

BARNSLEY M.B.C.

INTERNAL AUDIT SERVICES

INTERNAL AUDIT CHARTER

2017 / 2018

The Barnsley MBC Internal Audit Service also provides services to a broad range of external organisations. The term 'organisation' is therefore used in the Charter to cover all clients both individually and collectively. Unless specifically referred to all aspects of the Charter apply to all client organisations.

For the purposes of Internal Audit activity, the term 'board' refers to the appropriate Audit Committee. The term 'senior management' refers to the Chief Executive and most senior directors or equivalent e.g. the Chief Constable and Senior Leadership Group; the Chief Fire Officer and Executive Team; or the Chief Executive and Senior Management Team.

Other senior posts such as the statutory Section 151 Officer / Director of Finance / Chief Finance Officer are used synonymously.

The Public Sector Internal Audit Standards (PSIAS) refer to the officer responsible for the Internal Audit function as the Chief Audit Executive. This role is undertaken by the Head of Internal Audit (HoIA).

INTERNAL AUDIT CHARTER

1. Introduction

The Internal Audit function is a key component of an organisation's governance framework. As such it aims to provide a professional and high quality objective and independent management support function in order to influence and contribute to the achievement of strategic and operational objectives. A key component of this support is the development and maintenance of excellent client relationships and adopting an innovative and flexible approach to the delivery of the function.

This Charter provides the framework for the conduct of the Internal Audit function and is applicable to all client organisations. This Charter will be reviewed annually by the relevant Audit Committee, or their equivalent to ensure it remains relevant to the demands and responsibilities of the client service and supports the relevant organisation's corporate objectives.

Each client organisation is responsible for establishing and maintaining appropriate risk management processes, internal control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising whether effective and efficient arrangements exist. The annual HoIA opinion, which informs the annual governance statement, both emphasises and reflects upon the importance of this aspect of Internal Audit work. The response to Internal Audit activity should, where deemed necessary, lead to the strengthening of the control environment and therefore contribute to the achievement of the corporate objectives, improvement, support innovation and change and enhance public accountability and transparency.

Vital components of a successful internal audit service include effective working relationships, maintaining professional independence and objectivity and working in partnership with management to assist in ensuring that an effective organisation-wide control environment exists. The Internal Audit service embraces this approach by effective communication and regular contact with its clients in order to help the organisation achieve its objectives.

2. The Purpose of the Charter

The Public Sector Internal Audit Standards (PSIAS) are mandatory guidance and constitute principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance. An important element of these standards is the requirement to have a formal Charter.

The purpose of this Charter is to set out the purpose, authority and responsibility of the Internal Audit Service. In addition it also sets out the nature, objectives, outcomes and the scope of its activities within its client organisations. This therefore forms the basis of the terms of reference for the function.

3. Definition of Internal Audit

The PSIAS provides the following definition of Internal Audit:

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

This definition encourages a collaborative style of audit review which focuses on evaluating and improving the effectiveness of risk, control and governance and therefore goes significantly beyond basic compliance.

Allied to this definition are the 10 Core Principles for internal audit as defined in the International Standards for the Professional Practice of Internal Auditing (IPPF). These are:

- ✓ *Demonstrates integrity* – through adherence to the code of ethics for internal auditors
- ✓ *Demonstrates competence and due professional care* – having a comprehensive performance and professional development framework
- ✓ *Is objective and free from undue influence (independent)* – through its organisational position, access rights and the status of the HoIA
- ✓ *Aligns with the strategies, objectives and risks of the organisation* – adopting a risk-based approach to all work
- ✓ *Is appropriately positioned and adequately resourced* – through access to senior management and the audit committee and having an appropriate level of resources / budget
- ✓ *Demonstrates quality and continuous improvement* – meeting the requirements of the PSIAS in maintaining an appropriate quality assurance and improvement programme (QAIP)
- ✓ *Communicates effectively* – through appropriate liaison and reporting channels with senior management and audit committees
- ✓ *Provides risk-based assurance* – through a robust audit planning process and the consideration of risk and strategic and operational objectives
- ✓ *Is insightful, proactive and future-focussed* – through effective and proportionate deployment of resources for research, adopting a ‘single point of contact/subject matter expert’ approach and undertaking appropriate consultancy services
- ✓ *Promotes organisational improvement* – maximising the wider consultancy capacity of internal audit and ensuring a clear understanding of the operational and strategic context of each client organisation

