

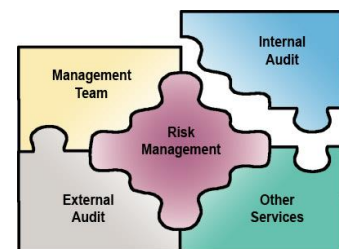
FAREHAM

BOROUGH COUNCIL

INTERNAL AUDIT CHARTER (v4 2019)

1. Introduction

This Charter sets out the purpose, authority and responsibility of the Internal Audit activity at Fareham Borough Council. It is the support document (14) to Financial Regulation 11 which stipulates the Council's main Internal and External Audit arrangements.



This Charter will be reviewed periodically by the Head of Finance and Audit and presented to the Audit and Governance Committee for final approval.

2. Mandatory Requirements

The requirement for an Internal Audit function in local government is contained within the Accounts and Audit (England) Regulations 2015, which states 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”.

The latest Public Sector Internal Audit Standards (PSIAs) were adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) for use in local government with effect from 1 April 2017. They incorporate the Institute of Internal Audit International Standards which are now adopted by the Fareham Borough Council audit team. These comprise of the:

1. Mission of Internal Auditing
2. Definition of Internal Auditing
3. Core Principles for the Professional Practice of Internal Auditing
4. Code of Ethics
5. Standards (Attribute (4) and Performance (7))

3. Mission, Definition and Core Principles

The Mission of Internal Audit is defined in the Public Sector Internal Audit Standards as:

‘to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight’.

Internal Audit is defined in the Public Sector Internal Audit Standards 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'.

The Core Principles for the professional practice of Internal Auditing, that are adopted to articulate internal audit effectiveness are as follows, in accordance with the Public Sector Internal Audit Standards:

✓	Demonstrate integrity
✓	Demonstrate competence and due professional care
✓	Objective and free from undue influence (independent)
✓	Align with the strategies, objectives, and risks of the organisation
✓	Appropriately positioned and adequately resourced
✓	Demonstrate quality and continuous improvement
✓	Communicate effectively
✓	Provide risk-based assurance
✓	Be insightful, proactive and future-focused
✓	Promote organisational improvement

4. Purpose of Internal Audit

Fareham Borough Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.

Internal Audit plays a vital role in assisting officers and members in the effective discharge of their responsibilities, by advising the Council whether these arrangements are in place and operating effectively.

This is achieved through the Internal Audit service providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

The Internal Audit Service is not responsible for:

- Managing the risks of the Council.
- Establishing and maintaining systems of internal control.
- Determining operational policies.
- Ensuring the prevention or detection of fraud and irregularity.

The Council's response to internal audit activity should lead to a strengthening of the control environment and, therefore contribute to the achievement of the organisation's objectives.

5. Roles and Responsibilities

The Council has defined the following individuals and bodies referred to in the Public Sector Internal Audit Standards as follows:

Terminology in PSIA's	Meaning in PSIA's	Who in FBC
The Board	The highest level governing body charged with the responsibility to direct and/or oversee the organisation's activities and hold senior management accountable for governance.	Audit and Governance Committee
Senior Management	Those responsible for the leadership and direction of the Council.	Chief Executive's Assurance Group
Chief Audit Executive	A person in a senior position responsible for effectively managing the Internal Audit activity in accordance with the Internal Audit Charter and the mandatory elements of the International Professional Practices Framework.	Head of Finance and Audit
Internal Audit Activity	The internal audit activity at FBC is provided jointly by an in-house team and an external partner, with the latter primarily responsible for the delivery of the audit plan of "opinion" assignments. The External Authorised Officer is the designated lead officer from the external partner.	

5.1 Responsibility of the Audit and Governance Committee with regards to Internal Audit

The Audit and Governance Committee is responsible for approving any revisions to the Internal Audit Charter and monitoring the effectiveness of the Internal Audit activity. It is also responsible for endorsing the Internal Audit Strategy and Annual Plan of work, and the independence of the Internal Audit Service.

During the financial year, progress reports of internal audits carried out, with their outcomes, are reported to the Committee. These highlight any audits given limited or no assurance. The Audit and Governance Committee assists with monitoring that adequate attention is given by management to address any significant deficiencies in internal controls found.

5.2 Responsibility of the Statutory Chief Finance Officer

In accordance with the CIPFA Statement on the Role of Chief Finance Officer, this post holder is required to ensure that an effective internal audit function is resourced and maintained. This will include reviewing the Internal Audit Strategy and Annual Plan of work.

