

## **Internal Audit Charter and Mandate**

### **Purpose of the Internal Audit Service**

The purpose of the Internal Audit Service is to strengthen East Cambridgeshire District Council's ability to create, protect and sustain value by providing the Full Council, Audit Committee, Corporate Management Team and management with independent, risk-based, and objective assurance, advice, insight and foresight.

The role of the Internal Audit Service includes:

- Supporting the delivery of the Council's strategic objectives by providing risk-based and objective assurance on the adequacy and effectiveness of governance, risk management and internal controls;
- Championing good practice in governance through assurance, advice and contributing to the Council's annual governance review; and
- Advising on governance, risk management and internal control arrangements, including for major projects, programmes and system changes.

East Cambridgeshire District Council's Internal Audit Service is provided by the Internal Audit service at North Northamptonshire Council under a delegation agreement. The Chief Internal Auditor is employed by North Northamptonshire Council and fulfils the role of Chief Audit Executive under the Global Internal Audit Standards.

The Internal Audit Service enhances East Cambridgeshire District Council's:

- Successful achievement of its objectives;
- Governance, risk management, and control processes;
- Decision-making and oversight;
- Reputation and credibility with its stakeholders; and
- Ability to serve the public interest.

East Cambridgeshire District Council's Internal Audit Service is most effective when:

- a) Internal auditing is performed by competent professionals in conformance with Internal Audit Standards, which are set in the public interest.
- b) The Internal Audit Service is independently positioned with direct accountability to the Corporate Management Team and Audit Committee.
- c) Internal auditors are free from undue influence and committed to making objective assessments.

## **Commitment to Adhering to the Global Internal Audit Standards in the UK Public Sector**

East Cambridgeshire District Council's Internal Audit Service will adhere to the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards. This will take into account:

- a) the CIPFA Application Note, which provides a framework for the practice of internal audit in the UK public sector when taken together with the Global Internal Audit Standards; and
- b) the CIPFA Code of Practice for the Governance of Internal Audit in UK Local Government, which complements the Global Internal Audit Standards from the perspective of the Head of Internal Audit.

Overall, this means that the Internal Audit Service will adhere to the "Global Internal Audit Standards in the UK Public Sector".

The Chief Internal Auditor will report periodically to the Corporate Management Team and the Audit Committee regarding the Internal Audit Service's conformance with the Standards, Application Note, and CIPFA Code, which will be assessed through a quality assurance and improvement programme.

### **Authority (Internal Audit Mandate)**

East Cambridgeshire District Council's Internal Audit Service mandate is found in two pieces of legislation:

- I. Section 151 of the Local Government Act 1972, requires that authorities '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 Council's Constitution Part 4 – Rules of Procedure state that the Director of Finance, as the Section 151 Officer, has this responsibility.

- II. The Accounts and Audit Regulations 2015 (Part 2: Internal Control, Section 5: Internal Audit) require that: a relevant authority must 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.

Any officer or member of a relevant body must, if required to do so for the purposes of internal audit –

- a) make available such documents and records; and

b) supply such information and explanations as are considered necessary by those conducting the internal audit.

In this regulation “documents and records” includes information recorded in an electronic form.

This is formalised in the Council’s Constitution (The Financial Regulations (Constitution Part 4 – Rules of Procedure)).

The Internal Audit Service’s authority is created by its direct reporting relationship to the Corporate Management Team and Audit Committee. Such authority allows for unrestricted access and is confirmed in the Council’s Constitution.

The Corporate Management Team and Audit Committee authorise the Internal Audit Service to:

- a) Have full and unrestricted access to all functions, data, records, information, physical property, and personnel that it considers necessary to fulfil its responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information;
- b) Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function’s objectives; and
- c) Obtain assistance from internal or external specialised services to complete internal audit services.

Internal Audit will be appropriately staffed in terms of numbers, qualification levels and experience. The Chief Internal Auditor will report on the adequacy of resources to the Chief Financial (s151) Officer and to the Audit Committee.