How the Internal Audit service is structured, managed and operates aims to demonstrate how these core principles are met. The performance management

and accountability framework developed by the Service is how this will be demonstrated.

The IPPF has also provided a 'mission statement' for internal audit that sets out what it aspires to accomplish within an organisation through the definition and core principles. The mission is:

"To enhance and protect organisational value by providing risk-based and objective advice and insight"

4. Operational Context

The Barnsley Internal Audit Service operates within a challenging and diverse environment across a variety of client organisations to deliver the services each requires and to ensure it does so to high professional standards and demonstrating added value. The Service needs to be able to react and adapt to the rapid pace of change which is taking place both locally, regionally and nationally within each client organisation. Accordingly, the Charter includes the aspirations of the Internal Audit Service, which are to:

- further develop and enhance working relationships particularly where a client organisation is undergoing significant change to ensure that the service is aware of and understands its needs and objectives
- promote and support clients with regards to an increase in collaborative working
- understand its position with respect to the organisation's other sources of assurance and plan our work accordingly
- be seen as a catalyst and support for change at the heart of the organisation
- be the internal auditor of choice, delivering exceptional client service
- add value and assist the organisation in achieving its objectives
- be forward looking – knowing where the organisation wishes to be and being aware of the relevant national agenda and its impact
- be innovative, insightful and challenging
- help to shape the ethics and standards of the organisation, reducing bureaucracy whilst maintaining high standards of public accountability, transparency and governance
- ensure the right resources are available, recognising that the skills mix, capacity, specialisms, qualifications and experience requirements all change constantly
- ensure all staff are supported in undertaking relevant professional qualifications and continuous professional development to increase standards, efficiency and effectiveness
- share best practice with other internal auditors, clients and other professional services (e.g. financial services) and
- seek opportunities for joint working with other organisations' auditors.

5. Scope of Internal Audit

The scope of internal auditing encompasses the examination and evaluation of any aspect of an organisation's activities in order to assess the adequacy and effectiveness of the framework of governance, risk management, and internal control processes such that the HoIA can provide an annual opinion on the extent to which the organisation can rely on it.

6. Responsibilities and Objectives of Internal Audit

The responsibilities and objectives of Internal Audit are as follows:

- i. To be a valuable asset to the organisation by supporting senior management in meeting their corporate responsibilities.
- ii. To contribute to the assurances sought by those charged with governance in relation to the robustness and reliability of internal controls, risk management and governance to support the Annual Governance Statement (AGS).
- iii. To support the Statutory Chief Finance Officer in discharging their duties.
- iv. To review, appraise and report on the extent to which the assets and interests of the organisation are accounted for and safeguarded from loss and the suitability and reliability of financial and other management data and information.
- v. To support the requirement to seek efficiency including the arrangements for achieving value for money and effective change management.
- vi. To provide soundly based assurances to management on the adequacy and effectiveness of their internal control, risk and governance arrangements, with such assurances including information technology governance and ethical behaviour.
- vii. To assess the adequacy and effectiveness of the organisation's contracts, procurement, commissioning and associated governance arrangements.
- viii. To assess effectiveness of the corporate risk management process and make recommendations to improve and embed the process where required whilst ensuring that Internal Audit does not adopt management responsibilities for managing risks.
- ix. To evaluate the risk of fraud, bribery and corruption and the manner and effectiveness of how it is managed by the organisation. In addition, to reduce the incidence of fraud, loss and irregularity by publicising the findings of fraud investigations to act as a deterrent and provide a quality corporate fraud and irregularity prevention, detection and investigation service.
- x. To disseminate examples of best practice in the application of an effective control, risk and governance framework.
- xi. To provide an Internal Audit advisory service intended to add wider organisational value and improve the effectiveness and efficiency of governance, risk management and control processes.
- xii. To provide advice and an objective and supportive consulting service in respect of the development of new programmes and processes and / or significant changes to existing programmes and processes including the design of appropriate controls. This is usually achieved through

