

## SURREY COUNTY COUNCIL INTERNAL AUDIT CHARTER

### 1. Purpose

The Internal Audit Charter describes the purpose, authority and responsibilities of Surrey County Council's Internal Audit service. The Charter shall be reviewed annually and approved by the Audit and Governance Committee. The Chief Internal Auditor is responsible for applying this Charter and keeping it up to date.

### 2. Statutory Requirement

Within local government the requirement for an Internal Audit function is statutory. The Accounts and Audit Regulations (2015) requires every local authority to maintain 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.

In addition, the Council's Chief Financial Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To perform that duty the Section 151 Officer relies, amongst other things, upon the work of Internal Audit in reviewing the operation of systems of internal control and financial management.

### 3. Standards and best practice

The work of Internal Audit will be performed with due professional care and in accordance with the UK Public Sector Internal Audit Standards (PSIAS), the Accounts and Audit Regulations (2015) and with any other relevant statutory obligations and regulations.

### 4. Key definitions

Within this Charter the following definitions are used:

#### *Definition of Senior Management*

The PSIAS anticipates the role of senior management not to be linked to a specific job title or pay grade, but to include the following key duties:

- input to the risk based internal audit plan (Standard 2010);
- receive periodic reports from the Chief Auditor on internal audit activity (Standard 2060); that includes follow-up reports (Standard 2500); and
- receive the results of the quality assurance and improvement programme from the Chief Auditor (Standard 1320).

Within Surrey County Council an officer on Surrey Pay grade 13 or higher is deemed to be a 'senior manager'.

#### *Definition of the Board*

The PSIAS lays out the role of a board in relation to specific standards. In a local authority the role of the board may be satisfied by an audit committee. In Surrey

County Council the Audit and Governance Committee fulfils the role of an audit committee and for the purposes of the key duties laid out in the PSIAS is the board.

The key duties of the board are as follows:

- approve the internal audit charter (Standard 1000);
- approve the risk based internal audit plan including the approval of the internal audit budget and resource plan (Standard 1110);
- receiving communications from the Chief Auditor on internal audit performance relative to its plan and other matters (Standard 2020);
- receive an annual confirmation from the Chief Auditor with regard to the organisational independence of the internal audit activity (Standard 1110)
- receive the results of the quality assurance and improvement programme from the Chief Auditor (Standard 1320)
- make appropriate enquiries of the management and the Chief Auditor to determine whether there are inappropriate scope or resource limitations.

## **5. Responsibilities and Objectives**

The PSIAS define 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.”

Internal Audit is not responsible for control systems. Responsibility for effective internal control rests with the management of the council.

The nature of assurance services provided to the organisation includes:

- review of controls within existing systems and systems under development;
- compliance with Council policy and procedures including Financial Regulations and Procurement Standing Orders;
- transactions testing to ensure accuracy of processing;
- contract audit;
- computer audit;
- pro-active anti-fraud work;
- investigation of suspected fraud and irregularities;
- value for money reviews;
- performance indicators;
- control risk self-evaluation; and
- provision of advice to departments and establishments

## **6. Independence**

Internal Audit is independent of all activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations without giving rise to conflicts of interest. Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, they shall not develop or install systems or procedures, prepare records, or engage in any other activity which would normally be audited.

Internal Audit activity must be free from interference in determining the scope of activity, performing work and communicating results.

## **7. Reporting Lines**

Internal Audit is part of the Policy and Performance Service within the Chief Executive's Office Directorate.

There are a number of reporting lines in place to enable Internal Audit to be independent of the management of the organisation. There are eight specific lines of accountability for the Chief Internal Auditor:

- (i) To the Head of Policy and Performance – who reports to the Assistant Chief Executive – for line management purposes and specifically in respect of achievement of the priorities as set out in the Policy and Performance Service Plan; and, the inter-relationship with the wider performance improvement agenda;
- (ii) To the Director of Finance in respect of her statutory Section 151 responsibilities, including the investigation of irregularities;
- (iii) To the Director of Legal and Democratic Services in respect of her statutory responsibilities as the Council's Monitoring Officer.
- (iv) To the Chief Executive as required in respect of investigation of matters requiring referral to him;
- (v) To the Cabinet Portfolio Holder as required in respect of matters falling within their remit;
- (vi) To the Audit and Governance Committee ('the Board' as defined in PSIAS) in discharging the corporate responsibility for Internal Audit under the Accounts and Audit Regulations (2015);
- (vii) To the Chairmen of Overview and Scrutiny Committees in conjunction with the Audit and Governance Committee on matters relating to their specific service areas; and/or
- (viii) To the Leader of the Council, as appropriate.

