

*Cherwell District
Council*

Internal Audit Charter

June 2013

Cherwell District Council

Internal Audit Charter

Table of Contents

<i>1. Mission</i>	3
<i>2. Scope of work</i>	3
<i>3. Authority of Internal Audit</i>	4
<i>4. Responsibility</i>	4
<i>5. Reporting lines</i>	5
<i>6. Independence and objectivity</i>	5
<i>7. Accountability</i>	6
<i>8. Management responsibilities</i>	6
<i>9. Advisory work</i>	6
<i>10. Relationships</i>	7
<i>11. Standards of Internal Audit Practice</i>	7
<i>Appendix 1</i>	10
<i>Appendix 2</i>	12



Internal Audit Charter

1. Mission

The Internal Audit (“IA”) function’s main purpose is to provide independent, objective assurance and advisory services designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The function provides independent and objective evaluation of, and opinion on, the overall adequacy and effectiveness of the framework of governance, risk management and control in Cherwell District Council (“CDC” or “the Council”) in an economical, efficient and timely manner.

This includes identification of risks and assessment of their management, and implementation of changes to strengthen the governance framework. The Chief Audit Executive’s (“CAE”) opinion is a key element of the framework of assurance that the Director of Resources needs to inform the completion of the Annual Governance Statement.

(Throughout this Charter, references to the Director of Resources may be delegated to the Head of Finance and Procurement)

The purpose of this Charter is to:

- provide the Internal Audit function within CDC with the authority it needs to fulfil its role and purpose in providing an independent evaluation and assurance opinion; and
- sets out the working relationship that should exist between CDC’s IA function and other stakeholders.

Where appropriate, IA may act in a consultancy capacity by providing guidance and advice for strengthening the control environment within CDC, as well as facilitating workshops relating to governance, risk management and internal control. When performing consulting services, the auditor must maintain objectivity and not take on management responsibility.

2. Scope of work

The scope of work of internal audit is to determine whether the Council’s network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed;
- Interaction with the various governance groups occurs as needed;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Employees’ actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the Council’s control process;
- Significant legislative or regulatory issues impacting the Council are recognised and addressed appropriately, and
- Opportunities for improving management control, profitability and the Council’s image may be identified during audits. They will be communicated to the appropriate level of management.

Our scope of work may include audit activity both within CDC and on functions that CDC has delegated or contracted out, where CDC remains accountable for the expenditure involved.

Where other external assurance providers (e.g. Ernst & Young LLP) and internal assurance providers may have undertaken relevant assurance and audit work, IA will seek to rely on the work of these other assurance providers where professional standards would make it appropriate to do so.

3. Authority of Internal Audit

IA derives its authority from those authorising this Charter to provide a free and unfettered ability to plan and undertake audit assignments deemed necessary to fulfil its purpose, and have a right of direct access to the Chair of the Audit Committee in doing so.

To enable the service to discharge its duties fully, the CAE and his internal audit staff are authorised to:

- Have unrestricted access to all functions, records, property, and personnel;
- Have full and free access to the Audit Committee;
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and
- Obtain the necessary assistance of personnel in units of the Council where they perform audits, as well as other specialised services from within or outside the Council.

The Chief Audit Executive and his internal audit staff are not authorised to:

- Perform any operational duties for the Council or its affiliates;
- Initiate or approve accounting transactions; and
- Direct the activities of any Council employee, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

4. Responsibility

The CAE and staff of the IA function have a responsibility to:

Plan

- Develop a flexible annual strategy and audit plan using a risk-based methodology, including any risks and concerns identified by management, and submit that strategy and plan, as well as periodic updates, to the Director of Resources and the Audit Committee for review and approval;
- The plan, which mainly comprises a series of audits, will have sufficient description of the rationale and basis for audit selection as to enable the members of the Audit Committee to challenge the content, focus and adequacy. This should include CDC's objectives and risks, the audit universe (topic areas which make up the business activities and may be selected for review), assurances over key risks from other mechanisms, and consideration of regulatory requirements; and
- Agree significant changes to the plan with the Director of Resources and the Audit Committee;

Act

- Implement the annual strategy by assessing third party assurance sources and conducting audits in accordance with the approved plan, and relevant professional standards and policies;

- Track status of outstanding management actions and provide regular updates to the Audit Committee, including escalation of overdue items of significant risk;
- Evaluate and assess areas of significant change; and
- Assist, as needed, in the investigation of significant suspected fraudulent activities within the organisation and notify management and the Audit Committee of the results.

Report

- Agree a reporting protocol with the Audit Committee, to include the basis for grading reported issues and audit opinions, timescales for completing reports and reviews (including expectations and associated escalation procedures), and the format for all reports. The reporting protocol should also include agreements on, and the timescales for, following up audit reports and tracking issues raised and their clearance;
- Issue periodic reports to management and the Audit Committee summarising results of Internal Audit activities; and
- Consider the scope of work of Ernst & Young LLP and other assurance providers for the purpose of providing optimal assurance coverage.

