

## APPENDIX 1:

# **Cherwell District Council Internal Audit Charter**

## **Introduction**

The Public Sector Internal Audit Standards (PSIAS) came into force on 1 April 2013. (Updated 1 April 2017). These are the first Internal Audit standards to apply across the whole public sector. The PSIAS requires that an Internal Audit Charter is in place for each local authority.

The Standards form part of the wider mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) which includes the mission, core principles, definition of Internal Audit and Code of Ethics which define the way in which Internal Audit should be established and undertake its functions

This Charter sets out the purpose, authority and responsibility of Cherwell District Council's Internal Audit function, in accordance with the PSIAS and additional requirements for Local Government which are published via the Chartered Institute of Public Finance and Accountancy (CIPFA)

This Internal Audit Charter has been drawn up in line with the PSIAS requirements and replaces all previous Internal Audit Terms of Reference.

This Internal Audit Charter is subject to approval by the Accounts, Audit and Risk Committee of Cherwell District Council on an annual basis, in line with PSIAS requirements.

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## **Definition of Internal Audit**

Internal Audit has adopted the PSIAS definition of internal auditing as follows:

*"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisations 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".*

## ***Mission of Internal Audit***

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

## ***Core Principles***

To achieve Internal Audit's mission the following core principles for the professional practice of Internal Auditing are present and applied by Internal Audit:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of Cherwell District Council.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

## ***Code of Ethics***

The Internal Audit function for Cherwell District Council has adopted the PSIAS Code of Ethics:

### Integrity

- The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement

### Objectivity

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

### Confidentiality

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

### Competency

- Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Internal Audit will also have a regard to the Committee on Standards of Public Life's Seven Principles of Public Life as contained within Cherwell District Councils Constitution and Officer's Code of Conduct

- Selflessness
  - Integrity
  - Objectivity
  - Accountability
  - Openness
  - Honesty
  - Leadership
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## **Statutory Requirement**

Section 151 of the Local Government Act 1972 requires that authorities "make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs." In Cherwell District Council, that officer is the Assistant Director of Finance.

Specific requirements are detailed in the Accounts and Audit Regulations 2015, in that a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Any officer or member of a relevant body must, if the body requires:

- a. make available such documents and records as appear to that body to be necessary for the purposes of the audit; and
- b. supply the body with such information and explanation as that body considers necessary for that purpose.

In accordance with these regulations, internal audit staff should have access to any financial or non-financial records maintained by the council, or its partners in delivering council services, that are relevant to the audit activity being performed.

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## **Definition of the Chief Audit Executive (CAE)**

Chief Audit Executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. Within Cherwell District Council the Chief Internal Auditor is the designated 'Chief Audit Executive'

## **Definition of the Board**

The PSIAS lays out the role of a Board in relation to specific standards. In a local authority the role of the Board may be satisfied by an Audit Committee. In Cherwell District Council the Accounts, Audit and Risk Committee, for the purposes of the key duties laid out in the PSIAS, is the Board.

The key duties of the Board (Accounts, Audit and Risk Committee) as laid out in the PSIAS are as follows:

- Approve the Internal Audit charter
- Receive the risk based Internal Audit plan including the Internal Audit resource plan
- Receive communications from the Chief Internal Auditor on internal audit's performance relative to its plan and other matters
- Receive an annual confirmation from the Chief Internal Auditor with regard to the organisational independence of the internal audit activity
- Receive the results of the Quality Assurance and Improvement Programme from the Chief Internal Auditor.
- Make appropriate enquiries of the management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations.

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## **Definition of Senior Management**

The PSIAS anticipates the role of Senior Management includes the following:

- Input to the risk based Internal Audit plan
- Receive periodic reports from the Chief Internal Auditor on internal audit activity, that includes follow up reports
- Receive the results of the Quality Assurance and Improvement Programme from the Chief Internal Auditor

Within Cherwell District Council 'Senior Management' is defined as the Section 151 Officer (Assistant Director of Finance)

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## **Professionalism**

The Internal Audit function for Cherwell District Council will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Internal Audit function for Cherwell District Council maintains an Audit Procedures Manual which is consistent with PSIAS requirements. These procedures are applied for all audit engagements.

