



Internal Audit Charter

June 2021

Internal Audit Charter

3.1 Purpose

Internal auditing is an independent, objective assurance and consulting activity designed to add value to improve the London Borough of Bromley's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit is a statutory requirement. The Accounts and Audit Regulations 2015 require the Council as a "relevant body" to maintain an "adequate and effective system of internal audit of their accounting records and control systems".

The Public Sector Internal Audit Standards (PSIAS) set down the scope, powers and responsibilities of internal audit functions and internal auditors and are mandatory. Internal Audit supports the Director of Finance in undertaking statutory responsibilities for the proper administration of the Council's financial affairs and for reporting unlawful actions under the Local Government Act 1972 Section 151. The Accounts and Audit Regulations (2015) specifically require the provision of an internal audit service.

3.2 Authority

Internal Audit, with strict accountability for confidentiality and the safeguarding of records and information, is authorised full unrestricted access to any and all of the organisation's records, physical properties, assets and personnel pertinent to carrying out any engagement. All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. The Head of Audit and Assurance will also have unrestricted access to the Chief Executive and the Chairman of the Audit Sub-Committee.

To enable the external auditors to discharge their responsibilities, Internal Audit will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised.

3.3 Responsibility

The Head of Audit and Assurance provides an annual opinion in the Annual Governance Statement to the Council and to the Section 151 Officer, through the Audit Sub-Committee, on the adequacy and the effectiveness of the internal control system for the whole Council. To achieve this, Internal Audit has the following objectives:

- ▶ Provision of an independent and objective audit service that effectively meets the Council's needs, adds value, improves controls and helps protect public resources,
- ▶ Assure management that the Council's business is being conducted in accordance with statutory requirement, internal regulations and procedures,
- ▶ To impact on the effectiveness of governance, risk management and internal control of the organisation,
- ▶ Provision of advice and support to management to enable an effective control environment to be maintained,
- ▶ To promote, in conjunction with the Royal Borough of Greenwich, an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud,
- ▶ To investigate, in conjunction with the Royal Borough of Greenwich, allegations of fraud, bribery and corruption,

- ▶ Co-ordinating the National Fraud Initiative (NFI) exercises for the Council,
- ▶ Liaising with and advising the Royal Borough of Greenwich about other proactive exercises to identify fraud,
- ▶ Advising on and carrying out, as required, the investigation of suspected irregularities and advising on the appropriate action to be taken,
- ▶ Provision of relevant training , fraud awareness, audit controls on key findings and risk management..

Sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal Audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance.

Counter fraud

The role of Internal Audit in relation to Counter Fraud is set out in the Anti-Fraud and Corruption Strategy. Internal Audit may assist or lead in the identification and investigation of suspected fraudulent activity in conjunction with its partnership with the Royal Borough of Greenwich Fraud Team. This may include referrals through the Council's Whistleblowing Policy (Raising Concerns), the National Fraud Initiative, or matters identified in the course of audit work. The outcomes of counter fraud work are communicated to the Audit Sub-Committee and senior management where appropriate. The Head of Audit & Assurance must be notified of all suspected or detected fraud, corruption or impropriety.

Risk management

Internal Audit is responsible for co-ordinating risk management work and developing the risk management approach with the Corporate Risk Management Group. These roles, together with authoring risk reports and providing advice, are legitimate roles for Internal Audit so long as safeguards are in place. The Chartered Institute of Internal Auditors' position paper on 'The role of internal audit in Enterprise-wide Risk Management' defines what is considered legitimate. These include:

- Ensuring that overall responsibility for risk management sits with the Corporate Leadership Team, Directors and the Audit Sub-Committee,
- A resource to provide risk management services is made available and reported in the audit plan, agreed by the Audit Sub-Committee,
- Internal Audit do not set the risk appetite for the Council, or take operational responsibility for risk actions and
- Any review or internal audit of the effectiveness of the risk management process will be undertaken independently. This enables independent assurance to be provided to the Audit Sub-Committee.

Insurance

The Head of Audit and Assurance has line management responsibility for the Insurance service. This is a separate service to the Internal Audit function. Any audit of Insurance will be audited independently and reported to the Director of Finance.

Advice and consultancy

Internal Audit resources may, occasionally, be better focussed on providing advice and consultancy reviews rather than assurance. Consultancy activities (eg guidance, advice and training) carried out are intended to improve governance, risk management and control processes and add value.

The impact of the Coronavirus Pandemic

It is important to note that the IASAB has developed guidance to support heads of internal audit and individual internal auditors in the UK public sector during the pandemic. It has the backing of all of the UK Relevant Internal Audit Standard Setters (RIASS). All internal auditors of any significantly affected by COVID-19 will be reassessing their work plans and staff priorities. For public sector internal auditors there is an additional responsibility. All staff in a public service body have a responsibility to work in the public interest. At a time of national crisis there is a need to act in the best interests of the health, safety and livelihoods of the public as well as supporting the operational needs of the organisation. The IASAB recognised that as a result very few internal auditors will be operating under 'business as usual' conditions and staff in many teams are likely to be taking on different roles to support their organisation and the public interest.

