



**BARNSLEY**

**Metropolitan Borough Council**

**INTERNAL AUDIT SERVICES**

**Internal Audit Charter**

**2018 – 2020**

## 1. Introduction

- 1.1 The Internal Audit function is a key component of an organisation's governance framework. As such, it aims to provide a quality objective and independent management support function in order to influence and contribute to the achievement of strategic objectives. An important part of this support is the development and maintenance of excellent client relationships and adopting an innovative and flexible approach to the delivery of the service. This Charter provides the framework for the management and delivery of the Internal Audit function and is applicable to all client organisations.
- 1.2 This Charter therefore defines the mission and core principles for Internal Audit, its authority and scope, purpose, responsibilities, position in the organisation, resources and standards, planning and reporting. This is consistent with and in compliance with the Public Sector Internal Audit Standards (PSIAS).
- 1.3 The PSIAS defines internal audit as:

*“... an independent, objective assurance and consulting function 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.”*

## 2. Mission and Core Principles

- 2.1 The PSIAS also provides a mission for the Internal Audit function that articulates what it aspires to accomplish within the Council and for its numerous external client organisations.
- 2.2 The mission for Internal Audit is:

*“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”*.

- 2.3 A set of core principles have also been defined through the PSIAS aimed at articulating internal audit effectiveness. The function aims to demonstrate these principles in all it does and across all the various organisations it serves. The core principles are :

- ✓ Demonstrates integrity
- ✓ Demonstrates competence and due professional care
- ✓ Is objective, free from undue influence and therefore demonstrates independent thought
- ✓ Aligns with the strategies, objectives and risks of the organisation
- ✓ Is appropriately positioned and adequately resources

- ✓ Demonstrates quality and strives for continuous improvement
- ✓ Communicates effectively
- ✓ Provides risk-based assurance
- ✓ Is insightful, proactive and future-focussed
- ✓ Promotes organisational improvement

2.4 The Barnsley Internal Audit Service operates within a challenging environment across all client organisations to deliver the services each requires and to ensure it does so providing 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. Accordingly, and in addition to the core principles in the PSIAS, the Charter has been extended to include even wider aspirations of the Internal Audit Service, which are to:

- ✓ Develop, maintain and enhance 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 regional and 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 auditor of choice, delivering exceptional client service
- ✓ add value and assist the organisation in achieving its strategic objectives
- ✓ be forward looking – knowing where the organisation wishes to be and being aware of the relevant national agenda and its impact
- ✓ be innovative and challenging
- ✓ help to shape the ethics and standards of the organisation, reducing bureaucracy whilst maintaining high standards of 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
- ✓ share best practice with other internal auditors, clients and other professional services
- ✓ seek opportunities for joint working with other organisations' auditors.

### **3. Authority and Scope of Internal Audit**

3.1 The requirement for an internal audit function is detailed within the Accounts and Audit Regulations which state that a relevant body 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 and guidance [PSIAS]”*.

- 3.2 In accordance with the PSIAS, the scope of Internal Audit allows that in fulfilment of audit responsibilities there will be 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, as deemed necessary in the course of audit work and as set out in relevant partnership agreements and contracts. Internal Audit has therefore the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.
- 3.3 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 Head of Internal Audit (HoIA) and staff are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.
- 3.4 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the governance, risk management, and internal control processes in an organisation as well as the quality of performance management in carrying out assigned responsibilities to achieve the objectives of the organisation.

#### **4. Purpose of Internal Audit**

- 4.1 Each client organisation is responsible for establishing and maintaining appropriate risk management processes, 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 lead to the strengthening of the control environment and therefore contribute to the achievement of the corporate objectives, improvement and support innovation and change.
- 4.2 This is achieved through internal audit providing a combination of assurance and consulting/advisory activities. Assurance work involves assessing how well the systems and processes are designed (adequacy) and how well they are working (application). Consulting and advisory activities are available and complimentary to assist management make improvements to systems and processes where necessary.