### **Independence, Organisational Position, and Reporting Relationships**

The Chief Internal Auditor will be positioned at a level that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the Internal Audit Service. The Chief Internal Auditor will report functionally to the Corporate Management Team and Audit Committee and administratively (for example, day-to-day operations) to the Director of Finance, as the Chief Financial (Section 151) Officer. This positioning provides the organisational authority and status to bring matters directly to senior management and escalate matters to the Corporate Management Team and Audit Committee, when necessary, without interference, and supports the internal auditors’ ability to maintain objectivity.

The Chief Internal Auditor will confirm to the Corporate Management Team and Audit Committee, at least annually, the organisational independence of the Internal Audit Service. If the governance structure does not support

organisational independence, the Chief Internal Auditor will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence.

The Chief Internal Auditor will disclose to the Corporate Management Team and Audit Committee any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the Internal Audit Service's effectiveness and ability to fulfil its mandate.

If requested to undertake any additional roles or responsibilities outside of Internal Auditing, the Chief Internal Auditor must highlight to the Audit Committee any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics. The Audit Committee must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity.

### **Audit Committee**

The role of the Audit Committee in relation to Internal Audit is:

- a) to oversee its independence, objectivity, performance, and professionalism;
- b) to support the effectiveness of the Internal Audit process; and
- c) to promote the effective use of Internal Audit within the assurance framework.

The Audit Committee's terms of reference, with regards to Internal Audit, state responsibility for:

- a) approving the internal audit charter and monitor the performance of Internal Audit;
- b) receiving reports on the progress against the annual internal audit plan;
- c) receiving reports outlining the action taken where the Chief Internal Auditor has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.;
- d) receiving the Internal Audit Annual Plan for the Council and Annual Internal Audit report, addressing key internal control issues as required;
- e) approving significant interim changes to the risk-based internal audit plan and resource requirements; and
- f) provide free and unfettered access to the Chair for the Chief Internal Auditor, including the opportunity for a private meeting with the Committee.

To establish, maintain, and ensure that East Cambridgeshire District Council's Internal Audit Service has sufficient authority to fulfil its duties, the Audit Committee will:

- a) Discuss with the Chief Internal Auditor and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and / or advisory) of the Internal Audit Service.
- b) Ensure the Chief Internal Auditor has unrestricted access to, communicates, and interacts directly with the Audit Committee, including in private meetings without senior management present.
- c) Discuss with the Chief Internal Auditor and senior management other topics that should be included in the Internal Audit Charter.
- d) Participate in discussions with the Chief Internal Auditor and senior management about the “essential conditions”<sup>1</sup>, described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- e) Approve the Internal Audit Service’s Charter, which includes the Internal Audit Mandate and the scope and types of internal audit services.
- f) Review the Internal Audit Charter periodically with the Chief Internal Auditor to consider changes affecting the Council, such as the employment of a new Chief Internal Auditor or changes in the type, severity, and interdependencies of risks to the Council.
- g) Approve the risk-based internal audit planning process and plan.
- h) Receive communications from the Chief Internal Auditor about the Internal Audit Service including its performance relative to its plan.
- i) Ensure a quality assurance and improvement programme has been established and review the results annually.
- j) Make appropriate inquiries of senior management and the Chief Internal Auditor to determine whether scope limitations are inappropriate.

In accordance with the Global Internal Audit Standards in the UK public sector – Application note, the following are adaptations to Global Internal Audit standard requirements:

- k) Provide view, where appropriate, on the internal audit function’s human resources administration and budgets and expense.
- l) Provide input, where requested, to senior management on the appointment and removal of the Chief Internal Auditor, ensuring adequate competencies and qualifications and conformance with the Global Internal Audit Standards; and
- m) Provide input, as required, to senior management on the Chief Internal Auditor’s performance.

The Audit Committee cannot direct the work of Internal Audit.

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<sup>1</sup> “essential conditions” relate to activities of senior management and the Audit Committee, under Domain 3 of the Global Internal Audit Standards, which are essential to the Internal Audit Service’s ability to fulfill its Purpose

## **Roles and Responsibilities of the Chief Internal Auditor**

### **Ethics and Professionalism**

The Chief Internal Auditor will ensure that internal auditors:

- a) Conform with the Global Internal Audit Standards in the UK Public Sector, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- b) Understand, respect, meet, and contribute to the legitimate and ethical expectations of the Council and be able to recognise conduct that is contrary to those expectations.
- c) Encourage and promote an ethics-based culture in the Council.
- d) Report on organisational behaviour that is inconsistent with the Council's ethical expectations, as described in applicable policies and procedures.