5.3 Responsibilities of Auditors - Due Professional Care

Internal Auditors should perform work with due professional care, competence and diligence. Internal Auditors cannot be expected to identify every control weakness or irregularity, but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal Auditors should apprise themselves of the '*Mission and Definition of Internal Auditing*', the '*Code of Ethics*', the '*Core Principles*' and the '*Standards*' and work in accordance with them in the conduct of their duties.

Internal Auditors will have a continuing duty to develop and maintain their professional knowledge, skills, and other competencies based on continuous professional development.

Internal Auditors should be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money and failure to comply with management policy. They should ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Head of Finance and Audit.

Internal Auditors should treat the information they receive in carrying out their duties as confidential. There should be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained during Internal Audit work should not be used for personal gain.

5.4 Responsibilities of Auditors – Areas of Evaluation

Internal Auditors should evaluate risk exposures and the adequacy and effectiveness of controls, in the organisations governance, operation and information systems regarding:

- Achievement of the organisation's strategic objectives
- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations and programmes
- Safeguarding of assets
- Compliance with laws, regulations, policies, procedures and contracts.

6. Relationship with External Auditors

An effective collaboration between Internal Audit and the external auditors is required to help ensure effective and efficient audit coverage and resolution of issues of mutual concern.

The Head of Finance and Audit and External Audit Manager should meet periodically to: plan the respective internal and external audits; discuss potential issues arising from the external audit; and share significant issues arising from audit work.

7. The Status and Authority of Internal Audit

7.1 The Head of Finance and Audit

The Head of Finance and Audit reports directly to the Statutory Chief Finance Officer and the Audit and Governance Committee.

The Head of Finance and Audit also has direct access and the freedom to report to all Senior Management including the Chief Executive Officer, who chairs the Chief Executive's Assurance Group. The Head of Finance and Audit also has direct access to the Council's Monitoring Officer where matters arise relating to legality and standards.

Where it is considered necessary to the proper discharge of the Internal Audit function, the Head of Finance and Audit is granted direct access to the Chair and Vice-Chair of the Audit and Governance Committee.

The Head of Finance and Audit and External Authorised Manager have the freedom to suggest the subject priorities for the Internal Audit service, which will be submitted for agreement with the Statutory Chief Finance Officer and approval of the Audit and Governance Committee.

7.2 Authority and Right of Access to Records, Assets, Personnel and Premises

Internal Audit have a right of access to all premises, records, personal and property belonging to the Council or its key partners, where necessary for the proper performance of their duties.

Internal Audit also have the authority to obtain such information and explanations as it considers necessary in the fulfilment of its responsibilities.

Access rights apply to the partner auditors as permitted through the associated contract and partnering arrangements and in agreement with the Head of Finance and Audit. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

Further powers are afforded to the in-house Internal Audit and Corporate Fraud teams during an investigation, as laid out in Financial Procedure Rule 11.

8. Independence and Objectivity

8.1 The Head of Finance and Audit

As there is a potential conflict from the dual role of the Head of Finance and the Head of Audit the following compensating controls will be used to maintain independence:

The Head of Finance and Audit and the External Authorised Officer will be a member of a professional accountancy or auditing body.
The Head of Finance and Audit will assume the auditee role in audits of specific finance and local taxation systems.
The majority of planned "opinion" work will be carried out by the auditors of the external partner who are not employees of the council and who report to their own head of audit.
The original copy of all audit reports submitted by the external partners will be filed as part of the audit trail for that audit.
Although the teams will liaise on the scope of the audit and the content of the final audit report, the External Authorised Officer will be sent a copy of the final report allowing them to raise any concerns they have with the content with the Section 151 Officer.
The Section 151 Officer will meet annually with the External Authorised Officer without the Head of Finance and Audit being present.

8.2 Internal Auditors

Internal Auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice.

Internal Auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that Internal Auditors do not subordinate their judgement on audit matters to others.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, the following arrangements will be put in place, in addition to the status given to the audit service outlined above:

The Internal Audit Service will not have any executive or operational responsibilities.

Auditors will not carry out an “opinion” audit of an activity for which they have previously had responsibility or an operational role until at least 12 months have elapsed. This also applies where they have undertaken consultancy work covering the activity.

All lead auditors will be required to sign up to an individual independence, ethics and confidentiality agreement and declare any conflicts they may have in potential audit assignments. These will be taken into consideration when audits are assigned. Additional arrangements may also be in place within the partner audit organisation.