#### **5. Definitions**

- 5.1 As the Internal Audit function serves a variety of organisations and for the purpose of this Charter the following definitions apply:

The Board – generally the governance group charged with seeking independent assurance on the adequacy of the control, risk management and governance

framework, and the main oversight body for the delivery of the internal audit function. Such Boards are usually the group performing the role of audit committee.

Senior Management – generally those responsible for the leadership and direction of the organisation as a collective, incorporating the ‘chief executive’ role.

## **6. Responsibilities of Internal Audit and Senior Management**

6.1 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 assurances to 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 S151 Officer / Responsible Financial 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. Such assurances include 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 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 and the manner in which it is managed by the organisation. In addition, to reduce the incidence of fraud and irregularity by publicising the findings of fraud investigations to act as a deterrent and provide a quality 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 value and improve 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 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 better practice and lessons learnt arising from its audit activities, and having oversight of the audit function.

6.2 Under the PSIAS, the HoIA has a specific responsibility to lead and manage the Internal Audit function and have the necessary and unfettered access to senior management and audit committees.

6.3 Senior management also have responsibilities under this Charter in order to maximise the effectiveness and efficiency of the Internal Audit function. These are to:

- Engage fully and flexibly in the audit planning process, providing information and insight into high risk areas or areas of strategic focus
- Nominate and commit to lead officers for each internal audit assignment and a point of reference for the overall management of the internal audit service
- Engage in a timely manner with Internal Audit in the scoping of work and agreeing terms of reference, dealing with audit queries and discussing draft and final reports
- Provide evidence to Internal Audit (and the audit committee) of the implementation of audit recommendations

6.4 Arrangements will be made with each client organisation to monitor joint compliance with these responsibilities.

6.5 It should be noted that internal audit is not responsible for the operation of control functions within the Council (or other organisations); these responsibilities rest with senior management. Internal audit should not be regarded as a substitute for good management.

## **7. Position of Internal Audit in the Organisation(s)**

7.1 Within the Council the HoIA reports functionally to the Audit Committee and organisationally to the Service Director – Finance.

7.2 With regards to non-council client organisations the HoIA reports functionally to the respective audit committee / Board. Whilst the organisational relationship is different in the external client organisations, to fulfil professional responsibilities the HoIA will report to the respective Chief Finance Officer and/or Chief Executive.

7.3 Irrespective of the organisation, the HoIA has direct and unfettered access to the Chief Executive (or equivalent), Monitoring Officer (or equivalent) and Responsible Finance Officer. The HoIA also has access to the respective audit committees where this is deemed necessary in the discharging of professional responsibilities.

## **8. Internal Audit Resources / Skills / Competencies and Standards**

8.1 In accordance with PSIAS, the HoIA will be professionally qualified and suitably experienced in the leadership and management of an internal audit function. These requirements reflect the responsibilities of the HoIA in leading a professional discipline, demonstrating personal independence and objectivity and the need to liaise with senior management, members, other professionals.

8.2 It is the responsibility of the HoIA to establish and maintain an appropriately skilled and experienced team and to set a culture of continuous improvement for the function. Resources will be set aside in the operational budget for the purposes of staff development and general and professional training.

8.3 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(s). The plan will include the impact of any resource limitations and significant actual or planned changes.

8.4 The Standards element of the PSIAS highlights some key expected competencies. These are:

### 8.5 Independence:

8.5.1 An independent approach and mind-set 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 relevant senior officers; 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.

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

8.5.3 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.

8.5.4 Audit responsibilities are periodically rotated to avoid over-familiarity and complacency and also to provide for service continuity and resilience.

