



INTERNAL AUDIT CHARTER

An Internal Audit Charter is required by the Public Sector Internal Audit Standards

It acts as a service level agreement with the Council (through Audit Committee and Management) so that there is a clear understanding of the role, purpose of the Council's Internal Audit Service.

It provides MKCC a formal commitment to ensure the Internal Audit Service can deliver the statutory role as required by the Accounts and Audit Regulations.

Chief Internal Auditor

Chair of Audit Committee

Introduction

1.1. The Accounts and Audit Regulations specify that the Council:

‘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’

1.2. The Public Sector Internal Audit Standards (PSIAS, 1000) requires that:

‘The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter.’

1.3. The internal audit charter is a formal document that defines the Internal Audit services’ purpose, authority and responsibility. The charter establishes the position within the organisation, including the nature of the Chief Audit Executive’s¹ functional reporting relationship with the Audit Committee, authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

1.4. Approval of the Internal Audit Charter resides with the Audit Committee. In practice the Charter shall be reviewed and approved annually by the Chief Internal Auditor, Director of Finance and Resources and the Audit Committee on behalf of the Council.

2. Mission

2.1. Internal Audit will provide the public and the Council with confidence that MKCC operations are properly governed and controlled, risks are effectively managed and service delivery meets customer need. The ‘Mission’ for Internal Audit is therefore:

‘To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight’

2.2. To achieve that mission Internal Audit will perform its work in accordance with PSIAS which encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF): Definition of Internal Auditing, Code of Ethics, and International Standards for the Professional Practice of Internal Auditing.

¹ Chief Audit Executive is the term used within PSIAS for the professional Internal Audit officer. The Council’s Chief Internal Auditor fulfils that role.

3. Role and scope of work

- 3.1. Responsibility for effective internal control rests with the management / executive of MKCC. Senior Management and Heads of Service are responsible for ensuring that internal control arrangements are sufficient to address the risks facing their services and achieve approved objectives / policy.
- 3.2. 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.
- 3.3. Internal audit acts primarily to provide the Audit Committee with information necessary for it to fulfil its own responsibilities and duties. The Director of Finance and Resources in their role as S151 officer is to ensure the Council is compliant with the statutory requirements for internal audit as set out in the 1972 Local Government Act. Implicit in internal audit's role is that it supports management to fulfil its own risk, control and compliance responsibilities. The range of work performed by internal audit is set out in PSIAS and are not repeated here.
- 3.4. The following definitions apply throughout the Charter:
- Assurance Services – an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for MKCC. Egs include financial, performance, compliance, system security and due diligence.
 - Consulting Services – Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisations governance, risk management and control processes without the internal auditor assuming management responsibility. Egs include counsel, advice, facilitation and training.
 - The Council's Audit Committee– acts as the PSIAS defined Council's 'Board' in respect of audit committee responsibilities.
 - The Council's Chief Internal Auditor – is the PSIAS defined 'Chief Audit Executive'
 - The Council's Corporate Leadership Team is the PSIAS defined 'senior management'
- 3.5. Internal Audit will seek to provide a robust high quality audit service that delivers honest, evidenced assurance through
- assessing the adequacy and effectiveness of the system of risk management and internal controls operated within the organisation;

- reviewing and evaluating compliance with policies, plans, procedures, laws and regulations;
- assessing the reliability and integrity of information;
- reviewing the arrangements for safeguarding of assets

3.6. These will be achieved by

- Deploying its resources where there is most value aligned to the corporate objectives and priorities, whilst ensuring sufficient assurance to support the Annual Governance Statement.
- Being flexible and responsive to the needs of the Council, with an Annual Plan that is reviewed quarterly, enabling Audit resources to be redeployed as new risks emerge, with the agreement of senior management and Audit Committee.
- Being outward looking and forward focused with taking account of impact of national and local developments and of their potential impact on MKCC's governance, risk management and control arrangements.
- Balancing independent support and challenge and avoiding a tone which blames but being resolute in challenging for the wider benefit of MKCC and its clients.
- Identifying and sharing organisational issues and themes that are recognised and taken on by Audit Committee and working constructively with management to support new developments
- Strengthening the governance of MKCC through encouraging working towards best practice.

4. Independence and Objectivity

- 4.1. In accordance with PSIAS, the Chief Internal Auditor has full responsibility for the operation and delivery of the Internal Audit function including the production and execution of the audit plan and subsequent audit activities. The annual audit plan will be agreed in consultation with relevant officers, the senior management team and Audit Committee.
- 4.2. Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 4.3. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, 'approve' procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgment. Where auditors have previously been involved in any of these activities or consultancy work they will be prohibited from auditing

those areas for at least 2 years. Where appropriate, audits are rotated within the team to avoid over-familiarity and complacency.

