



# **INTERNAL AUDIT CHARTER**

**June  
2015**

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## 1. Introduction

- 1.1 The purpose of this Charter is to establish the terms of reference for the Durham County Council Internal Audit Service and outline how the service will be delivered and developed through its Audit Strategy. It sets out the purpose, authority and responsibility of Internal Audit.

## 2. Statutory Basis

- 2.1 Internal Audit is a statutory service in the context of the Accounts and Audit Regulations (England) 2011, which state that:

“A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices”.

- 2.2 The Public Sector Internal Audit Standards (PSIAS) and CIPFA’s Local Government Application Note (LGAN), 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 2011.
- 2.3 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)). CIPFA has defined proper administration in that it should include, ‘compliance with the statutory requirements for accounts and internal audit’.
- 2.4 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 but 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
- 2.4 This Internal Audit Charter recognises the mandatory nature of the PSIAS including the definition of Internal Auditing, the Code of Ethics and the Standards themselves.
- 2.5 As required by the PSIAS, this Charter defines the group or body determined to fulfil the roles and responsibilities of the ‘board ‘and ‘senior management’ for the purpose of internal audit activity, as referred to in the individual standards. These definitions are set out in Appendix C.

### **3. Definition**

- 3.1 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.

### **4. Code of Ethics**

- 4.1 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.
- 4.2 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 4 principles are integrity, objectivity, confidentiality and competency.
- 4.3 Internal auditors must also have regard to the Committee on Standards in Public Life, "Seven Principles of Public Life".

### **5. Strategic Aims**

- 5.1 Our overall strategy is to support the Council achieve its aims and objectives through the provision of a high quality internal audit service that gives management reasonable assurance on the effectiveness of the Council's internal control environment and acts as an agent for change by making recommendations for continual improvement.
- 5.2 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.

### **6. Objectives of Internal Audit**

- 6.1 Our primary objective is the provision of reasonable, not absolute, evidenced based assurance on the effectiveness of the whole of the Council's risk management, control and governance environment to the Corporate Management Team and the Audit Committee.

6.2 The provision of our annual assurance opinion will be in compliance with professional guidelines and in accordance with the Accounts and Audit regulations 2011. Our annual opinion will be included in the Council's Annual Governance Statement which forms part of the Council's published annual Statement of Accounts.

6.3 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 Council's corporate governance framework
- The extent of compliance with relevant legislation
- The extent to which the organisation'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 organisation

6.4 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.

6.5 Other objectives include:

- Supporting the Section 151 Officer (Chief Finance Officer) in discharging his statutory duties for ensuring proper administration of the Council's financial affairs.
- Championing good governance by helping to improve the Council's risk management, control and governance processes by providing management with timely advice and guidance.
- Supporting the Audit Committee in fulfilling its governance responsibilities as detailed in the Committee's terms of reference set out in the Council'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 Council, through the development and effective implementation of the Council's Counter fraud and Corruption Strategy and Anti-Money Laundering policy.
- Providing quality services through the highest standards of professional practice, quality assurance systems and investment in staff.

## **7. Outcomes of Internal Audit**

- 7.1 Our main outcome is the provision of independent assurance to “those charged with governance”, which within Durham County Council is the Audit Committee, on the effectiveness or otherwise of the Council'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 Council's vision and priorities.
  - Improved corporate governance through helping to support compliance with relevant legislation, the Council's policies, plans and procedures.
  - Improved accountability, safeguarding of Council assets and interests and use of public resources
  - Improved quality and reliability of financial and other management information used to support informed decisions

## **8. Independence, Objectivity and Authority**

- 8.1 To be effective Internal Audit must operate independently and in an unbiased manner and have unrestricted access to all information deemed necessary in the course of its work.
- 8.2 The Head of Internal Audit has direct and unrestricted access to any employee or elected member including the Chief Executive, the Leader of the Council, Corporate Management Team and the Audit Committee.
- 8.3 For day to day operational activities the Head of Internal Audit reports to the Corporate Director of Resources but maintains independence by reporting in her/his own name on functionality of the audit service direct to the Audit Committee.