8.6 Objectivity:

8.6.1 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:

- Shall 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 organisation.
- Shall not accept anything that may impair or be presumed to impair their professional judgement.
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.
- declare any real or perceived interests on an annual basis. In addition, a prompt is included at the assignment planning phase of each audit;

8.7 Confidentiality:

8.7.1 Internal Auditors are expected to display confidentiality and:

- Shall be prudent in the use and protection of information acquired in the course of their duties.
- Shall 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 organisation.

8.8 Integrity:

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

- perform their work with honesty, diligence and responsibility.
- observe the law and make disclosures expected by the 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 organisation.
- respect and contribute to the legitimate and ethical objectives of the organisation.
- comply with relevant professional standards of conduct.
- respect and contribute to the legitimate and ethical objectives of the organisation.
- observe the Standards of Public Life's Seven Principles of Public Life.

## 8.9 Competency:

8.9.1 Internal Auditors are expected to be competent in their role by:

- engaging only in those services for which they have the necessary knowledge, skills and experience.
- performing internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- continually improving their proficiency and effectiveness and quality of their services.

8.9.2 The HoIA will maintain a Quality Assessment and Improvement Programme (QAIP) as required by the PSIAS and report this to each client audit committee on an annual basis.

## 9. **Access to Relevant Personnel and Information**

9.1 Each member of the Internal Audit Team will carry with them at all times an ID card that clearly shows their responsibilities and authority as auditors. In the fulfilment of their audit duties this entitles them to unrestricted access to all records, assets, personnel and premises belonging to each client organisation. In addition, internal auditors have the authority to obtain such information and explanations as is considered necessary to meet the requirements of the audit activity. Where necessary, such access will be granted on demand and not subject to prior notice.

## 10. **Scope of Internal Audit Activity**

10.1 The HoIA is responsible for producing an annual report to each client organisation's audit committee providing an opinion on the adequacy and effectiveness of the control, risk management and governance arrangements. Through careful annual audit planning and based on a programme of audit activities of sufficient breadth and depth covering the whole organisation, the HoIA is able to produce such an annual opinion.

10.2 The overall approach is determined by the HoIA and will take into account the level of assurance required, the significance of the objectives of the organisation, the degree of change within the organisation, the prevailing risk appetite and culture, and previous audit findings and recommendations.

10.3 To fulfil the scope of internal audit, the programme of audit activities is usually varied covering assurance work, advice, consultancy, anti-fraud work and irregularity investigations. The types of internal audit work are shown as annexe 1.

10.4 Increasingly, a major contribution to the HoIA's annual opinion is through advisory/consultancy type work where in a more proactive and timely basis input

can be given and assurance obtained regarding the adequacy and effectiveness of the activities of the organisation, e.g. through attendance at key management meetings, steering groups and project and programme boards. This work is also valuable for audit planning and generally ensuring a high level of awareness of the organisations direction, objective, pressures and performance.

## **11. Internal Audit Planning**

11.1 Setting an annual or periodic risk-based plan is the responsibility of the HoIA. The audit plan is determined through a process of information gathering, reflection, forward looking and above all consultation and engagement with senior management and the Board.

11.2 The following are the key issues in the development of the risk based audit plan:-

- An understanding of the organisation's vision and ambition, as articulated within the organisation's strategic plans and ensuring that audit coverage is directed and links to these areas of corporate importance.
- Identification of the significant (key) risks and issues arising from the above and understanding which areas of service delivery the significant risks impact upon.
- Internal Audit provides support to management and directs resources to areas where the Service can add value and support change and innovation.

11.3 The HoIA will advise senior management and the Board regarding the planned coverage and if/where this is potentially compromised due to limited resources.

11.4 Each year the HoIA will set out the planning process and key issues as part of senior management and Board engagement.

## **12. Reporting**

12.1 The key output from internal audit activity is a report, a written and formal product to show the outcome from the assignment.

### **12.2 Audit Assignment Reporting**

12.2.1 In reporting the outcome of individual audit assignments, the lead Internal Auditor will follow a proactive and consultative approach to engage management. The key principles of which are:-

- Advance discussion and agreement of the scope and objectives of audit assignments, and the timescales for the completion of the work along with the recipients of the audit report.
- Immediate reporting of any fundamental or critical issues arising during the course of audit work.