Communicate

- Communicate regularly with Internal Audit stakeholders and customers to ensure that changes in the business, its activities and the control environment are factored into the Internal Audit strategy and plan where appropriate; and
- During audits, raise significant issues for the attention of line management as soon as identified, and discuss all draft reports with the auditee before publication to confirm facts and incorporate management responses.

Perform

- Keep the Director of Resources and the Audit Committee informed as to the performance of the Internal Audit service.

5. Reporting lines

Day to day management of the Internal Audit team will be performed by the CAE. The CAE reports to the Director of Resources for organisational purposes but will report significant audit findings and audit progress directly to CDC's Audit Committee, and the Director of Resources as appropriate. The CAE will keep the Director of Resources and the Audit Committee informed of progress and developments on a regular basis. The CAE has a direct right of access to the Director of Resources as and when required.

Should the CAE not be satisfied with management's response to a given audit report then this will be highlighted to the Audit Committee and significant weaknesses escalated to the Director of Resources if they remain unresolved.

6. Independence and objectivity

To provide for the independence of internal audit, its personnel report to the CAE, who reports functionally to the Audit Committee and administratively to the Director of Resources in a manner outlined in the section below on Accountability.

The CAE will include as part of his reports to the Audit Committee a regular report on internal audit progress against the internal audit plan and, at least annually, the organisational independence of the Internal Audit activity.

7. Accountability

The CAE, in the discharge of his duties, shall be accountable to the Director of Resources for:

- Providing, at least annually, an objective evaluation of, and opinion on, the overall adequacy and effectiveness of CDC's framework of governance, risk management and control;
- Reporting significant issues related to the processes for controlling the activities of the Council and its affiliates, including recommendations and status of implementation of improvements;
- Periodically providing information on the status and results of the annual audit plan and the sufficiency of the Internal Audit function's resources;and
- Co-ordination with other significant assurance functions.

8. Management responsibilities

An Internal Audit service can only be effective if it receives the full co-operation of management. By approving this Internal Audit Charter the Director of Resources and the Audit Committee are mandating management to co-operate with Internal Audit in the delivery of the service by:

- Agreeing Terms of Reference no later than the agreed deadline, to include agreements on duration, scope, reporting and response;
- Sponsoring each audit at Head of Service level;
- Providing Internal Audit with full support and co-operation, including complete access to all records, data, property and personnel relevant to the performance of their responsibilities at all levels of operations, without unreasonable delay;
- Responding to the draft internal report, including provision of management responses to recommendations, within the timescale requested by the audit team;
- Implementing agreed management actions in accordance with the agreed timescales;and
- Updating Internal Audit with progress made on management actions, informing Internal Audit of proposed changes and developments in process and systems, newly identified significant risks and cases of a criminal nature.

The Audit Committee and the Director of Resources are responsible for appointing the CAE and for the performance management of the CAE. Instances of late responses to reports, and agreed actions not being implemented will be escalated to the Director of Resources and the Chair of the Audit Committee.

Whilst the annual internal audit report is a key element of the assurance framework required to inform the Annual Governance Statement ("AGS"), there are also a number of other sources from which those charged with governance should gain assurance. The level of assurance required from internal audit will be agreed with the Audit Committee at the beginning of the year and presented in the annual internal audit plan (and subsequent agreed amendments). As such, the annual internal audit opinion does not supplant responsibility of those charged with governance from forming their own overall opinion on internal controls, governance arrangements, and risk management activities.

9. Advisory work

Public Sector Internal Audit Standards ("PSIAS") allow that Internal Audit effort may sometimes be more usefully focused towards providing advice rather than assurance over core controls. IA at CDC will provide advice on this basis, providing:

- IA's involvement contributes to the overall opinion which it provides on risk management, control and governance, and the improvement thereof;
- The request has been approved at Executive Director level;
- IA is considered to have the right skills, experience, and available resource;and
- IA's involvement will not constitute a conflict of interest in respect of maintaining an independent stance, and IA will not assume a management role in providing this advice.

The CAE is responsible for ensuring that all requests are reviewed in accordance with the above criteria and for making the final decision. The role which IA will assume on any particular advisory assignment will be agreed with the sponsor, will be documented within the assignment plan, and reported to the Audit Committee.

10. Relationships

The Chief Audit Executive and internal audit staff are involved in a wide range of relationships and the quality of those relationships impact on the quality of the audit function and the effective delivery of that function.

- **Relationships With Management**

The Chief Audit Executive and internal audit staff will maintain effective relationships with managers of the Authority. Regular meetings will be held with key stakeholders and management will be consulted with in the audit planning process. Timing of audit work will be in conjunction with management.

- **Relationships With External Auditors**

Internal audit and Ernst & Young LLP have an established working relationship where internal and external audit can rely on each other's work, subject to the limits determined by their responsibilities, enabling them to evaluate, review and only re-perform where necessary. Regular meetings will be held and plans and reports shared.