- 8.4 Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free and unrestricted access to all records, assets, elected members, personnel and premises, including those of partner organisations or external contractors conducting business on behalf of or in partnership with the Council, in order to obtain such information and explanations as it considers necessary to fulfil its responsibilities.
- 8.5 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.
- 8.6 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 activities audited.
- 8.7 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, within the previous 2 years.
- 8.8 As the Head of Internal Audit also has responsibility for corporate risk management strategy and policy and insurance services, arrangements will be made for any audit work to be carried out in these areas by an independent third party.

## **9. Scope of Audit Work**

- 9.1 Internal Audit's role applies to all functions and services for which the Council is responsible, including those delivered by its partners where appropriate.
- 9.2 In addition to the regular review of all key systems of internal control which forms the bulk of our assurance work, Internal Audit 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 (CRSA) as outlined within the Audit Approach Section of this Charter.
  - 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. Any significant advice and consultancy work that may be considered to impact on the independence of the Internal Audit Service will be reported to the Audit Committee for approval.
- Be alert in all its 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
- Review controls where a potential fraud has been detected/reported to provide assurance that the alleged fraudulent activity is unable to continue and to prevent a reoccurrence.
- Determine the most appropriate course of action by which fraud and irregularities should be investigated in accordance with the Council's Counter Fraud and Corruption Policy.

9.3 It must be noted that whilst Internal Audit will promote the Council's counter 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. Internal Audit cannot guarantee that fraud or corruption will be detected in its work. Managing the risk of fraud and corruption is the responsibility of service managers.

## **10. Strategic Audit Planning**

10.1 The level of internal audit resources required to examine all of the Council'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 conclusion and assurance on the effectiveness of the Council's risk management, control and governance arrangements.

10.2 Strategic planning processes aim to provide a reasonable level of independent review of the Council's risk management, control and governance systems through periodic audit plans in a way which affords suitable priority to the Council's objectives and risks.

10.3 The starting point for strategic planning is maintaining an understanding of the Council'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.



10.4 In consultation with service managers internal audit will

- Consider the Council's risk across two categories:
  - a. **Strategic Risks** - these are the business risks that may arise both internally and externally from the Council and should be included in Corporate and Service Strategic Risk Registers
  - b. **Operational 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 Council's strategic aims and objectives, on which assurance is required by those charged with governance (the Audit Universe)
- Review the Council'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 carry out risk assessments of each key service activity, and key systems that support the delivery of service objectives, to determine our priorities for reviewing operational risks.

10.5 Strategic risk registers will inform but not drive the internal planning process and internal audit 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.

10.6 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.

10.7 Internal audit will aim to review operational risks relating to key service activities and key systems within a 5 year rolling programme, 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. The timing of reviews will be agreed in consultation with management wherever possible.

## 11. Annual Audit Plans

- 11.1 Annual audit plans will be developed to provide a reasonable level of independent assurance on both strategic and operational risks to enable an annual opinion on the entire control environment to be given.
- 11.2 The preparation of the annual plan will also consider any strategic objectives of the service in relation to delivering any commitments under Service Level Agreements or undertaking certain reviews at particular frequencies to fulfil statutory requirements.
- 11.3 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 and proactive value added work and includes:
- Proactive, responsive and innovative solutions to problems and opportunities to help the organisation 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 assess 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.
- 11.4 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 Council's risk management arrangements 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 Committee for consideration.
- 11.5 Strategic and annual plans will be considered by the Corporate Management Team and approved and monitored by the Audit Committee.

## 12. Audit Approach

12.1 Internal Audit will adopt a risk based approach to all our assurance work as outlined below:

### **Strategic Risk**

12.2 Reviews of strategic risks will provide assurance that:

- Risk management processes, defined by the Council'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

### **Operational Risk**

12.3 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 Council'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, including
- Information governance (quality and integrity of financial and other management information and how it is used and communicated)

12.4 Internal Audit 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.

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

12.6 Internal Audit 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, identified key risks, potential impact and expected key controls.

