



BRACKNELL FOREST COUNCIL INTERNAL AUDIT CHARTER

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Introduction

A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector. With effect from 1st April 2013, a common set of Public Sector Internal Audit Standards (PSIAS) was introduced which is applicable to and mandatory for all UK public sector organisations including local authorities. The PSIAS applies to all internal audit service providers, whether in house, shared services or outsourced. The PSIAS are based on the following mandatory elements of the Institute of Internal Auditors International Practices Framework:

- Definition of internal auditing
- Code of ethics; and
- International Standards for the Professional Practice of Internal Auditing.

The purpose of the PSIAS is to:

- Define the nature of internal auditing within the public sector
- Set basic principles for carrying out the internal audit in the UK public sector
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

PSIAS require the Council to formally define the purpose, authority and responsibility of internal audit in an internal audit charter which must be presented to and approved by senior management and “the Board”. The role of “the Board” is largely undertaken by the Governance and Audit Committee at Bracknell Forest Council. The Charter will be reviewed every 3 years.

Statutory and Regulatory Basis for Internal Audit

The statutory requirement for an Internal Audit function is contained in Regulation 6 of the Accounts and Audit Regulations 2015 which requires the Council to ***“undertake an ad 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”***.

Internal Audit will govern itself by adherence to Public Sector Internal Audit Standards (PSIAS) which are mandatory and are deemed to be “the proper practices” for the purposes of compliance with the Accounts and Audit Regulations.

Internal Audit assists the Section 151 Officer (the Director of Finance) in discharging his delegated responsibilities under Section 151 of the Local Government Act 1972 which requires the Council to “make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.

The Council’s Financial Regulations set out officer responsibilities in respect of Internal Audit. See Appendix 1.

Purpose, Authority and Responsibility

Internal Audit’s Purpose, Authority and Responsibility

The Standards set out that the mission of internal audit is “to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight” and defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. The scope of Internal Audit’s remit extends to the entire

control environment of the organisation. It is the responsibility of Internal Audit to review, appraise and report upon the soundness, adequacy and application of internal control, risk management and corporate governance.

In order to meet its responsibilities, Internal Audit will be given right of access to all records, assets, personnel and premises, including those of partner organisations, as it considers necessary to fulfil those responsibilities. This right is established in the Council's Financial Regulations within the Constitution and also set out in statute under the Accounts and Audit Regulations which state that

“Any officer or member of a relevant body must, if the body requires—

(a) make available such documents and records as appear to that body to be necessary for the purposes of the audit; and

(b) supply the body with such information and explanation as that body considers necessary for that purpose.”

CORE PRINCIPLES

PSIAS were revised in 2017 to set out the core principles of effective internal audit as:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

Independence and Objectivity

As required by the PSIAS, the internal audit activity is independent and internal auditors are objective in performing their work. Threats to independence and objectivity are managed at the organisational, functional, engagement and individual auditor level.

Organisational Independence

Organisational independence is achieved through the Head of Audit and Risk Management reporting directly to the Governance and Audit Committee acting as “the Board” for the purposes of PSIAS which includes the Committee:-

- approving the Internal Audit Charter
- approving the Annual Internal Audit Plan
- receiving reports from the Head of Audit and Risk Management on performance against the Plan
- making appropriate enquiries of management and the Head of Audit and Risk Management to ensure that there are factors which could have compromise the independence of internal audit.

Status of the Chief Internal Auditor

The Internal Audit Team sits within the Finance section in Corporate Services. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the PSIAS state that the Head of Audit should have direct and unrestricted access to senior management and “the board” and must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities.

The Head of Audit and Risk Management reports to the Director of Finance who acts as Section 151 officer and is a member of the Council’s Corporate Management Team. The Head of Audit and Risk Management has unrestricted access to:

- the Chief Executive,
- the Monitoring Officer
- the Corporate Management Team
- the Governance and Audit Committee
- the Chair of the Governance and Audit Committee and/or other Members as necessary
- all levels of management and
- other Council employees as necessary

The Head of Audit and Risk Management meets formally with the Chief Executive on a quarterly basis to discuss progress on the Internal Audit Plan and emerging issues.

Independence of Auditors

Individual auditors must have an impartial, unbiased attitude and avoid any Conflict of Interest. Individual auditors will be required to conform to the Chartered Institute of Internal Auditors (CIIA’s) Code of Ethics and relevant requirements of other professional bodies such as the ICAEW or CIPFA of which they may be a member. In addition to this, all Internal Auditors will have regard to the Standards of Public Life’s “Seven Principles of Public Life”. The Head of Audit and Risk Management will seek assurance from outsourced providers that they have ensured that their staff are complying with the Code of Ethics and have disclosed any conflict of interest.

