County Durham and Darlington
**Fire and Rescue Service**

# INTERNAL AUDIT CHARTER

**For the Provision of an Internal Audit Service to the County Durham and Darlington Fire and Rescue Authority**

## April
## 2023

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# Introduction

1. The purpose of this Charter is to establish the terms of reference for the provision of the Durham County Council Internal Audit Service to the County Durham and Darlington Fire and Rescue Authority.  The Charter outlines how the service will be delivered and developed. It sets out the purpose, authority and responsibility of Internal Audit.

# Statutory Basis

2. Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2015, which state that:

   "A relevant authority must undertake an effective internal control audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

3. The Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note, which came into effect April 2013, constitute proper practices to satisfy the requirements for larger relevant local government bodies as set out in the Accounts and Audit Regulations 2015. The PSIAS were updated on 01 April 2017 and the Charter reflects these changes.

4. Section 151 of the Local Government Act 1972 states that every local authority should make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs (The Chief Financial Officer (CFO). CIFPA has defined proper administration in that it should include 'compliance with the statutory requirements for accounts and internal audit'.

5. The CIPFA Statement on the Role of the Chief Financial Officer states that the CFO must:

   - Ensure an effective internal audit function is resourced and maintained
   - Ensure that the authority has put in place effective arrangements for internal audit of the control environment
   - Support internal audit arrangements and
   - Ensure the audit committee receives the necessary advice and information so that both functions can operate effectively

6. This Internal Audit Charter recognises the mandatory nature of the PSIAS including the definition of Internal Auditing, the Mission of Internal Audit, the Code of Ethics and the Standards themselves.

7. As required by the PSIAS, the group or body determined to fulfil the roles and responsibilities of the 'board' and 'senior management', as referred to in individual standards, are as set out in Appendix C of this Charter.

# Definition

8. Internal Auditing is 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.

# Mission

9. The mission of the Internal Audit Service is "enhance and protect the Authority's organisational values by providing risk based and objective assurance, advice and insight".

# Code of Ethics

10. Internal Auditors in the UK public sector organisations must conform to the Code of Ethics, (the Code), as set out in the PSIAS. The Code applies to both individuals and entities that provide internal auditing services.

11. The Code consists of 4 principles that are relevant to the profession and practice of internal auditing and set out the rules of conduct that describe behaviour norms expected of internal auditors to guide their ethical conduct. The four principles are integrity, objectivity, confidentiality and competency.

12. Internal auditors must also have regard to the Committee on Standards in Public Life, "Seven Principles of Public Life", those being:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

# Strategic Aims

13. Our overall strategy is to support the Authority in achieving its aims and objectives through the provision of a high quality internal audit service that gives management reasonable assurance on the effectiveness of the Authority's internal control environment and acts as an agent for change by making recommendations for continual improvement.

14. The service aims to be flexible, pragmatic and to work in collaboration with management to suit organisational needs. Through a risk based approach to audit planning, the service will make a positive contribution to corporate governance arrangements and assist management in developing a framework for achieving objectives within acceptable levels of risk.

## Objectives of Internal Audit

15. Our primary objective is the provision of reasonable, not absolute, evidenced based assurance on the effectiveness of the whole of the Authority's risk management, control and governance environment to the Service Leadership Team and the Audit and Risk Committee.

16. The provision of our annual assurance opinion will be in compliance with professional guidelines and in accordance with the Accounts and Audit Regulations and will be included in the Authority's Annual Governance Statement which forms part of the Authority's published annual Statement of Accounts.

17. To determine the audit opinion the Internal Audit Service will review, appraise and report upon:

- The adequacy of risk identification, assessment and mitigation
- The adequacy and application of controls to mitigate identified risk
- The adequacy and extent of compliance with the Authority's corporate governance framework
- The extent of compliance with relevant legislation
- The extent to which the Authority's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money
- The quality and integrity of financial and other management information utilised within the Authority.

18. When presenting the annual audit opinion, the Head of Internal Audit will:

- Disclose any qualification to that opinion, together with the reasons for that qualification
- Present a summary of the audit work undertaken from which the opinion is derived, including reliance placed on the work of others
- Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement
- Compare the work actually undertaken to the work that was planned and summarise the performance of the internal audit service
- Present a statement on conformance with the PSIAS and the results of a Quality Assurance and Improvement Programme (QAIP) required by the PSIAS.

