INTERNAL AUDIT CHARTER

April 2016

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Introduction

1. The purpose of this Charter is to establish the terms of reference for the delivery of Internal Audit to the Central Durham Crematorium Joint Committee by Durham County Council Internal Audit & Risk Services. 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(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".

3. 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.

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)). CIPFA has defined proper administration in that is 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 resources 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

6. 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.

7. 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.

Definition

8. Internal Audit 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.

Code of Ethics

9. 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.

10. 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.

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

Strategic Aims

12. Our overall strategy is to support the Joint Crematorium 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 Joint Crematorium's internal control environment and acts as an agent for change by making recommendations for continual improvement.

13. The service aims to be flexible, pragmatic and to work in collaboration with management to suit organisation 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

14. 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.

15. 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.

16. 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.

17. 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 copy of the finalised audit report reflecting work carried out in accordance with the agreed Service Level Agreement (SLA) and the detailed terms of reference agreed with the Crematorium Superintendent
- Draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement
- Present a statement on conformance with the PSIAS and the results of a Quality Assurance and Improvement Programme (QAIP) required by the PSIAS.

Outcomes of Internal Audit

18. The main outcome of Internal Audit is the provision of independent assurance to "those charged with governance", which within the Joint Committee, is the Committee itself, on the effectiveness or otherwise of the Joint Committee'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 Joint Committee's policies, plans and procedures.
- Improved accountability, safeguarding of 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

19. 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.

20. The Head of Internal Audit has direct and unrestricted access to any employee or elected member.

21. For day to day operational activities the Head of Internal Audit reports to the Joint Committee's Treasurer but maintains independence by reporting in her/his own name on functionality of the audit service direct to the Joint Committee.

22. 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 Joint Committee, in order to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

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 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, within the previous 2 years.

26. 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.

Scope of Audit Work

27. Internal Audit's role applies to all functions and services for which the Joint Crematorium is responsible, including those delivered by its partners where appropriate.

28. 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.
- In consultation with appropriate officers, determine the most appropriate course of action by which fraud and irregularities should be investigated.

29. It must be noted that whilst Internal Audit will promote fraud awareness, 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.

Audit Planning

30. The level of internal audit resources required to deliver an annual audit opinion will be specified in a SLA to be agreed by the Joint Committee.

31. A risk based approach to annual audit planning and the agreement of detailed terms of reference will be applied to allow sufficient work to be undertaken each year to draw reasonable conclusion and assurance on the effectiveness of the whole of the Joint Committee's risk management, control and governance arrangements in a way which affords suitable priority to the Joint Committee's objectives and risks.

32. In consultation with management internal audit will

- Consider the Joint Committee's risk across two categories:

  a. **Strategic Risks** - these are the business risks that may arise both internally and externally from the Joint Committee which should be included in the Strategic Risk Register

  b. **Operational Risks** - these are the risks that arise directly from the core activities of delivering services which should be included in the Operational Risk Register

33. 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.

34. 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, will be subject to annual review. The timing of annual reviews will be agreed in consultation with management wherever possible.

35. 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 and incorporated into draft SLA's to be approved by the Joint Committee. Minimum assurance levels will be informed by the maturity of the Joint Committee's risk management arrangements and the reliance that can be placed on other assurance sources. Any concerns the Head of Internal 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 Joint Committee for consideration.

36. Draft SLA and annual audit plans will be considered by the senior management and approved and monitored by the Joint Committee.

Audit Approach

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

Strategic Risk

Reviews of strategic risks will provide assurance that:

- Risk management processes, defined by the Joint Committee'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

38. 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 Joint Committee'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)

39. 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.

40. 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 risks for each annual audit review in advance of the audit.

41. Internal Audit will agree the objectives and risks associated with each key system or service delivery area to be reviewed with the Bereavement Services Manager prior to the start of each annual 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 the Bereavement Services Manager to formally agree the scope of each review, identified keys risks, potential impact and expected key controls.

Audit Reporting

42. Each annual audit will be the subject of a formal report and will include an audit opinion.

43. Towards the end of an audit we will arrange an exit meeting with the Bereavement Services Manager 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. Draft reports will ask the Bereavement Services Manager to provide a management response to the recommendations made and agree target implementation dates and responsible officer.

44. To assist the Bereavement Services Manager in his 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.

45. It is the responsibility of management to address audit findings and implement audit recommendations or other agreed appropriate action, or accept the risk resulting from not taking action.

46. An overall assurance opinion will be provided on each annual audit review to help inform the overall opinion required to support the Joint Committee's Annual Governance Statement.

47. The determination of our audit assurance opinion is derived from the overall level of assurance, positive as well as negative, 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. These will be followed up within six months of issue. Further details of how assurance opinions are derived are given in Appendix A.

48. Management responses to recommendations made in the draft report will be incorporated into the audit report that will then be reissued as the final version. A copy of the final report will be shared with the Council's External Auditor on request.

49. 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 Bereavement Services Manager as part of the reporting process. If controls are considered to be inadequate, recommended action to improve controls will also be entered to provide management with the necessary information to update risk registers which can then be regularly reviewed.