Specifically, the Chief Internal Auditor must have free and unfettered access to the Chief Executive and Chairman of the Audit and Governance Committee.

## **8. Scope**

Internal Audit may review any aspect of the council's activities and the Chief Internal Auditor is required to give an annual opinion on the effectiveness of the whole of its internal control system, and the extent to which the council can rely on it.

In support of this, Internal Audit undertake risk-based reviews and evaluations of the control environment (including, where appropriate, those of external bodies and partnerships). The work of Internal Audit is set out in the Annual Internal Audit Plan. This Plan is designed to support the Annual Internal Audit Opinion and the council's Annual Governance Statement.

Internal Audit may undertake work for new clients by extending its work to third parties including schools and Parish councils. All engagements will be performed in accordance with this Charter to an agreed schedule of audit days.

## 9. Reporting

The responsibility for how audits will be reported rests with the Chief Internal Auditor. On the completion of each audit the findings and draft recommendations will be discussed with the responsible officer(s). In accordance with the Internal Audit Reporting and Escalation Policy a draft report summarising the work done, conclusions and recommendations will be issued to the responsible officer(s) for them to confirm its factual accuracy. A final report is circulated along with an agreed management action plan.

There are normally standard timeframes for the individual stages above to occur and these are agreed with services as a part of liaison arrangements.

All final audit reports – with the exception of irregularity reports – and their completed management action plans are made available to the appropriate Cabinet Portfolio Holder and all members of the Audit and Governance Committee. In addition, after each meeting of the Audit and Governance Committee, a list of completed audits is compiled for distribution to all elected Members of the Council informing them of audit work completed.

Internal Audit Management attend other meetings of the council through which senior officers are updated with matters pertaining to the delivery of the Internal Audit plan. Such meetings include:

- Statutory Responsibilities Network;
- Governance Panel; and,
- Continuous Improvement and Productivity Network

The Chief Internal Auditor will seek to co-ordinate Internal Audit plans and activities with managers, external audit, inspection bodies and other review agencies to ensure the most effective audit coverage is achieved and duplication of effort is minimised.

Based upon the delivery of the Internal Audit plan, the Chief Internal Auditor is able to make an evidence-based annual opinion relating to the council's entire control environment.

The Chief Internal Auditor will bring to the attention of the Audit and Governance Committee all issues relating to the control environment of the authority and the mechanisms by which Internal Audit provides assurance.

## 10. Right of Access and Authority to Obtain Information

In order for Internal Audit to discharge its responsibilities, it is granted full, free and unrestricted access to all council records, assets, personnel and premises as considered necessary for the purposes of the audit from any Member, officer, agent or contractor of the County Council. This is set down in the Council's Financial Regulations and is outlined on individual identity cards held by every auditor.

This access should be granted on demand and is not subject to prior notice, and extends to partner bodies and external contractors working on behalf of the council. Council staff are expected to provide every possible assistance to facilitate the progress of Internal Audit reviews. Documents and information given to Internal Audit during a review will be handled in the same prudent and/or confidential manner as by those employees normally accountable for them.

## 11. Annual Governance Statement

Annually the Chief Internal Auditor provides to the Audit and Governance Committee an overall opinion on the County Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

## 12. Fraud & Corruption

Managing the risk of fraud and corruption is the responsibility of management. Internal Audit procedures alone cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for the detection or prevention of fraud and corruption but does undertake periodic activities to promote an anti-fraud and anti-corruption culture.

The council maintains a Strategy Against Fraud and Corruption, which repeats the requirement established in Financial Regulations that all suspected financial irregularities should be reported (verbally or in writing) to the Chief Internal Auditor so that an internal audit investigation of the allegations can be undertaken in line with the Fraud Response Plan.

Investigations into potential financial irregularities are undertaken by Internal Audit whether reported directly to Internal Audit, through the Council's whistle blowing policy, or through Expolink, the Council's external whistle-blowing hotline. Such investigations are as far as possible conducted sensitively and confidentially, but the scope and manner of the investigation is dependent on the nature of the allegations. Irregularity investigations often require the work to be undertaken without prior notice being given to local management and may also require referral to the police or other enforcement agencies.

