

# Internal Audit Charter

## Introduction

- a) **An internal audit charter is a statement of the purpose, responsibility and powers of an internal audit function.**

The reason for having such a charter is that internal audit is an anomalous function in that it needs authority to act outside its own boundaries in all parts of the Council so as to provide management with independent assurance that risks are being managed and controls are operating effectively. This cuts across the other hierarchical reporting lines in the Council and can sometimes lead to conflict. The charter sets out the rights and responsibilities of internal audit, although unless internal audit operates with the full, enthusiastic support of management, it can not operate effectively.

**Consequently, it will be circulated to all areas within the Council and to appropriate partners.**

- b) **Legal and professional requirements and definition of internal audit:**

1. The Local Government Act, 1972, Section 151 specifies that authorities "make arrangements for the proper administration of their financial affairs" which is considered as a requirement for internal audit.
2. The Accounts and Audit Regulations 2006 specify that a local authority should "maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control".
3. The 2006 CIPFA Code of Practice for Internal Audit in Local Government defines Internal Audit as "an assurance function that provides an independent and objective opinion to the organisation on the control environment (comprising the systems of governance, risk management and internal control) by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources."

- c) **CIPFA Code of Practice for Internal Audit in Local Government**

The guidance accompanying the relevant legislation, quoted above, states that "proper internal control practice for internal audit are those contained within this Code of Practice" This code defines the way in which the internal audit service should undertake its function.

CIPFA states that "principal local government organisations should comply with the requirements set out in this Code. Exceptionally, where local circumstances prevent full compliance, the organisation should give clear reasons why and be able to demonstrate that equivalent safeguards or measures are in place." Consequently, this Charter has been prepared in accordance with CIPFA's Code and its specified Standards.

# Internal Audit Charter

## **Standard 1 - Scope of Internal Audit: Terms of Reference**

### **1.1 Objectives and responsibilities**

Internal Audit's objective is to assist the management of Wirral Council to improve the control environment and in achieving its objectives, in such a way that the legal requirements and Code standards are met.

Internal Audit's responsibility is to form opinions about the risks and controls identified by management and annually give a formal opinion on the control environment. In order to achieve this, there must have been sufficient evidenced work to form a supportable conclusion about the activity that has been examined. The opinion will be assessed accordingly if reasonable assurance cannot be given e.g. because of adverse findings.

As well as giving independent and objective opinion on the control environment, other work might be conducted, subject to there being no impact on the core opinion work and the availability of skills and resources.

### **1.2 Remit**

The scope of Internal Audit's work includes the Council's entire control environment, not just the financial control environment.

It also extends to services provided through partnership arrangements. The Head of Internal Audit will decide if the Council's Internal Audit should conduct work to derive assurance or rely on assurance provided by other auditors. Where necessary, the Head of Internal Audit will agree access rights as appropriate.

### **1.3 Head of Internal Audit's Annual Audit Opinion**

The Head of Internal Audit must provide a written report to those responsible for corporate governance, timed to support the Annual Governance Statement. It must:

- a) include an opinion on the overall adequacy and effectiveness of the Council's control environment.
- b) disclose any qualifications to the opinion, together with the reasons for the qualification.
- c) present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance agencies.
- d) draw attention to any issues that are judged particularly relevant to the preparation of the Annual Governance Statement.
- e) compare the work undertaken with that planned, and summarise the performance of the Section against its indicators and targets.
- f) comment on compliance with the International Auditing Standards, CIPFA guidance and communicate the results of the Internal Audit quality assurance programme.

### **1.4 Fraud and Corruption**

Managing the risk of fraud and corruption is the responsibility of management.

# Internal Audit Charter

The Head of Internal Audit should be notified of all suspected or detected fraud, corruption or impropriety, to inform the opinion on the internal control environment and Internal Audit's planned work.

At the request of management, Internal Audit may assist with the investigation of suspected fraud or corruption.

Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Internal Audit will, however, be alert to risks and exposures that could allow fraud or corruption and to any indications that fraud or corruption may have occurred. Audits cannot guarantee that fraud or corruption will be detected.

