**MANSFIELD DISTRICT COUNCIL**

**INTERNAL AUDIT CHARTER**

1. **Introduction**

* 1. This Charter defines the Internal Audit’s Service’s role within Mansfield District Council. The Charter complies with the Public Sector Internal Audit Standards (PSIAS), The Chartered Institute of Public Finance and Accountancy’s (CIPFA) Local Government Application Note for the PSIAS, the Accounts and Audit Regulations 2015 and the Council’s Financial Regulations.
	2. The Council’s Corporate Assurance Manager will fulfil the role of the “Chief Audit Executive” as stated in the PSIAS with specific responsibilities for ensuring full compliance with the Charter, PSIAS and CIPFA’s Application Note
	3. The role of the “board” as stated in the PSIAS will be fulfilled by the Council’s Governance and Standards Committee unless specifically stated otherwise within the Charter
	4. The role of “senior management” as stated in the PSIAS will be fulfilled by the Council’s Corporate Leadership Team (CLT) unless specifically stated otherwise within the Charter
	5. The Corporate Assurance Manager will be responsible for ensuring full compliance with CIPFA’s statement on “The Role of the Head of Internal Audit”
	6. The Internal Audit Service will work closely with management to ensure that disruption to services as a result of the engagements carried out is minimised and that the audit process is open and transparent
	7. The Internal Audit Service will involve management at all stages of the audit process from planning to reporting to ensure that added value to the Council is maximised
	8. The Corporate Assurance Manager will be responsible for reviewing the Charter annually and for consulting with CLT prior to being approved by the Governance and Standards Committee
	9. The Corporate Assurance Manager will be responsible for detailing all the required policies and procedures of the Internal Audit Service in an electronic Audit Manual and for reviewing and revising it at least annually to ensure full compliance with the requirements of the PSIAS and the Local Government Application Note and this Charter

2. **Regulatory Basis for Internal Audit**

* 1. The requirement for an Internal Audit function is contained in Regulation 5 of the Accounts and Audit Regulations 2015, which requires the Council to:

“undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”

Proper practices have been stated by the Department of Communities and Local Government (DCLG) as requiring full compliance with both PSIAS and CIPFA’s Local Government Application Note.

2.2 The Regulations also add that the Council is required to:

“make available such documents and records as appear to that body to be necessary for the purposes of the audit and supply the body with such information and explanation as that body considers necessary for that purpose” and

“Ensure that, each financial year, a review of the effectiveness of the system of internal control is carried out and that an annual governance statement is prepared”.

2.3 Internal Audit also assists the Section 151 Officer (Head of Finance) and the Monitoring Officer (Head of Law and Governance) in discharging their delegated responsibilities under Section 151 of the Local Government Act 1972 and Section 5 of the Local Government and Housing Act 1989 respectively

3. **Definition of Internal Auditing**

3.1 “Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve a Council’s operations. It helps a Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

4. **The Mission of Internal Audit**

4.1 The Mission of Internal Audit is to enhance and protect Mansfield District Council’s organisational value by providing risk-based and objective assurance, advice and insight.

5. **Core Principles for the Professional Practice of Internal Auditing**

5.1 The Core Principles, taken as a whole, articulate internal audit effectiveness

5.2 For an internal audit service to be considered effective, all Principles should be present and be operating effectively. The Corporate Assurance Manager is responsible for ensuring that internal auditors, as well as the internal audit activity, demonstrate achievement of the Core Principles as stated below:

* Integrity
* Competence and due professional care
* Objectivity and freedom from undue influence (independence)
* Alignment with the strategies, objectives and risks of the organisation
* Adequate positioning and resourcing
* Quality and continuous improvement
* Effective communication
* Provision of risk-based assurance
* Insight, proactivity and future-focus
* Promotion of organisational improvement

6. **Code of Ethics**

6.1 All internal auditors will conform to the Chartered Institute of Internal Auditors (CIIA) Code of Ethics, which promotes an ethical, professional culture. It does not supersede or replace an internal auditor’s own professional body’s Code of Ethics or those of the Council as stated in its Corporate Values and Employee Code of Conduct

6.2 Internal auditors will also have regard to the Committee on Standards of Public Life’s *Seven Principles of Public Life*