### **Objectivity**

The Chief Internal Auditor will ensure that the Internal Audit Section remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the Chief Internal Auditor determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgement on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgement, including:

- a) Assessing specific operations for which they had responsibility within the previous year.
- b) Performing operational duties for East Cambridgeshire District Council or its affiliates.
- c) Initiating or approving transactions external to the Internal Audit Service.
- d) Directing the activities of any Council employee that is not employed by the Internal Audit Service, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors will:

- a) Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the Chief Internal Auditor, the Audit Committee, management or others.
- b) Exhibit professional objectivity in gathering, evaluating, and communicating information.
- c) Make balanced assessments of all available and relevant facts and circumstances.
- d) Take necessary precautions to avoid conflicts of interest, bias and undue influence.

### **Managing the Internal Audit Service**

The Chief Internal Auditor holds a professional qualification (Chartered Institute of Public Finance & Accountancy) and is suitably experienced in internal audit and counter fraud work.

The Chief Internal Auditor has the responsibility to:

- a) Develop a risk-based internal audit planning process that considers the input of senior management and the Audit Committee. The Chief Internal Auditor will discuss the planning intentions with the Corporate Management Team and report these to the Audit Committee for review and approval.
- b) Communicate the impact of resource limitations on the internal audit plan to the Corporate Management Team and Audit Committee.
- c) Ensure the work carried out by the Internal Audit Service is relevant and responds to changes in the Council's risks, operations, programmes, systems, and controls.
- d) Communicate with the Corporate Management Team and Audit Committee throughout the year on the internal audit work being undertaken and upcoming planning intentions.
- e) Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards in the UK Public Sector, and other relevant laws and / or regulations.
- f) Follow up on engagement findings, confirm the implementation of agreed actions, and communicate the results of internal audit work to the Corporate Management Team and Audit Committee for each engagement, as appropriate.
- g) Ensure the Internal Audit Service collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards in the UK Public Sector and fulfil the Internal Audit Mandate.
- h) Identify and consider trends and emerging issues that could impact East Cambridgeshire District Council and communicate to the Corporate Management Team and Audit Committee, as appropriate.
- i) Consider emerging trends and successful practices in internal auditing.



- j) Establish and ensure adherence to methodologies designed to guide the Internal Audit Service.
- k) Ensure adherence to East Cambridgeshire District Council's relevant policies and procedures unless such policies and procedures conflict with the Internal Audit Charter or the Global Internal Audit Standards in the UK Public Sector. Any such conflicts will be resolved or documented and communicated to the Corporate Management Team and Audit Committee.
- l) Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the Chief Internal Auditor cannot achieve an appropriate level of coordination, the issue must be communicated to the Corporate Management Team and, if necessary, escalated to the Audit Committee.

The Chief Internal Auditor has no direct operational responsibility or authority over any of the activities that the Internal Audit Service reviews.

The Chief Internal Auditor must provide an annual assurance opinion to inform the Council's Annual Governance Statement. In doing so, the Chief Internal Auditor will seek to align the continuous development of successive internal audit plans with the provision of an annual opinion reflecting reliance on previous year's internal audit work, the changing risk environment and the Council's longer-term assurance needs.

### **Communication with the Corporate Management Team and Audit Committee**

The Chief Internal Auditor will report periodically to the Corporate Management Team and Audit Committee (as detailed below) regarding:

- a) The Internal Audit Service's Mandate (via annual paper to the Audit Committee).
- b) The internal audit planning process, including resources and budget (annual planning process paper to the Audit Committee).
- c) Internal Audit key performance indicators (in annual report of the Chief Internal Auditor and regular progress reports).
- d) Current and potential audit work (at each meeting of the Audit Committee via progress reports).
- e) Significant revisions to internal audit resources and budget (at each meeting of the Audit Committee via progress reports).
- f) Potential impairments to independence, including relevant disclosures as applicable (by exception, in progress papers to the Audit Committee, and annual report of the Chief Internal Auditor).
- g) Results from the quality assurance and improvement programme, which include the Internal Audit Service's conformance with the Global Internal Audit Standards in the UK Public Sector and action plans to address the Internal Audit Service's deficiencies and opportunities for improvement (in progress reports to the Audit Committee and annual report of the Chief Internal Auditor).