In certain cases Internal Audit may delegate the investigation of specific allegations to the service itself following an assessment of risk and financial impact.

On completion, findings are reported to an appropriate level of management, who will then be responsible for determining the action to be taken.

## 13. Consultancy Work

Due to its detailed knowledge of County systems and processes Internal Audit is well placed to provide advice and support to services on issues of value for money and process re-engineering.

The PSIAS defines consulting services as follows:

*“Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.”*

The Chief Internal Auditor shall seek the approval of the Audit and Governance Committee for any significant additional consultancy services not already included in the Annual Audit Plan prior to accepting the engagement. Significant is defined as any single assignment equivalent to 5% of annual planned days.

In order to help services to develop greater understanding of audit work and have a point of contact in relation to any support they may need, Internal Audit has put in place a set of service liaison arrangements that provides a specific named contact for each service and regular liaison meetings. The arrangements also enable Internal Audit to keep in touch with key developments within services that may impact on its work.

#### **14. Resources**

The work of Internal Audit is driven by the annual Internal Audit Plan, which is approved each year by the Audit and Governance Committee.

The Annual Plan is derived from a risk-weighting of the known 'audit universe', prioritising potential audits in terms of their significance in risk terms. The methodology for determining risk takes account of both financial and non-financial factors, and is in line with good practice.

Activities identified within a given year in the annual Internal Audit Plan are audited using a variety of standard methodologies (eg risk-based auditing and systems based auditing). Separate contingency time is allowed in the Annual Plan for irregularity-related activities, grant claim audit, audit management time, consultancy work, follow-up audits and other duties.

Against this list of audits is matched a determination of the available resource (in terms of productive days available across the team) and a 'cut-off' point is reached where the risk-ranked list of audits can be resourced by the available days.

In addition to appropriate staffing, Internal Audit must have access to appropriate IT hardware and software (including audit management software and data interrogation tools) to enable delivery of the audit plan.

If the Chief Internal Auditor has concerns regarding the level of resources, these will be raised with the Section 151 Officer at the earliest opportunity. Inadequate resourcing of the Internal Audit activity may result in the Chief Internal Auditor being unable to provide an annual opinion on the council's internal control environment.

#### **15. Training**

Internal Audit will be appropriately staffed in terms of numbers, professional qualifications and experience, having regard to its objective and standards. The staffing of Internal Audit will be kept under review by the Chief Internal Auditor and the Audit and Governance Committee. Internal Audit staff will be properly trained to fulfil their responsibilities and will maintain their professional competence through an appropriate ongoing development programme.

#### **16. Due Professional Care**

Internal Audit will conform to the PSIAS Code of Ethics: (i) Integrity; (ii) Objectivity; (iii) Confidentiality; and, (iv) Competency.

If individual auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation

In carrying out their work, Internal Auditors must exercise due professional care by considering:

- (i) The extent of work needed to achieve the required objectives;
- (ii) The relative complexity, materiality or significance of matters to which assurance procedures should be applied; and
- (iii) The adequacy and effectiveness of governance, risk management and control processes;
- (iv) The probability of significant errors, fraud or non-compliance; and
- (v) The cost of assurance in proportion to the potential benefits.

Internal Auditors will also have due regard to the Seven Principles of Public Life – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership.

### **17. Quality Assurance**

The Chief Internal Auditor will control the work of Internal Audit at each level of operation to ensure that a continuously effective level of performance – compliant with the PSIAS is maintained.

A Quality Assurance Improvement Programme (QAIP) is in place which is designed to provide reasonable assurance to its key stakeholders that Internal Audit:

- Performs its work in accordance with its charter
- Operates in an effective and efficient manner; and,
- Is adding value and continually improving the service that it provides

The QAIP requires an annual review of the effectiveness of the system of Internal Audit to be conducted. This review is sponsored by the Audit and Governance Committee Chairman. Instances of non-conformance with the PSIAS, including the impact of any such non-conformance, must be disclosed to the Audit and Governance Committee. Any significant deviations must be considered for inclusion in the council's Annual Governance Statement.

### **18. Internal Audit Strategy**

The Chief Internal Auditor will develop and maintain a Strategy for delivering the Internal Audit service which aligns with the Corporate Strategy.

The annual Internal Audit Plan is designed to complement the Strategy, and both are approved by the Audit and Governance Committee on behalf of the council. Any difference between the Plan and the resources available will be identified and reported separately.

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