

# Dacorum Borough Council

## Internal Audit Charter

June 2019



## Introduction

The Internal Audit Charter is a formal document that defines Internal Audit's purpose, authority and responsibility in accordance with UK Public Sector Internal Audit Standards (PSIAS). The charter establishes Internal Audit's position within the organisation, including the nature of the Head of Internal Audit's functional reporting relationship with the Audit Committee; authorises access, to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit's activities. It provides a framework for the conduct of the service and has been approved by the Council's Corporate Management Team (CMT) and the Audit Committee.

The PSIAS also include a Mission for Internal Audit which is 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'.

The Charter will be reviewed annually and presented to the Audit Committee and CMT for final approval.

## Nature and Purpose

Dacorum Borough Council has developed a risk management framework, overseen by the Head of Internal Audit, which includes:

- Identification of the significant risks in the Authority's operations and allocation of a risk owner to each;
- An assessment of how well the significant risks are being managed; and
- Regular reviews by the Corporate Management Team of the significant risks, including reviews of key risk indicators, governance reports and action plans, and any changes to the Authority's risk profile.

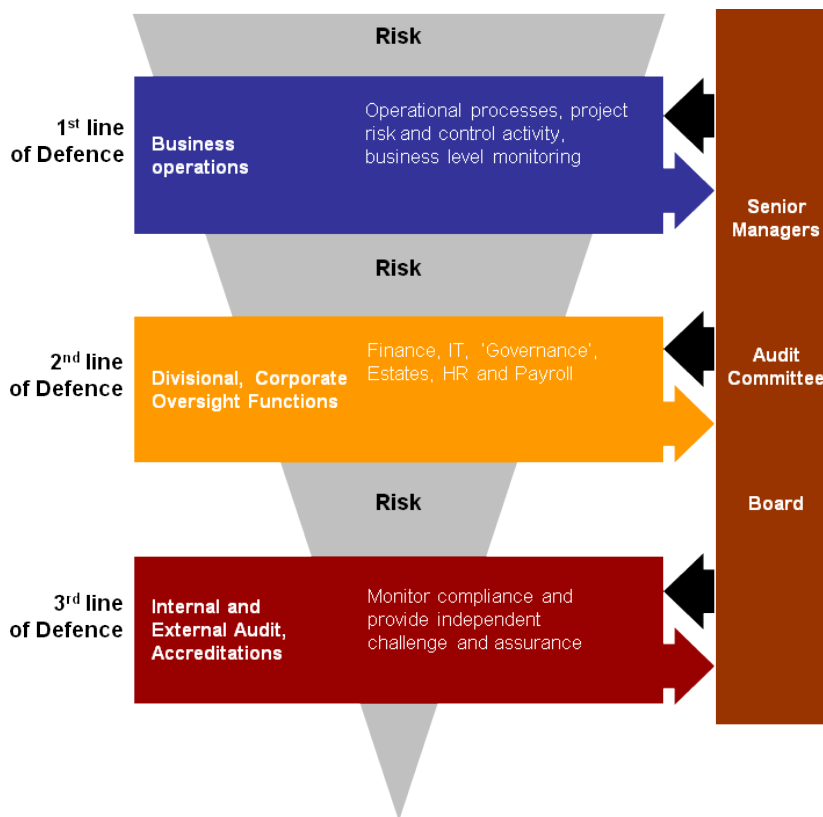
A system of internal control is one of the primary means of managing risk and consequently the evaluation of its effectiveness is central to Internal Audit's responsibilities.

Dacorum Borough Council's system of internal control comprises the policies, procedures and practices, as well as organisational culture that collectively support the Authority's effective operation in the pursuit of its objectives. The risk management, control and governance processes enable the Authority to respond to significant business risks, be these of an operational, financial, compliance or other nature, and are the direct responsibility of the Corporate Management Team.

The Authority needs assurance over the significant business risks set out in the risk management framework. In addition, there are many other stakeholders, both internal and external, requiring assurance on the management of risk and other aspects of the Authority's business - these

including Members, regulators etc. There are also many assurance providers. The internal audit function is the third line of defence in the Council’s ‘three lines of defence approach’ to risk and assurance. The first line of defence comprises the Council’s core operational services, and the second line comprises the oversight functions such as risk management.

The following diagram summarises the three lines of defence model and explains where Internal Audit fits into the Council’s assurance process.



Internal Audit is defined by the Institute of Internal Auditors’ International Professional Practices Framework as ‘an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.’

