

<b>Title of Report:</b>	<b>Updated Internal Audit Charter</b>
<b>Committee Report Submitted To:</b>	<b>Audit Committee</b>
<b>Date of Meeting:</b>	<b>20<sup>th</sup> September 2023</b>
<b>For Decision or For Information</b>	<b>For Decision</b>

<b>Linkage to Council Strategy 2021-2025</b>	
Strategic Theme	Cohesive Leadership
Outcome	Improve Service Delivery
Lead Officer	Audit, Risk and Governance Manager

<b>Budgetary Considerations</b>	
Cost of Proposal	Nil
Included in Current Year Estimates	<b>YES/NO</b>
Capital/Revenue	Revenue
Code	51003-
Staffing Costs	Internal staff costs

<b>Screening Requirements</b>	Required for new or revised Policies, Plans, Strategies or Service Delivery Proposals.		
Section 75 Screening	Screening Completed:	Yes/No	Date:
	EQIA Required and Completed:	Yes/No	Date:
Rural Needs Assessment (RNA)	Screening Completed	Yes/No	Date:
	RNA Required and Completed:	Yes/No	Date:
Data Protection Impact Assessment (DPIA)	Screening Completed:	Yes/No	Date:
	DPIA Required and Completed:	Yes/No	Date:

## **1.0 Purpose of Report**

- 1.1 To seek approval from the Audit Committee in relation to the updated Internal Audit Charter for Council in line with Public Sector Internal Audit Standards (PSIAS).

## **2.0 Background**

- 2.1 Internal Audit is 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.
- 2.2 The relevant internal audit standard setters within the UK public sector have adopted the Public Sector Internal Audit Standards (PSIAS). The standards dictate that the chief audit executive (Audit Risk and Governance Manager) must periodically review the Internal Audit Charter and present it to senior management and the board (Audit Committee) for approval.
- 2.3 The revised Internal Audit Charter is attached (Appendix I) for Members consideration. The Internal Audit Charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The Internal Audit Charter establishes the internal audit activity's position within the organisation, including:
- the nature of the chief audit executives functional reporting relationship with the board
  - authorise access to records
  - personnel and physical properties relevant to the performance of engagements, and
  - defines the scope of internal audit activities.

Final approval of the Internal Audit charter resides with the board, in the case of Causeway, Coast and Glens Borough Council the Audit Committee.

## **3.0 Recommendation**

- 3.1 It is recommended that the Audit Committee approve the revised Internal Audit Charter to bring Council in line with the Public Sector Internal Audit Standards (PSIAS) (2017) and other best practice.



# Causeway Coast & Glens Borough Council

## Internal Audit Charter

Policy Number	Internal Audit Charter
Version Number	1
Author	Audit Risk & Governance Manager

Date of Screening of Policy	N/a
EQIA Recommended?	N/a
Date Adopted by Council	October 2023
Policy Review Date	September 2024

# Internal Audit Charter

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## 1. Introduction

The Internal Audit Charter is a formal document that defines the Internal Audit purpose, authority and responsibility in accordance with the Public Sector Internal Audit Standards (PSIAS) (Updated 1 April 2017). The PSIAS requires that an Internal Audit Charter is in place for each local authority.

The Internal Audit Charter establishes the Internal audit activity's position within the organisation, including the nature of the Chief Audit Executive's functional reporting relationship with the board (Audit Committee), authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of the Internal Audit activities.

Final approval of the Internal Audit Charter resides with the board (Audit Committee).

## 2. Statutory Requirement

The Local Government (Accounts and Audit) (Amendment) Regulations (Northern Ireland) 2015 direct that:

'A local government body shall ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and includes arrangements for the management of risk'.

Regulation 3A states that:

'A local government body shall maintain an adequate and effective system of Internal Audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control'.