19. Other objectives include:

- Supporting the Section 151 Officer (Chief Finance Officer) in discharging his statutory duties for ensuring proper administration of the Authority's financial affairs.
- Championing good governance by helping to improve the Authority's risk management, control and governance processes by providing management with timely advice and guidance.
- Supporting the Audit and Risk Committee in fulfilling its governance responsibilities as detailed in the Committee's terms of reference set out in the Authority's Constitution.
- Supporting Officers and Members in identifying and understanding exposure to risk and providing advice on control design, techniques and strategies.
- Working with other assurance and review bodies to ascertain the extent to which reliance can be placed on the work of other auditors and inspectorates to maximise assurance and the effectiveness of audit resources available.
- Helping to promote a strong counter fraud culture across the Authority, through the development and effective implementation of the Authority's Anti-Fraud, Anti-Bribery and Anti-Corruption Policy.
- Providing quality services through the highest standards of professional practice, quality assurance systems and investment in staff.
- Be future focussed and continually add value to the organisation.

## Outcomes of Internal Audit

20. Our main outcome is the provision of independent assurance to "those charged with governance", which within the Fire Authority is the Audit and Risk Committee, and Service Leadership Team on the effectiveness or otherwise of the Authority's risk management, control and governance arrangements and in so doing we contribute to:

- Improved identification and management of risks contributing to improved performance management and the successful achievement of the Authority's vision and priorities.
- Improved corporate governance through helping to support compliance with relevant legislation, the Authority's policies, plans and procedures.
- Improved accountability, safeguarding of Authority assets and interests and use of public resources
- Improved quality and reliability of financial and other management information used to support informed decisions

# Independence, Objectivity and Authority

21. To be effective Internal Audit must operate independently and have unrestricted access to all records deemed necessary in the course of its work.

22. We have a right of access to all Members, employees, and agents of the Authority, including direct access to the Chief Fire Officer.

23. Internal Audit will remain free from interference by any element in the organisation including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of the necessary independent and objective standards.

24. Objectivity is maintained by ensuring that all internal auditors are free from any conflicts of interest and being free from direct management responsibility for the development, implementation or operations of any of the activities audited.

25. Internal Auditors will not be allocated to assurance reviews in areas where they have had a responsibility for, or have undertaken any significant advice and consultancy work.

26. The Head of Internal Audit can report directly to those charged with governance, officers or Members, at any level.

27. We have a right of access to all information relevant to the Authority's functions and services which is necessary to meet our responsibilities.  This includes Authority information held by or managed by third parties on the Authority's behalf.

28. Our independence is achieved by reporting in our own name, ensuring that all Internal Auditors are free from any conflicts of interest and being free from direct management responsibility for the development, implementation or operations of systems.

29. As the Chief Internal Auditor and Corporate Fraud Manager also has responsibility within Durham County Council for corporate risk management, counter fraud and insurance services, arrangements will be made for any audit work to be carried out in these areas by a suitably experienced and qualified auditor.  In these cases the Chief Internal Auditor and Corporate Fraud Manager will remove themselves from the review process of these audits and all findings and draft reports will be shared at their conclusion with both the Chief Internal Auditor and Corporate Fraud Manager and the Corporate Director, Resources in order to apply the necessary safeguards as set out in PSIAS standard 1112 where the Chief Audit Executive has roles beyond Internal Auditing.

# Scope of Audit Work

30. Our role applies to all functions and services for which the Authority is responsible, including those delivered by its partners where appropriate.

31. In addition to the regular review of all key systems of internal control which forms the bulk of our assurance work, we will:

    - Respond to requests for support, advice and guidance on implementing and/or improving best practice control procedures for current and new systems.
    - Promote the development and effective implementation of Control and Risk Self Assessments
    - Provide support, advice and guidance on risk and controls to staff involved in the design and implementation of new systems and processes.
    - Provide assistance on key projects, including attendance on project boards, and conduct specialist consultancy and value for money reviews. The scope of this work is agreed with management and is subject to having the necessary resources, skills and ensuring suitable assurance over our independence and objectivity.
    - Be alert in all our work to risks and exposure that could allow fraud or corruption to occur and to any indications that a fraudulent or corrupt practice may have been occurring.
    - Determine the most appropriate course of action by which fraud and irregularities should be investigated.
    - Review the effectiveness of the Authority's, and wherever possible its partners', corporate governance and risk management arrangements.

