



Internal Audit

DRAFT

Dacorum Borough Council

Internal Audit Charter

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Introduction

The Public Sector Internal Audit Standards (PSIAS) require internal audit providers to have in place an agreed Internal Audit Charter.

The purpose of the Internal Audit Charter is to provide a formal document that defines the purpose of internal audit activity, its authority and its responsibility. It also assists the Audit Committee and senior management in fulfilling their oversight responsibilities in ensuring that the purpose, authority and responsibility of internal audit activity is consistent with that set out in the standards.

The Audit Committee has established that TIAA is a key component of Dacorum Borough Councils internal assurance arrangements. This charter sets out the framework for the conduct and delivery of internal audit services provided by TIAA, and is being presented to the Audit Committee for approval.

Definition of Internal Audit

The PSIAS defines internal auditing 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.

PSIAS defines the mission of internal audit as being to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. The main objective of the internal audit activity carried out by TIAA is to provide, in an economical, efficient and timely manner, an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. PSIAS define the following core principles as necessary to ensure the effective professional practice of internal auditing:

- 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.

Code of Ethics

TIAA's provision of internal audit to the Council will follow the principles set out in the Code of Ethics contained in the PSIAS, which include integrity, objectivity, confidentiality and competency.

TIAA's internal auditors are required to follow the rules of conduct laid down in the Code of Ethics as well as related TIAA guidance and professional requirements of any professional body to which the auditor belongs.

TIAA applies on-going processes to prevent and detect breaches of the Code of Ethics; any identified breaches will be referred by the Head of Internal Audit to the Council's Audit Committee.

Internal Audit Delivery

The internal audit function and its responsibilities are defined by the Chief Executive (as Accountable Officer) and the Audit Committee as part of their oversight and scrutiny function on behalf of the Board.

In line with PSIAS best practice, internal audit will report to the Audit Committee, and will provide an overall annual opinion on the adequacy and effectiveness of the systems of risk management and internal control based on the work completed during the year to the Chief Executive.

Consultancy activities are only undertaken with distinct regard for potential conflict of interest. In this role we will act in an advisory capacity and the nature and scope of the work will be agreed in advance and strictly adhered to. The objective of any consultancy work is to add value and improve governance, risk management and control processes. Internal audit will never take or assume management responsibility.

Where the activities of internal audit identify the potential for fraudulent activity, or there is a suspicion that a fraud has taken place, we will pass all necessary information to your counter fraud providers for advice. Where appropriate and requested to do so, we can assist in further testing to support your counter fraud service.

Internal audit must be independent of the activities that it audits so that it can give an unbiased opinion on controls. All TIAA audit staff are required to sign an annual Declaration of Independence where they are required to disclose any potential conflicts of interest. Any potential conflicts declared by staff will be reviewed by our Managing Director to ensure your service is independent.

Head of Internal Audit

The internal audit service is provided externally by TIAA. The internal audit service is headed up by a designated Head of Internal Audit and this duty will be discharged by an Audit Director from TIAA.

The Head of Internal Audit has operational responsibility for providing the function which requires independence in the planning and reporting processes and does not have responsibility for providing or managing non-audit services.

Audit Planning

The Head of Internal Audit shall submit to senior management and the Audit Committee an annual internal audit plan for review and approval, including risk assessment criteria, budget and timings. The audit plan is developed based on a prioritisation of the audit universe using a risk-based methodology, and input from senior management and the Audit Committee. Any significant deviation from the formally approved audit plan shall be communicated to senior management and the Audit Committee for approval prior to commencement. Activity that falls outside the scope of the plan will not be undertaken without express authorisation from the Finance Director and Chair of the Audit Committee. The planning process will take account of other assurance sources and co-ordinate relative audits as appropriate, including external audit and counter fraud.

The Head of Internal Audit will assess whether the resources available are sufficient to produce a robust opinion on the internal control environment. If the resources are insufficient, this will be reported to senior management and the Audit Committee.