In a local authority, Internal Audit provides independent and objective assurance to the organisation, its Members, the Chief Executive, the Corporate Management Team, and in particular to the Corporate Director (Finance and Operations) to help him discharge his responsibilities relating to the proper administration of the Authority’s financial affairs under S151 of the Local Government Act 1972.

In addition, the Accounts and Audit Regulations (2015) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy and effectiveness of the Authority’s governance, risk management and internal control systems.

In particular, Internal Audit carries out assurance and consulting activities across all aspects of Dacorum Borough Council's business, based on a programme agreed with the Audit Committee. In doing so, Internal Audit works closely with the Authority's risk owners, service line risk teams, and the Corporate Management Team.

In addition to providing independent assurance to various stakeholders, Internal Audit helps identify areas where the Authority's existing processes and procedures can be developed to improve the extent with which risks in these areas are managed; and public money is safeguarded and used economically, efficiently and effectively. In carrying out its work, Internal Audit liaises closely with the Corporate Management Team and management in the service lines (including risk teams).

The independent assurance provided by Internal Audit also assists the Authority to report annually on the effectiveness of the system of internal control included in the Authority's Annual Governance Statement.

### **Authority and Access to Records, Assets and Personnel**

Internal Audit has unrestricted right of access to all Authority records and information, both manual and computerised, cash, stores and other property or assets it considers necessary to fulfil its responsibilities. Internal Audit may enter Authority property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Authority should be set out in the conditions of funding.

Any restriction (management or other) on the scope of Internal Audit's activities will be reported to the Audit Committee.

Internal Audit is accountable for the safekeeping and confidentiality of any information and assets acquired in the course of its duties and execution of its responsibilities.

Internal Audit will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, and which external audit would need to discharge their responsibilities.

## Responsibility

The Authority's Head of Internal Audit is required to provide an annual opinion to the Authority and to the Corporate Director (Finance and Operations) and the Chief Executive, through the Audit Committee, on the adequacy and the effectiveness of the Authority's risk management, control and governance processes. In order to achieve this, Internal Audit will:

- Coordinate assurance activities with other assurance providers (such as the external auditors, the auditors of the Authority's Quality Management, Environmental Management and Information Security accreditations etc.) such that the assurance needs of the Authority, regulators and other stakeholders are met in the most effective way.
- Evaluate and assess the implications of new or changing systems, products, services, operations and control processes.
- Carry out assurance and consulting activities across all aspects of the Authority's business based on a risk-based plan agreed with the Audit Committee.
- Provide the Corporate Director (Finance and Operations), Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls associated with the management of risk in the area being audited.
- Issue periodic reports to the Audit Committee, and the Corporate Management Team summarising results of assurance activities.
- Promote an anti-fraud, anti-bribery and anti-corruption culture within the Authority to aid the prevention and detection of fraud.
- Assist in the investigation of allegations of fraud, bribery and corruption within the Authority and notifying management and the Audit Committee of the results.
- Assess the adequacy of remedial action to address significant risk and control issues reported to the Audit Committee. Responsibility for remedial action in response to audit findings rests with line management.

| Definition          | Details  | Responsibility in relation to Internal Audit  |
|---------------------|--|---|
| The Audit Committee | To oversee the financial reporting, risk management, audit and internal control arrangements of the Council to assure the Council and the Dacorum Council Tax payers that resources are properly managed and high standards of financial probity are maintained.                     | <p>To consider the Head of Internal Audit's annual report and opinion and a summary of Internal Audit activity (actual and proposed) and the level of assurance it can give over the Council's governance arrangements.</p> <p>To consider summaries of specific Internal Audit reports as requested.</p> <p>To consider a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.</p> <p>Report to Council when necessary to give assurances about the Council's financial statements, risk management and internal control mechanisms or to raise concerns of any significant weakness.</p> |
| Chief Officers      | The Chief Executive has overall corporate management and operational responsibility (including overall management responsibility for all officers) together with specific operational responsibility for those services identified in Part 3 of the Constitution 'Responsibility for | Corporate Management Team liaise with Internal Audit to agree the Annual Internal Audit Plan.   |

|              |   |  |
|--------------|---|--|
|              | Functions'. The Corporate Directors have overall strategic and operational management of those services falling within their directorates.  |  |
| S151 Officer | To exercise the functions of the S151 Officer, including proper administration of the Council's financial affairs under S115 and S151 of the Local Government Act 1972 and S114 of the Local Government Finance Act 1988. Ensuring lawfulness and financial prudence of decision making, contributing to corporate management, providing advice and giving financial information. | Deal with Internal Audit issues under the Accounts and Audit Regulations 2015. |

There are inherent limitations in any system of internal control and thus errors or irregularities may occur and not be detected by Internal Audit's work. Unless specifically requested and agreed, Internal Audit will not perform substantive testing of underlying transactions.