32. It must be noted that whilst Internal Audit will promote the Authority's Anti-Fraud policy to deter and prevent fraud, for example participating in the National Fraud Initiative, it does not have responsibility for the prevention and detection of fraud and corruption. We cannot guarantee that fraud or corruption will be detected in our work.  Managing the risk of fraud and corruption is the responsibility of managers.

# Strategic Audit Planning

33. The level of Internal Audit resources required to examine all of the Authority's activities exceeds those available each year. It is, therefore, essential that the work of internal audit is properly planned to ensure that sufficient work is undertaken each year to draw reasonable conclusions and assurance on the effectiveness of the Authority's risk management, control and governance arrangements.

34. Our strategic planning process aims to provide a reasonable level of independent review of the Authority's risk management, control and governance systems through periodic audit plans in a way which affords suitable priority to objectives and risks.

35. The starting point for our strategic planning is understanding the Authority's strategic aims and objectives, its corporate governance arrangements and the assurance framework in place by which those charged with governance gain confidence that any risks which may impact on the achievement of those aims and objectives are effectively identified, assessed and managed.

36. In consultation with service managers we will;

- Consider the Authority's risk across two categories:

    a. **Strategic Risks** - these are the business risks that may arise both internally and externally from the Authority and should be included in Corporate and Service Strategic Risk Registers

    b. **Tactical Risks** - these are the risks that arise directly from the core activities of delivering services that may not always be documented

- Identify key service delivery activities, and their objectives in supporting the delivery of Authority's strategic aims and objectives, on which assurance is required by those charged with governance (the Audit Universe)
- Review the Authority's assurance arrangements in place to clearly map out an integrated assurance framework of all known sources of assurance, independent or otherwise, and identify any gaps and duplication
- Assess the reliability of other assurance sources
- Regularly risk assess each key service activity, and key systems that supports the delivery of service objectives, to determine our priorities for reviewing tactical risks.

37. Strategic risk registers will inform but not drive the internal planning process and we will audit those risks where controls have been identified as the means of managing the risk. Priority will be given to those risks which have a high gross score and a low net score, where the effective management of the risk is heavily dependent on the identified controls, and there is little or no other source of assurance.

38. Assurance on the strategic risk of fraud and corruption will be provided each year with some specific targeted fraud prevention and detection reviews as part of a risk assessed counter fraud programme of work.

39. Tactical risks relating to key service activities and key systems will be audited over a 3, 4 or 5 year period dependent on an audit assessment of known risks and the reliability of other assurance sources. Some key risks where a high level of assurance is required to demonstrate the continuous effectiveness of internal controls, for example those associated with key financial systems, may be subject to annual review.

# Annual Audit Plans

40. Annual audit plans will be developed to provide a reasonable level of independent assurance on both strategic and tactical risks to enable an annual opinion on the entire control environment to be given.

41. The preparation of the annual plan will also consider certain reviews at particular frequencies to fulfil statutory requirements.

42. In addition to our risk based assurance reviews, our annual audit plans will also include provision for our advice and consultancy role.  This provision covers time set aside for reactive, proactive and value added work and may include:

- Proactive, responsive and innovative solutions to problems and opportunities to help the Authority achieve its business objectives
- Timely response to ad hoc requests for advice on the identification, assessment and mitigation of risks through effective controls
- Timely response to ad hoc requests for advice on the impact of proposed policy initiatives, programmes and projects as well as responses to emerging risks
- Planned involvement in new initiatives or working groups established to help identify and access risk and design suitable controls
- Undertaking VFM reviews.
- Investigation of irregularities and suspected fraud and corruption
- Grant certification work requiring independent assurance that grant terms and conditions have been met.

43. The level of audit resources required to deliver, at the very least, both a minimum level of independent assurance and adequate provision for advice and consultancy will be considered by the Head of Internal Audit.  Minimum assurance levels will be informed by the maturity of the Authority's risk management arrangements and its risk appetite and the reliance that can be placed on other assurance sources. Any concerns the Head of Internal Audit has over the quantity and quality of skills available to deliver the required level of assurance, or to add value through its advice and consultancy work, will be referred to the Section 151 Officer, (Chief Financial Officer), and the Audit and Risk Committee for consideration.

44. Strategic and annual plans will be endorsed by the Service Leadership Team and approved and monitored by the Audit and Risk Committee.

