



# Eastleigh Borough Council

## INTERNAL AUDIT CHARTER

### 2022/23

Version	Date	Author
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# Eastleigh Borough Council Internal Audit Charter 2022/23

## 1. Standards for Professional Practice

- 1.1 The Public Sector Internal Audit Standards 2017 provides a consolidated approach to audit standards across the whole of the public sector providing continuity, sound corporate governance and transparency.
- 1.2 The mandatory guidance within the Institute of Internal Auditors' International Professional Practices Framework (IPPF) encompasses:
  - The Standards
  - Definition of Internal Auditing
  - Code of Ethics
  - Core Principles
- 1.3 The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'. The Internal Audit Charter describes the purpose, authority and responsibility of the internal audit activity.
- 1.4 The Chief Internal Auditor is responsible for reviewing the Charter and presenting it to the Executive Head of Governance, Chief Financial Officer (CFO), Executive Leadership Team and Audit and Resources Committee annually for review and approval.

## 2. Purpose & Mission

- 2.1 The purpose of Eastleigh Borough Council's Internal Audit Team is to provide independent assurance that the Council's risk management, governance, and control processes are efficient, compliant, work effectively and support the ambitions of the Council.
- 2.2 The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
- 2.3 Internal Audit will:
  - Demonstrate integrity;
  - Demonstrate competence and due professional care;
  - Be objective and free from undue influence (independent);
  - Align with strategies, objectives and risks of the organisation;
  - Demonstrate quality and continuous improvement;
  - Communicate effectively;
  - Provide risk- based assurance;
  - Be insightful, proactive, and future focused;
  - Promote a culture of anti-fraud; and
  - Promote organisational improvement.
- 2.4 Internal Audit helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

### **3. Authority**

3.1 The 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 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”.*

3.2 The standards for ‘*proper practice*’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards (updated 2017). The Standards apply to all internal audit service providers, whether in house, shared services or outsourced.

3.3 The responsibility for maintaining an adequate and effective system of internal audit within Eastleigh Borough Council lies with the Chief Financial Officer (S151 Officer).

3.4 The Chief Internal Auditor is accountable for ensuring responsibility is assigned for the effective management of the internal audit activity in accordance with the ‘Definition of Internal Auditing’, the ‘Code of Ethics’ and ‘the Standards’.

3.5 Eastleigh Borough Council’s Constitution, Part 4, contains the Council’s Financial Procedure Rules. Internal Audit’s responsibilities are separately recorded in section 4 (paragraphs 4.11-4.17).

### **4. Organisation**

4.1 The Chief Internal Auditor will report functionally to the Audit and Resources Committee and organisationally (day to day) to the Executive Head of Governance and Corporate Director (Chief Financial Officer (S151 officer)).

4.2 Internal audit is independent in its planning and operation and as such the team has unrestricted access to, and can communicate and interact directly with the:

- Chief Executive;
- Monitoring Officer, Corporate Directors, Executive Heads;
- Councillors including specifically the Chair of the Audit & Resources Committee (including private meetings without management present);
- All levels of management; and
- other council employees as necessary.

4.3 The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised to:

- Have full, free and unrestricted access to all of Eastleigh Borough Council's functions, records, property, and personnel pertinent to carrying out any engagement.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Require, and receive, any necessary explanations concerning any matter under examination;
- Require any employee of the Council to produce any Council property or asset under their control.

## **5. Independence and Objectivity**

5.1 All Internal Auditors will conform to the Chartered Institute of Internal Auditors' (CIIA) Code of Ethics. Where members of the Internal Audit team have attained membership with other professional bodies such as: the ACCA, AAT or CIPFA, those officers must also comply with their relevant bodies' ethical requirements. In addition to this, all Internal Auditors will have regard to the Standards in Public Life's "Seven Principles of Public Life" and the Council's Code of Conduct.

5.2 The Chief Internal Auditor/Senior Internal Auditor 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 audit selection, scope, procedures, frequency, timing and report content. If the Chief Internal Auditor/Senior Internal Auditor determines that independence or objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

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

5.4 Internal Auditors will not have any direct operational responsibilities or authority over any of the activities audited. Accordingly, Internal Auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment including:

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

5.5 Where the Internal Audit team have or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

5.6 Internal auditors will:

- disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- make balanced assessments of all available and relevant facts and circumstances.
- take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

5.7 The Chief Internal Auditor will confirm to the Audit & Resources Committee, at least annually, the organisational independence of the internal audit function. The Chief Internal Auditor will disclose to the Audit & Resources Committee any interference and related implications in determining the scope of internal auditing, performing work and/or communicating results.