50. Wherever possible the circulation of audit reports will be agreed at the outset and will have due regard to confidentially 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.

51. Internal Audit will follow–up progress made by management in responding to the draft report and on the implementation of all high and medium priority recommendations agreed. Any concerns on the lack of appropriate management action will be reported to the Joint Committee.

52. In accordance with the PSIAS, to maintain organisational independence, Internal Audit will report on the functionality of the audit service to the Joint Committee by:

- Presenting the proposed SLA and planned annual audit coverage for each year covered by the SLA:
- Presenting an Annual Audit Report and audit opinion detailing all work undertaken to formulate the annual opinion on the entire control environment, including reliance placed on work of other assurance bodies.
- The annual audit report will also 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, and will draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement.

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Audit Resources, Skills and Service Quality

53. 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.

54. 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.

55. An important element of the PSIAS is the requirement to undertake regular quality assurance assessments and maintain a quality assurance and improvement programme.

56. 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.

57. 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 senior management and the Joint Committee.

58. 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 senior management and the Joint Committee.

59. 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.

60. The Head of Internal Audit ensures internal audit resources are sufficient to meet its responsibilities and achieve its objectives. Resource requirements are reviewed annually. Any concerns that the Head of Internal Audit has regarding resources available to deliver the service in accordance with the SLA and PSIAS will be reported to the Chief Finance Officer and the Joint Committee.

61. Individual training needs are identified in accordance with the County 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 (CPD).

62. 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.

63. 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.

64. 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 County Council's 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.

65. The outcome from the annual effectiveness review is reported to the County's Corporate Management Team and Audit Committee as part of the Annual Internal Audit Report. The outcome of the annual effectiveness review and the QAIP will also be reported to senior management and the Joint Committee in accordance with the PSIAS.

Approval and Review

66. The Head of Internal Audit will annually review this Charter to ensure that it is kept up to date and fit for purpose. The Charter is endorsed by senior management and approved by the Joint Committee. Any amendments will be reported to Joint Committee for approval.

Key Contact

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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
    - Service Level Agreement for the Provision of Audit Services

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 (Significant disruption to service delivery)
	Critical monetary or financial statement impact (In excess of 5% of service income or expenditure budget)
	Critical breach in laws ands regulations that could result in significant fine and consequences (Intervention by regulatory body or failure to maintain existing status under inspection regime)
	Critical impact on the reputation of the Council (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 (Loss of life/serious injury to employees or the public)
Major	**A finding that could have a:**
	Major impact on operational performance (Disruption to service delivery)
	Major monetary or financial statement impact (1-5% of service income or expenditure budget)
	Major 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)
	Major impact on the reputation of the service within the Council and/or complaints from service users
Minor	**A finding that could have a:**
	Minor impact on operational performance (Very little or no disruption to service delivery)
	Minor monetary or financial statement impact (less than 1% of service income or expenditure budget)
	Minor breach in internal policies and procedures (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		

Priority of our recommendations

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

High	Action that is considered imperative to ensure that the service/system/process objectives are not exposed to **significant risk** from weaknesses in critical or key controls
Medium	Action is required to ensure that the service/system/process objectives are not exposed to **major risk** from weaknesses in controls
Best Practice	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:

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

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	Paul Darby Terry Collins	The Joint Committee
1110	Organisational Independence	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 **board** at least annually the organisational independence if the Internal Audit activity. The CAE must report functionality to the **board.** 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. Functionality includes: • Approving the Internal Audit Charter • Approving the Risk Based Internal Audit Plan • Approving the internal audit budget and resource plan		The Joint Committee The Joint Committee

		• Receiving communications from the CAE on the internal audit activity's performance relative to its plan and other matters • Approving decisions regarding the appointment and removal of the Internal Audit Service Provider • Making appropriate enquiries of management and the CAE to determine whether there are inappropriate enquiries of management and CAE to determine whether there are inappropriate scope or resources limitations		
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 Joint 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 form outside the organisation. The CAE must discuss with the **board:** • The form of external assessments • The qualifications and independence of the external assessor or assessment, including any potential conflict of interests NB The Public Sector requirement of this standard states, **"The CAE must agree the scope of external assessments with an appropriate sponsor e.g the Accounting /**		The Joint Committee

		Accountable Officer or Chair of the audit committee as well as with the external assessor or assessment team"		
1320	Reporting the results of QAIP	The CAE must communicate the results of the quality assurance and improvement programme to **senior management** and the **board.**	Paul Darby Terry Collins	The Joint 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 CAE. More significant deviations must be considered for inclusion in the annual governance statement		The Joint Committee
2020	Communications and Approval	The CAE must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to **senior management** and the **board** for review and approval. 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 **board**.	Paul Darby Terry Collins	The Joint Committee
2060	Reporting to Senior Management and the Board	The CAE 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.	Paul Darby Terry Collins	The Joint 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**.	Paul Darby Terry Collins	The Joint 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.