# Audit Approach

45. We will adopt a risk based approach to all our assurance work as outlined below:

## Strategic Risk

Our reviews of strategic risks will provide assurance that:

- Risk management processes, defined by the Authority's risk management strategy and policy, are in place and are operating as intended
- Managers are responding to risks adequately and effectively so that those risks are reduced to an acceptable level
- The controls that managers have in place are successful in managing those risks

## Tactical Risk

46. Our reviews of key service delivery activities and key systems will provide assurance on the effectiveness of

- Compliance with corporate governance arrangements
- Risk identification, assessment and business continuity
- The control environment to manage identified risks and to ensure that the Authority's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money
- Information governance (quality and integrity of financial and other management information and how it is used and communicated)

47. We will adopt a risk based approach to evaluate the effectiveness of controls designed to mitigate risks through substantive testing and/or compliance testing. Compliance testing will confirm if a control actually exists and substantive testing will provide assurance that the control is effective and / or is consistently applied. The level of testing will be relative to the impact and likelihood of the risk occurring due to a control weakness.

48. We will work with service managers to help embed effective risk management of tactical risks by supporting them to carry out a control and risk assessment (CRA) for each audit area subject to review in advance of each assurance audit.

49. We will agree the objectives and risks associated with each key system or service delivery area to be reviewed with the relevant service manager/key contact prior to the start of any audit to ensure that the scope and objectives of each review are focused on providing assurance on the high or significant risks identified through the CRA. Terms of reference will be issued to key contacts to formally agree the scope of each review, identify keys risks, potential impact and expected key controls.

50. The key contact is the person who is authorised by the Principal Officers to agree resultant draft reports and the implementation of any proposed audit recommendations.

51. Terms of reference will confirm the scope of each review and the audit approach to be applied. This latter may vary due to the nature of the risk upon which assurance is required and the extent of reliance on other assurances sources.

## Audit Reporting

52. All audit assignments will be the subject of formal reports and all assurance reviews will include an audit opinion.

53. Our reporting structure is designed to ensure that final versions of reports are agreed with managers and are both accurate and practical.

54. Towards the end of an audit we will arrange an exit meeting with the key contact where we will share and discuss our initial findings. The discussion will seek to eliminate any inaccuracies in our findings so that these can be resolved before a formal draft report is issued.

55. Draft reports will ask the key contact to provide a management response to the recommendations made and agree target implementation dates and responsible officers.

56. To assist managers in their response we categorise the importance of our recommendations as High, Medium, or Best Practice. Details of how we assess the importance of audit findings leading to these recommendation rankings are given in Appendix A.

57. It is the responsibility of managers to accept and implement internal audit findings and recommendations, or accept the risk resulting from not taking action.

58. We will also provide an overall assurance opinion on each audit review to help us inform our overall opinion required to support the Authority's Annual Governance Statement.

59. The determination of our audit assurance opinion is derived from the overall level of assurance, positive as well as negative, of the effectiveness of controls operating in each specific area reviewed and is informed by risk identified through our recommendation rankings.

60. Where a Limited assurance opinion is given controls are overall considered to be ineffective and require improvement to maintain an acceptable level of control. Further details of how we arrive at our assurance opinions are given in Appendix A.

61. Managers' responses to recommendations made in draft reports will be incorporated and reissued as finals. Copies of all final reports are shared with our External Auditors on request.

62. Wherever possible the circulation of audit reports will be agreed at the outset and will have due regard to confidentiality and legal requirements.  Any information gained in the course of audit work remains confidential without limiting or preventing internal audit from meeting its reporting responsibilities to the wider organisation.

63. We will follow–up progress made by managers in responding to draft reports and on the implementation of all high and medium priority recommendations in final reports.

64. Progress on the implementation of agreed recommendations will be reported to the Audit and Risk Committee.  Any significant recommendations overdue will be reported on an exception basis each quarter.

65. To ensure that adequate progress is made by management we request that management response is provided with 20 working days.  If a response has not be received within this timescale the following escalation process will then be invoked

- A reminder will be sent to the key contact, and copied into the Head of Corporate Resources, requesting a response within the next 10 days
- If a response is still not forthcoming, a second reminder will be issued direct to the relevant Principal Officer, advising that if a response is not received with the next 5 days the matter will be reported to the Chief Fire Officer.
- All draft reports remaining outstanding at the end of each quarter will be reported to the Audit and Risk Committee.