## **6. Internal Audit Resources**

6.1 For the Internal Audit team to fulfil their responsibilities, the team must be appropriately staffed in terms of numbers, professional qualifications, skills and experience. Resources must be effectively deployed to achieve the approved risk-based plan. The mix of available knowledge, skills and other competencies will be considered once the risk-based plan is drafted to ensure they are sufficient to deliver the plan.

6.2 It is the responsibility of the Chief Internal Auditor to report concerns over a lack of resources to the Chief Financial Officer and to the Audit & Resources Committee.

6.3 If necessary, the Chief Financial Officer and the Chair of the Audit and Resources Committee will agree the level of additional and or specialist resources. Following which, a recommendation will be made to Cabinet seeking approval.

6.4 Employment of staff will be in compliance with the Council's Human Resources policies.

6.5 External resources will be procured in line with the Council's Financial Procedure Rules and Contract Procedure Rules. There is a further specific requirement under the Standards that approval be sought from the Audit and Resources Committee to engage in any significant additional consultancy services not already included within the audit plan.

- 6.6 The Chief Internal Auditor should hold a professional qualification (CMIIA, CIPFA or equivalent) and be suitably experienced. Each job role within the internal audit structure will detail skills and competencies within the approved job description and person specification. In line with Council policy and the Standards, each member of the team will be assessed against these predetermined competencies and annual objectives through performance monitoring. Auditors are also required to maintain a record of their continual professional development in line with their professional body.

## **7. Scope of Internal Audit activities**

- 7.1 The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit & Resources Committee, Management Team, and other stakeholders on the adequacy and effectiveness of governance, risk management, and control processes for Eastleigh Borough Council.

- 7.2 Internal audit assessments include evaluating whether:

- Risks relating to the achievement of Eastleigh Borough Council's strategic objectives are appropriately identified and managed.
- The actions of Eastleigh Borough Council are in compliance with its policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or 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 Eastleigh Borough Council.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

- 7.3 The Chief Internal Auditor will report quarterly to senior management and the Audit and Resources Committee regarding:

- The internal audit function's purpose, authority, and responsibility.
- The internal audit function's plan and performance relative to its plan.
- The internal audit function's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit & Resources Committee.
- Results of audit engagements or other activities.

- Resource requirements.
- Any response to risk by management that may be unacceptable.

7.4 The Chief Internal Auditor also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit function may perform advisory activities, the nature and scope of which will be agreed with the accountable officer, provided the internal audit function does not assume management responsibility.

7.5 Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

7.6 A range of internal audit services are provided (annex 1) to form the Chief Internal Auditor's annual opinion. The approach is determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review relative to the Council's success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

## **8. Fraud**

Internal Audit has a role in the prevention, detection and investigation of fraud. Internal Auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls. Internal Audit will provide independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud.

8.1 The Chief Internal Auditor is responsible for ensuring Internal Audit planned work includes time for pro-active counter fraud activities through the development of an Annual Fraud Action Plan. Progress will be reported annually to the Audit and Resources Committee through the Corporate Fraud Report.

## **9. Responsibility**

### *Chief Internal Auditor*

9.1 The Chief Internal Auditor has the responsibility to:

- Submit, at least annually, to Corporate Leadership Board and the Audit and Resources Committee a risk-based internal audit plan for review and approval and an Internal Audit Charter.
- Communicate to Corporate Leadership Board and the Audit and Resources Committee the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in Eastleigh Borough Council's business, risks, operations, programmes, systems, and controls.

- Communicate to Corporate Leadership Board and the Audit and Resources Committee any significant interim changes to the internal audit plan for review and approval.
- Communicate to Corporate Leadership Board and the Audit and Resources Committee quarterly on internal audit performance relative to its plan and other matters.
- Produce annually an Annual Internal Audit Opinion and report providing a conclusion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control that can be used by the Council to inform its governance statement.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report quarterly to Corporate Leadership Board and the Audit and Resources Committee any corrective actions (high risk recommendations) not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact the Council are considered and communicated to Corporate Leadership Board and the Audit and Resources Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit function.
- Ensure adherence to the Council's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to Corporate Leadership Board and the Audit and Resources Committee.
- Promote an anti-fraud and anti-money laundering culture.