- 12.7 The key contact is the person who is authorised by the head of service to agree resultant draft reports and the implementation of any proposed audit recommendations.
- 12.8 Terms of reference will confirm the scope of each review and the audit approach to be applied. The latter may vary due to the nature of the risk upon which assurance is required and the extent of reliance on other assurances sources.

## **13. Audit Reporting**

- 13.1 All audit assignments will be the subject of formal reports and all assurance reviews will include an audit opinion.
- 13.2 Our reporting structure is designed to ensure that final versions of reports are agreed with managers and are both accurate and practical.
- 13.3 Towards the end of an audit an exit meeting with the key contact will be arranged to share and discuss initial audit findings. If this is not practical, an informal draft report will be issued to the key contact which will set out initial findings.
- 13.4 The purpose of the exit meeting/informal draft stage is to give feedback and to eliminate any inaccuracies in audit findings so that these can be resolved before a formal draft report is issued.
- 13.5 Draft reports will ask the key contact to provide a management response to the recommendations made and agree target implementation dates and responsible officers.
- 13.6 To assist managers in their response, the importance of our findings/recommendations are categorised as High, Medium or Best Practice. Details of how the importance of audit findings is assessed leading to these recommendation rankings are given in Appendix A.
- 13.7 It is the responsibility of managers to address audit findings and implement audit recommendations or other agreed appropriate action, or accept the risk resulting from not taking action.
- 13.8 An overall assurance opinion will be provided on each audit review to help inform the overall opinion required to support the Council's Annual Governance Statement.
- 13.9 The determination of the audit assurance opinion is derived from the overall level of assurance on the effectiveness of controls operating in each specific area reviewed and is informed by the risk identified through recommendation rankings. Where a Limited assurance opinion is given the control framework in place is considered to be ineffective and requires improvement to maintain an acceptable level of control. Further details of how assurance opinions are derived are given in Appendix A.

- 13.10 Management responses to recommendations made in draft reports will be incorporated into audit reports that will then be reissued as finals. Copies of all final reports are shared with the Council's External Auditor on request.
- 13.11 The CRA will be updated with any further expected controls identified through the audit process and details of actual controls in place, and issued to key contacts as part of the reporting process. If controls are considered to be inadequate, recommended action to improve controls will also be entered to provide services managers with a form of operational risk register that, in the absence of a more formal approach to operational risk management, can then be used by service managers to regularly review identified risks and the control framework put in place to mitigate those risks, i.e. provide a basis for regular Control Risk Self-Assessment (CRSA). It is recommended that the CRSA is reviewed by service managers at least annually.
- 13.12 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.
- 13.13 Internal Audit will follow-up progress made by managers in responding to draft reports and on the implementation of all high and medium priority recommendations agreed in final reports.
- 13.14 Progress on the response to draft reports issued and the implementation of agreed recommendations will be reported to Audit Committee. Any significant recommendations overdue will be reported to Committee on an exception basis each quarter. In accordance with the Committee's request, where any significant recommendations remain overdue the following quarter the responsible manager will be asked to attend Audit Committee to provide an explanation for the delay.
- 13.15 Management is required to provide a response to draft reports issued with 20 working days. If a response has not been 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 relevant head of service, requesting a response within the next 10 days
  - If a response is still not forthcoming, a second reminder will be issued direct to the head of service, advising that if a response is not received within the next 5 days the matter will be reported to the relevant Corporate Director
  - All draft reports remaining outstanding at the end of each quarter will be reported to the Audit Committee.
- 13.16 Audit managers will report quarterly to Service Groupings Management Teams on progress made on delivering the agreed annual plan, unplanned work carried out and any proposed amendments to the plan, overdue responses to draft reports, any significant issues arising from audit work and progress made by managers in implementing audit recommendations.

