

Appendix 1: Internal Audit Charter

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1. Introduction

Regulation 5 (1) of the Accounts and Audit Regulations 2015 requires that; '*A relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector Internal audit standards and guidance*'.

This Internal Audit Charter provides the framework for the conduct of the Internal Audit function in the London Borough of Barking and Dagenham and has been approved by the Audit and Standards Committee. It has been created with the objective of formally establishing the purpose, authority and responsibilities of the Internal Audit function.

It is reviewed, updated as required and reported to the Audit and Standards Committee for consideration at least annually.

2. Purpose

Internal Audit is an independent, objective assurance and consulting activity designed to add value to and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

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 Senior Leadership Team and in particular the Finance Director to help them discharge their responsibilities under s151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

Within an organisation, there are three lines of defence in place to effect controls. The first line of defence is the day-to-day operational controls, the second is the management controls (budget & performance monitoring, trend analysis) and the third is independent inspection,

both internal & external. Internal audit forms part of the third line of defence and provides assurance on the effectiveness of governance arrangements, risk management and internal controls, and this includes an assessment of the effectiveness of the first two lines of defence. Internal Audit can place reliance on assurances provided by third parties, although depending on the source, this may require some independent validation.

3. Scope

All London Borough of Barking and Dagenham's activities (including activities delivered by external providers and wholly/partially owned companies) and legal entities are within the scope of Internal Audit. Internal Audit determines what areas within its scope should be included within the annual audit plan by adopting an independent risk-based approach. Internal Audit does not necessarily cover all potential scope areas every year. The audit programme includes obtaining an understanding of the processes and systems under audit, evaluating their adequacy, and testing the operating effectiveness of key controls. Internal Audit can also, where appropriate, undertake special investigations and consulting engagements at the request of the Audit and Standards Committee and the Strategic Leadership Team through the Corporate Assurance Group.

Notwithstanding Internal Audit's responsibilities to be alert to indications of the existence of fraud and weaknesses in internal control which would permit fraud to occur, the Internal Audit activity will not undertake specific fraud-related work. Fraud-related work is carried out by the Counter Fraud team.

Internal Audit will coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.

4. Authority

The Internal Audit function of the London Borough of Barking and Dagenham derives its authority from the Financial Regulations and Rules which form part of the Council's constitution. The Head of Assurance is authorised to have full and complete access to any of the organisation's records, properties and personnel. The Head of Assurance is also authorised to designate members of the audit staff to have such full and complete access in the discharging of their responsibilities and may engage experts to perform certain engagements which will be communicated to management. Internal Audit will ensure confidentiality is maintained over all information and records obtained in the course of carrying out audit activities. All records, documentation and information accessed in the course of undertaking internal audit activities shall be used solely for that purpose. All Internal Audit staff are responsible and accountable for maintaining the confidentiality of the information they receive in the course of their work.

5. Responsibility

The Head of Assurance is responsible for preparing the annual audit plan in consultation with the Audit and Standards Committee and the Corporate Assurance Group, submitting the audit plan, internal audit budget, and resource plan for review and approval by the Audit and Standards Committee, implementing the approved audit plan, and issuing periodic audit reports on a timely basis to the Audit and Standards Committee and the Corporate Assurance Group.

The Head of Assurance is responsible for ensuring that the Internal Audit function has the skills and experience commensurate with the risks of the organisation. The Audit and Standards Committee should make appropriate inquiries of management and the Head of Assurance to determine whether there are any inappropriate scope or resource limitations.

Internal Audit provides individual assurance ratings and an annual overall opinion of the internal control environment based on the results of audit work conducted. This annual opinion is reported to the Audit and Standards Committee and the Corporate Assurance Group and forms an important part of the formation of the Annual Governance Statement.

It is the responsibility of management to identify, understand and manage risks effectively, including taking appropriate and timely action in response to audit findings. It is also management's responsibility to maintain a sound system of internal control and improvement of the same. The existence of an Internal Audit function, therefore, does not in any way relieve them of this responsibility.

Management is responsible for fraud prevention and detection. As Internal Audit performs its work programs, it will be observant of manifestations of the existence of fraud and weaknesses in internal control which would permit fraud to occur or would impede its detection.

In some instances, internal audit may rely on assurances provided by other providers of assurance but this will be dependent on the level of associated risk and some degree of independent verification may be required.

6. Independence

Internal Audit staff will remain independent of the business and they shall report to the Head of Assurance who, in turn, shall report functionally to the Audit and Standards Committee and administratively to the Director of Law, Governance and Organisational Change. The Head of Assurance is also a member of the Finance Management Team so that the Finance Director can discharge their responsibilities under s151 of the Local Government Act 1972.

The Head of Assurance has full and unrestricted access to the following:

- The Chief Executive;
- The Finance Director (S151 Officer)
- The Chair of the Audit & Standards Committee
- The Monitoring Officer
- All members of the Senior Leadership Team

All staff (including agency and contract staff) are required to make annual declarations of any potential conflicts of interest and adhere to confidentiality requirements. As far as resources permit, auditor rotation will be implemented to ensure auditors' objectivity is not impaired.

Internal Audit must ensure that it is not involved in the design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice. Where Internal Audit do provide consultancy services, any audit staff involved in this consulting

activity will not be involved in the audit of that area for at least 12 months.

Internal Audit must remain independent from the activities that it audits to enable auditors to make impartial and effective professional judgements and recommendations. The Head of Assurance has strategic responsibility for Risk Management, Insurance and Counter Fraud and since this role may involve establishing and maintaining the control environment, these functions will be audited independently when necessary by one of the co-sourced providers. The co-sourced providers will report directly to the Finance Director in these instances. Internal Auditors have no other operational responsibilities towards the systems and functions audited.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Head of Assurance has the freedom to report without fear or favour to all Members and officers, and particularly to those charged with governance.

Accountability for the response to the advice and recommendations of Internal Audit lies with management. Managers must either accept and implement the advice and recommendations, or formally reject them accepting responsibility and accountability for doing so.

7. Professional competence and due care

The internal audit function will adhere to / comply with the following:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards
- All Council policies and procedures
- All legislation

All audit work is subject to in house quality control procedures whereby each audit review is subject to senior peer review. The audit service will be subject to an annual self-assessment to assess its compliance with the UK Public Sector Internal Audit Standards and an external review and assessment at least once every 5 years by a suitably qualified, independent assessor.

The Head of Assurance is required to hold a relevant professional qualification (CCAB or CMIIA) and be suitably experienced. All staff are required to maintain a programme of Continuous Professional development (CPD) to ensure auditors maintain and enhance their knowledge, skills and audit competencies.

8. Reporting and monitoring

At the end of each audit, the Head of Assurance or designee will prepare a written report and distribute it as appropriate. Internal Audit will be responsible for appropriate follow-up

of significant audit findings and validation of agreed action plans. All significant findings will remain open file until cleared by Internal Audit or the Audit and Standards Committee.

The Audit and Standards Committee will be updated regularly on the work of Internal Audit through periodic and annual reports. The Head of Assurance shall prepare reports of audit activities with significant findings along with any relevant agreed action plans and provide periodic information on the status of the annual audit plan.

Periodically, the Head of Assurance may meet with the Chair of the Audit and Standards Committee in private to discuss Internal Audit matters.

The performance of Internal Audit will be monitored through the implementation of a Quality Assurance and Improvement Programme. The results of external and internal assessments will be reported upon completion to the Assurance Group and the Audit and Standards Committee.