

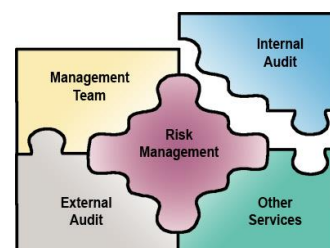
# FAREHAM

## BOROUGH COUNCIL

### INTERNAL AUDIT CHARTER

#### 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 Procedure Rule 11 which stipulates the Council's main Internal and External Audit arrangements.



This Charter will be reviewed periodically by the Head of Audit and Assurance 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 2011, which states that a relevant body must:

*'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.*

The standards for 'proper practices' are currently laid down in the Public Sector Internal Audit Standards which were adopted by the Chartered Institute of Public Finance and Accountancy (CIPFA) for use in local government with effect from 1 April 2013.

These comprise of the '*Definition of Internal Auditing*', the '*Code of Ethics*' and the '*Standards*' and CIPFA's '*Local Government Application Note*'.

The Accounts and Audit Regulations 2011 also require that larger relevant bodies, '*at least once in each year, conduct a review of the effectiveness of its internal audit*'.

#### 3. Definition of Internal Audit

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'.*

## 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 that 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.

## 5. Roles and Responsibilities

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

Terminology in PSIAs	Meaning in PSIAs	Who in FBC
<b>The Board</b>	The governance group charged with independent assurance on the adequacy of the risk management framework, the Internal control environment and the integrity of financial reporting.	Audit and Governance Committee
<b>Senior Management</b>	Those responsible for the leadership and direction of the Council.	Chief Executive's Management Team
<b>Chief Audit Executive</b>	A person in a senior position responsible for effectively managing the Internal Audit activity in accordance with the Internal Audit Charter and the Public Sector Internal Audit Standards.	Head of Audit and Assurance
<b>Internal Audit Activity</b>	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 assignments. The <b>Audit Contract Manager</b> 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 course of the financial year, progress reports of internal audits carried out, with their outcomes, are reported to the Committee. In particular 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 '*Definition of Internal Auditing*', the '*Code of Ethics*' 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 skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

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 Audit and Assurance.

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 in the course of Internal Audit work should not be used for personal gain.

## **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 Audit and Assurance, the Audit Contract Manager 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 Audit and Assurance**

The Head of Audit and Assurance reports directly to the Statutory Chief Finance Officer and, through the post-holder, to the Audit and Governance Committee.

The Head of Audit and Assurance 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 Audit and Assurance 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 Audit and Assurance is granted direct access to the Chair and Vice-Chair of the Audit and Governance Committee.

The Head of Audit and Assurance and Audit Contract 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, documents, 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 Audit and Assurance. 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**

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 Head of Audit and Assurance and the Audit Contract Manager will be a member of a professional accountancy or auditing body.

The majority of planned assurance work will be carried out by the auditors of the external partner who are not employees of the council.

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

Auditors will not audit an activity for which they have previously had responsibility or an operational role until at least 12 months have elapsed. The also applies when undertaking 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 Opinion

The Head of Audit and Assurance 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 Audit and Assurance and will depend on the maturity of the risk and governance arrangements at the council, the significance of the objectives under review to the organisations 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 managements' objectives.

### 9.3 Recommendation Management

Where significant weaknesses are found in risk based audits, and action plan will be agreed with the managers of the service. 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 to service management for self-assessments of 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 Audit and Assurance.

### *Annual Governance Statement*

The Head of Audit and Assurance 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 Audit and Assurance.

### *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 will be referred to the Statutory Chief Finance Officer or the Chief Executives Management Team.

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.

### *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.

## **9.6 Role of Internal Audit in Fraud-Related Work**

The Head of Audit and Assurance is also responsible for the delivery of the Corporate Counter Fraud Strategy work and 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 Audit and Assurance's attention any irregularities identified during the course of audit work which may be the result of fraud or corruption.
Providing specialist skills and knowledge to assist irregularity investigations.
Providing assurance that any remedial actions required as a result of an investigation have been implemented

## 10. Assurance Services provided to External Parties

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

## 11. Reporting

### 11.1 Reports to the Top of the Organisation

The Head of Audit and Assurance and/or the Audit Contract Manager 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 and Annual Plan	YES		YES	Discussions on content
Quarterly Progress Reports of Findings	YES		YES	Full end of assignment reports
Annual Audit Report and Opinion	YES	YES		
Corporate themes arising from audit activity		YES		
Conformance with the Standards and the 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 Audit and Assurance 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 Audit and Assurance, Audit Contract Manager 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 Audit and Assurance or Audit Contract Manager.

## **12. Resourcing of the Audit Activity**

The Statutory Chief Finance Officer should provide the Head of Audit and Assurance 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 Audit and Assurance 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 Audit and Assurance 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.