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## **Authority**

The Internal Audit function for Cherwell District Council, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to, and communicate and interact directly with, the Accounts, Audit and Risk Committee.

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## **Organisation**

The Chief Internal Auditor will report functionally to the Accounts, Audit and Risk Committee, for example approving the charter and internal audit plan, and administratively to the Assistant Director of Finance, such as approving the internal audit budget.

The Chief Internal Auditor will communicate and interact directly with the Accounts, Audit and Risk Committee, including in executive sessions and between meetings as appropriate.

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## **Independence and objectivity**

The internal audit function within Cherwell District Council will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited within Cherwell District Council. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal Audit will ensure through the planning and resourcing process that any potential conflicts of interest are recognised and addressed through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles and/or undertaken consulting activity and that responsibilities for audit assignments are rotated periodically within the internal audit team.

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 judgments. Internal auditors will disclose any impairment of independence or objectivity, in fact or appearance, to the appropriate parties.

The Chief Internal Auditor will confirm to the Accounts, Audit and Risk Committee, at least annually, the organisational independence of the internal audit activity.

The Chief Internal Auditor will disclose to the Accounts, Audit and Risk Committee any interference and related implications in determining the scope of internal auditing, performing work, and communicating results.

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## **Responsibility- Scope & Objectives**

Internal audit is an assurance service that provides an independent and objective opinion to the council on the entire control environment comprising risk management, performance, control and governance by evaluating the effectiveness in achieving the organisation's objectives. Internal Audit objectively examine, evaluate and report on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

Internal Audit is accountable to the Assistant Director of Finance (Section 151 Officer) for the terms of reference, scope and coverage of its audit activities. In addition there is a responsibility to those charged with corporate governance being the council (through the Accounts, Audit and Risk Committee) and the Head of Paid Service to give an annual opinion on the whole system of internal control and to support the Monitoring Officer in respect of matters of standards/ legality.

The council's external auditor relies on Internal Audit to undertake a continuous programme of audits of key corporate controls. Also, due priority needs to be given to the key strategic risks of the council including the requirements of the Section 151 Officer. Audit work is included to ensure an opinion can be given on the whole of the control environment. These priorities constitute most of the Annual Plan the balance being risks identified by Internal Audit. The Chief Internal Auditor collates an annual report on the effectiveness of the council's internal control environment.

Internal audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Accounts, Audit and Risk Committee or management, as appropriate.

Based on its activity, Internal audit is responsible for reporting significant risk exposures and control issues identified to the Accounts, Audit and Risk Committee and to Senior Management, including fraud risks, governance issues, and other matters needed or requested.

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## **Internal audit plan**

At least annually, the Chief Internal Auditor will submit to the Accounts, Audit and Risk Committee an internal audit plan for review and approval. The Chief Internal Auditor will communicate the impact of resource limitations and significant interim changes to senior management and the Accounts, Audit and Risk Committee.

The internal audit plan will be developed using a risk-based methodology, including input of senior management, including the Chief Executive, Assistant Director of Finance, Corporate Directors and Assistant Directors. It will be developed in accordance with the Internal Audit Charter and will link to the strategic objectives and priorities of Cherwell District Council. Prior to submission to the Accounts, Audit and Risk Committee for approval, the plan may be discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

The audit plan is dynamic in nature and will be reviewed and realigned on a regular basis to take account of new, emerging and changing risks and priorities. It will be based on a risk assessment that covers financial materiality and business risks as well as any suspected or detected fraud, corruption or impropriety that has come to the attention of the Chief Internal Auditor.

Internal Audit will consult with the Council's external auditor and with other relevant inspection/assurance and review bodies, as required, in order to co-ordinate effort, ensure adequate coverage and minimise any duplication.

As part of the planning process, the Chief Internal Auditor will identify other potential sources of assurance and will include in the risk-based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.