- 13.17 To help focus attention on areas of significant risk, quarterly progress reports will include by exception details of all audits resulting in a limited assurance opinion.
- 13.18 Where a limited assurance opinion is given, it is the intention of Internal Audit to follow up the audit within 6 months of issue to verify that the recommendations have been made in line with the agreed actions. A revised assurance opinion will then be given.
- 13.19 In accordance with the PSIAS, to maintain organisational independence, Internal Audit will report on the functionality of the audit service to Audit Committee by:

**Reporting a draft annual risk based audit plan for approval**

**Presenting 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

**Presenting an Annual Audit Report to:**

- Compare actual activity with planned work and performance targets
- 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
- Demonstrate the extent of compliance with the PSIAS and the results of the Quality Assurance and Improvement Programme, including internal and any external assessments carried out.
- Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement.

## 14. Responsibilities of Managers

- 14.1 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.
- 14.2 Internal Audit will strive to build effective working relationships with all our stakeholders, internal and external, by encouraging an environment of mutual trust, confidence and understanding.
- 14.3 A key relationship is with managers. Managers at all levels need complete confidence in the integrity, independence and capability of internal audit.
- 14.4 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 employees are aware of the processes and procedures required to operate the control systems in place.
- 14.5 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.
- 14.6 Internal Audit will endeavour to plan its 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.
- 14.7 Managers are encouraged to maximise the effectiveness of the outcome of internal audit work by:
- Commenting on, and inputting to, strategic and annual audit plans.
  - Working with audit staff in the development of a control and risk assessment (CRA) for the service activity or system as part of the preparation and planning stage of each assurance review.
  - Agreeing terms of reference, informed by the CRA where applicable, 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 Council's property or resources.
- Pending investigation 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 Council's disciplinary procedures.

## **15. Relationship with the Audit Committee**

- 15.1 The Council has adopted best practice in implementing an Audit Committee. This committee is independent of both the Executive and Scrutiny function, and reports directly to the Council on matters it feels are relevant. Terms of Reference, reflecting best practice, have been agreed.
- 15.2 The existence of an independent and effective Audit Committee helps to convey to staff and the public the importance Members and Officers attach to risk management, corporate governance and internal control.
- 15.3 The Audit Committee is not just the concern of auditors as it has responsibility for ensuring that the Council has good corporate governance arrangements in place to help deliver the best services to support the Council's priorities, aims and objectives and ensure excellent use of resources.
- 15.4 Internal audit is one of a number of assurance providers that contribute to the Council's corporate assurance framework. It does this by providing an opinion on the level of assurance the Council 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 Council's risk management and corporate governance arrangements.
- 15.5 It is important that the Council seeks independent assurance about the mechanisms underpinning the various aspects of governance and one of the responsibilities of the Audit Committee is to review the functionality and effectiveness of Internal Audit.

## **16. Audit Resources, Skills and Service Quality**

- 16.1 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.



- 16.2 The service is required to operate in accordance with compliance with both the PSIAS and the LGAN. Policies and standard working practices have been put in place to ensure all audit staff understand and comply with the PSIAS/LGAN.
- 16.3 An important element of the PSIAS is the requirement to undertake regular quality assurance assessments and maintain a quality assurance and improvement programme.
- 16.4 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.
- 16.5 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 Corporate Management Team and the Audit Committee.
- 16.6 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 Corporate Management Team and the Audit Committee.
- 16.7 The service is provided by Durham County Council's in house internal audit team, supported in specialist areas as and when considered necessary by a third party partner. The staffing structure will, as far as possible, be comprised of a suitable mix of qualifications, experience and skills.
- 16.8 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. Any concerns that the Head of Internal Audit has regarding resources available to deliver the service in accordance with the PSIAS will be reported to the Corporate Director Resources and the Audit Committee.
- 16.9 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.
- 16.10 Internal Audit maintains its awareness of national and local issues through membership and subscription to professional bodies such as CIPFA's Technical Information Service, "TIS online", the Finance Advisory Network (FAN), and through liaison with external audit.