### *Executive Leadership Team*

9.2 As those responsible for the leadership and direction of the Council it is imperative that the Executive Leadership Team are engaged in:

- Approving the Internal Audit Charter annually
- Approving the risk-based internal audit plan
- Receiving communications from the Chief Internal Auditor on the internal audit's performance relative to its plan and other matters.

- Making appropriate enquiries of the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations
- Receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance.

#### *Audit and Resources Committee*

9.3 Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Audit and Resources Committee. Such reporting will include:

- Approving the Internal Audit Charter annually
- Approving the risk-based Internal Audit Plan
- Receiving communications from the Chief Internal Auditor on the internal audit's performance relative to its plan and other matters.
- Making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations
- Receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance.
- Approval of significant consulting services not already included in the audit plan, prior to the acceptance of the engagement.
- Approval of the application of audit days included in the internal audit plan for member requested reviews/scrutiny is utilised, prior to the acceptance of the engagement.

## **10. Quality Assurance and Improvement Programme**

10.1 The internal audit function will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit function's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit team/activity and identify opportunities for improvement.

10.2 The Chief Internal Auditor will communicate to senior management and the Audit and Resources Committee on the internal audit function's quality assurance and improvement programme, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team. This arrangement and scope must be agreed with the Chief Financial Officer, Audit and Resources Committee, and the Independent Assessor. This arrangement will be met through reciprocal arrangement with another local authority.

## **11. Review of the Internal Audit Charter**

11.1 This Charter will be reviewed annually (minimum) by the Chief Internal Auditor and presented to Executive Leadership Team and the Audit and Resources Committee for approval.

### Eastleigh Borough Councils' Internal Audit function can provide:

- **Assurance reviews** – where risks and controls associated with the mitigation of that risk are assessed and tested to determine any residual risk to the achievement of objectives. Recommendations will be made where appropriate and an audit opinion will be provided. Further details of the grading of recommendations and categories of opinion can be found in Annex 2
- **Compliance reviews** – ensuring compliance with legislation and standards either as part of assurance assignments or separate limited review
- **IT Audit reviews** – specialist review of the IT control environment (specialist resource procured)
- **Consultancy engagements** – where advice and support can be provided either informally through discussion or formally through providing reports. It should be noted that it is not appropriate for an Internal Auditor to become involved in establishing or implementing controls or assuming any operational responsibility. Any advisory work performed must not prejudice the scope, objectivity and quality of future audit work.
- **System development reviews** – providing assurance during the development of new systems that adequate controls have been developed; system testing and training is sufficient, data integrity is not impaired, system documentation is sufficient and that the needs of the user have been met
- **Process improvement** – identifying process improvements through either adhoc reviews or through planned audit engagements.
- **Fraud & irregularity reviews** – Internal Audit may provide specialist skills to lead or assist in fraud or irregularity investigations. Internal Audit's role in this is outlined in the Council's Anti-Fraud and Corruption Policy.
- **Project management reviews & support** – post implementation reviews as requested by Management Team performed in conjunction with the Project Management Office
- **Contract management reviews** - sign off on contract final accounts.
- **Value for money** – review of arrangements e.g. Partnerships, to ensure value for money is being achieved
- **Governance support** - inputting in the drafting of the Annual Governance Statement

## Internal Audit – Assurance Methodology

### Opinion

1. For each internal audit assignment, we arrive at a conclusion that assesses the audit assurance in one of four categories. These will arise from:

- Our assessment of the controls that are in place and;
- Our assessment of compliance with these controls.

Level	Control Assessment	Compliance Assessment
<b>Nil</b>	There are no controls in place.	There is no compliance with controls.
<b>Limited</b>	Significant weaknesses in controls exist.	There is a significant level of non-compliance with controls.
<b>Adequate</b>	There are opportunities to improve controls.	There is non-compliance with some of the controls.
<b>Substantial</b>	There are robust controls in place.	There is compliance with controls.

### Recommendations

2. Recommendations are graded to assist management with prioritising implementation as follows:

Priority	Explanation
<b>1 (Critical risk)</b>	A major or serious control weakness as a key control is either missing, failing or not being adhered to which requires immediate action and exposes the Council to a critical risk.
<b>2 (High risk)</b>	A significant control weakness as a key control is either missing, not working or not being adhered to and exposes the Council to a high risk.
<b>3 (Medium Risk)</b>	An issue which needs to be corrected to ensure controls are adequate or operating effectively or to improve compliance which exposes the Council to a medium risk.
<b>4 (Low Risk)</b>	An opportunity to improve the controls or strengthen compliance although this does not expose the Council to any critical or significant risk.