For each audit assignment, Internal Auditors will develop and document a plan including the objectives of the review, the scope, and timing and resource allocations. In planning the assignment, auditors will consider, in conjunction with the auditees, the objectives of the activity being reviewed, significant risks to the activity and the adequacy and effectiveness of the activity's governance, risk management and control processes.

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## **Reporting and monitoring**

A written report will be prepared and issued by the Chief Internal Auditor or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Accounts, Audit and Risk Committee. The internal audit report will include an opinion on the adequacy of controls in the area that has been audited.

The draft report will be discussed with the auditees and management actions agreed for the weaknesses identified, along with timescales for implementation. The final report will be issued to the relevant Assistant Director, Assistant Director of Finance and other officers in line with directorate protocols.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and monitoring and reporting on the implementation of management actions.

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## **Arrangements for appropriate resourcing**

Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the standards. All Internal Auditors will hold a professional qualification or be training towards a professional qualification.

In the event that the risk assessment, carried out to prepare the annual plan, identifies a need for more audit work than there are resources available, the Chief Internal Auditor will identify the shortfall and advise the Assistant Director of Finance followed by the Accounts, Audit and Risk Committee as required to assess the associated risks or to recommend additional resources are identified.

The audit plan will remain flexible to address unplanned work including responding to specific control issues highlighted by senior management during the year.

Internal audit work is prioritised according to risk, through the judgement of the Chief Internal Auditor, informed by the Council's risk registers and in consultation with senior management and External Audit.

All internal auditors have a personal responsibility to undertake a programme of continuing professional development (CPD) to maintain and develop their competence. This is fulfilled through the requirements set by professional bodies and through the Council's appraisal and development programme.

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## **Fraud and Corruption**

In administering its responsibilities, the Council has a duty to prevent fraud and corruption, whether it is attempted by someone outside or within the Council such as another organisation, a resident, an employee or Councillor. The Council is committed to an effective Anti-Fraud and Corruption culture, Internal Audit fully considers the risk of fraud and corruption when undertaking its activities by promoting high ethical standards and encouraging the prevention and detection of fraudulent activities.



The Council's Anti-Fraud and Corruption Strategy sets out responsibilities in this area.

Internal Audit – Counter Fraud Team within Cherwell District Council is responsible for developing and implementing the Anti-Fraud and Corruption Strategy and monitoring the investigation of any reported issues. To ensure that all suspected or reported irregularities are dealt with promptly and in accordance with this strategy and that action is identified to improve controls and reduce the risk of recurrence. Internal Audit - Counter Fraud Team maintains the fraud log for Cherwell District Council. Internal Audit – Counter Fraud Team undertakes investigations into potential financial irregularities. In some circumstances this may be delegated to the service itself following an assessment of risk and financial impact.

Internal Audit – Counter Fraud Team also facilitates Cherwell District Council's participation in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potentially fraudulent activity.

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## Definition of Assurance Services

The PSIAS defines assurance services as follows: *"An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation."*

Internal Audit provide this assurance across all parts of the Council reviewing the Council's "control environment" comprising risk management, control and governance, this enables the Chief Internal Auditor to provide an annual opinion on the effectiveness of these arrangements. This opinion supports the Council's Annual Governance Statement.

## Definition of Consulting Services

The PSIAS defines consulting services as follows: *"Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training."*

The PSIAS requires that approval must be sought from the Accounts, Audit and Risk Committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

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## Quality assurance and improvement programme

The internal audit activity will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity and evaluates the activity's conformance with the Standards and application of the Code of Ethics. As such, the programme assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Chief Internal Auditor will communicate to senior management and the Accounts, Audit and Risk Committee on the internal audit activity's quality assurance and improvement programme, including results of ongoing monitoring at least annually, internal assessments upon completion and external assessments conducted at least every five years. Disclosure will include:

- The scope and frequency of both internal and external assessments.
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- Conclusions of assessors.
- Corrective action plans.

The results of the quality assurance and improvement programme and progress against any improvement plans must also be included in the annual report.

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### Signed by:

Sarah Cox, Chief Internal Auditor  
Michael Furness, Assistant Director of Finance  
Councillor Donna Ford, Chair of the Accounts, Audit and Risk Committee

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