## **1.5 Other "non audit" work**

Where resources and skills exist, Internal Audit may provide consultancy work. The role of Internal Audit must be clearly defined, in conjunction with management, in the Terms of Reference for such work.

## **1.6 Rights of Access**

In order to fulfil its role as described and defined, Internal Audit has the right of access enshrined in the Council Constitution to all

- Records
- Assets
- Personnel
- Premises

of the Council and its partner organisations and has authority to require such information and explanations as it considers necessary to fulfil its responsibilities.

# Internal Audit Charter

## **Standard 2 - Independence**

Internal Audit must be independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors must not have any operational responsibilities.

Audit advice and recommendations, including where Internal Audit has been consulted about changes to internal control systems, are given without prejudice to the right to review and make further recommendations at a later date.

### **2.1 Organisational Independence**

It is essential for Internal Audit to have sufficient status within the Council to enable it to function effectively. The Council supports Internal Audit and specifically recognises its independence. This is achieved by Internal Audit:

- having unrestricted access to all records and staff of all grades, during audits.
- having unrestricted access to all senior management.
- presenting reports at the conclusion of work, in their own name.
- having no responsibility for, or authority over, any of the activities it reviews.

### **2.2 The Status of the Head of Internal Audit**

Internal Audit is a Section in the Department of Finance. The Head of Internal Audit is designated Chief Internal Auditor and reports to the Deputy Director of Finance who represents the s.151 Officer and thus provides a link to the Chief Officers Management Team. This line of reporting enables Internal Audit to be seen as independent from other Department of Finance functions as the Deputy Director has no other direct responsibilities.

The Chief Internal Auditor can discuss:

- Audit strategies
- Audit plans
- Audit reports
- Action Plans

with senior management and Members of the Council and reports at specified intervals, to the Chief Executive.

The Chief Internal Auditor attends meetings of the Audit and Risk Management Committee at which the Director of Finance presents a report summarising audits completed, reports the achievement of Internal Audit's performance indicators, details "high profile" audit issues including high and medium priority recommendations not agreed by management and recommendations that have not been implemented (as identified in follow-up audits).

# Internal Audit Charter

## **2.3 Independence of Individual Auditors**

Internal Auditors are required to have an unbiased attitude, and objective approach, avoid conflicts of interest and not allow external factors or pressures to compromise their professional evidence-based judgement.

Individual auditors must declare interests in accordance with the Council's policy.

The Chief Internal Auditor will review declarations and take appropriate action which will include planning the allocation of work to avoid the risk of conflict of interest.

# Internal Audit Charter

## **Standard 3 - Ethics for Internal Auditors**

The standards of performance and conduct specified apply to all staff delivering internal audit but do not replace requirements on individuals to comply with ethical codes of the professional institutes to which they belong. The Chief Internal Auditor will regularly remind all internal auditors of their ethical responsibilities.

### **3.1 Integrity**

At all times, internal auditors must demonstrate integrity in all aspects of their work and their integrity and conduct must be above reproach. The relationship with colleagues, internal clients and external contacts must be honest, truthful and fair. This will establish the essential environment of trust and confidence that is crucial to providing the basis for reliance on all activities carried out by individual auditors and the Internal Audit Section.

### **3.2 Objectivity**

All internal auditors must be impartial in discharging all responsibilities. Bias, prejudice or undue influence must not be allowed to limit or override objectivity.

Internal Auditors must act objectively and be perceived as doing so by:

- avoiding any conflict of interest arising from either professional or personal relationships or from pecuniary or other interests in an organisation or activity subject to audit.
- resisting undue influences that could restrict or modify the scope or conduct of the work or significantly affect the content or judgements in the internal audit report.

Auditors will only be assigned to work in areas where they have previously had operational or other involvement, when the Chief Internal Auditor determines that a suitable period has elapsed.

Audit responsibilities will be rotated periodically to reduce the risk of over-familiarity and complacency that could adversely affect objectivity.