6.3 The Corporate Assurance Manager will regularly remind the audit team of their professional and ethical responsibilities

6.4 All internal auditors will act with due professional care ensuring that they are fair and objective, free from any conflicts of interest and abide by professional ethical standards and guidelines as issued by relevant professional institutions

6.5 The requirements of the key ethical principles of Integrity, Objectivity, Confidentiality and Competence are detailed below:

 **Integrity**

 Principle

6.6 The integrity of internal auditors establishes trust and provides the basis for reliance on their judgement

 Rules of Conduct

6.7 Internal auditors will:

* perform their work with honesty, diligence and responsibility
* observe the law and make disclosures expected by law and the profession
* not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the Council
* respect and contribute to the legitimate and ethical objectives of the Council

**Objectivity**

Principle

6.8 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined

6.9 Internal auditors will make a balanced assessment of all relevant circumstances and will not be unduly influenced by their own interests or by others in forming judgements

 Rules of Conduct

 Internal auditors will:

* not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the Council
* not accept anything that may impair or be presumed to impair their professional judgement
* disclose all material facts know to them that, if not disclosed, may distort the reporting of activities under review

**Confidentiality**

Principle

6.10 Internal auditors will respect the value and ownership of information they receive and will not disclose information without appropriate authority unless there is a legal or professional obligation to do so

 Rules of Conduct

 Internal auditors will:

* be prudent in the use and protection of information acquired in the course of their duties
* not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Council

**Competency**

Principle

6.11 Internal auditors will apply the knowledge, skills and experience needed in the performance of internal auditing services

 Rules of Conduct

 Internal auditors will:

* engage only in those services for which they have the necessary knowledge, skills and experience
* perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing
* continually improve their proficiency and effectiveness and quality of their services

7. **Purpose, Authority and Responsibility**

 **Objectives**

7.1 The main objectives of the Internal Audit Service are:

* To review, appraise, advise and make recommendations to improve in respect of:
	+ - * The soundness, adequacy and effectiveness of the corporate assurance and internal control frameworks
			* The robustness of corporate governance arrangements, with particular emphasis upon risk management, performance management and value for money
* To maximise the added value it provides to the Council by an effective partnership with management to deliver an effective and efficient internal assurance framework and governance arrangements
* To produce a comprehensive anti-fraud framework, deliver a robust anti-fraud plan of anti-fraud testing and report on the effectiveness of the Council’s anti-fraud arrangements
* To contribute to and support the Law and Governance department in achieving its vision of creating an approachable, professional service that achieves excellence in governance and assurance
* To contribute to and support the Finance department in achieving its objective of ensuring the provision of and promoting the need for sound financial systems
* To be proactively involved in major new projects and initiatives to provide assurance that risks and opportunities are properly identified and mitigated / enabled
* To investigate all suspected frauds and irregularities other than housing benefit / council tax fraud. The DWP is now responsible for investigating benefit fraud cases
* To agree new systems for maintaining financial records or records of assets or significant changes to such systems
* To provide awareness training / briefings for both employees and members on corporate governance arrangements and the assurance framework as required
* To support the Governance and Standards Committee in effectively delivering its agreed work programme

7.2 The Corporate Assurance Manager also has the following specific assurance responsibilities:

* To lead on corporate risk and opportunity management
* To lead on the Council’s corporate assurance framework
* To have day to day responsibility for procurement across the Council in partnership with the external service provider
* To provide assurance in respect of compliance with the Council’s contract management guidance
* To lead on corporate counter fraud arrangements
* To act as the Council’s key contact for the National Fraud Initiative

7.3 Internal Audit will actively promote good practice identified either from carrying out reviews at the Council or by researching external reports or publications. It will also identify and ensure provision of opportunities for corporate learning by quarterly meetings with the Corporate Leadership Team (CLT) and through corporate governance improvement workshops as required

7.4 These objectives will be delivered through maintaining an excellent standard of service that meets the needs of the Council in delivering its objectives and also specifically supports the Statutory Officers and the Governance and Standards Committee in discharging their roles and responsibilities

