

# **Internal Audit Charter for Chesterfield Borough Council, Bolsover District Council and North East Derbyshire District Council**

## **Purpose**

The purpose of the internal audit function is to strengthen each Councils ability to create, protect, and sustain value by providing the Audit Committee and management with independent, risk-based, and objective assurance, advice, insight, and foresight and contributing to the authority's annual governance review.

The internal audit function enhances each Councils:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Each Councils internal audit function is most effective when:

- Internal auditing is performed by competent professionals in conformance with the IIA's Global Internal Audit Standards in the UK public sector, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to each Audit Committee.
- Internal auditors are free from undue influence and committed to making objective assessments.

## **Commitment to Adhering to the Global Internal Audit Standards**

Each Councils internal audit function will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards. The Head of the Internal Audit Consortium will report to each Councils Audit Committee and senior management annually regarding the internal audit function's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

## **Mandate**

### **The Accounts and Audit Regulations 2015**

#### **Internal Audit (extract from the Accounts and Audit Regulations 2015)**

5.(1) 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.

(2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—

(a) make available such documents and records; and (b) supply such information and explanations;

as are considered necessary by those conducting the internal audit.

(3) In this regulation “documents and records” includes information recorded in an electronic form.

## **Authority**

Each Councils Audit Committees grants the internal audit function the mandate to provide the Audit Committee and senior management with objective assurance, advice, insight, and foresight.

The internal audit function’s authority is created by its direct reporting relationship to the Audit Committee. Such authority allows for unrestricted access to the Audit Committee.

The Audit Committee authorises the internal audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function’s objectives.
- Obtain assistance from the necessary personnel of each Council and other specialised services from within or outside each Council to complete internal audit services.

## **Independence, Organisational Position, and Reporting Relationships**

The Head of the Internal Audit Consortium will be positioned at a level in the organisation that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function. The Head of the Internal Audit Consortium will report functionally to each Councils Audit Committee and administratively (for example, day-to-day operations) to the Directors of Finance. This positioning provides the organisational authority and status to bring matters directly to senior management and escalate matters to the Audit Committee, when necessary, without interference and supports the internal auditors’ ability to maintain objectivity.

The Head of the Internal Audit Consortium will confirm to each Councils Audit Committee, at least annually, the organisational independence of the internal audit function. If the governance structure does not support organisational independence, the Head of the Internal Audit Consortium will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The Head of the Internal Audit Consortium will disclose to the Audit Committee any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.

## **Changes to the Mandate and Charter**

Circumstances may justify a follow-up discussion between the Head of the Internal Audit Consortium, Audit Committee, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant acquisition or reorganisation within the organization.
- Significant changes in the Head of the Internal Audit Consortium, Audit Committee, and/or senior management.
- Significant changes to the organisation's strategies, objectives, risk profile, or the environment in which the organisation operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

## **Audit Committee Oversight**

To establish, maintain, and ensure that the Councils internal audit function has sufficient authority to fulfill its duties, the Audit Committee will:

- Discuss with the Head of the Internal Audit Consortium and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- Ensure the Head of the Internal Audit Consortium has unrestricted access to and communicates and interacts directly with the Audit Committee, including in private meetings without senior management present.
- Discuss with the Head of the Internal Audit Consortium and senior management other topics that should be included in the internal audit charter.

- Participate in discussions with the Head of the Internal Audit Consortium and senior management about the “essential conditions,” described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- Approve the internal audit functions charter, which includes the internal audit mandate and the scope and types of internal audit services.
- Review the internal audit charter annually with the Head of the Internal Audit Consortium to consider changes affecting the organisation, such as the employment of a new Head of Internal Audit or changes in the type, severity, and interdependencies of risks to the organisation; and approve the internal audit charter annually.
- Approve the risk-based internal audit plan.
- Review the Head of Internal Audit Consortium’s performance.
- Receive communications from the Head of the Internal Audit Consortium about the internal audit function including its performance relative to its plan.
- Ensure a quality assurance and improvement program has been established.
- Review of the results of the quality assurance and improvement program annually.
- Make appropriate inquiries of management and the Head of the Internal Audit Consortium to determine whether scope or resource limitations are inappropriate.

## **Head of the Internal Audit Consortium Roles and Responsibilities**

### **Ethics and Professionalism**

The Head of the Internal Audit Consortium will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organisation and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organisation.
- Report organizational behavior that is inconsistent with the organisation’s ethical expectations, as described in applicable policies and procedures.

## **Objectivity**

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

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

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

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

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the Head of the Internal Audit Consortium, Audit Committee, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

## Managing the Internal Audit Function

The Head of the Internal Audit Consortium has the responsibility to:

- At least annually, submit a risk-based internal audit plan to the Audit Committee and senior management for review and approval.
- Communicate the impact of resource limitations on the internal audit plan to the Audit Committee / Joint Board and senior management.
- Review and adjust the internal audit plan, as necessary, in response to changes in the Council's business, risks, operations, programs, systems, and controls.
- Communicate with the Audit Committee and senior management if there are significant interim changes to the internal audit plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the Audit Committee and senior management quarterly and for each engagement as appropriate.
- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact the Council and communicate to the Audit Committee and senior management as appropriate.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the internal audit function.
- Ensure adherence to each Councils relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the Audit Committee and senior management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the Head of the Internal Audit Consortium cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the Audit Committee.

## **Communication with the Audit Committee and Senior Management**

The Head of the Internal Audit Consortium will report periodically to the Audit Committee and senior management regarding:

- The internal audit function's mandate.
- The internal audit plan and performance relative to its plan.
- Internal audit budget (to Joint Board).
- Significant revisions to the internal audit plan.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Audit Committee.
- Results of assurance and advisory services.
- Resource requirements.
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond the Council's risk appetite.

## **Quality Assurance and Improvement Program**

The Head of the Internal Audit Consortium will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

Annually, the Head of the Internal Audit Consortium will communicate with the Audit Committee and senior management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified,

independent assessor or assessment team from outside the Council; qualifications must include at least one assessor holding a CMIIA or CCAB qualification and suitable public sector internal audit experience.

## **Scope and Types of Internal Audit Services**

The scope of internal audit services covers the entire breadth of the organisation, including all of the Council's activities, assets, and personnel. The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the Audit Committee and management on the adequacy and effectiveness of governance, risk management, and control processes for the Council.

The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

Internal audit engagements may include evaluating whether:

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