

Audit Committee Meeting	
Meeting Date	18 September 2019
Report Title	Internal Audit Charter
Cabinet Member	Cllr Roger Truelove, Cabinet Member for Finance & Leader of the Council
SMT Lead	Nick Vickers, Chief Financial Officer
Head of Service	Rich Clarke, Head of Audit Partnership
Lead Officer	Rich Clarke, Head of Audit Partnership
Key Decision	No
Classification	Open
Recommendation	1. Approve the Internal Audit Charter

1 Purpose of Report and Executive Summary

- 1.1 Public Sector Internal Audit Standards (the “Standards”) prescribe a Charter that sets out the purpose, authority and responsibility of the Council’s internal audit service. The Charter also affirms and accepts the professional standards governing the practice of internal audit at the Council.
- 1.2 This Committee approved a previous version of the Internal Audit Charter. The Council must review and update the Charter periodically to reflect changes in Standards and practice, most notably the 2017 update to Standards. The Charter attached for approval draws from a model document published by the Institute of Internal Audit (IIA), adapted for the Council’s circumstances and edited for clarity.

2 Background

- 2.1 An Audit Charter is prescribed by Public Sector Internal Audit Standards (Standard 1000) and is a foundational document setting out the size and scope of the service. A partial extract, describing the Standards requirement is below:

1000 Purpose, Authority and Responsibility

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

Public sector requirement

The internal audit charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

1000.A1

The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

1000.C1

The nature of consulting services must be defined in the internal audit charter.

2.2 Later this year the internal audit service will undergo an External Quality Assessment on conformance with the Standards. Ahead of that assessment provides a good opportunity to revisit the Charter and update it for changes to Standards and development of audit practice. We have also taken the opportunity to clarify and simplify the Charter.

2.3 Notable sections of the Charter include:

- Confirmation of adherence to the Standards and various other regulatory and professional guidance (paragraphs 3-5 of the Charter)
- Description of the Committee's role in support internal audit's independence and effectiveness (paragraphs 8-10 of the Charter)
- Confirmation of Mid Kent Audit's operational independence and details of how to identify and resolve conflicts of interest (paragraphs 12-19)
- The quality standards of internal audit and how these will be maintained (paragraphs 21-25)
- Responsibilities of the Head of Audit Partnership for the service (paragraphs 26-27)

3 Proposals

- 3.1 We recommend the Committee approves the attached Charter. This will ensure continued adherence to professional Standards and the Council holds a Charter which fully and accurately sets out the purpose, authority and responsibilities of internal audit at the Council.

4 Alternative Options

- 4.1 Having an internal audit charter is a duty set by the Accounts & Audit Regulations in their direction to adhere to the Standards.
- 4.2 The Council currently has a Charter that remains valid unless and until replaced. However the current draft has fallen behind developments in Standards – most notably the 2017 update – and also no longer accords to the practice of internal audit at the authority. For example, it does not clearly set out the required quality standards.

5 Consultation Undertaken or Proposed

- 5.1 The Charter has been shaped by continuing discussions with officers and Members and reflects the current position of internal audit within the Council.

6 Implications

Issue	Implications
Corporate Plan	Approving an up to date internal audit will help improve the Council's governance. Good governance will support achievement of the Council's priorities.
Financial, Resource and Property	The Charter describes current audit practice and so will be delivered with currently agreed resources.
Legal, Statutory and Procurement	Approving an Internal Audit Charter will contribute towards the Council's conformance with the Accounts & Audit Regulations 2015 in providing an internal audit service adhering to the Public Sector Internal Audit Standards.
Crime and Disorder	No direct material implications.
Environment and Sustainability	No direct material implications.
Health and Wellbeing	No direct material implications.

Issue	Implications
Risk Management and Health and Safety	No direct material implications.
Equality and Diversity	No direct material implications.
Privacy and Data Protection	No direct material implications.

7 Appendices

7.1 The following documents are to be published with this report and form part of the report:

- Appendix I: Internal Audit Charter (September 2019)

8 Background Papers

The Charter draws on various sources of external professional guidance and standards. These are hyperlinked within the document.