### **3.3 Competence**

Internal Auditors and all working in Internal Audit, will apply knowledge, skill and experience to their work, seeking additional advice and support from supervisors and others as relevant where necessary, to ensure work is carried out competently.

They must obtain sufficient knowledge of:

- the Council's aims, objectives, risks and governance.
- the purpose, risks and issues of the service area.
- the scope of each audit assignment.
- relevant legislation and other regulatory arrangements that relate to the audit.

# Internal Audit Charter

## **3.4 Confidentiality**

Internal Auditors will safeguard the information they receive in carrying out their duties. Any information gained in the course of audit work will remain confidential without limiting or preventing Internal Audit from reporting within the Council, as appropriate. There will not be any unauthorised disclosure of information unless there is a legal or professional requirement to do so. Inappropriate disclosure of information by internal auditors could result in disciplinary action.

Confidential information gained in the course of audit duties should only be shared with appropriate recipients and must not be used to effect personal benefit.

# Internal Audit Charter

## Standard 4 - The Audit and Risk Management Committee

### **4.1 The purpose of the Committee.**

The purpose is to;

- provide independent assurance of the adequacy of the risk management framework and the associated control environment.
- provide independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the council's exposure to risk and weakens the control environment.
- oversee the financial reporting process.

The role is different from that of the scrutiny function which is to review policy and challenge whether the executive has made correct decisions to deliver policy goals.

The Audit and Risk Management Committee will also review the Annual Governance Statement (formerly the Statement on Internal Control) prior to approval by the Council. This includes a review of the effectiveness of the system of internal audit.

### **4.2 The relationship between Internal Audit and the Audit and Risk Management Committee.**

There are three elements to an effective working relationship:

- the Committee approves (but not directs) and monitors progress in implementing the Internal Audit strategy and Plan.
- the results of Internal Audit's work and the Committee's work are mutually employed to achieve each other's objectives.
- the operations of the Committee and Internal Audit are aligned so that best use is made of resources without compromising individual responsibilities.

The Chief Internal Auditor will be accountable to the Committee and help it to be effective but also remain aware of the relationship to the s.151 Officer.

The Chief Internal Auditor will facilitate the work of the Committee by:

- attending its meetings and contributing to the agenda.
- participating in the Committee's review of its own remit and effectiveness.
- ensuring that it receives, and understands, documents that describe how Internal Audit will fulfil its objectives such as the audit strategy, Annual Plan, progress reports.
- reporting the outcomes of internal audit work, in sufficient detail to allow the Committee to understand what assurance it can take from that work and any unresolved issues it needs to address.
- establishing if any items arising from the work of the Committee requires consideration of changes to the Internal Audit Plan.
- presenting an annual internal audit report, including an overall opinion on the control environment, the extent to which the Audit Plan has been achieved and a summary of any unresolved issues.



# Internal Audit Charter

The Chief Internal Auditor may meet privately with the Audit and Risk Management Committee.

# Internal Audit Charter

## **Standard 5 - Relationships**

By the nature of its work, Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships affects the efficiency of Internal Audit, its reputation and independence.

The Chief Internal Auditor, together with the Deputy Director of Finance, will manage relationships to ensure that there is clarity on issues such as:

- the nature of the relationship and its objectives.
- the responsibilities, expectations and objectives of each party.

An essential aspect is to ensure that Internal Audit's plans and work are co-ordinated with those of other parties to achieve the most effective audit and minimise duplication.

### **5.1 Relationships with Management**

Management and staff at all levels in Wirral must have complete confidence in the integrity, independence and capability of Internal Audit. The Chief Internal Auditor will try to maintain effective relationships between internal auditors and managers and will protect the confidentiality of information gained in the course of audits, unless this would prevent Internal Audit meeting its reporting responsibilities to the wider Council.

Co-operative relationships with management can enhance Internal Audit's ability to achieve its objectives, but must not detract from Internal Audit's responsibility for reporting control issues to those responsible for governance.