- Post audit meetings (with or without a draft report as required) to discuss the conclusion and outcome of audit work on a prioritised basis and to agree management actions and timescales.
- Any areas of disagreement which are not resolved by discussion are recorded in the action plan and the residual risk highlighted within the report.
- Providing management with the opportunity to give feedback on the conduct of the work and how valuable and effective they found the audit process and report.

12.2.2 The process for the communication of audit work is designed to conform with the PSIAS.

12.2.3 Final audit reports will normally include an overall assurance opinion on the adequacy and effectiveness of the system of risk management, controls and governance arrangements. The report will be issued on a timely basis and responses sought from senior management on the implementation of agreed recommendations. The non-receipt of a response will be followed up with the responsible manager, Executive Director and reported to the Audit Committee.

12.2.4 A process has been established with each organisation to ensure the agreed actions are implemented or that senior management have accepted the risk of not taking action. Internal Audit will in certain circumstances undertake specific further work to obtain direct evidence of management actions having been taken as planned. The implementation of audit recommendations is reported to each audit committee where senior management may be invited to explain and delays in taking action.

### 12.3 Reporting of Ad Hoc Advice and Development / Consultancy Work

12.3.1 Internal Audit undertakes a variety of tasks which do not always justify a formal audit report, e.g. responding to one-off queries, advice and consultancy type work given verbally at meetings e.g., projects and developments. Internal Audit does however ensure that details of advice given and recommendations made are recorded by the retention of memos / copy e-mails, or file notes and minutes of meetings. Such records are retained in respect of advice given which is likely to (or intended to) influence management decisions or effect changes in systems and processes. The result of this work is considered as part of the HoIA's overall assurance opinion.

12.3.2 Issues and risks arising would also be recorded within project and operational risk registers in order to be managed by project lead officers. Details of issues arising would not necessarily be reported separately to the Audit Committee. However, details of the engagement and work undertaken would be recorded within the respective Audit Committee Report and any material issues would be followed up in accordance with the standard reporting and monitoring process.

### 12.4 Reporting to the Audit Committee

12.4.1 Internal Audit reports as follows :-

- Details of audit plans, performance against plans and against key performance measures, and on significant control or compliance issues arising from audit work, longstanding recommendations and management responses, completed projects / advice, unplanned, cancelled or deferred audit work.
- To client Audit Committee's on its performance and on individual audit reports.
- Audit Committees provide a route for the escalation of a failure to respond to audit reports, or the non-implementation of agreed recommendations, with the potential for management to be called to answer to the Committee.
- The Audit Committee receives an annual report summarising the outcome of the review of the effectiveness of the internal audit function which is required under the PSIAS.

## 12.5 Annual Report of the Head of Internal Audit

12.5.1 The annual report to the Audit Committee includes the HoIA's opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control as determined from the programme of work undertaken. The following elements are incorporated into annual audit reports:-

- The HoIA's opinion on the overall effectiveness of the organisation's internal control, risk management and governance environment.
- Disclosure of any qualification to this opinion, together with the reason for the qualification.
- The disclosure of any impairments or restriction in scope of audit work.
- A summary of the audit work undertaken to provide this opinion, including any reliance placed on assurance work by other bodies.
- Details of any issues that the HoIA judges to be particularly relevant to the AGS.
- A comparison of work actually undertaken with the work originally planned and a summary of the performance of Internal Audit against its performance measures and criteria.
- A statement to confirm work has been completed independently and in accordance with the PSIAS.
- The results of the Quality Assurance Improvement Programme (QAIP).
- Any other issues that the HoIA judges is relevant to the preparation of the AGS.