 **Reporting Lines and Relationships**

7.5 Although the Internal Audit Service is responsible to the Head of Law and Governance, it is independent in its planning and operation and as such, as detailed in the Council’s Financial Regulations, has unrestricted coverage of the Council’s activities and related records and assets. In addition, Internal Audit, through the Corporate Assurance Manager, has unrestricted access to:

* The Chief Executive
* CLT
* Executive
* Governance and Standards Committee
* All authority employees

**Authority**

7.6 Internal auditors have the authority to:

* access Council premises or personnel at reasonable times
* access all assets, records, documents, correspondence and control systems
* receive any information and explanation considered necessary concerning any matter under consideration
* require any employee of the Council to account for cash, stocks, plant and equipment, vehicles or any other Council asset under his or her control
* access records belonging to third parties such as contractors, when required

8. **Independence and Objectivity**

8.1 Internal auditors must remain independent, therefore the Internal Audit Service is organised so that it is independent of the activities that it audits and does not have any operational responsibilities. It can therefore provide impartial and unbiased professional opinions and recommendations, with reports being issued in the name of the Corporate Assurance Manager

8.2 In order to enhance objectivity and independence, the Council has an agreement with Broxtowe and Erewash Borough Councils to provide independent reviews of the areas detailed in 7.2 above or similar areas at Broxtowe or Erewash as required

8.3 The status of the Corporate Assurance Manager is sufficient to allow the effective discussion of audit plans, findings and improvement plans with senior managers in the Council

8.4 The Corporate Assurance Manager meets on a regular basis with the Section 151 Officer and Monitoring Officer as the key officers with statutory responsibilities in relation to internal control and governance arrangements

8.5 The Corporate Assurance Manager meets with CLT at least quarterly to ensure that the Internal Audit Services is addressing the appropriate risk areas and to ensure that an excellent service is being delivered with areas for improvement being identified and addressed

8.6 Individual internal auditors are also required to declare any interest they have that could have an impact on their audit work and in addition are not allowed to assess specific operations for which they have had any responsibility within the previous year

8.7 The Corporate Assurance Manager will report annually to the Head of Law and Governance and the Governance and Standards Committee that independence and objectivity have been maintained. If this is not the case, disclosure will be made. This may be as a result of resource limitations, conflict of interest or restricted access to records

9. **Resource Management, Proficiency and Due Professional Care**

 **Resource Management**

9.1 For the Internal Audit team to fulfil their responsibilities, it must be appropriately resourced in terms of numbers, professional qualifications, skills and experience. Resources must be effectively deployed to achieve the approved risk based Audit Plan. The mix of available knowledge, skills and other competencies will be considered once the Audit Plan is drafted to ensure that they are sufficient to deliver it and this will be confirmed quarterly to the Head of Law and Governance and the Governance and Standards Committee prior to approval of the quarterly Audit Plan by the Governance and Standards Committee

9.2 If resources are considered by the Corporate Assurance Manager to be insufficient to deliver the Audit Plan then actions to address the deficiency in resources will be agreed with the Head of Law and Governance and approved by the Governance and Standards Committee

9.3 Where significant changes to the Audit Plan are required during the relevant quarter, approval will be required from either the Governance and Standards Committee or Chairman of the Governance and Standards Committee after consultation with the Head of Law and Governance

 **Proficiency**

9.4 The Corporate Assurance Manager must hold a professional qualification (CCAB or equivalent) and be suitably experienced as required by CIPFA’s statement on “The Role of the Head of Internal Audit”

9.5 Each job role within the Internal Audit structure has the required skills, competencies and qualifications specified within the approved job description and person specification

9.6 In line with the Council’s policy, each member of the Internal Audit Team will receive an annual personal development review which will assess them against the required skills and competencies for the job role

9.7 To safeguard independence, the Corporate Assurance Manager’s annual personal development review will include feedback from the Chief Executive and Chairman of the Governance and Standards Committee which will be considered as part of the review

9.8 Any identified individual training or development needs will be included in the annual service training plan and delivery of the agreed actions will be regularly monitored

9.9 The Corporate Assurance Manager is responsible for the recruitment of suitably qualified and skilled internal auditors in accordance with the Council’s human resources policies and procedures

9.10 The Internal Audit team are also required to maintain a record of their continual professional development in line with their professional body