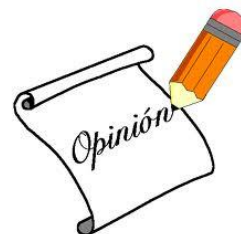
An individual auditor will not be solely responsible for the same audit assignment for more than 3 consecutive audits.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to Statutory Chief Finance Officer and the Audit and Governance Committee. The nature of the disclosure will depend upon the impairment.

9. Scope of Internal Audit Activities

9.1 The Annual Audit Opinion

The Head of Finance and Audit is responsible for the delivery of an Annual Audit Opinion and report which can be used by the Council to inform its Annual Governance Statement.



The annual opinion will conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. The opinion given will be based on reasonable and not absolute assurances and will include any limitations to scope affecting the opinion.

Internal Audit's remit extends to the entire control environment of the organisation. The approach is determined by the Head of Finance and Audit and will depend on the maturity of the risk and governance arrangements at the council, the significance of the objectives under review to the organisation's success, the risks inherent in the achievement of objectives and the level of assurance required that controls are well designed and operating as intended.

9.2 Risk Based Audits

Audit work intended to provide an individual audit assurance “opinion” will be undertaken using the risk-based approach. This identifies the risks and controls associated with the achievement of defined business objectives and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of management’s objectives. At the end of the assignment an individual assurance opinion will be given from the scale in [Appendix 1](#).

9.3 Recommendation Management

Where significant weaknesses are found in risk-based audits, an action plan will be agreed with the managers of the service. The weaknesses will be given a priority from the scale in [Appendix 1](#). The Internal Audit service will maintain a record of these which will be used to inform future audits.

An important element of Audit work will be to provide assurance to management and members as to whether Audit recommendations have been successfully implemented. This will be by way of annual surveys involving service management self-assessing the level of implementation, supplemented by audit verification of implementation during assignments or specific follow up reviews.

9.4 Specific Assurances

Additional coverage may be added to the work of the service, on agreement with Senior Management, to give assurances on specific aspects of the governance framework, such as the level of policy compliance or strength of counter fraud controls.

9.5 Other Activities under the Wider Role of Internal Audit

Risk Management

The wider Audit and Assurance team play an active role in supporting the risk management process at the Council by maintaining the Risk Management Policy and leading on the corporate monitoring and reporting processes.

In order to maintain independence, assurance on the adequacy of the council's risk management arrangements cannot be undertaken by an auditor involved in this activity and cannot be directed by the Head of Finance and Audit.

Annual Governance Statement

The Head of Finance and Audit takes an active role in ensuring that the Annual Governance Statement is produced by the Chief Executive's Assurance Group and approved by the Audit and Governance Committee, in accordance with best practice and within the required timescales. The post-holder also leads on maintaining appropriate documentation of the Governance Assurance framework and keeping records of the work carried in conducting the annual review of arrangements.

In order to maintain independence, assurance on the adequacy of the council's Annual Governance Statement process cannot be directed by the Head of Finance and Audit.

Referred Control Issues and System Breakdowns

The Audit and Assurance team play an active role in identifying themes arising from audit assurance work, which would benefit from corporate action, such as those that are cross cutting in nature or which little progress is being made on addressing. These may also be referred by the Statutory Chief Finance Officer or the Chief Executive's Assurance Group.

Where a failure in a council system has been identified the internal audit, service may be instructed to establish the reason and impact of the failure and assist the service in developing an action plan to prevent future recurrence.

Assistance in Action Implementation

The Internal Audit Service may also assist a service in implementing actions to address control weaknesses that have been identified to ensure that a strengthened control framework is achieved. The service will be expected to maintain any controls that are designed and introduced and take ownership for them after implementation.

Consulting Services

The Internal Audit Service may also provide consultancy services such as advice on the design and implementation of a new system or process. Any significant consulting activity not already included in the Annual Plans and which might affect the level of assurance work undertaken will be reported to the Statutory Chief Finance Officer and the Audit and Governance Committee for approval. The Internal Audit service will manage objectivity when assigning resources to the engagement.

9.6 Role of Internal Audit in Fraud-Related Work

The Head of Finance and Audit is also responsible for the delivery of the Corporate Counter Fraud Strategy work and the delivery of corporate investigations. The Internal Audit activity assists the Counter Fraud activity in the following ways:

Promoting an anti-fraud, anti-bribery, anti-corruption culture which aids prevention and detection.
Ascertaining the effectiveness of fraud prevention controls and detection processes.
Bringing to the Head of Finance and Audit's attention any irregularities identified during audit work which may be the result of fraud or corruption.
Providing specialist skills and knowledge to assist irregularity investigations.
Providing assurance that remedial actions required following an investigation have been implemented

The Head of Finance and Audit also has a wider responsibility to collate the total number of suspected and actual fraud and irregularities in accordance with the Transparency Code.