- h) Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Audit Committee that could interfere with the achievement of the Council's strategic objectives (in progress reports to the Audit Committee and annual report of the Chief Internal Auditor).
- i) Results of assurance and advisory services (in progress reports to the Audit Committee and annual report of the Chief Internal Auditor).
- j) Management's responses to a risk that the Internal Audit Service determines may be unacceptable, taking into account proportionality and the current climate (in progress reports to the Audit Committee and annual report of the Chief Internal Auditor).

### **Quality Assurance**

The Head of Internal Audit will develop, implement, and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the Internal Audit function. The programme will include external and internal assessments of the Internal Audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the Internal Audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The programme will also assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. If applicable, the assessment will include plans to address the Internal Audit function's deficiencies and opportunities for improvement.

Internal review of work standards will be undertaken through a system of managerial review involving the Chief Internal Auditor. This incorporates a review of all documentation and evidence, and the accuracy of the report.

Feedback is requested from managers following audit assignments to obtain their satisfaction with the internal audit service provided. The results of the feedback will be reported in the annual report of the Chief Internal Auditor.

A suite of performance indicators and targets is developed annually to monitor the quality of the service provided, the results of which are reported in the annual report of the Chief Internal Auditor and throughout the year in the progress reports to the Audit Committee.

Annually, the Head of Internal Audit will communicate with the Audit Committee and senior management about the Internal Audit function's QAIP, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments.

External Quality Assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council; qualifications must include at least one assessor holding an active Certified Internal Auditor credential.

## Scope and Types of Internal Audit Services

The scope of Internal Audit services covers the entire breadth of the organisation, including all of East Cambridgeshire District Council's activities, assets, and personnel. The scope of Internal Audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the Audit Committee and management on the adequacy and effectiveness of governance, risk management, and control processes for East Cambridgeshire District Council.

The nature and scope of advisory services may be agreed with the party requesting the service, provided the Internal Audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

This effectively means that Internal Audit has independent oversight of all the Council's operations, resources, services and processes and Internal Audit engagements may include evaluating whether:

- Risks relating to the achievement of East Cambridgeshire District Council's strategic objectives are appropriately identified and financial and other management controls manage the risks to achieve the Council's objectives.
- The actions of East Cambridgeshire District Council's officers, Corporate Management Team, employees, and contractors or other relevant parties comply with East Cambridgeshire District Council's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programmes are consistent with established goals and objectives.
- Operations and programmes are being conducted effectively, efficiently, and ethically.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact East Cambridgeshire District Council.
- The integrity of information and the means used to identify, measure, analyse, classify and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, protected adequately, accounted for and safeguarded from losses arising from:
  - Fraud and other offences
  - Waste, extravagance and inefficient administration, poor value for money and other causes.

The scope of Internal Audit work may also include:

- Reviewing the suitability and reliability of financial and other management data developed within the organisation.
- Reviewing awareness of risk and its control and providing advice to management on risk mitigation and internal control in financial or operational areas where new systems are being developed or where improvements are sought in the efficiency of existing systems.
- Raising awareness of fraud and corruption.
- Investigating allegations of fraud and corruption.
- Providing advice (consultancy) to Directorates for a variety of issues, such as project assurance, controls advisory requests, areas of concern and lessons learnt reviews.

Where the Chief Internal Auditor considers that the scope of audit work is being restricted, the Director of Finance and the Audit Committee will be advised.

Internal Audit is not relieved of its responsibilities in areas of the Council's business that are subject to review by others but will assess the extent to which it can rely upon the work of others and co-ordinate its audit planning with the plans of such review agencies.

The Chief Internal Auditor will provide an annual audit opinion as to the adequacy of the Council's governance arrangements, internal controls, and risk management processes. This will be used to support the Council's Annual Governance Statement.