## 13. **Quality Assurance**

13.1 Internal Audit is committed to provide a high quality service to all client organisations and encourages clients to give feedback. All matters relating to the quality of the function are captured within the Quality Assessment and Improvement Plan (QAIP) which is maintained by the HoIA and reported to each audit committee annually.

## 14. Contacts

The key contacts for the Internal Audit Service are:

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## Types of Internal Audit Work

<b>Advice</b>	To meet requests from management for information and guidance on matters of internal control, procedures, compliance with relevant policies etc.
<b>IT Audit</b>	Operational IT audit designed to assess and review the operating procedures supporting key IT policies, environmental controls and input into system developments and new systems.
<b>Information Governance</b>	<p>Work specifically looking at the adequacy and effectiveness of the management, use, control and security of information, compliance with the requirements of data protection legislation as well as internal policies and procedures.</p> <p>Support the Data Protection Officer in undertaking specific compliance reviews in relation to Data Protection legislation.</p>
<b>Regularity</b>	<p>Audit work designed to review and assess compliance with policies and procedures to ensure internal controls exist and are effective.</p> <p>Such work covers the functional areas of services and establishments.</p> <p>Important Internal Audit work to demonstrate presence at an operational level. Work supported by risk based and themed audit work.</p>
<b>Financial Systems</b>	<p>Work designed to assess and review the adequacy of the internal controls within the financial systems of the Organisation. Such work will take the form of either a walkthrough or full compliance audit on a cyclical basis.</p> <p>This work is also considered by External Audit as part of their work on the statutory opinion on the accounts.</p>
<b>Grant Claims</b>	Work necessary to independently verify grant claims as required by the awarding body.
<b>Management Audit (Incl. Corporate items)</b>	<p>Provision for work on corporate procedures and processes. Also incorporates work specifically for management on an advisory basis.</p> <p>These jobs also tend to be of a significant length in terms of Internal Audit days and elapsed time due to their detail and nature.</p>

<b>Anti-Fraud and Special Investigations</b>	<p>This work focuses on prevention, detection and investigations.</p> <p><i>Prevention</i> work focuses on developing good procedures, policies and guidance for managers and ensuring awareness so that appropriate controls are in place to avoid irregularities.</p> <p><i>Detection</i> work focuses on proactively examining the transactions of the organisation and other information to identify potential fraudulent activity.</p> <p><i>Investigations</i> work is largely in response to allegations of irregularity being brought to Internal Audit's attention. This work is often extremely sensitive and requires great care, tact, diplomacy and attention to detail. A report to management is most often the output from this work where audit findings are described along with recommendations regarding potential disciplinary action or referral to the Police, and guidance on improving controls to minimise the risk of such matters arising again.</p>
<b>Commissioning, Procurement and Contract Audit</b>	<p><i>Commissioning &amp; Procurement</i> - generally focussed on the policies, procedures and systems in place to identify, assess and deliver a requirement; including compliance with procurement regulations (EU requirements and/or Contract Procedure Rules, Commissioning and Procurement Strategies/Policies).</p> <p><i>Contract</i> - this work focuses on the controls within the organisation's contractual policies and procedures to ensure that individual contracts are entered into on a timely basis and that these protect the organisation's interests. In addition, that the contract management arrangements are robust, and payments made are appropriate.</p>
<b>Project Management</b>	<p>Work which evaluates the effectiveness of the application of project management principles in order to achieve given outcomes / deliverables.</p>
<b>Corporate Governance Assurance</b>	<p>Requirements under the Accounts and Audit Regulations mean that all client organisations have to prepare and publish a statement on the overall adequacy of their governance arrangements (annual governance statement).</p> <p>A key element to providing assurance to the organisation is the work of Internal Audit overall and particularly in the key areas of corporate governance, risk management, performance management and general policy and procedure compliance.</p>
<b>Audit Committee Support</b>	<p>Time is allocated to support the various audit committees. This work involves the provision of reports, guidance and training.</p>