66. We will report quarterly to the Head of Corporate Resources on progress made on delivering the agreed annual plan, overdue responses to draft reports, any significant issues arising from work and progress made by managers in implementing audit recommendations.  An annual report will be presented to the Service Leadership Team summarising the position for the year.

67. To help focus attention on areas of significant risk, quarterly progress reports will include by exception details of all audits which provided limited assurance.

68. Where a limited assurance opinion is given, it is the intention of Internal Audit to follow up the audit within six months of issue to verify that the recommendations have been made in line with the agreed actions.  A follow up report detailing progress made and any actions that are still to be completed will be prepared on completion of the review.

69. In accordance with the PSIAS, to maintain organisational independence, Internal Audit will report on the functionality of the audit service to Audit and Risk Committee:

**Annual Audit Plan**

**Quarterly Internal Audit Progress reports:**

- To consider progress made in delivering the agreed annual plan
- To inform members of significant issues arising from audit assurance work and the impact this may have if control weaknesses identified are not addressed
- To inform members of other audit work carried out or planned
- To consider progress made by managers in the implementation of audit recommendations drawing attention to significant risks not being effectively managed

**Annual Audit Report to:**

- Compare actual activity with planned work
- Provide an overall opinion on the control environment
- Provide a summary of work undertaken to formulate the annual opinion on the entire control environment, including reliance placed on work by other assurance bodies
- Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement.

# Responsibilities of Managers

70. Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the service, its reputation and independence.

71. We strive to build effective working relationships with all our stakeholders, internal and external, by encouraging an environment of mutual trust, confidence and understanding.

72. A key relationship is with managers. Managers at all levels need complete confidence in the integrity, independence and capability of internal audit.

73. Managers' role is to manage the risks facing their service and to maintain an adequate and effective system of internal control to mitigate these risks. Managers are also responsible for ensuring that staff are aware of the processes and procedures required to operate the control systems in place.

74. It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of fraud and irregularities. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

75. We will endeavour to plan our work so that it has a reasonable expectation of detecting significant control weaknesses and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

76. We encourage managers to maximise the effectiveness of the outcome of internal audit work by:

- Commenting on, and inputting to, strategic and annual audit plans.
- Carrying out control and risk self-assessments (CRSA) prior to each audit
- Agreeing terms of reference for each audit assignment to ensure attention is focused on areas of greatest risk or concern.
- Giving information and explanations that are sought during audit reviews.
- Providing access at all reasonable times to premises, personnel, documents and assets as necessary.
- Giving early notification of plans for change, including potential new initiatives, operational systems and processes.
- Ensuring key contacts provide responses to draft audit reports within the required timescales.
- Ensuring agreed actions arising from audit recommendations are carried out efficiently and on a timely basis
- Notifying internal audit of any suspected fraud, irregularity, improper use or misappropriation of the Authority's property or resources.
- Pending investigations and reporting, take all responsible steps to prevent further loss and to secure records and documents against removal or alteration.
- Acting in line with the Authority's disciplinary procedures.

## Relationship with the Audit and Risk Committee

77. The Authority has adopted best practice in implementing an Audit and Risk Committee. This committee reports directly to the Fire Authority on matters it feels are relevant.  Terms of Reference, reflecting best practice, have been agreed.

78. The existence of an independent and effective Audit and Risk Committee helps to convey to staff and the public the importance Members and Officers attach to risk management, corporate governance and internal control.

79. The Audit and Risk Committee is not just the concern of auditors as it has responsibility for ensuring that the Authority has good corporate governance arrangements in place to help deliver the best services to support the Authority's priorities, aims and objectives and ensure excellent use of resources.

80. Internal Audit is one of a number of areas of assurance that contribute to the Authority's corporate assurance framework. It does this by providing an opinion on the level of assurance the Authority can place upon the entire internal control environment and by making recommendations to improve it. This includes Internal Audit's evaluation of the effectiveness of the Authority's risk management and corporate governance arrangements.

81. It is important that the Authority seeks independent assurance about the mechanisms underpinning the various aspects of governance and one of the responsibilities of the Audit and Risk Committee is to review the functionality and effectiveness of Internal Audit.

# Audit Resources, Skills and Service Quality

82. In order for Internal Audit to demonstrate high standards of professional conduct, the Internal Auditor must be impartial in discharging all responsibilities. Bias, prejudice or undue influence must not be allowed to limit or override objectivity.

