

Report sponsor: Strategic Director - Corporate Resources
Report author: Head of Internal Audit

Internal Audit Charter

Purpose

- 1.1 This report seeks approval of the Internal Audit Charter. Having an internal audit charter establishes the internal audit activity's position within the organisation.

Recommendations

- 2.1 To review and approve the Internal Audit Charter at Appendix 1.

Reasons

- 3.1 The Audit and Governance Committee is responsible for providing assurance to the Council on the effectiveness of its governance arrangements, its risk management framework and the internal control environment. The work of Internal Audit supports Committee in providing this assurance.

Supporting information

- 4.1 The Internal Audit Charter is a formal document that defines internal audit's purpose, authority, responsibility and position within the organisation. The Charter should set out the nature of services that internal audit will provide and how internal audit will help the organisation to achieve its objectives. The need for a Charter is defined in Standard 1000 of the Public Sector Internal Audit Standards.

1000: The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standard and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

- 4.2 The Internal Audit Charter is vital to internal audit's success and should be reviewed periodically by Head of Internal Audit and presented to the Audit and Governance Committee for approval. CMAP reviews its Charter on an annual basis and takes it to each partner organisation's audit committee for approval. The CMAP Internal Audit Charter is contained in Appendix 1 to this report.
- 4.3 The Internal Audit Charter for Derby City Council reflects the change to quarterly internal audit planning.

Public/stakeholder engagement

5.1 None

Other options

6.1 None

Financial and value for money issues

7.1 The Council's contribution to CMAP for 2022/23 will be £529,551. The contribution in 2021/22 was £502,178 together with a one-off rebate of £121,355.

Legal implications

8.1 None

Climate implications

9.1 None

Other significant implications

10.1 None

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal		
Finance		
Service Director(s)		
Report sponsor	Simon Riley, Strategic Director – Corporate Resources	12 March 2022
Other(s)		

Background papers:	None
List of appendices:	Appendix 1 - CMAP Internal Audit Charter

Appendix 1 - CMAP Audit Charter

Purpose & Mission

The purpose of the Organisation's internal audit service is to provide independent, objective assurance and consulting services designed to add value and improve the Organisation's operations. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The internal audit service helps the Organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Standards for the Professional Practice of Internal Auditing

The internal audit service will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Chief Audit Executive will report periodically to **senior management**¹ and the **Board**² regarding the internal audit service's conformance to the Code of Ethics and the Standards.

Authority

The Chief Audit Executive will report functionally to the Audit and Governance Committee and administratively (i.e., day-to-day operations) to the Strategic Director of Corporate Resources. To establish, maintain, and assure that the Organisation's internal audit service has sufficient authority to fulfil its duties, the Audit and Governance Committee will:

- Approve the internal audit service's charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit service's budget and resource plan.
- Receive communications from the Chief Audit Executive on the internal audit service's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Chief Audit Executive to determine whether there is inappropriate scope or resource limitations.
- The Chief Audit Executive will have unrestricted access to, and communicate and interact directly with, the Audit and Governance Committee, including in private meetings without management present.

¹ The PSIAS defines **senior management** as "Those responsible for the leadership and direction of the Council" which in this instance is the organisation's **Corporate Leadership Team**.

² The Standards require that Internal Audit report to the **Board**. CIPFA have via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that 'Board' may refer to an audit committee to which the governing body has delegated certain functions. In this instance this would be the **Audit and Governance Committee**.

The Audit and Governance Committee authorises the internal audit service to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of the organisation, as well as other specialised services from within or outside the organisation, in order to complete the engagement.

Independence & Objectivity

The Chief Audit Executive will ensure that the internal audit service remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Chief Audit Executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the organisation or its affiliates.
- Initiating or approving transactions external to the internal audit service.
- Directing the activities of any organisation employee not employed by the internal audit service, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Chief Audit Executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.

- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Chief Audit Executive will confirm to the Audit and Governance Committee, at least annually, the organisational independence of the internal audit service.

The Chief Audit Executive will disclose to the Audit and Governance Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit and Governance Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the organisation. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the organisation's strategic objectives are appropriately identified and managed.
- The actions of the organisation's officers, directors, employees, and contractors are in compliance with the organisation's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the organisation.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Chief Audit Executive will report periodically to senior management and the Audit and Governance Committee regarding:

- The internal audit service's purpose, authority, and responsibility.
- The internal audit service's plan and performance relative to its plan.
- The internal audit service's conformance with The Institute of Internal Auditors' (IIA) Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit and Governance Committee.
- Results of audit engagements or other activities.
- Resource requirements.

- Any response to risk by management that may be unacceptable to the organisation.

The Chief Audit Executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit service may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit service does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The Chief Audit Executive has the responsibility to:

- Submit on a quarterly basis, to the Audit and Governance Committee, a risk-based internal audit plan for review and approval.
- Communicate to senior management and the Audit and Governance Committee the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.
- Communicate to senior management and the Audit and Governance Committee any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit and Governance Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit service collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact the organisation are considered and communicated to senior management and the Audit and Governance Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit service.
- Ensure adherence to the organisation's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit and Governance Committee.



central midlands audit partnership

- Ensure conformance of the internal audit service with the Standards, with the following qualifications:
 - If the internal audit service is prohibited by law or regulation from conformance with certain parts of the Standards, the Chief Audit Executive will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
 - When the Standards are used in conjunction with requirements issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Chief Audit Executive will ensure that the internal audit service conforms with the Standards, even if the internal audit service also conforms with the more restrictive requirements of CIPFA.

Quality Assurance & Improvement Programme (QAIP)

The internal audit service will maintain a quality assurance and improvement programme that covers all aspects of the internal audit service. The program will include an evaluation of the internal audit service's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit service and identify opportunities for improvement.

The Chief Audit Executive will communicate to senior management and the Audit and Governance Committee on the internal audit service's quality assurance and improvement programme, including results of internal assessments (both on-going and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.



Central Midlands
Audit Partnership