The Head of Audit and Risk Management and Internal Audit Contract Manager will sign an annual declaration to confirm that they will work in compliance with the Code of Ethics as well as Council’s standards and policies such as the Council’s Codes of Conduct. Where potential areas of conflict may arise during the year, they will be required to disclose this.

Impairment to Independence or Objectivity

The Head of Audit and Risk Management will report annually to the Section 151 Officer (Director of Finance) and the Governance and Audit Committee that independence and objectivity has been maintained. If this is not the case, disclosure will be made. Examples of where this might arise include potential conflicts of interest or restricted access to records. Audit engagements covering insurance and risk management, for which the Head of Audit and Risk Management has functional responsibility will be overseen by the Director of Finance.

Internal Audit Proficiency and Due Professional Care

In accordance with the PSIAS, audit engagements will be performed with proficiency and due care.

Proficiency

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities. At Bracknell

Forest Council this is achieved through the outsourcing of audits which enables specific areas of expertise to be bought in as required e.g. IT, tax and contract audit.

The qualification, skills and competencies required for the Head of Audit and Risk Management and the Internal Audit Contract Manager are set out in the approved job descriptions and person specifications. These satisfy the PSIAS requirement that the Head of Audit and Risk Management must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. A robust internal appraisal process is in place and in line with Council policy and the Standards, the in-house team will be assessed against the set predetermined values and behaviours and annual objectives. Development and training plans will be regularly reviewed, monitored and agreed. This process is informed by the records of continual professional development maintained in line with professional body requirements.

The specification for the internal audit contracts and the S113 agreement with Reading and Wokingham Borough Council for the sharing of internal audit services require our internal audit providers to have appropriate training programmes in place to ensure auditors have the appropriate skills to deliver audits. Proficiency of individual auditors for each provider will be monitored through quality reviews of all reports and a sample of working papers by the Head of Audit and Risk Management and Internal Audit Contract Manager.

Due Professional Care

Internal auditors will exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management and control processes;
- Probability of significant errors, fraud, or non-compliance; and
- Cost of assurance in relation to potential benefits.

In exercising due professional care, internal auditors will be alert to significant risks that may affect the objectives.

The internal audit service providers' conformance with standards for due professional care is ensured through the specification for the internal audit contracts and the S113 agreement and through the quality control checking of all reports and a sample of audit working paper files.

Nature of Work

Internal audit activity evaluates and contributes to the improvement of governance, risk management and control processes as required under the PSIAS using a systematic and disciplined approach.

Governance

Internal Audit will assess governance processes and make appropriate recommendations for improving these processes in:

- promoting appropriate ethics and values within the organisation;
- ensuring effective organisational performance management and accountability;
- communicating risk and control information to appropriate areas of the organisation; and
- coordinating the activities of and communicating information among Internal Audit, senior management, the external auditors and the Governance and Audit Committee.

Internal Audit focus may include coverage of ethics and information governance of the organisation as appropriate.

Risk Management

Managers are responsible for identifying risk and putting appropriate risk mitigation in place. Internal Audit will evaluate the effectiveness and contribute to the improvement of risk management processes. Internal Audit activity will evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:

- 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; and
- compliance with laws, regulations, policies, procedures and contracts.

Control

Internal Audit assists the organisation in maintaining effective controls which is a management responsibility by evaluating their effectiveness and efficiency and by promoting continuous improvement. It evaluates the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- 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; and
- compliance with laws, regulations, policies, procedures and contracts.

Fraud

Responsibility for preventing and detecting fraud rests with managers and Internal Audit will not necessarily detect fraud, corruption, bribery, theft or financial irregularities as part of its work as management is responsible for mitigating these risks. Whilst it is not a primary role of Internal Audit to detect fraud, Audit does have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud. Internal Audit will

- consider fraud risk at every audit as appropriate;
- review fraud prevention controls and detection processes put in place by management; and
- make recommendations to improve processes.

The Council's Financial Regulations require that Directors inform the Director of Finance or the Head of Audit and Risk Management of all suspected irregularities. The Director of Finance will decide on the arrangements for the investigation of such irregularities and will inform the Head of Audit and Risk Management of any significant irregularities. Internal Audit can investigate potential irregularities and respond to whistle blowers if requested to do so.

Audit Delivery

Planning

The Head of Audit and Risk Management develops a risk based audit plan, which can be updated to reflect changing risks and priorities of the organisation, to enable the production of the annual internal audit opinion.

