assigned to the Audit and Anti Fraud Division shall be entitled to have full access to all of the Council's data, records, cash, stores, property, assets, personnel and information, whether manual or computerised, that it considers necessary to fulfil its responsibilities. Audit staff may enter Council property and have unrestricted access to all locations and officers where necessary, on demand, and without prior notice. Council staff are expected to provide every possible assistance to facilitate the progress of audits and investigations.
- 4.2. Access rights apply equally to third parties and organisations, as permitted through the associated contract and partnering arrangements. Right of access to other bodies funded by the Council should be set out in the conditions of funding.
- 4.3. The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that have been finalised, which External Audit would need to discharge their responsibilities.
- 4.4. All records, documentation and information accessed in the course of undertaking audit reviews shall be used solely for that purpose. All audit staff

are responsible for maintaining the confidentiality of information received in the course of their work.

5. Responsibility

5.1. The PSIAS requires the Internal Audit Charter to define the terms 'board' and 'senior management' for the purposes of internal audit activity. The Audit Committee has been designated as the 'board' and Hackney Management Team (HMT) as 'senior management'. The role of the Chief Audit Executive as described in the PSIAS will be covered by the role of the Corporate Head of Audit, Anti-fraud and Risk Management and the Head of Internal Audit and Risk Management.

5.2. The Council's Head of Internal Audit and Risk Management is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Audit Committee, on the adequacy and the effectiveness of the framework of governance, risk management and control for the whole Council. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a high quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources.
- To provide assurance that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide assurance that significant risks to the Council's objectives are being identified and managed.
- To provide independent assurance over the risk management, internal control and governance processes.
- To provide advice and support to management to enable an effective control environment to be maintained.
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud.
- To investigate allegations of fraud, bribery and corruption (this is undertaken by the Audit Investigation Team).
- To promote and develop the risk management processes and awareness across the Council.

5.3. There are inherent limitations in any system of internal control and thus error or irregularities may occur and may not be detected by internal audit's work. When undertaking audit reviews, internal audit will provide management with comments and report on failures or weaknesses in internal control systems together with recommendations for remedial action. It remains a management responsibility to maintain an effective system of internal control. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

- 5.4. The remit of Internal Audit covers the entire framework of governance, risk management and control for the Council.
- 5.5. Where appropriate, Internal Audit may undertake consulting work for the benefit of the Council. Consultancy is defined as “ 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 organisation’s governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include advice, facilitation and training”.
- 5.6. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

6. Reporting

- 6.1. The PSIAS require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:
 - An Annual Report and Annual Audit Opinion which is used to inform the Council’s Annual Governance Statement and which concludes on the overall adequacy and effectiveness of the framework of governance, risk management and control. The Annual Report includes:
 - The opinion
 - A summary of the work that supports the opinion; and
A statement of conformance with the PSIAS and the results of the quality assurance and improvement programme derived from the internal or external assessment. Any instances of non-conformance with the PSIAS will be reported to HMT and the Audit Committee and will be included in the Annual Report. If there is significant non-conformance this may be included in the Annual Governance Statement
 - The Internal Audit Strategy and Charter and any amendments to them are reported to the Audit Committee.
 - The Internal Audit Annual Plan is compiled by the Head of Internal Audit and Risk Management taking account of the Council’s risk framework, which includes calculating a score based on both impact and likelihood, and after input from members of HMT and other senior managers it is then presented to HMT and the Audit Committee for final comment and approval.
 - The Internal Audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
 - The adequacy, or otherwise, of the level of internal audit resources (as determined by the Corporate Head of Audit, Anti-Fraud and Risk

Management) and the independence of the Internal Audit function will be reported annually to the Audit Committee. The approach to providing resource is set out in the Internal Audit Strategy.

- Performance against the Internal Audit Annual Plan and any significant risk exposures and control issues arising from audit work are reported to Audit Committee on a quarterly basis.
- Any significant consulting activity not already included in the Audit Plan which might affect the level of assurance work undertaken will be reported to the Audit Committee.