## 3. Definitions

The Public Sector Internal Audit Standards (PSIAS) requires the Council to define its interpretation of the following generic terms for the purposes of Internal Audit activity:

- The Board - The Audit Committee
- The Chief Audit Executive - The Audit, Risk and Governance Manager
- Senior Management - The Senior Management Team

Other roles laid out in the PSIAS are defined within Causeway Coast and Glens Borough Council as follows:

- The Head of Paid Service – Chief Executive
- The Chief Financial Officer - Head of Finance

## 4. Purpose of Internal Audit

The Definition of Internal Auditing is 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 Internal Audit opinion is a key element of the framework of assurance that informs the completion of the Annual Governance Statement. Internal Audit aims to deliver the following:

- to provide a high quality and effective audit service that is responsive to the needs of Council Departments.
- to add value to Council systems by identifying areas for improvement and offering advice and assistance to management, in order to ensure effective systems of internal control.
- to assist the Council, discharge its corporate governance requirements.
- to operate to the auditing standards defined in the PSIAS and other guidance offered by relevant accounting bodies.

The Internal Audit Section is part of the Corporate Services Directorate reporting functionally to the Audit Committee and administratively to the Director of Corporate Services. The Audit, Risk and Governance manager will meet with the Chair of the Audit Committee as required.

Internal Audit has the following main objectives:

- Examine, evaluate and report on the adequacy of internal controls as a contribution to the efficient, effective and economic use of resources;
- Ensure that the Council's assets and interests are accounted for and safeguarded from losses;
- Provide a service which is valued and trusted by management and relevant to the Council's objectives;
- Identify opportunities for savings and efficiencies where appropriate as part of its annual programme of audits and specific value for money reviews; and
- Maintain a level of independence and integrity to permit the proper performance of the audit function.

## 5. Role of Audit Committee

The key duties of the Audit Committee (board) which are laid out in the terms of reference for the Committee are as follows:

- approve the Internal Audit Charter
- approve the risk-based audit plan
- receive communications from the Chief Auditor on Internal Audit performance relative to its plan and other matters
- make appropriate enquiries of the management and the Chief Auditor to determine whether there are inappropriate scope or resource limitations
- receive an annual confirmation from the Chief Auditor with regard to the organisational independence of the Internal Audit activity

## 6. Role of Senior Management

Internal Audit can only provide an effective independent and objective service if it receives the full co-operation of management. By approving this Internal Audit Charter, the Chief Executive and the Audit Committee are mandating management to co-operate with Internal Audit in the delivery of the service by:

- Agreeing Terms of Reference to include agreements on duration, scope, reporting and response;
- Providing Internal Audit with full support and co-operation, including complete access to all records, data, property and personnel relevant to the performance of their responsibilities at all levels of operations, without unreasonable delay;

- Responding to the draft internal report, including provision of management responses to recommendations, within the timescale requested by the audit team;
- Implementing agreed management actions in accordance with the agreed timescales;
- Updating Internal Audit with progress made on management actions, informing Internal Audit of proposed changes and developments in process and systems, newly identified significant risks and cases of a criminal nature.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. Accountability for the response to the advice and recommendations of Internal Audit lies with management. Managers must either accept and implement the advice and recommendations, or formally reject them accepting responsibility and accountability for doing so.

Instances of late responses to reports, and agreed actions not being implemented will be escalated to the relevant Director, Chief Executive and the Chair of the Audit Committee.

## 7. Authority and Access Requirements

Internal Audit derives its authority from those authorising this Charter (Audit Committee and Chief Executive) to provide a free and unfettered ability to plan and undertake audit assignments deemed necessary to fulfil its purpose. To enable the service to discharge its duties fully, Internal Audit staff are authorised to:

- Have unrestricted access to all functions, records, property, and personnel;
- Have free and unfettered access to the Chief Executive and the chair of the Audit Committee;
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and
- Obtain the necessary assistance of personnel in areas of the Council where they perform audits, as well as other specialised services from within or outside the Council.

Any interference with this right of access will be investigated and, if found to be unreasonable, will be deemed a breach of organisational procedure and dealt with accordingly.

## 8. Role of Internal Audit, Responsibilities and Objectives

Internal Audit will provide assurance services to management, the Councillors and the Audit Committee in terms of reviewing the adequacy of the Council's systems of governance, risk management and internal control across the organisation.