In order to prepare this risk based audit plan, the Head of Audit and Risk Management:

- reviews all risk registers;
- meets with all senior managers and seeks input from internal audit providers and external audit;
- considers national issues e.g. new legislation, economic climate;
- considers local issues e.g. service plans, on-going projects, changes to IT systems;

- reviews budgets and outturns to identify areas of high spend/income;
- considers risks arising from changes to key personnel;
- considers elapsed time since the last audit;
- considers potential fraud risks;
- considers assurances provided by other bodies.e.g. inspections;
- identifies grants requiring Internal Audit certification; and
- assesses the time required to deliver each audit and the skills and expertise needed

Resourcing

The PSIAS state that the Head of Audit must ensure that internal audit resources are appropriate, sufficient and effectively deployed.

The Head of Audit and Risk Management will quantify resources and identify the mix of knowledge, skills and other competencies required to deliver the Annual Audit Plan. Delivery of the majority of audits is outsourced enabling the Council to manage resources effectively by buying in the required level of days and relevant audit specialisms needed in any given year to deliver the approved Plan. Audits including IT audits are carried out under a contract with TIAA Ltd which was procured and extended in accordance with the Council's Financial Regulations and Contract Standing Orders and some audits are delivered by Wokingham Borough Council's internal audit team under an agreement under Section 113 of the Local Government Act 1972 which permits local authorities to share staffing resources. A number of audits and grant certifications are undertaken in-house by the Head of Audit and Risk Management and Internal Audit Contract Manager.

The Head of Audit and Risk Management will explain to management, the Section151 Officer and the Governance and Audit Committee how the internal audit resource requirements set out in Annual Audit Plan the have been assessed. Where the Head of Audit and Risk Management has concerns over the level of financial budget allocated and is of the view that this may impact adversely on the provision of the annual internal audit opinion, the consequences of this will be brought to the attention of the Section 151 Officer and Governance and Audit Committee. If necessary, the Head of Audit and Risk Management will agree additional resources with the Section 151 Officer.

Engagement Planning

For each engagement, a terms of reference (tor) will be prepared, discussed and agreed with relevant managers. The tor will establish the objectives, scope and timing for the audit assignment and its resources and reporting requirements. In planning the audit work, the auditor will consider the objectives of the activity to be audited and significant risks to the activity. A risk based audit approach will be taken to:

- consider the adequacy of controls in place to ensure objectives are achieved;
- verify compliance with those controls;
- assess the risk of significant errors and/or fraud; and
- identify need /opportunities for improvement.

Performing the Engagement

Auditors will identify, analyse and evaluate sufficient relevant and reliable information to achieve the engagement's objectives. Auditors will document relevant information to support conclusion's and audit engagement results. All audits, both internally and externally delivered, will be subject to appropriate review processes to ensure satisfactory standards of work are met. Working papers evidencing audits will be held in compliance with the Councils' Record Retention and Destruction Schedule.

Communicating Results of Individual Audits

The results of individual engagements will be discussed at an exit meeting with the auditee before being formally communicated in an audit report. The audit report will include the key issues

findings, conclusions, recommendations, management's responses with agreed actions and where appropriate will contain an Internal Audit opinion.

Table 1 provides the **levels of opinion** that can be provided with a short description;

Table 1

	Good - There is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to the achievement of objectives and this is being complied with. Recommendations will only be of low priority.
	Adequate - there is basically a sound system of control but there are some areas of minor weakness and/or some areas of non-compliance which put the system/process objectives at risk. Recommendations will only be low or moderate in priority.
	Partial - there are areas of weakness and/or non-compliance with control which put the system/process objectives at risk and undermine the system's overall integrity. Recommendations may include major recommendations but could only include critical priority recommendations if mitigated by significant strengths elsewhere.
	Inadequate - controls are weak across a number areas of the control environment and/or not complied with putting the system/process objectives at significant risk. Recommendations will include major and/or critical recommendations
	None - There is no control framework in place and management is inadequate leaving the system open to risk of significant error or fraud.

Our **recommendations** will be categorised according to their level of priority. Table 2 provides a short description of the 3 priority levels applied.

Table 2

	Critical - Critical and urgent in that failure to address the risk could lead to factors such as significant financial loss, significant fraud, serious safeguarding breach, critical loss of service, critical information loss, failure of major projects, intense political or media scrutiny. Remedial action must be taken immediately.
	Major - failure to address issues identified by the audit could have significant impact such as high financial loss, safeguarding breach, significant disruption to services, major information loss, significant reputational damage or adverse scrutiny by external agencies. Remedial action to be taken urgently.
	Moderate - failure to address issues identified by the audit could lead to moderate risk factors materialising such as medium financial loss, fraud, short term disruption to non-core activities, scrutiny by internal committees, limited reputational damage from unfavourable media coverage. Prompt specific remedial should be taken.
	Low - failure to address issues identified by the audit could lead to low level risks materialising such as minor errors in system operations or processes, minor delays without impact on service or small financial loss. Remedial action is required.