The guidance aims to reassure heads of internal audit and the audit committee that diversion from planned audit work will not automatically mean that they do not conform. The Mission of Internal Audit is 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.' In the current circumstances internal auditors will be fulfilling their Mission in different ways than usual. However, the critical point is that they should still fulfil that Mission. Ideally, this will provide enough assurance to support audit opinions, and for the Governance Statement, although it will certainly be appropriate to draw attention to the context within which this assurance was gained and potential limitations

Management responsibilities

Internal Audit requires the full co-operation of senior management if it is to be effective. In approval of this Charter, the Audit Sub-Committee and the Director of Finance require management to co-operate with Internal Audit in the delivery of their work. This includes, but is not limited to, agreeing the terms of reference for audit assignments, providing access to appropriate records, systems and personnel, responding to draft reports and implementing audit recommendations in line with agreed timescales.

Senior management will also update the Head of Audit and Assurance of significant proposed changes to systems, processes, organisation structures, newly identified significant risks and cases of suspected or detected fraud, impropriety or corruption.

Senior management will also ensure that Internal Audit has sufficient resources to fulfil the Annual Audit Plan agreed by the Audit Sub-Committee.

3.4 Due professional care

In carrying out our Internal Audit work we are bound by the requirements of:

- UK Public Sector Internal Audit Standards,
- Chartered Institute of Internal Audit's Code of Ethics and
- All Council policies and procedures,
- Bromley's Code of Corporate Governance,
- All relevant legislation,
- Seven Principles of Public Life (Nolan Principles),
- Bromley's Financial Regulations and Contract Procedure Rules.

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies.

3.5 Independence

Internal Audit is part of the Finance Department. The Head of Audit & Assurance reports on a day to day basis to the Director of Finance. However, he has free and unfettered access to the following:

- Chief Executive,
- Director of Finance,
- Monitoring Officer (who is the Director of Corporate Services),
- Chairman of the Audit Sub-Committee and
- Chief Officers

Internal Audit staff are required to make an annual declaration of interest to ensure that auditors' objectivity is not compromised in the event of any potential conflicts of interest.

3.6 Reporting

The Public Sector Internal Audit Standards require that the internal audit charter defines the terms 'board' and 'senior management' in relation to the work of internal audit. For the purposes of internal audit work, the 'board' refers to the Council's Audit Sub Committee which has delegated responsibility for overseeing the work of internal audit. Senior management is defined as the Chief Officer's Executive (COE). Membership includes the Chief Executive and his senior leadership team of Directors, and the Corporate Leadership Team (CLT).

The UK Public Sector Internal Audit Standards require the Head of Audit to report at the top of the organisation and this is done in the following ways:

- ▶ The Internal Audit Charter and any amendments to it are reported to the Audit Sub-Committee for formal approval annually,
- ▶ The annual Internal Audit Plan is compiled by the Head of Audit and Assurance taking account of the Council's risk framework and after input from Senior Management. It is then presented to the Audit Sub-Committee for formal approval. The Internal Audit Plan includes as budget resource requirements for the financial year,
- ▶ The Internal Audit budget is reported to Members and Full Council for approval annually as part of the overall Council budget,
- ▶ The adequacy, or otherwise, of the level of Internal Audit resources (as determined by the Head of Audit and Assurance) and the independence of Internal Audit will be reported annually to the Audit Sub-Committee,
- ▶ Performance against the Internal Audit Plan and any significant risk and control issues arising from audit work are reported to the Audit Sub-Committee periodically. Any significant deviation from the approved Internal Audit Plan will be communicated through this reporting process,
- ▶ Any significant unplanned activity not included in the Audit Plan and which might affect the level of assurance work undertaken will be reported to the Audit Sub-Committee,
- ▶ Any significant findings from Internal Audit's Quality Assurance and Improvement Programme will be reported to the Audit Sub-Committee.

Management will receive a timely written report at the conclusion of each Internal Audit engagement which:

- will have a short management summary,
- will detail any matters of significance that have arisen with priority one issues highlighted,

- will provide an opinion of the adequacy of controls reviewed with one of four assurance opinions given i.e. substantial, reasonable, limited or no assurance,
- will recommend practical ways in which system weaknesses can be addressed.

The distribution of reports will be set out within the terms of reference issued prior to an audit. In the event of major findings, these are reported to Chief Officers, the Chief Executive and Audit Sub-Committee.

3.7 External Auditors

Internal Audit will closely liaise with the external auditors to ensure maximum coverage, non duplication of audit coverage, sharing of information and the placement of reliance on Internal Audit work.