When carrying out its work, Internal Audit will provide line management with comments and report breakdowns, failures or weaknesses of internal control systems together with recommendations for remedial action. However, Internal Audit cannot absolve line management of responsibility for internal controls.

Internal Audit will support line managers in determining measures to remedy deficiencies in risk management, control and governance processes and compliance to the Authority's policies and standards and will monitor whether such measures are implemented on a timely basis.

Where appropriate, Internal Audit will undertake assurance or consulting activities for the benefit of the Authority in organisations wholly owned or controlled by the Authority (e.g. Local Authority Trading Companies, ALMOs etc). Internal Audit may also provide assurance to the Authority on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

The Audit Committee is responsible for ensuring that Internal Audit is adequately resourced and afforded a sufficiently high standing within the organisation, necessary for its effectiveness.

## Scope of Activities

As highlighted in the previous section, there are inherent limitations in any system of internal control. Internal Audit therefore provides the Members, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the Authority's governance, risk management and control processes using a systematic and disciplined approach by:

- Assessing and making appropriate recommendations for improving the governance processes, promoting appropriate ethics and values, and ensuring effective performance management and accountability;
- Evaluating the effectiveness and contributing to the improvement of risk management processes; and
- Assisting the Authority in maintaining effective controls by evaluating their adequacy, effectiveness and efficiency and by promoting continuous improvement.

The scope of Internal Audit's value adding activities includes evaluating risk exposures relating to the Authority'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.

## Reporting

For each engagement, Internal Audit will issue a report to the appropriate Audit Contact and Corporate Director (Finance and Operations) or his nominee, and depending on the nature of the engagement and as agreed in the engagement's Terms of Reference, with a summary to the Corporate Management Team and the Audit Committee.



The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Charter is reported to the Corporate Management Team. It is then presented to the Audit Committee annually for formal approval.
- The annual risk-based plan is compiled by the Head of Internal Audit taking account of the Authority's risk management framework and after input from members of the Corporate Management Team. It is then presented to the Corporate Management Team and Audit Committee annually for noting and comment.
- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Authority budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the Audit Committee.
- Performance against the annual risk-based plan and any significant risk exposures and breakdowns, failures or weaknesses of internal control systems arising from internal audit work are reported to the Corporate Management Team and Audit Committee on a quarterly basis.
- Any significant consulting activity not already included in the risk-based plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee.

## **Independence**

The Head of Internal Audit has free and unfettered access to the following:

- Chief Executive;
- Corporate Director (Finance and Operations);
- Monitoring Officer;
- Chair of the Audit Committee; and
- Any other member of the Corporate Management Team.

The independence of the contracted Head of Internal Audit is further safeguarded as his/her annual appraisal is not inappropriately influenced by those subject to internal audit.

To ensure that auditor objectivity is not impaired and that any potential conflicts of interest are appropriately managed, all internal audit staff are required to make an annual personal independence responsibilities declarations which includes personal deadlines for:

- Annual Returns (a regulatory obligation regarding independence, fit and proper status and other matters which everyone in Mazars must complete); and
- Continuing Professional Development (CPD).

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the Audit Committee. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for a period of at least 12 months.

### **External Auditors**

The External Auditors fulfil a statutory duty. Effective collaboration between Internal Audit and the External Auditors will help ensure effective and efficient audit coverage and resolution of issues of mutual concern. Internal Audit will follow up the implementation of internal control issues raised by External Audit.

Internal Audit and External Audit meet periodically to:

- Discuss potential issues arising from the external audit; and
- Share the results of significant issues arising from audit work.

### **Due Professional Care**

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics;
- Seven Principles of Public Life (Nolan Principles);
- UK Public Sector Internal Audit Standards;
- All Authority Policies and Procedures; and
- All relevant legislation.

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, on-going performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor. An external assessment was carried out in November 2016 which concluded that Mazars GRIC – Public Services conforms to the requirements of the Public Internal Audit Standards and the Local Government Application Note.

A programme of Continuous Professional Development CPD is maintained for all staff working on internal audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies to deliver the risk-based plan. Both the Head of Internal Audit and the Engagement Manager are required to hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

Approved by the Audit Committee on XX XXX 2019

## Important Notice

We take responsibility to Dacorum Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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