

**Agenda Item No:** 4

**Report To:** Audit Committee

**Date of Meeting:** 1 October 2019

**Report Title:** Internal Audit Charter

**Report Author & Job Title:** Rich Clarke: Head of Audit Partnership

**Portfolio Holder** Cllr. Neil Bell, Finance & IT  
**Portfolio Holder for:**

**Summary:** An Internal Audit Charter is a requirement of Public Sector Internal Audit Standards and seeks to describe how the Standards are applied in the specific context of an individual organisation.

This is a scheduled annual review of the Charter, but contains no significant changes from previous.

**Key Decision:** No

**Significantly Affected Wards:** N/A

**Recommendations:** **The Committee is recommended to:-**

**I. Approve the Internal Audit Charter**

**Policy Overview:** N/A

**Financial Implications:** No new implications.

**Legal Implications** Allows the Council to maintain conformance with the Accounts & Audit Regulations 2015

**Equalities Impact Assessment** Not required.

**Other Material Implications:** N/A

**Exempt from Publication:** **NO**

**Background Papers:** The Charter draws on various sources of external professional guidance and standards. These are hyperlinked within the document.

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## Report Title: Internal Audit Charter

### Introduction and Background

1. Public Sector Internal Audit Standards (the “Standards”) prescribe a Charter that sets out the purpose, authority and responsibility of the Council’s internal audit service. The Charter also affirms and accepts the professional standards governing the practice of internal audit at the Council.
2. This Committee approved a previous version of the Internal Audit Charter. The Council must review and update the Charter periodically to reflect changes in Standards and practice, most notably the 2017 update to Standards. The Charter attached for approval draws from a model document published by the Institute of Internal Audit (IIA), adapted for the Council’s circumstances and edited for clarity.
3. An Audit Charter is prescribed by Public Sector Internal Audit Standards (Standard 1000) and is a foundational document setting out the size and scope of the service. A partial extract, describing the Standards requirement is below:

#### 1000 Purpose, Authority and Responsibility

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

##### *Interpretation:*

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 executive’s functional reporting relationship with the board; authorises 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.

#### **Public sector requirement**

The internal audit charter must also:

- define the terms ‘board’ and ‘senior management’ for the purposes of internal audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

#### **1000.A1**

The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

#### **1000.C1**

The nature of consulting services must be defined in the internal audit charter.

4. Later this year the internal audit service will undergo an External Quality Assessment on conformance with the Standards. Ahead of that assessment provides a good opportunity to revisit the Charter and update it for changes to Standards and development of audit practice. We have also taken the opportunity to clarify and simplify the Charter.
5. Notable sections of the Charter include:
  - Confirmation of adherence to the Standards and various other regulatory and professional guidance (paragraphs 3-5 of the Charter)
  - Description of the Committee's role in support internal audit's independence and effectiveness (paragraphs 8-10 of the Charter)
  - Confirmation of Mid Kent Audit's operational independence and details of how to identify and resolve conflicts of interest (paragraphs 12-19)
  - The quality standards of internal audit and how these will be maintained (paragraphs 21-25)
  - Responsibilities of the Head of Audit Partnership for the service (paragraphs 26-27)

### **Proposal/Current Position**

6. We recommend the Committee approves the attached Charter. This will ensure continued adherence to professional Standards and the Council holds a Charter which fully and accurately sets out the purpose, authority and responsibilities of internal audit at the Council.
7. The Council currently has a Charter that remains valid unless and until replaced. However the current draft has fallen behind developments in Standards and also no longer accords precisely to the practice of internal audit at the authority. For example, it does not clearly set out the required quality standards.

### **Implications and Risk Assessment**

8. The Charter essentially describes internal audit as practiced at the Council and so introduces no new risks.

### **Next Steps in Process**

9. The Charter becomes effective once approved.