Audit Scope

The scope of internal audit encompasses the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management process, system of internal control, and the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. There are inherent limitations in any system of internal control and thus errors or irregularities may occur and not be detected by internal audit work. The following limitations apply:

- Internal controls can only provide reasonable and not absolute assurance against misstatement or loss. The limitations on assurance include the possibility of one or more of the following situations, control activities being circumvented by the collusion of two or more persons, human error, or the overriding of controls by management. Additionally, no assurance can be provided that the internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks that may arise in future.
- The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.
- Managing the risk of fraud is the responsibility of management. Management is responsible for instituting appropriate measures to ensure that an adequate system of control has been designed and is operational over all activities.
- Management is responsible for informing of the Head of Internal Audit all instances of suspected or detected fraud in order that internal audit can evaluate the impact of the fraud to inform the opinion on risk management, control and governance.
- Reliance will be placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.
- The matters raised in the audit reports will be only those that come to the attention of the auditor during the course of the internal audit reviews and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. The audit reports are prepared solely for management's use and are not prepared for any other purpose.

Audit Reporting

Following the conclusion of each audit a written report will be prepared. Management have an opportunity to formally respond to each report and detail the corrective action taken or to be taken in regard to the specific findings and recommendations raised; response should include allocated responsibility and timeframes for anticipated completion of each action and an explanation for any recommendations not addressed.

Individual assurance assignments are assigned audit opinions based upon a sound methodology and using accepted best practice. The opinions include:

Substantial Assurance	Reasonable Assurance	Limited Assurance	No Assurance
There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved.	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved.	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

Follow up

Follow up arrangements are in place to ensure that management implement corrective actions within specified timeframes. Internal audit shall be responsible for providing assurance over the appropriateness of management's monitoring of actions to address recommendations.

Escalation

Where, in the opinion of TIAA, an issue arises which requires the urgent attention of the client, the matter will be reported to the Finance Director without delay.

Where an audit of a high priority area is unduly delayed by the Council or by TIAA, this will be escalated to the Finance Director and the Chair of the Audit Committee.

External Audit Liaison

Effective working between internal and external auditors will help ensure effective and efficient audit coverage, resolution of mutual concerns and minimise duplication of efforts. Internal and external audit will meet periodically to plan the respective internal and external audits, discuss potential issues arising from external audit work and share the results of significant issues identified during audit work.

Compliance with Standards

Public Sector Internal Audit Standards require that the Audit Function is subject to a quality assurance and improvement programme that must include both internal and external assessments.

TIAA confirms that its processes, procedures and staff comply with the professional requirements set out in the PSIAS for all work undertaken. As well as a rigorous internal review process undertaken on all work TIAA conducts, we also obtain the following external assessments:

- External independent review every five years to assess our compliance with the professional standards.
- Our audit process has been assessed and accredited by CQS, and is regularly assessed for compliance by ISO accredited inspectors to maintain our ISO 9001 accreditation.

Resourcing

TIAA has a sufficiently large resource pool to ensure we can deliver the agreed audit plan, cover periods of absence and bring in additional specialist skills or expertise as and when required to address critical issues in a timely way.

The Head of Internal Audit will be suitably qualified and experienced. Any change of Head of Internal Audit will be discussed with the Audit Committee. Your Head of Internal Audit is responsible for ensuring that suitably qualified and/or experienced staff and other resources are applied to all work undertaken.

Performance Management

TIAA embraces continuous monitoring of our internal audit services to drive continuous improvement. As part of this we:

- Carry out a client perception survey at least once a year; and
- Maintain a robust complaints and compliments process, embedded in our quality system.

The following Performance Targets will be used to measure the performance of internal audit in delivering the Annual Plan.

Area	Performance Measure	Target
Achievement of the plan	Completion of Planned Audits	100%
	Audits Completed in Time Allocation	100%
Reports Issued	Draft report issued within 10 working days of exit meeting	95%
	Final report issued within 10 working days of receipt of responses	95%
Professional Standards	Compliance with PSIAS	100%

Authority

Subject to compliance with your security policies, TIAA internal audit staff are authorised to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documentation and information that the Head of Internal Audit considers necessary to enable internal audit to meet its responsibilities. All employees are requested to assist internal audit in fulfilling its function in a timely manner. Internal audit shall also have free and unrestricted access to the Chief Executive, Chairman of the Board and Chairman of the Audit Committee.

Documents and information given to internal audit during a periodic review will be handled in the same prudent and confidential manner as by those employees normally accountable for them.

Requirements for detailed information needed on each assignment will be agreed with relevant senior management as part of our engagement planning process.

Contacts

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Approval

Approved this 14th day of June, 2021

Head of Internal Audit: Philip Lazenby _____

Chairman of the Audit Committee _____

Finance Director _____

This Internal Audit Charter will be reviewed on a regular basis by the Audit Committee. Any substantive changes will be formally approved by the Audit Committee.