83. The service is required to operate in compliance with both the PSIAS and the LGAN.  Policies and standard working practices have been put in place to ensure audit staff understand and comply with the PSIAS. An important element of the PSIAS is the requirement to undertake regular quality assurance assessments and maintain a (QAIP). A quality assurance framework, detailing the policies, procedures and working practices under which the service operates has been defined and documented in an Audit Manual.

84. The Head of Internal Audit is responsible for providing periodically a self-assessment on the effectiveness of the internal audit service and compliance with agreed procedures to ensure professional standards are maintained. Any areas of non-compliance with the standards and or the LGAN will be reported as part of the Annual Audit Report to the Service Leadership Team and the Audit and Risk Committee.

85. In accordance with the PSIAS, an external assessment will be carried out at least every five years. The results of this external assessment will also be reported to the Service Leadership Team and the Audit and Risk Committee.

86. The service is provided by Durham County Council's in house internal audit team. The staffing structure will, as far as possible, be comprised of a suitable mix of qualifications, experience and skills.

87. The Head of Internal Audit ensures internal audit resources are sufficient to meet its responsibilities and achieve its objectives. Resource requirements are reviewed annually in relation to draft annual audit plans. Resources will be considered in terms of available days and the skills and experience of audit staff.

88. Individual training needs are identified in accordance with the Council's Performance Appraisal Scheme and supplemented by regular audit skills assessments and post audit reviews.  As well as basic training in audit techniques and the development of specialist skills, the service is committed to coaching and mentoring its staff and to providing opportunities for continuous professional development to all staff.

89. Internal Audit maintains its awareness of national and local issues through membership and subscription to professional bodies such as CIPFA's Better Governance Forum, Technical Information Service, Finance Advisory Network (FAN), County Chief Internal Auditor Network, the Institute of Internal Auditors as well as liaison with external audit and networking with other internal audit service providers.

90. The service will keep abreast of best audit practice by adhering to CIPFA's and the IIA's practice advisories and practice guides, where applicable, as well as networking with other internal audit service providers.

91. In this regard the service considers trends and emerging issues that could impact the Authority.

92. A suite of performance indicators (PI's) and targets has been developed to measure and monitor the performance and effectiveness of the service. The current PI's are detailed in Appendix B. PI's and targets will be reviewed annually.

93. In accordance with the requirements of the Accounts and Audit Regulations 2015, an annual review of the effectiveness of the internal audit service will be undertaken by the Audit and Risk Committee. This annual review will be informed by a service review carried out by the Head of Corporate Resources along with the outcome of the Quality Assurance and Improvement Programme and any internal or external assessments required by the PSIAS as reported by the Head of Internal Audit in the Annual Audit Report. By reviewing the service the Authority is able to gain assurance that the service maintains its independence and objectivity, that it is effective and conforms to the expected professional quality standards so that it can place reliance on its work and the annual audit opinion.

94. The outcome from the annual effectiveness review is reported to the Service Leadership Team and Audit and Risk Committee as part of the Annual internal Audit Report.

# Approval and Review

95. The Head of Internal Audit will review this Charter annually to ensure that it is kept up to date and fit for purpose. The Charter is endorsed by the Service Leadership Team and approved by the Audit and Risk Committee. Any amendments will be reported to the Audit and Risk Committee for approval. A copy of the Charter will be made available on the Authority's intranet.

# Key Contact

Head of Internal Audit

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# Other Related Documents

Other related documents that should be read in conjunction with this Charter are the Authority's:

Code of Corporate Governance

Risk Management Strategy

Constitution – Financial Procedure Rules

Constitution – Codes of Conduct

Anti-Fraud and Anti-Corruption Policy

Confidential Reporting Code (Whistle Blowing Policy)