Audit work, especially its timing, is planned in conjunction with management to minimise disruption unless this might detract from the "challenge" aspect of audit or when unannounced audits are necessary.

### **5.2 Relationships with External Audit**

Internal Audit is an independent assurance within the Council, whereas External Audit is responsible for giving an independent opinion on the Council's financial statements and a conclusion on its arrangements for securing economy, efficiency and effectiveness in its use of resources. These are fundamentally different roles and responsibilities.

The aim of the relationship between the two elements of audit is to achieve mutual recognition and respect, leading to a joint improvement in performance and to avoid duplication of work. It is intended that Internal and External Audit will be able to rely on each other's work.

The Chief Internal Auditor will meet regularly with the External Audit Manager to consult on and co-ordinate their respective plans so that work can be arranged to satisfy each other's responsibilities.

In the event of any conflict, the Chief Internal Audit will consult the Deputy Director of Finance and the Audit and Risk Management Committee if necessary.

# Internal Audit Charter

## **5.3 Relationships with other Regulators and Inspectors**

The Chief Internal Auditor will maintain a dialogue with all agencies that interact with the Council, to exchange appropriate information.

## **5.4 Relationships with Members**

The Chief Internal Auditor will maintain good working relationships and channels of communication with Members independently or via the Deputy Director of Finance, as appropriate.

# Internal Audit Charter

## Standard 6 - Staffing, Training and Continuing Professional Development

### **6.1 Staffing**

The Chief Internal Auditor is professionally qualified, suitably experienced to liaise with Members, senior management and other professionals and has wide experience of internal audit and management.

The Chief Internal Auditor is responsible for:

- recruiting appropriate staff.
- ensuring current job descriptions defining roles and responsibilities, exist.
- preparing person specifications defining required qualifications, competencies, skills, experience and personal attributes, in accordance with the Council's HR policies.

The Director of Finance will ensure Internal Audit is appropriately resourced to meet its objectives. In particular, it will be ensured that there are appropriate numbers of staff in terms of:

- grades
- qualifications
- personal attributes
- experience

### **6.2 Training and Continuing Professional Development (CPD)**

The Chief Internal Auditor will:

- define the skills and competencies for each level of auditor and assess the staff against them.
- periodically reassess individual auditors.
- include all training or development needs in a development programme that is recorded, regularly reviewed and monitored.

All individual members of the Internal Audit Section have personal responsibility to:

- undertake their own CPD, either by following their own profession's scheme or by the Council's KIE.
- maintain a record of CPD activities.

# Internal Audit Charter

## Standard 7 - Audit Strategy and Planning

### 7.1 Strategy

The prime objective of Internal Audit is to advise the Council if appropriate risk management processes, control systems, accounting records and governance arrangements are in place and operating properly.

Complementary objectives are to:

- be a catalyst for change at the heart of the Council.
- add value and assist the Council in achieving its objectives.
- be innovative and challenging.
- help to shape the ethics and standards of the Council.

The intended outcome is the strengthening of the control environment to enable management to achieve the Council's stated objectives.

The crucial output is the Chief Internal Auditor's Annual Report on the Control Environment of the Council.

This:

- is evidenced by all the individual audits conducted during the preceding year, on all aspects of the Council's control environment.
- is an essential element of the "Annual Governance Statement" (which replaces the "Statement on Internal Control") that is prepared by Internal Audit to accompany the financial statement for the year, in accordance with legal requirements.

The work of Internal Audit will include reviewing the management approach to relevant significant local and national issues and risks. These will be identified by constantly researching appropriate local and national Press, professional publications and contact with the Audit Commission and other review or inspection agencies.

The Internal Audit service will be provided by staff employed in an independent Section of the Department of Finance.

The Section will be staffed with:

- appropriate number of staff
- an appropriate "skills-mix" of qualified and experienced staff as determined by:
  - experience of previous work requirements.
  - consideration of other similar organisations' practice.
  - guidance from professional bodies.
  - consideration of the opinion of the External Auditor.

This strategy is subject to approval, but not direction, by the Audit and Risk Management Committee.