S/he is also one of the nominated routes that can be used by individuals to report a suspicion of Financial Irregularity under Financial Regulation 10. This also stipulates that Head of Finance and Audit should subsequently be notified of all investigations into fraud, corruption or impropriety and the outcomes.

10. Assurance Services provided to External Parties

The Internal Audit service examines the internal control and risk management processes for the Portchester Crematorium Joint Committee in accordance with the local agreement.

Audits of services carried out in partnership with Gosport Borough Council are delivered jointly with or alternately by the Gosport Borough Council Audit Section to avoid duplication.

The Hampshire Audit Manager's Group will maintain a matrix of assurances for Hampshire partnerships which will highlight who is the lead audit team for partnerships and whose work can then be used by the audit teams in Hampshire. This may therefore require the Fareham Borough Council Audit Team to provide assurances to other Councils.

11. Reporting

11.1 Reports to the Top of the Organisation

The Head of Finance and Audit and/or the External Authorised Officer will provide the following reports to the top of the organisation:

	Audit and Governance Committee	Chief Executive's Assurance Group	Statutory Chief Finance Officer	Individual Senior Managers
Internal Audit Charter	YES		YES	
Internal Audit Strategy	YES		YES	
Internal Audit Annual Plan	YES		YES	Discussions on content
Quarterly Progress Reports & Findings	YES		YES	Full end of assignment reports
Annual Audit Report and Opinion	YES	YES		
Corporate themes arising from audit activity		YES	YES	
Conformance with Standards and results of the Quality Assurance and Improvement Programme	YES	Significant non-conformances	YES	

11.2 Individual Assignment Reports

A report will be issued for each planned assignment for the appropriate Senior Manager. A summary of this information will be included in the quarterly progress reports to the Audit and Governance Committee.

Internal Audit reports are subject to the Freedom of Information Act and as such can be requested by **external** parties. These must be released within the statutory timescale but only after liaison with the Head of Finance and Audit and Director of the service concerned. This is to ensure that any *exempt* information has been removed, where considered necessary.

Internal Audit reports and working files can be released to external auditors on the authorisation of the Head of Finance and Audit, External Authorised Officer or Statutory Chief Finance Officer.

Internal Audit reports can only be released **internally** to the Statutory Chief Finance Officer or the supervisor, Head of Service or Director of the service being audited. The release of the report to anyone else internally requires the authorisation of either the Statutory Chief Finance Officer, Head of Service or Director of the service concerned.

Audit working files and records can only be released internally on authorisation of the Head of Finance and Audit or External Authorised Officer.

12. Resourcing the Audit Activity

The Statutory Chief Finance Officer should provide the Head of Finance and Audit with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the Internal Audit opinion.

The Internal Audit Budget is reported to the Executive and Full Council for approval annually, as part of the overall Council budget. The Audit and Governance Committee approve the allocation of the available resources in the form of the proposed Audit Strategy and Annual Plan for the year.




The Head of Finance and Audit should ensure that the Internal Audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the Audit Strategy and Audit Plan.

During the year, if the Head of Finance and Audit or the Audit and Governance Committee believe that the level or nature of available resources will sufficiently limit the scope or coverage of the internal audit activity they will advise the Statutory Chief Finance Officer accordingly.

Summary of Assurance Opinions Used

Assurance Level	Description
Strong	There is a strong system of control designed and operating effectively. Any weaknesses found were low impact and do not significantly affect key controls or the achievement of the objectives of the system.
Reasonable	There is basically a sound system of internal control but weaknesses were found in system design or compliance, which result in some risk to the achievement of the system objectives.
Limited	There are some weaknesses in the system of control designed or the level of compliance which result in significant risk to the achievement of the system objectives.
Minimal	Fundamental weaknesses have been identified such that many key controls are absent or not operating effectively which may put at risk the achievement of the corporate control objectives.

Recommendations and actions are categorised using the following 3-point scale in use on the Council's action management system

Essential		A fundamental weakness in the control system which presents immediate risk to the service or system of a significant nature. Requires urgent attention by management. Reported to the Audit Committee and implementation of proposed actions are monitored.
Important		A significant control weakness where the risk is not imminent or only of a moderate nature. This needs addressing but is not urgent. Reported to the Audit Committee and implementation of proposed actions are monitored.
Advisory		A weakness or opportunity for improvement where the risk poses no great threat and is relatively minor. Consideration should be given to addressing the weakness if there is the appetite and/or capacity to implement the improvements. We will not track actions taken to address these recommendations unless at the manager's request.