membership of Officer Groups, Governance and other Boards or working parties as well as direct contact with officers within services / functions / departments. Such advice and consultation work forms an increasingly important part of the audit plan.

- xiii. To prepare timely, concise and informative reports to management to facilitate the improvement of the control environment.
- xiv. To undertake Audit support activities in respect of assisting the Audit Committee (or equivalent) to discharge its responsibilities; monitoring the implementation of agreed recommendations; disseminating across the entity best practice and lessons learnt arising from its audit activities, and having oversight of the audit function.

7. Organisational Independence of Internal Audit

An independent approach and mindset is essential to the effectiveness of the Internal Audit function. To ensure this, Internal Audit will operate within a framework that allows:-

- Unrestricted access to the 'Chief Executive'; the 'Chief Finance Officer'; the Chair of the Audit Committee and Audit Committee Members; individual Senior Management Officers; employees and the responsible External Auditor.
- The HoIA reporting in his own name.
- Segregation from line operations.

The Internal Audit function has no sole or direct responsibility for developing or implementing procedures or systems and does not prepare records or engage in original line processing functions or activities.

Internal Auditors are generally not involved in undertaking non-audit activities and an Auditor will not be involved in the audit of any system or process for which they had previous operational responsibility for a period of two years. This principle will equally apply to any consultancy type assignments.

Audit responsibilities are periodically rotated to avoid over-familiarity and complacency but balanced to provide reasonable service continuity and resilience.

8. Code of Ethics

The IPPF advocates that internal auditors conform to a code of ethics to promote an ethical culture in the profession of internal auditing. This is an important concept given that the nature of internal auditing is one built on trust and respect under-pinning its independent and objective approach.

The four components of the Code of Ethics are:

Integrity:

In the conduct of audit work, Internal Audit staff will:

- i. Perform their work with honesty, diligence and responsibility;
- ii. Observe the law and make disclosures expected by the law and the profession;
- iii. Not knowingly be party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or the organisation;
- iv. Respect and contribute to the legitimate and ethical objectives of the organisation.

Objectivity:

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

In the conduct of audit work internal auditors shall:

- i. Not take part in any activity or relationship that may impair or be perceived to impair their unbiased assessment;
- ii. Not accept anything that may impair or be perceived to impair their professional judgement
- iii. Disclose all material facts known to them that if not disclosed may distort the reporting of activities under review

In addition, internal auditors will;

- iv. Declare any real or perceived interests on an annual basis. A prompt is included at the assignment planning phase of each audit;
- v. Comply with the Bribery Act 2010.

Confidentiality:

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

Internal Auditors are expected to display confidentiality by:

- i. Acting prudently when using information acquired in the course of their duties and protecting that information and;
- ii. Not using 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 organisation.

Competency:

Internal Auditors are expected to apply the knowledge, skills and experience needed in the performance of internal audit activities.

Internal auditors will demonstrate their competency by:

- i. Only engaging in services for which they have the necessary knowledge, skills and experience;
- ii. Performing internal audit services in accordance with the IPPF
- iii. Continually seeking to improve their proficiency, effectiveness and quality of their services

In addition, internal auditors will:

- iv. Be skilled in dealing with people at all levels and communicating audit, risk management and related issues effectively;
- v. Exercise due professional care in performing their duties and;
- vi. Conform with the PSIAS. NB: Any non-conformance with the PSIAS will be disclosed within the engagement results / output including the reasons for the non-conformance and the impact.