# Internal Audit Charter

## 7.2 Planning

The Chief Internal Auditor prepares a risk-based audit plan to implement the strategy.

The preparation of the Plan will take account of the Council's risk management, performance management and any other assurance processes. In addition, the Chief Internal Auditor undertakes an independent risk assessment to prepare the Plan by using a detailed risk assessment for each audit area, using a range of risk factors resulting in a scored risk assessment which is used to prioritise work and allocate resources. This is then reviewed, in the light of their experience and knowledge, by managers in the Internal Audit Section, the Deputy Director of Finance and reported to the Audit and Risk Management Committee in March by the Director of Finance, for approval.

Appropriate "stakeholders" such as managers, Directors, the Chief Executive and the External Auditor, will be consulted during the preparation of the Plan.

The Audit Plan will:

- cover only one financial year.
- identify audits to be conducted.
- indicate the risk level identified.
- estimate the resources needed.
- be considered flexible to reflect changing risks and priorities in the Council.
- will be compared to available resources. Any significant shortfall will be reported to the Audit and Risk Management Committee together with proposed solutions.
- be approved, but not directed, by the Audit and Risk Management Committee.

The Chief Internal Auditor is responsible for delivery of the Audit Plan.

The Plan can not be rigidly followed during the year as, inevitably, there will be new risks emerging, staff shortages will become manifest especially in specialist areas and priorities will change. Consequently, the Plan is considered as "dynamic" and subject to reflect changing needs and resources. The process to implement Plan change is:

- a) audits not originally included in the Plan, may be brought to the attention of the Chief Internal Auditor as a result of issues raised by:
  - i) Chief Officers and the Chief Executive
  - ii) the Audit Commission
  - iii) the Audit and Risk Management Committee
  - iv) individual Members
  - v) Internal Audit Staff
  - vi) other authorities or professional organisations.
- b) An estimate of the risk is calculated, together with an estimate of the resources needed, time to be commenced and completed, and the item

# Internal Audit Charter

currently included in the Plan that will be either postponed, cancelled or reduced in coverage to make adequate resource available.

- c) If the items in the Plan that are affected are of a low or medium priority, the decision to amend the Plan will be taken by the Chief Internal Auditor and subsequently reported to the Deputy Director of Finance. If the amended items are of a high priority or have particular significance, they will be discussed with the Deputy Director of Finance before proceeding and reported to the Audit and Risk Management Committee.

The Annual Plan is used by each Group/Principal Auditor to plan, allocate and monitor work on a monthly basis for the aspects of the Council's activity that is assigned to them.

# Internal Audit Charter

## **Standard 8 - Undertaking Audit Work**

### **8.1 Planning**

For every audit, a brief is prepared, discussed and agreed with relevant managers. It establishes the objectives, scope and timing for the assignment and its resource and reporting requirements.

### **8.2 Approach**

All audit work is undertaken using a risk-based approach.

Auditors will always consider what work is necessary to collect adequate evidence to support an independent objective opinion.

During the course of all audits, key issues will be brought to the attention of the relevant manager to enable corrective action to be taken and to avoid "surprises" at the close of the audit.

All audit work will be subject to the internal quality review process.

### **8.3 Recording Audit Assignments**

The standard internal audit documentation and working papers are specified in the Internal Audit Manual. The review process will ensure the specified procedure is followed.

Internal Auditors will:

- obtain and record sufficient evidence to support their conclusions, judgements and recommendations.

- ensure that the working papers are sufficiently complete and detailed to enable an experienced auditor with no previous connection with the audit, to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached.

These standards are specified in the Internal Audit Manual and will be reviewed as part of the quality review procedure.

All audit documentation is retained in accordance with the limits specified in the Council's Record Retention Policy.

Audit documents may only be revealed to third parties on the approval of the Chief Internal Auditor and any relevant management.



# Internal Audit Charter

## Standard 9 - Due Professional Care

### **9.1 Definition**

Due professional care is:

- working with competence and diligence. It does not imply infallibility.
- the use of audit skills, knowledge and judgement based on appropriate experience, training, ability, integrity and objectivity.
- respecting and understanding the limits of confidentiality.