### Scope of Internal Audit Work

To enable Internal Audit to meet its objectives it will undertake work within a scope of activities, including:

- review of controls within existing systems and systems under development
- compliance with Council policy and procedures
- transactions testing to ensure accuracy of processing

## **Audit Planning**

Internal Audit will produce an Audit Strategy for the four-year term of Council. The strategy is presented to the Audit Committee and ratified at Full Council. The strategy will contain the audits to be performed to the appropriate standards.

The internal audit activity's plan of engagements will be based on a documented risk assessment, undertaken annually, and the planned audit work will be updated accordingly. The plan will be linked to the key business objectives, associated risks and risk management processes.

An Annual Audit Plans will be based on the risk assessments carried out by management and the Council and will take into account issues derived from the previous audit engagements. The risk-based audit plan outlines the assignments to be carried out, and their respective priorities.

The plan is drawn up taking into account the Corporate Risk Registers which assist in identifying high, medium, and low risk areas. High risk areas identify in broad terms the audit areas that should be audited with greatest urgency and on an annual basis whereas low risk areas will be audited on a rotational basis. The plan is sufficiently flexible to reflect the changing risks and priorities of the Council.

## **Internal Audit Reports**

Internal Audit Reports will be prepared and issued to the relevant Head of Service/ Manager following the conclusion of each internal audit engagement and will be distributed as appropriate. The internal audit report will include an opinion on the adequacy of controls in the area that has been audited.

The final report will be issued to the relevant Director, Head of Finance and the Audit Committee. Where an audit has received an unsatisfactory audit opinion a follow-up audit report may be produced to ensure audit findings are being implemented in a timely manner and the follow up report presented to Audit Committee.

If agreed audit recommendations have not been implemented by management without reasonable explanation, the Chief Executive and if appropriate, the Audit Committee will be notified. The Chief Executive and if appropriate the Audit Committee, will also receive a summary of all audits where management has agreed not to implement an audit recommendation without reasonable explanation.

Whilst it is the Council's responsibility to ensure all agreed actions resulting from internal audit reports have been implemented by management, the Internal Auditors will establish a follow-up process to monitor and ensure management actions have been effectively implemented through an annual review of prior year recommendations. Progress against the audit plan will be reported annually to the Audit Committee.

## **Annual Audit Report and Opinion**

The Internal Audit function in the discharge of its duties will produce an annual report on their assessment and opinion on the overall adequacy and effectiveness of Councils framework of governance risk management and control. This report can be used by the Council to inform its governance statement.



The annual report must include a statement on conformance with the Public Sector Internal Audit Standards and the results of quality assurance and improvement programme.

## 9. Resourcing Internal Audit

The Internal Audit function for Council comprises of an in-house Audit, Risk and Governance Manager and a co-sourcing arrangement with an external provider. *The co-sourcing provider will comply with the principles of the Audit Charter and must be independent of the area to be reviewed.*

The Annual Audit Plan sets out the planned audit resources for the year with the objective of giving an evidence-based opinion. The scope of audit activity will be scheduled over a multi-year cycle to ensure appropriate coverage and prioritisation of all key risks and activities across the Council.

If during the risk assessment at the planning stage a need for more resources is identified, the Audit Risk and Governance Manager will advise the Director of Corporate Services and the Audit Committee as required to assess the associated risks and to recommend additional resources are identified.

Should circumstances arise during the year that resources fall or appear to be falling below the minimum level required to provide an annual evidence-based opinion, the Chief Auditor will communicate this to the Chief Executive and the Audit Committee at the earliest opportunity.

## 10. Independence and Objectivity

Internal auditors will be sufficiently independent of the activities that they audit to enable auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations. The Public Sector Internal Audit Standards state that there must be appropriate functional reporting arrangements in place that do not compromise the independence and objectivity of Internal Audit. This is achieved by:

- Internal Audit being totally independent of any service area by maintaining a reporting line directly to the Director of Corporate Services and Audit Committee;
- The Audit Committee approving the Internal Audit Charter.
- The Audit Committee approving the risk based Internal Audit plan; and
- The Audit Committee receiving Internal Audit reports and progress updates.