 **Due Professional Care**

9.11 Internal auditors must exercise due professional care by considering the:

* extent of work needed to achieve the engagement’s objectives
* relative complexity, materiality or significance of matters to which assurance procedures are applied
* adequacy and effectiveness of governance, risk management and control processes
* probability of significant errors, fraud or non-compliance
* cost of assurance in relation to potential benefits

9.12 Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work

10. **Quality Assurance and Improvement Programme (QAIP)**

10.1 The Corporate Assurance Manager will develop and maintain a QAIP that covers all aspects of the internal audit activity and will communicate the results of this programme to the Head of Law and Governance and the Governance and Standards Committee in his annual opinion report

10.2 Instances of non-conformance will be reported to the Head of Law and Governance and the Governance and Standards Committee. Any significant deviations will be considered for inclusion in the Annual Governance Statement

10.3 The QAIP includes both internal and external assessments as detailed below:

 **Internal Assessment**

10.4 The Corporate Assurance Manager will undertake on going monitoring of the performance of the internal audit activity, including agreed performance targets, as detailed in the Audit Manual

10.5 The Head of Law and Governance will also periodically assess the quality of the internal audit activity

 **External Assessment**

10.6 An external assessment will be carried out at least once every five years by a qualified, independent assessor or assessment team from outside the Council

10.7 The Corporate Assurance Manager will agree the arrangements and scope of this assessment with the Head of Law and Governance, Governance and Standards Committee and the independent assessor

11. **Managing the Internal Audit Activity**

11.1 The Corporate Assurance Manager is accountable for effectively managing the Internal Audit Service to ensure that it adds value to the Council and its stakeholders. This is achieved when it provides objective and relevant assurance and contributes to the effectiveness and efficiency of governance, risk management and control processes

11.2 The Internal Audit Service is delivered on the basis of a quarterly Audit Plan which takes into account the fundamental need for the Corporate Assurance Manager to produce an annual internal audit opinion on the Council’s assurance framework.

11.3 The Audit Plan is consulted on with CLT prior to approval by the Governance and Standards Committee

11.4 The Plan is produced using the following supporting evidence:

* Internal Audit’s risk assessment module
* Assurance map of strategic risks
* External Audit’s Horizon Scanning report
* Benchmarking of other authorities Audit Plans

11.5 The Plan’s review areas are listed under the following key themes in respect of the purpose of the review and how it adds value to the Council with a description of the reason for each review being undertaken:

* Corporate Goals & Objectives
* Compliance with Internal / External Regulations
* Financial Resilience
* Integrity of Management Information
* Use of Resources
* Probity / Security of Assets

12 **Nature of Work**

12.1 The Internal Audit Service contributes to the improvement of governance, risk management, control processes and the corporate assurance framework using a systematic and disciplined approach as detailed below:

 **Governance**

12.2 The Internal Audit Service will assess and make appropriate recommendations for improving the Council’s governance arrangements in its accomplishment of the following objectives:

* promoting appropriate ethics and values within the Council
* ensuring effective performance management and accountability
* communicating risk and control information to appropriate areas of the Council
* co-ordinating the activities of and communicating information to the Governance and Standards Committee, external auditors and senior managers

12.3 The Internal Audit Service will assess whether the information technology governance of the Council supports the Council’s strategies and objectives

12.4 The Internal Audit Service will annually assess the effectiveness of the corporate assurance framework in delivering value for money and also consider when carrying out individual engagements the potential for improving the efficiency and effectiveness of existing governance arrangements including performance and value for money

 **Risk Management**

12.5 Determining whether risk management processes are effective is a judgement resulting from the internal auditor’s assessment that:

* significant risks are identified and effectively managed
* appropriate risk responses are selected that align risks with the Council’s risk appetite
* relevant risk information is captured and communicated in a timely manner across the Council, enabling employees, management and the Governance and Standards Committee to carry out their responsibilities

12.6 The Internal Audit Service will evaluate the potential for the occurrence of fraud and how the Council manages fraud risk

12.7 When assisting management in establishing or improving risk management, the Internal Audit Service will not actually manage any strategic risks

 **Control**

12.8 The Internal Audit Service will evaluate the adequacy, effectiveness and proportionality of controls in responding to the relevant level of risk within the Council’s governance, operations and information systems regarding the:

* achievement of the Council’s strategic objectives
* reliability and integrity of financial and operational information
* effectiveness and efficiency of operations and programmes
* safeguarding of assets
* compliance with laws, regulations, policies, procedures and contracts

12.9 Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluations of the Council’s control processes

13 **Engagement Planning**

13.1 An Assignment Control sheet and audit test programme, where appropriate, will be produced for each engagement, including the objectives, scope, key risks, performance measures, timing and resource allocation which will be approved by the appropriate senior manager in consultation with the relevant Head of Service.