7. Independence

7.1. The Corporate Head of Audit, Anti-Fraud and Risk Management is line managed by the Chief Financial Officer however both the Corporate Head of Audit, Anti-Fraud and Risk Management and the Head of Internal Audit and Risk Management have free and unfettered access to the following:

- Group Director of Finance and Corporate Resources (Chief Financial Officer)
- Chief Executive
- Chair of the Audit Committee
- Monitoring Officer
- Any other member of the Hackney Management Team

7.2. The independence of the Corporate Head of Audit, Anti-Fraud and Risk Management is further safeguarded by ensuring that the annual appraisal of the post holder is not inappropriately influenced by those subject to audit. This is achieved by ensuring that the Chief Executive contributes to, and/or reviews the appraisal of the Corporate Head of Audit, Anti-Fraud and Risk Management.

7.3. All Council and agency staff working in the Internal Audit and Investigation Teams are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed. Auditors are also frequently rotated to prevent over-familiarity or complacency which could influence objectivity. In addition stringent procedures are in place relating to the acceptance of gifts and hospitality and the prevention of bribery.

7.4. Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee. To

maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

- 7.5. Internal Audit must remain independent of the activities that it audits to enable auditors to make impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibilities or authority over any of the activities audited.
- 7.6. The responsibilities of the Corporate Head of Audit, Anti-Fraud and Risk Management include risk management and counter fraud. To maintain independence in these areas, their role, and that of the team, is clearly defined. For example, the Risk Advisor within the Audit Service has a co-ordinating role and provides support and advice for the maintenance of the risk registers and the development of the Council's risk framework, including revising the Risk Strategy and assisting directorates with reviewing their risks. In order to provide the necessary safeguards as set out in PSIAS standard 1112, where the Chief Audit Executive has roles beyond internal auditing, when audits are conducted in these areas, the Corporate Head of Audit, Anti-Fraud and Risk Management and/or the Head of Audit & Risk, will remove themselves from the review process of these audits, and all findings and draft reports will be shared at their conclusion with both of these officers and the Group Director of Finance & Corporate Resources.
- 7.7. Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. Accountability for the response to the advice and recommendations of Internal Audit lies with management. Managers must either accept and implement the advice and recommendations, or formally reject them accepting responsibility and accountability for doing so. When the Head of Audit and Risk concludes that management has accepted a level of risk that may be unacceptable to the Council, the Head of Audit and Risk must discuss the matter with senior management. If the Head of Audit and Risk determines that the matter has not been resolved, the matter will ultimately be communicated to the Audit Committee.

8. Counter Fraud

- 8.1. Managing the risk of fraud and corruption is the responsibility of management. Internal Audit reviews alone cannot guarantee that fraud or corruption will be prevented or detected. Auditors will, however, be alert in their work to risks and exposures that could allow fraud, corruption or other irregularity to take place.
- 8.2. The Corporate Head of Audit, Anti-Fraud and Risk Management will work together with the Head of Audit and Risk Management to seek to develop proactive anti-fraud work through a series of specifically focussed audits into areas of high risk of fraud and irregularity.

- 8.3. The Audit Investigation Team will respond to all notifications of fraud and suspected financial irregularity and will undertake investigations to assess the validity of such allegations. Where weaknesses in internal control are identified these will be communicated to Internal Audit in order that appropriate recommendations can be made to strengthen the controls and help prevent such frauds and irregularities re-occurring.
- 8.4. The policies and procedures of the anti-fraud service are detailed in the Council's Anti-Fraud and Corruption Strategy.

9. Due Professional Care

- 9.1. The Internal Audit function is bound by the following standards:
- Institute of Internal Auditor's International Code of Ethics
 - UK Public Sector Internal Audit Standards (PSIAS)
 - CIPFA Statement on the Role of the Head of Internal Audit
 - Seven Principles of Public Life (Nolan Principles)
 - All Council Policies and Procedures
 - All relevant legislation
- 9.2. All internal audit staff are required to sign an annual statement confirming their compliance with the IIA Code of Ethics as included in the PSIAS.
- 9.3. Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the PSIAS, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor. An independent assessment was undertaken during 2016.
- 9.4. A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. The Head of Internal Audit and Risk Management is required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

10. Related Documents

- Internal Audit Strategy 2018/19
- Internal Audit Annual Plan 2018/19
- Anti-Fraud and Corruption Policy