8. Accountability, Reporting Lines and Relationships of the Head of Internal Audit

Accountability:

In relation to organisations governed by public sector legislation, (e.g. the Accounts and Audit Regulations 2015, Regulation 5 and Police Reform and the Social Responsibility Act 2011), such organisations are responsible for maintaining an adequate and effective Internal Audit function. In practical terms this means that the HoIA is accountable to the 'Chief Executive' and Audit Committee.

Reporting Lines and Relationships:

Within Barnsley MBC as the direct employing organisation, the HoIA reports administratively to the Service Director – Finance and has strategic and operational responsibility for the Internal Audit function and fulfils the specific designated role of the HoIA for the Council.

This specific designated role and its responsibilities are replicated for each client organisation with the HoIA being responsible to a designated senior manager (usually the chief financial officer or chief executive) and accountable to the Audit Committee or other relevant executive body.

While audit plans are considered by a range of senior managers and the Audit Committees of each client organisation, the professional responsibility for Internal Audit coverage rests with the HoIA who may determine and change the Internal Audit Service's own priorities as appropriate. The HoIA has a functional reporting line to each client Audit Committee Chairman, the 'Chief Executive' and SMT Members, or equivalent.

The HoIA reports periodically to each Audit Committee. The reports provide information in respect of:

- i. Periodic reports detailing: the audits completed; an assurance opinion on the overall state of internal controls for that particular period along with any fundamental issues requiring management attention based on the work of internal audit; progress in implementing the audit work plan; the status of the implementation of agreed internal audit recommendations;
- ii. An annual opinion on the internal control, risk management and governance arrangements in each client organisation highlighting any fundamental issues requiring management attention based on the work of internal audit as reported within the periodic reports and;
- iii. An annual report summarising the outcome of the review of the effectiveness of the internal audit function which is required under the PSIAS.

Internal and External Audit activities will be coordinated to help ensure the adequacy of overall audit coverage and to minimise any duplication of effort. Periodic meetings and contact between Internal and External Audit will be held to discuss matters of mutual interest. External Audit will have full and free access to all Internal Audit plans, working papers and reports. Similarly the function will coordinate its activities with other regulatory / inspection bodies where relevant.

Where it is appropriate Internal Audit will liaise with other internal functions or inspectorates, to ensure work is co-ordinated, mutually beneficial and where applicable utilised for assurance purposes (e.g. HMIC).

It is important to stress the existence of Internal Audit does not diminish the responsibility of management to establish and maintain systems of internal control, effective risk management and governance arrangements to ensure that activities are conducted in a secure, efficient and well-ordered manner.

9. Arrangements for Anti Fraud, Corruption and Bribery

Arrangements for combatting fraud, bribery and corruption will be set out by management in each organisation's anti-fraud and corruption policies and other supporting guidance. The HoIA should be notified of all suspected or detected fraud, corruption, impropriety or other irregularity, in order to inform the annual Internal Audit opinion and the risk-based plan.

Internal Audit's role in respect of fraud-related work is as follows:

- i. In support of the organisation's anti-fraud, Whistleblowing, Money Laundering, bribery and corruption policies, Internal Audit prepares periodic guidance for managers and the Board;
- ii. To undertake proactive fraud detection work in high risk areas as defined by the fraud risk assessment and management process;
- iii. To co-ordinate Barnsley MBC's, SY Fire and Rescue Authority, SY Police, SY PCC and SY Pensions Authority response to the mandatory National Fraud Initiative (NFI) exercise;
- iv. To contribute to corporate counter fraud arrangements and;
- v. In certain circumstances and where discussed and agreed with management, Internal Audit (through the Corporate Anti-Fraud Team) assume a lead role in the investigation of alleged irregularities. Internal

Audit will provide guidance and support to management throughout the investigatory process. The balance of work between that undertaken by Internal Audit and management will be kept under review to ensure the most appropriate use of specialist resources. With this in mind it is anticipated that Internal Audit will spend increasingly less time undertaking routine investigations.