Overall Annual Opinion

The Head of Audit and Risk Management will deliver an annual internal audit opinion and report that can be used by the organisation to inform its annual governance statement. The annual report will include:

- the opinion which will cover controls, risk management and governance;
- a summary of the work that supports the opinion; and
- a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

The report will identify:

- the scope including time period to which the opinion pertains;

- any scope limitations
- consideration of all related projects including the reliance on other assurance providers;
- the control framework used as a basis for the overall opinion; and
- the overall opinion reached with reasons given if an unfavourable overall opinion is given.

Quality Assurance and Improvement Programme

PSIAS require that a Quality Assurance and Improvement Programme (QAIP) is put in place. A QAIP has been developed to enable the Head of Audit and Risk Management to assess the Internal Audit's activity's conformance to the PSIAS and compliance with the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The QAIP must include both internal and external assessment and will form part of the annual assessment of the effectiveness of internal audit which is included in the Head of Audit and Risk Management's annual report. Where instances of non-conformances to the PSIAS are identified by the QAIP process they will be reported to the Section 151 Officer, the Corporate Management Team and the Governance and Audit Committee through the annual report. Any significant deviations will be detailed within the Annual Governance Statement.

Internal Assessment

PSIAS require that the internal assessment must include periodic self assessment on compliance with the Standards and on-going monitoring of performance of the internal audit activity.

Periodic Self -Assessment

The Head of Audit and Risk Management updates and completes the CIPFA checklist on conformance every year and the outcome is reported to the Governance and Audit Committee in the Head of Audit and Risk Management's Annual Report.

On-Going Monitoring

On-going monitoring includes:

- clear performance indicators set out in the contract/agreement with each external audit provider. These are monitored quarterly;
- monthly contract monitoring meetings with the main provider together with quarterly reports and quarterly meetings with the Director from Mazars;
- reporting delivery against the Annual Audit Plan to the Governance and Audit Committee twice a year together with performance against the key indicator (delivery of draft reports within 15 days of the exit meeting);
- the Head of Audit and Risk Management undertaking formal quality review of reports and working papers for in-house work carried out by the Internal Audit Contract Manager;
- formal quality review undertaken by Head of Audit and Risk Management/Internal Audit Contract Manager on all reports and a sample of audit working paper files (including all key financial systems) for work outsourced to external providers;
- client questionnaires issued for completion to lead auditee with draft report. Questionnaires are returned to the client side and fed back to the relevant audit service provider for that audit. Where the auditee did not find the audit satisfactory, the provider is required to investigate and respond to the client side on the points raised. Client questionnaires are reported back at summary level to Governance and Audit Committee twice a year.

External Assessment

In compliance with the PSIAS, external assessment will be carried out at least once every five years.

EXTRACT FROM APPENDIX C OF BRACKNELL FOREST COUNCIL'S FINANCIAL REGULATIONS

3.3 INTERNAL AUDIT

Why is this important?

The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs". The Accounts and Audit (England) Regulations 2011 more specifically require 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 proper practices in relation to internal control".

Accordingly, internal audit is an independent and objective appraisal function established by the authority for reviewing the system of internal control. It examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

Key controls

The key controls for internal audit are:

- (a) that it is independent in its planning and operation
- (b) the Head of Audit and Risk Management has direct access to the Chief Executive, all levels of management and directly to elected Members
- (c) the internal auditors comply with all relevant regulations and professional guidance.

Responsibilities of the Director of Finance

To ensure that internal auditors have the authority to:

- (a) access authority premises at reasonable times
- (b) access all assets, records, documents, correspondence and control systems
- (c) receive any information and explanation considered necessary concerning any matter under consideration
- (d) require any employee of the authority to account for cash, stores or any other authority asset under his or her control
- (e) access records belonging to third parties, such as contractors, when required
- (f) directly access the Chief Executive, the Executive and Governance and Audit Committee.

To prepare annual audit plans, which take account of the characteristics and relative risks of the activities involved for approval by the Governance and Audit Committee.

To ensure that effective procedures are in place to investigate promptly any fraud or irregularity.

Ensure that any person engaged in internal audit work is aware that they must maintain confidentiality regarding the operations and management information relating to the part of the Council being reviewed or investigated.

Responsibilities of Directors

To ensure that internal auditors are given access at all times to premises, personnel,

documents and assets that the auditors consider necessary for the purposes of their work.

To ensure that auditors are provided with all information and explanations that they need in the course of their work to enable them to draw appropriate conclusions.

To ensure that Internal Auditors are not misled or provided incorrect information.

To consider and respond promptly to recommendations in audit reports.

To ensure that any agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.

To notify the Director of Finance immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the authority's property or resources. Pending investigation and reporting, the Director should take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration.

To ensure that new systems for maintaining financial records, or records of assets, or changes to such systems, are discussed with and agreed by the Head of Audit and Risk Management prior to implementation.