13.2 In planning the engagement, internal auditors will consider:

* the objectives of the activity being reviewed and the means by which the activity controls its performance including any Key Performance Indicators (KPIs)
* the significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level
* the adequacy and effectiveness of the activity’s governance, risk management and control processes compared to a relevant framework or model
* the opportunities for making significant improvements to the activity’s governance, risk management and control processes

13.3 Internal auditors will establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations

13.4 The scope of the engagement will include consideration of relevant systems, personnel and physical properties, including those under the control of third parties

13.5 In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed objectives. If internal auditors develop reservations about the scope during the engagement, these reservations will be discussed with the client to determine whether to continue with the engagement

14 **Performing the Engagement**

14.1 Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement’s objectives. Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor

14.2 The Corporate Assurance Manager will ensure that access to engagement records is restricted

14.3 Engagement records will be retained for six years

14.4 Engagements will be supervised to ensure objectives are achieved, quality is assured and individual auditors are developed

15 **Communicating Results**

15.1 Internal auditors will communicate the results of engagements as detailed in the Audit Manual. Communications will include the engagement’s objectives and scope, findings from the tests carried out, as well as recommendations and implementation plans. All findings will be supported by sufficient, relevant, reliable and useful information

15.2 When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results

15.3 Communications must be accurate, objective, clear, concise, constructive, complete and timely

15.4 The Corporate Assurance Manager is responsible for communicating the final results to parties who can ensure that the results are considered and appropriate agreed action implemented within the prescribed timescales

15.5 If a final communication contains a significant error or omission, the Corporate Assurance Manager will communicate corrected information to all parties who received the original communication

15.6 Internal auditors may report that their engagements are “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing”, only if the results of QAIP support the statement

15.7 The Corporate Assurance Manager will deliver an annual internal audit opinion report to the Governance and Standards Committee which will conclude on the overall adequacy and effectiveness of the Council’s assurance framework in respect of governance, risk management and control and be included in the Council’s Annual Governance Statement

15.8 The annual internal audit opinion report will incorporate:

* the opinion
* a disclosure of any qualifications to the opinion
* a summary of the work that supports the opinion
* a statement on conformance with the PSIAS and the results of the QAIP
* progress against any improvement plans resulting from the QAIP
* a summary of the performance of the Internal Audit Service against its performance measures and targets

16 **Monitoring Progress**

16.1 When the Corporate Assurance Manager concludes that management has accepted a level of risk that may be unacceptable to the Council, the matter will be discussed with the Head of Law and Governance. If the Corporate Assurance Manager determines that the matter has not been resolved it will be communicated to the Governance and Standards Committee

16.2 The Corporate Assurance Manager will report progress in achieving implementation of the agreed actions relating to Internal Audit’s recommendations to CLT and the Governance and Standards Committee on a quarterly basis

17 **Fraud**

17.1 Whilst it is not a primary role of internal auditors to detect fraud, they do have a role in providing an independent assurance on the effectiveness of the processes put in place by management to manage the risk of fraud.

17.2 The Council’s Financial Regulations require the Corporate Assurance Manager to be informed of all suspected fraud related irregularities. The Corporate Assurance Manager is then responsible for informing the statutory officers

17.3 Internal Audit will carry out the following anti-fraud related activities:

* Investigate allegations of fraud other than benefit / council tax fraud
* Respond to relevant whistle-blowers allegations as required by the Head of Law and Governance
* Consider the potential for fraud in every engagement
* Make recommendations to improve processes and controls and mitigate risk
* Review fraud prevention controls and detection processes put in place by management