**ASSESSMENT OF AUDIT FINDINGS, RECOMMENDATIONS AND AUDIT OPINIONS**          **APPENDIX A**

## Findings

Individual findings are assessed on their impact and likelihood based on the assessment rationale in the tables below:

| IMPACT RATING | ASSESSMENT RATIONALE |
|---|---|
| **Critical** | **A finding that could have a:** |
| | **Critical** impact on operational performance<br>(Significant disruption to service delivery) |
| | **Critical** monetary or financial statement impact<br>(In excess of 5% of service income or expenditure budget ) |
| | **Critical** breach in laws and regulations that could result in significant fine and consequences<br>(Intervention by regulatory body or failure to maintain existing status under inspection regime) |
| | **Critical** impact on the reputation of the Authority<br>(Significant reputational damage with partners/central government and/or significant number of complaints from service users) |
| | **Critical** impact on the wellbeing of employees or the public<br>(Loss of life/serious injury to employees or the public) |
| **Major** | **A finding that could have a:** |
| | **Major** impact on operational performance<br>(Disruption to service delivery) |
| | **Major** monetary or financial statement impact<br>(1-5% of service income or expenditure budget ) |
| | **Major** breach in laws, regulations or internal policies and procedures<br>(non compliance will have major impact on operational performance, monetary or financial statement impact or reputation of the service) |
| | **Major** impact on the reputation of the service within the Authority and/or complaints from service users |
| **Minor** | **A finding that could have a:** |
| | **Minor** impact on operational performance<br>(Very little or no disruption to service delivery) |
| | **Minor** monetary or financial statement impact<br>(less than 1% of service income or expenditure budget ) |
| | **Minor** breach in internal policies and procedures<br>(non compliance will have very little or no impact on operational performance, monetary of financial statement impact or reputation of the service) |

| LIKELIHOOD | ASSESSMENT CRITERIA |
|---|---|
| **Probable** | Highly likely that the event will occur (>50% chance of occurring) |
| **Possible** | Reasonable likelihood that the event will occur (10% - 50% chance of occurring) |
| **Unlikely** | The event is not expected to occur (<10% chance of occurring) |

## ASSESSMENT OF AUDIT FINDINGS, RECOMMENDATIONS AND AUDIT OPINIONS          APPENDIX A

### Overall Finding Rating

This grid is used to determine the overall finding rating.

| LIKELIHOOD | | | |
|---|---|---|---|
| Probable | M | H | H |
| Possible | L | M | H |
| Unlikely | L | L | M |
| | Minor | Major | Critical |
| | **IMPACT** | **IMPACT** | **IMPACT** |

### Priority of our recommendations

We define the priority of our recommendations arising from each overall finding as follows;

| HIGH | ACTION REQUIRED, THAT IS CONSIDERED **IMPERATIVE**, TO IMPROVE THE CONTROL ENVIRONMENT SO THAT OBJECTIVES ARE NOT EXPOSED TO UNACCEPTABLE RISKS THROUGH LACK OF OR WEAKNESSES IN CRITICAL OR KEY CONTROLS. |
|---|---|
| Medium | Action required to improve the control environment so that objectives are not exposed to risks through weaknesses in controls. |
| Best Practice | The issue merits attention and its implementation will enhance the control environment. |

### Overall Assurance Opinion

Based upon the ratings of findings and recommendations arising during the audit as summarised in risk matrix above we define the overall conclusion of the audit through the following assurance opinions:

| SUBSTANTIAL ASSURANCE | THERE IS A SOUND SYSTEM OF CONTROL. ANY WEAKNESSES IDENTIFIED EXPOSE SOME OF THE SYSTEM OBJECTIVES TO MINOR RISK. |
|---|---|
| Moderate Assurance | Whilst there is basically a sound system of control, there are some weaknesses, which expose objectives to risk. |
| Limited Assurance | There are weaknesses in key areas in the system of control, which expose objectives to unacceptable levels of risk. |

| EFFICIENCY | OBJECTIVE: TO PROVIDE MAXIMUM ASSURANCE TO INFORM THE ANNUAL AUDIT OPINION | |
|---|---|---|
| **KPI** | **Measure of Assessment** | **Target & (Frequency of Measurement)** |
| Planned audits completed | % of planned assurance work from original approved plan complete to draft report stage as at 31st March | 90% (Quarterly) |
| Timeliness of Draft Reports | % of draft reports issued within 20 working days of end of fieldwork/closure interview<br>Average time taken is also reported for information | 90% (Quarterly) |
| Timeliness of Final Reports | % of final reports issued within 10 working days of receipt of management response<br>Average time taken is also reported for information | 95% (Quarterly) |
| Terms of Reference | % of TOR's agreed with key contact in advance of fieldwork commencing | 95% (Quarterly) |
| **Quality** | **Objective: To ensure that the service is effective and adding value** | |
| **KPI** | **Measure of Assessment** | **Target & (Frequency of Measurement)** |
| Recommendations agreed | % of Recommendations made compared with recommendations accepted | 95% (Quarterly) |
| Post Audit Customer Satisfaction Survey Feedback | % of customers scoring audit service good or above (3 out of 5) where 1 is poor and 5 is very good<br>Average score is also reported for information | 100% (Quarterly)<br><br>Overall average score |
| Customers providing feedback Response | % of Customer returning satisfaction returns | 70% (Quarterly) |