- 16.11 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.
- 16.12 A suite of performance indicators (PIs) 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. PIs and targets will be reviewed annually.
- 16.13 In accordance with the requirements of the Accounts and Audit Regulations 2011, an annual review of the effectiveness of the internal audit service is undertaken by the Audit Committee. This will be informed by a review of the service carried out by the Corporate Director Resources and from consideration of the Quality Assurance and Improvement Programme and any internal or external assessments required by the PSIAS. By reviewing the service the Audit Committee 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.
- 16.14 The outcome from the annual effectiveness review is reported to the Corporate Management Team and Audit Committee as part of the Annual Internal Audit Report.

## **17. Approval and Review**

- 17.1 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 Corporate Management Team and approved by the Audit Committee. Any amendments will be reported to the Audit Committee for approval. A copy of the Charter will be made available on the Council's intranet and website.

## 18. Key Contact

Head of Internal Audit

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## 19. Other Related Documents

Other related documents that should be read in conjunction with this Charter are:

- Public Sector Internal Audit Standards
- CIPFA's Local Government Application Note
- The Council's Risk Management Strategy
- The Council's Constitution – Financial Procedure Rules
- The Council's Constitution – Local Code of Corporate Governance
- The Council's Constitution – Codes of Conduct
- The Council's Counter Fraud and Corruption Strategy and Fraud Response Plan
- The Council's Confidential Reporting Code (Whistle Blowing Policy)

**Findings**

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

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

Likelihood	Assessment criteria
<b>Probable</b>	Highly likely that the event will occur (>50% chance of occurring)
<b>Possible</b>	Reasonable likelihood that the event will occur (10% - 50% chance of occurring)
<b>Unlikely</b>	The event is not expected to occur (<10% chance of occurring)

**Overall Finding Rating**

This grid is used to determine the overall finding rating.

<b>LIKELIHOOD</b>			
Probable	M	H	H
Possible	L	M	H
Unlikely	L	L	M
	Minor	Major	Critical
	<b>IMPACT</b>		

**Priority of our recommendations**

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

<b>High</b>	Action that is considered imperative to ensure that the service/system/process objectives are not exposed to <b>significant risk</b> from weaknesses in critical or key controls
<b>Medium</b>	Action is required to ensure that the service/system/process objectives are not exposed to <b>major risk</b> from weaknesses in controls
<b>Best Practice</b>	The issue merits attention and its implementation will enhance the control environment or promote value for money.

**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:

<b>Substantial Assurance</b>	Whilst there is a sound system of control, there are some weaknesses, which may put some of the system objectives at minor risk.
<b>Moderate Assurance</b>	Whilst there is basically a sound system of control, there are some weaknesses, which may put some of the system objectives at major risk.
<b>Limited Assurance</b>	There are weaknesses in key areas in the system of control, which put the system objectives at significant risk.

**PERFORMANCE INDICATORS**

**APPENDIX B**

<b>Efficiency</b>		
<b>Objective: To provide maximum assurance to inform the annual audit opinion</b>		
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>
Productive audit time achieved	% of planned productive time from original approved plan completed as at 31 <sup>st</sup> March.	90% (Monthly)
Timeliness of Draft Reports	% of draft reports issued within 20 working days of end of fieldwork/closure interview  Average time taken is also reported for information	90% (Monthly)
Timeliness of Final Reports	% of final reports issued within 10 working days of receipt of management response  Average time taken is also reported for information	95% (Monthly)
Quarterly Progress Reports	Quarterly progress reports issued to Corporate Directors within one month of end of period	100% (Quarterly)
<b>Quality</b>		
<b>Objective: To ensure that the service is effective and adding value</b>		
<b>KPI</b>	<b>Measure of Assessment</b>	<b>Target &amp; (Frequency of Measurement)</b>
Recommendations agreed	% of Recommendations made compared with recommendations accepted	95% (Monthly) 100%
Post Audit Customer Satisfaction Survey Feedback	% of customers scoring audit service good or above (4 out of 5) where 1 is poor and 5 is very good	100% (Quarterly) 100% Overall average score 4.50
Customers providing feedback Response	% of Customer returning satisfaction returns	70% (Quarterly) 60%