Adherence to these standards will be part of the internal quality review process.

### **9.2 Responsibilities of the individual auditor**

Individual auditors are personally responsible for applying due professional care to their own work and conducting themselves appropriately. They will:

- be fair and not allow prejudice or bias to override objectivity.
- declare any interest that could be seen to be conflicting or could lead to a conflict.
- not accept any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties other than those allowed by the Council's policy.
- use all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base their conclusions, judgements and recommendations.
- be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with policy or instructions, conflicts of interest and deception, fraud and corruption.
- maintain sufficient knowledge to identify indicators that fraud or corruption may have been committed.
- disclose all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice.
- not use information they obtain in the course of their duties for personal benefit or gain.

# Internal Audit Charter

## **Standard 10 - Reporting**

### **10.1 Principles**

The primary purpose of internal audit reports is to communicate to management information that provides an independent and objective opinion on the control environment and risk exposure and to prompt management to implement agreed actions.

The Chief Internal Auditor has direct access to, and freedom to report in own name, to all officers and Members, particularly those responsible for governance.

### **10.2 Reporting on Audit Work**

The aim of every internal audit report is to:

- give an opinion on risks and controls in the area under review, building up to the annual opinion on the control environment.
- prompt management to implement the agreed actions for change leading to improvement in the control environment and performance.
- provide a formal record of points arising from the audit and, where appropriate, of agreements reached with management, together with appropriate timescales.
- include the scope and purpose to state clearly to the recipient the extent of assurance provided.

Before issuing the final report after an audit:

- the contents will be discussed with the appropriate management to confirm accuracy and agreed management actions. Recommendations will be prioritised according to risk.
- recommendations and the resultant management Action Plan should be agreed. Any items not agreed will be recorded in the Action Plan and the residual risk recorded. Any weaknesses that give rise to significant risks that are not agreed for action, will be reported to a senior level of management and ultimately, to the Audit and Risk Management Committee.

Subsequently, the appropriate risk registers will be updated.

### **10.3 Follow-up audits**

Management is responsible for ensuring that agreed actions are implemented. Internal Audit obtains assurance that the recommendations have been implemented by return of a signed copy of the Action Plan.

**Follow-up audits are conducted within 3-6 months of the completion of an audit to confirm the implementation of recommendations and a follow-up report produced. If they have not been implemented, the subsequent report will be addressed to a higher level of management and ultimately to the Audit and Risk Management Committee. The need for further follow-up is considered in the drafting of the subsequent Annual Plan.**

# Internal Audit Charter

## **Standard 11 - Performance, Quality and Effectiveness**

Detailed policies and procedures are stated in the Audit Manual to guide auditors in performing their duties.

The Manual is regularly reviewed and updated.

### **11.1 Quality assurance of individual audit work**

Audit work is allocated to staff with the appropriate skills, experience and competence.

All internal auditors are supervised and their work reviewed throughout all audits to monitor progress, assess quality and coach and develop staff. The extent of supervision depends on the competence and experience of individuals.

**Quality assurance is a fundamental part of monitoring and ensuring professional standards are maintained. The arrangements for documenting and evidencing the formal quality assurance processes conducted by the Chief and Deputy Chief Internal Auditors are detailed in the Audit Manual. Quality reviews will result in reported findings and learning action plans if appropriate.**

The reviews will include appraisal of the

**quality of audit work and supervision  
compliance with set standards and the Audit Manual  
achievement of performance indicators**

**A record of any significant findings arising from quality assurance reviews will be kept together with any action taken.**

### **11.2 Performance and Effectiveness of the Internal Audit Service**

The performance management and quality assurance framework includes:

-a comprehensive set of targets and performance indicators which are monitored and progress reported to management.

-client feedback sought after each audit and periodically for the whole service.

The results of this process are used to contribute to the Council's annual review of the system of internal audit in accordance with the requirements of the Accounts and Audit Regulations, 2006.