Internal Auditors must have an impartial, unbiased attitude and avoid any conflict of interest. A conflict of interest can create an appearance of impropriety that can undermine confidence in the Internal Auditor, the Internal Audit activity and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others informing judgments.

Where a member of the Internal Audit Team has had previous operational or other involvement in a service area, they shall not audit that particular area until the Audit, Risk and Governance Manager determines that a suitable period has elapsed.

Internal audit staff are required to declare any conflicts of interest prior to the commencement of any audit work. The terms of reference for each audit assignment will include confirmation

that there are no real or perceived impairments to the independence and objectivity of the Internal Auditor in relation to the work proposed.

## 11. Relationships

Internal Audit staff are involved in a wide range of relationships and the quality of those relationships impact on the quality of the audit function and the effective delivery of that function.

### ➤ Relationships With Management

The Audit Risk and Governance Manager will maintain effective relationships with managers of the Council. Regular meetings will be held with key stakeholders and senior managers will be consulted with as part of the audit planning process. Timing of the audit work will be agreed in conjunction with the relevant Internal Auditor and senior manager(s).

### ➤ Relationships With External Auditors

The Audit Risk and Governance Manager and the Northern Ireland Audit Office (NIAO) have an established working relationship where internal and external audit can rely on each other's work, subject to the limits determined by their responsibilities, enabling them to evaluate, review and only re-perform where necessary. An annual meeting will be held and plans and reports shared.

### ➤ Relationships With Regulators And Inspectors

Internal Audit will take account of the results and reports from any inspections when planning and undertaking audit work and where appropriate establish a dialogue with representatives of the appropriate inspection agencies.

### ➤ Relationships With Elected Members

The Audit Risk and Governance Manager will establish working relationships with Members of the Audit Committee and has the opportunity to meet independently with the Chair of the Audit Committee as required.

## 12. Consultancy

Internal audit's main purpose is to provide assurance in accordance with the Internal Audit Charter to Senior Management and the Audit Committee. From time to time, internal audit may be requested to perform specialist audits/reviews as requested by Senior Management, Elected Members and the Audit Committee. Approval will be sought from the Audit Committee, except for cases where concerns are raised that would warrant a separate specialised audit.

Internal Audit will ensure that the independence and objectivity is not compromised whilst completing such assignments. It should be noted that when internal audit resources are constrained, the primary focus for internal audit will be assurance work.

## 13. Proficiency and Due Professional Care

Internal audit assignments will be performed with proficiency and due professional care and will comply with the Public Sector Internal Audit Standards (PSIAS) including the definition of internal audit, principles and the Code of Ethics and have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

The Chief Audit Executive must hold a professional qualification (CIMA, CCAB or equivalent) and be suitably experienced. Internal audits must enhance their knowledge, skills and other competencies through continuing professional development.

Internal Audit will take cognisance in its work of Freedom of Information, Data Protection and Human Rights legislation.

## 14. Quality Assurance

PSIAS require that the Internal Audit function is subject to a quality assurance and improvement programme that must include both internal and external assessments.

### ***Internal assessments***

All Internal Audit engagements are subjected to a thorough peer review of quality to ensure that its work meets the standards expected from its staff. The internal quality reviews undertaken cover the following:

- All work undertaken is in accordance with Public Sector Internal Audit Standards.
- The work is planned and undertaken in accordance with risks associated with areas under review.
- The conclusions are fully supported by the detailed work undertaken.
- Annual review of conformance with the Public Sector Internal Audit Standards. Actions identified will be implemented in a timely manner.

### ***External assessments***

An external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation. Options for the assessment will be discussed with the Directors, Chief Executive and the Audit Committee.

## 15. Fraud and Corruption

Management is responsible for fraud prevention and detection. Internal audit will, be alert in its work to risks and exposures that could allow fraud, corruption, or bribery.

Internal audit should be informed of all suspected or detected fraud, corruption or impropriety so that auditors can consider the adequacy of the relevant controls and evaluate the implication of fraud and corruption on the internal control environment.