## 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	<b>Senior Management</b> and the <b>board</b> must approve the Internal Audit Charter	Corporate Management Team (CMT)	The Audit Committee
1110	Organisational Independence	<p>The Chief Audit Executive (CAE) must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The CAE must confirm the <b>board</b> at least annually the organisational independence if the Internal Audit activity.</p> <p>The CAE must report functionality to the <b>board</b>. The CAE must also establish effective communication with, and have free and unfettered access to the Chief Executive and the Chair of the Audit Committee.</p> <p>Functionality includes:</p> <ul style="list-style-type: none"> <li>• Approving the Internal Audit Charter</li> <li>• Approving the Risk Based Internal Audit Plan</li> <li>• *Approving the internal audit budget and resource plan</li> <li>• Receiving communications for the CAE on the internal audit activity’s performance relative to its plan and</li> </ul>		<p>The Audit Committee</p> <p>The Audit Committee with the exception of those functions marked with an* which are the responsibility of the Corporate Director Resources who has delegated authority from Council to maintain an effective internal service.</p>

**DEFINITIONS UNDER PSIAS**

**APPENDIX C**

		<p>other matters</p> <ul style="list-style-type: none"> <li>• *Approving decisions regarding the appointment and removal of the CAE</li> <li>• *Approving the remuneration of the CAE and</li> <li>• Making appropriate enquiries of management and the CAE to determine whether there are inappropriate enquires of management and CAE to determine whether there are inappropriate scope or resources limitations</li> </ul>		<p><b>Note</b></p> <p>The public sector interpretation with the PSIAS acknowledges that in the UK public sector the board would not generally approve the CAE’s remuneration.</p> <p><i>“The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the Chief Executive undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the Chair of the Audit Committee “</i></p>
1130. C2	Impairment to Independence or Objectivity	Approval must be sought from the <b>board</b> for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement		The Audit Committee
1312	Quality Assurance and Improvement Programme (QAIP)	<p>External Assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team form outside the organisation. The CAE must discuss with the <b>board</b>:</p> <ul style="list-style-type: none"> <li>• The form of external assessments</li> <li>• The qualifications and independence of the external assessor or assessment,</li> </ul>		The Audit Committee



**DEFINITIONS UNDER PSIAS**

**APPENDIX C**

		<p>including any potential conflict of interests</p> <p>NB The Public Sector requirement of this standard states,</p> <p><b>“The CAE 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”</b></p>		
1320	Reporting the results of QAIP	The CAE must communicate the results of the quality assurance and improvement programme to <b>senior management</b> and the <b>board</b> .	CMT	The Audit 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 <b>board</b> by the CAE. More significant deviations must be considered for inclusion in the annual governance statement		The Audit Committee
2020	Communications and Approval	<p>The CAE must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to <b>senior management</b> and the <b>board</b> for review and approval.</p> <p>Where the CAE 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 <b>board</b>.</p>	CMT	The Audit Committee

**DEFINITIONS UNDER PSIAS**

**APPENDIX C**

2060	Reporting to Senior Management and the Board	The CAE must report periodically to <b>senior management</b> and the <b>board</b> 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.	CMT	The Audit 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 <b>senior management</b> . If the CAE determines that the matter has not been resolved, the CAE must communicate the matter to the <b>board</b> .	CMT	The Audit Committee

**NB. The role of Chief Audit Executive referred to in the Standards is that undertaken by the Chief Internal Auditor and Corporate Fraud Manager as Durham County Council's Head of Internal Audit.**