- 4.4. Internal audit must be free from interference in determining the scope of internal auditing, performing work and communicating results. Should any interference take place, internal audit will disclose this to the Audit Committee to discuss the implications.
- 4.5. The Chief Internal Auditor will confirm to the Audit Committee at least annually, the organisational independence of the Internal Audit service.

5. Access

- 5.1. The Chief Internal Auditor has direct and unrestricted access to the Chief Executive, Director of Finance and Resources, External Audit and the Audit Committee at his/her discretion, including private meetings with the Chair of Audit Committee.
- 5.2. Internal Audit has unrestricted access to all MKCC and partner records and information whether manual or computerised systems, officers, cash, stores and other property, it considers necessary to fulfil its responsibilities. Internal Audit may enter MKCC property and has unrestricted access to all locations and officers without prior notice if necessary.

The Accounts and Audit Regulations state

‘Any officer or member of a relevant authority must, if required to do so for the purposes of the 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.

- 5.3. All MKCC contracts and partnerships shall contain similar provision for Internal Audit to access records pertaining to Council business held by contractors or partners.
- 5.4. The Audit Committee shall be informed of any restriction unduly placed on the scope of Internal Audit’s activities which in the opinion of the Chief Internal Auditor prevent the proper discharge of IA functions.

6. Reporting

- 6.1. The Audit Committee and Corporate Leadership Team (CLT) receive regular updates on audits completed, the assurance opinions and actions implemented. Weak and Limited opinion reports and key actions not implemented are discussed in more detail as appropriate with the CLT and the Audit Committee.

6.2. A written report providing an evidenced opinion will be prepared and issued to senior management, following the conclusion of each internal audit engagement, including follow up audits; unless in the opinion of the Chief Internal Auditor a written report is not necessary.

7. Responsibilities

7.1. Key responsibilities defined within PSIAS are set out below for information:

PSIAS: 2450 – “The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.”

Each year the Chief Internal Auditor will provide a publicly reported opinion on the effectiveness of governance, risk and control, which also informs the Annual Governance Statement. This will be supported by reliable and relevant evidence gathered through all work undertaken by Internal Audit during the year.

PSIAS: 2010 - “The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals.”

The Chief Internal Auditor has full responsibility for the operation and delivery of the Internal Audit function including the production and execution of the audit plan and subsequent audit activities. The annual audit plan will be agreed in consultation with relevant officers, the Audit Committee, and the senior management team.

PSIAS: 2000- “The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation”

In order to deliver the Annual Audit Plan at the required quality and professionalism the Chief Internal Auditor must ensure that the team has the required mix of skills and experience. The use of external experts e.g. IT auditors compared to employing or developing these expensive resources in house is constantly under review to ensure that the service delivers a high quality product at best value for money. Future recruitment will take into account the expertise and skills required to fill any gaps within the current service.

7.2. All necessary staff within the audit service hold a relevant professional qualification, part qualification or are actively studying towards a relevant qualification. All participate in continuing professional development, both in relation to specific audit skills e.g. contract audit, and softer skills e.g. communication skills

8. Planning

- 8.1. The annual audit plan for the coming year is developed from conversations with key stakeholders, the documented 'Audit Universe²', the review of key corporate documents and risk registers, and our understanding of the Council.
- 8.2. The Audit Plan considers the relevant Risk Register information and the Council's current Risk Registers. The Organisation has a clear framework and approach to risk management. Senior management risks assessed by the Council are a key focus of our planning for the year to ensure it meets the organisation's assurance needs and contributes to the achievement of their objectives. We will monitor those risk registers closely over the course of the year to ensure our plan remains agile and reacts to the rapidly changing landscape.
- 8.3. The IA service will use various sources of information and discussed priorities for internal audit with members of departmental management teams, individually or collectively at their management groups and continue to work closely with other assurance providers to ensure that duplication is minimised and a suitable breadth of assurance is obtained.

9. Quality

- 9.1. Internal Audit is subject to a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of internal audit activity. This consists of:
- ongoing performance monitoring;
 - an annual self-assessment of the service and its compliance with PSIAS;
 - an external assessment at least once every five years by a suitably qualified, independent assessor;
 - a programme of Continuous Professional Development (CPD) for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies;
 - the Chief Internal Auditor holding a professional qualification (current Chief Internal Auditor is a Fellow of the Association of Chartered Certified Accountants) and being suitably experienced

² The Audit Universe are those activities / services identified by Internal Audit's experience that may be delivered by the Council.