**Public Sector Internal Audit Standards**
**Definition of the terms 'Board' and 'Senior Management' for the purpose of Internal Audit Activity**

| STANDARD | | REFERENCE TO BOARD OR SENIOR MANAGEMENT | PROPOSED BODY/GROUP TO FULFIL ROLE | |
|---|---|---|---|---|
| *Ref* | *Title* | | *Senior Management* | *Board* |
| 1000 | Purpose, authority and responsibility | **Senior Management** and the **board** must approve the Internal Audit Charter | Service Leadership Team | The Audit and Risk Committee |
| 1110 | Organisational Independence | The Chief Audit Executive ( Head of Internal Audit ( HIA) ) must report functionality to the **board**:<br><br>Functionality includes:<br>Approving the Internal Audit Charter<br>Approving the Risk Based Internal Audit Plan<br>Receiving communications from the HIA on Internal Audit's activity and performance<br><br>Approving decisions regarding the appointment and removal of the HIA and remuneration of the HIA.<br><br>In the case of the Fire Authority where the Internal Audit Service is bought in from an external provider, this aspect of functionality is not applicable. However the underlying principle of this standard is to safeguard the independence of the HIA and the Audit Service by ensuring that the appointment of Internal Auditors is not inappropriately influenced by those subject to audit. | The Service Leadership Team will have responsibility for the appointment of the internal audit service provider, but all decisions, with reasons, will be reported to the Audit and Risk Committee. | The Audit and Risk Committee |

| 1130.C2 | Impairment to Independence or Objectivity | Approval must be sought from the **board** for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement | | The Audit and Risk Committee |
|---|---|---|---|---|
| 1312 | Quality Assurance and Improvement Programme (QAIP) | External Assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.   The HIA must discuss with the **board:**<br><br>• The form of external assessments<br>• The qualifications and independence of the external assessor or assessment, including any potential conflict of interests<br><br>NB The Public Sector requirement of this standard states,<br><br>"The HIA must agree the scope of external assessments with an appropriate sponsor e.g the Accounting/Accountable Officer or Chair of the audit committee as well as with the external assessor or assessment team" | Service Leadership Team | The Audit and Risk Committee |
| 1320 | Reporting the results of QAIP | The HIA must communicate the results of the quality assurance and improvement programme to **senior management** and the **board.** | Service Leadership Team | The Audit and Risk Committee |
| 1322 | Disclosure of Non -Conformance | Instances of non-conformance with the definition of Internal Auditing, the Code of Ethics or the standards impacts the overall scope or operation of the Internal Audit Activity, must be reported to the **board** by the HIA.  More significant deviations must be considered for inclusion in the Annual Governance Statement. | | The Audit and Risk Committee |
| 2020 | Communications and Approval | The HIA must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to **senior** | Service Leadership Team | The Audit and Risk Committee |

| | | | | |
|---|---|---|---|---|
| | | **management** and the **board** for review and approval.<br><br>Where the HIA believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the **board**. | | |
| 2060 | Reporting to Senior Management and the Board | The HIA must report periodically to **senio**r **management** and the **board** on the internal audit activity's purpose, authority, responsibility and performance relative to its plan.  Reporting must include significant risk exposures and control issues, including fraud risks governance issues and other matters needed or requested by senior management and the board. | Service Leadership Team | The Audit and Risk Committee |
| 2600 | Communicating the Acceptance of Risk | When the CAE concludes that management has accepted a low level of risk that may be unacceptable to the organisation, the CAE must discuss the matter with **senior management.**  If the CAE determines that the matter has not been resolved, the CAE must communicate the matter to the **board**. | Service Leadership Team | The Audit and Risk Committee |

NB.  The role of Chief Audit Executive referred to in the Standards is that undertaken by the Manager of Internal Risk (Head of Internal Audit ) but in practice, as per the SLA, the role of the Head of Audit for the Fire Authority will largely be undertaken by an Audit and Fraud Manager who will act as client relationship manager.