10. Consultancy Work

The definition of internal audit makes reference to it being a “*consulting activity*” and therefore such work needs to be carefully scoped and managed to ensure the core purpose and responsibilities of internal audit are not compromised.

The scoping of audit work will make it clear in what guise it will be performed, the methodology to be used and the format and nature of the reported outcomes.

Due regard of the requirements of the client will be considered to preserve and demonstrate internal audit objectivity and independence in any consultancy engagement.

This nature of work is however increasingly important and valued by clients and provides an additional way in which Internal Audit can provide and demonstrate wider value beyond basic controls assurance. Providing this support also clearly links to a number of the core principles about being insightful, forward-focussed, proactive, and being able to promote organisational improvement.

11. Authority of Internal Audit

In accordance with the PSIAS, the scope of Internal Audit allows that in fulfilment of audit responsibilities unrestricted coverage of all the organisation’s activities and unrestricted access to all functions, records, data, personnel, premises and assets of the organisation and its partner organisations, is granted in the course of audit work and as set out in relevant partnership agreements and contracts.

Internal Audit has the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

All records, documentation and information accessed in the course of undertaking internal audit activities are to be used solely for the conduct of these activities. The HoIA and staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

12. Appropriate Resourcing of Internal Audit

At least annually, the HoIA will submit to the 'Chief Executive' and the Audit Committee an Internal Audit plan for review and approval. The plan will consist of a work schedule and resource requirements for the next financial year. The plan will include the impact of any resource limitations and significant actual or planned changes.

The Internal Audit plan is developed utilising a risk-based methodology to determine the prioritisation of the audit work, including the input of senior management and the Audit Committee. Any material deviations from the approved Internal Audit plan will be communicated to the Audit Committee through periodic activity reports.

Should the HoIA have concerns regarding the resources of the Internal Audit function, he will raise these with the appropriate client Chief Executive and Chief Finance Officer. The inadequate resourcing of the internal audit function may result in the HoIA being unable to provide an annual opinion on a client's internal control, risk and governance environment.

The current establishment of the Internal Audit Service comprises 17 FTEs:

Head of Internal Audit and Corporate Anti-Fraud
 2 Audit Managers
 5 Principal Auditors
 6 Auditors / Senior Auditors

Principal Auditor – Corporate Anti-Fraud
 2 Corporate / Senior Corporate Anti-Fraud Officers

13. Client Organisations

The Internal Audit Service provides an internal audit function to the following clients. An approximate number of planned days allocated to each of these client organisations for 2017/18 are shown below.

Client Organisation	Approximate Allocation of Planned Days
Barnsley MBC (excluding Corporate Fraud Team)	Approx. 1,050
South Yorkshire Police	Approx. 700
South Yorkshire Fire and Rescue Authority	Approx. 250
South Yorkshire Pensions Authority	Approx. 250
Sheffield City Region Combined Authority	Approx. 120
South Yorkshire Passenger Transport Executive	Approx. 200
Barneslai Homes	Approx. 130
Corporate Anti-Fraud Team	Approx. 560

Other Bodies:

The Internal Audit service will seek to expand the service by exploring opportunities to tender for internal audit work where there is a clear benefit in terms of operational synergies, economies of scale, service continuity and staff development. Consideration will always be given to ensure continuity and quality of service to existing clients.

14. Internal Audit Strategy

Whilst not a specific requirement of the PSIAS the Internal Audit Service also prepares a Strategy. This strategy has previously been an over-arching one covering all client organisations. Due to the increasing differences between clients, their operational contexts, pressures, priorities and requirements from Internal Audit, a specific strategy document has been prepared for each client organisation.

The audit strategy documents reflect closely the audit planning process and the context of the annual operational audit plans.

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