- **Relationships With Regulators And Inspectors**

The Chief Audit Executive and his staff will take account of the results and reports from any inspections when planning and undertaking internal audit work. Where appropriate, the Chief Audit Executive will establish a dialogue with representatives of the appropriate inspection agencies.

- **Relationships With Elected Members**

The Chief Audit Executive will establish a working relationship with members, in particular with members of the Audit Committee. The Chief Audit Executive has the opportunity to meet with the Chair of the Audit Committee if desired.

11. Standards of Internal Audit Practice

This charter recognises the mandatory nature of the IIA definition of Internal Auditing and code of ethics, and the Public Sector Internal Audit Standards (PSIAS).

The IA team comply with the standards as laid out in the new PSIAS that came into effect on 1 April 2013.

In specific terms all CDC IA engagements are subjected to a thorough internal peer review of quality by PwC, to ensure that its work meets the standards expected from its staff. For example, the internal file quality reviews undertaken by PwC covers:

- Ensuring all work undertaken is in accordance with Public Sector Internal Audit Standards;

- The work is planned and undertaken in accordance with risks associated with areas under review;
- Sampling is undertaken in accordance with the PwC's methodology; and
- The conclusions are fully supported by our detailed work undertaken.

This charter is authorised within Cherwell Council:

Director of Resources

Martin Henry

Audit Committee Chair

Councillor Trevor Stevens

With the agreement of:

Chief Audit Executive

Richard Bacon

Presented to Audit Committee June 2013

APPENDIX 1

PwC Internal Audit Team

The team

The core team who will be involved in the planning, delivery and management of the audit work are as follows. The core team will be supported by a team of PwC auditors and technical specialists as needed.

Richard Bacon

Chief Audit Executive



- Key contact for the Chief Executive and the Chair of the Audit Committee
- Co-ordinate and oversee delivery of all services and activities under the contract for CDC – proactively build relationship with management and stakeholders
- Setting our annual programme of work, for approval by the Chief Executive and Audit Committee
- Attend Audit Committee when required, including delivery of the annual IA opinion
- Strategic deployment of PwC resources to meet CDC needs
- Drive innovation, consistency and cash savings across PwC delivery resource
- Performance of senior team members
- Quality review all final draft/final reports and all final terms of reference.

Chris Dickens

Internal Audit Contract Lead



- Maintain our strategic relationship with Director of Resources
- Maintain day to day contact with the Head of Finance and Procurement
- Lead our core auditors and project manage, as required, key experts into the internal audit plan
- Responsible for team members' performance
- Co-ordinate activities and delivery of team across the country to ensure value for money is achieved
- Attend Audit Committee.

Ed Cooke

Contract Manager



- Maintain day to day contact with the Head of Finance and Procurement and core finance team
- Responsible for the day to day delivery of our core services and activities
- Engagement Manager on the value enhancement reviews we perform
- Scope terms of reference for audits and review/quality assure project fieldwork performed by team
- Brief team members about CDC and issues relevant to specific projects
- Project manage delivery of agreed audit assignments
- Production of progress reports for the contract as a whole.

Chris Taylor

Team Manager



- Responsible for the day to day delivery of our core services and activities
- Engagement manager on the value protection reviews
- Maintain day to day contact with the Finance team
- Scope terms of reference for audits and review/quality assure project fieldwork performed by team
- Brief team members about CDC and issues relevant to specific projects
- On support for audit fieldwork

The teams contact details are as follows:

Name	E-mail	Mobile Phone
Richard Bacon	richard.f.bacon@uk.pwc.com	07973 198707
Chris Dickens	chris.dickens@uk.pwc.com	07720 427215
Ed Cooke	Edward.j.cooke@uk.pwc.com	07841 563 231
Chris Taylor	Christopher.j.x.taylor@uk.pwc.com	07538 748923

APPENDIX 2

Communication protocol

Protocol	Responsible	Timescale
Audit planning: <i>These timescales may be amended with the agreement of the Audit Sponsor¹</i>		
Audit Sponsor contacted	Internal Audit	No less than 4 weeks before the start of audit fieldwork
Meeting between Audit Sponsor and Internal Audit to agree scope of review.	Internal Audit and Audit Sponsor	No less than 3 weeks before the start of audit fieldwork.
Draft scope issued to Audit Sponsor for agreement. ²	Internal Audit	No less than 2 weeks before the start of audit fieldwork
Audit Sponsor agreement of scope	Audit Sponsor	No less than 1 weeks before the start of fieldwork
Audit fieldwork and closure		
Exit meeting to confirm matters arising from the audit.	Internal Audit and Audit Sponsor	No more than 1 week after completion of fieldwork
Audit reporting		
Initial Draft report issued to Audit Sponsor and other agreed key stakeholders	Internal Audit	No more than 2 weeks after exit meeting
Audit Sponsor confirmation as to the material accuracy of the initial draft report, or highlighting of accuracy issues to be discussed/amended.	Audit Sponsor	No more than 1 week after receipt of report
If required, clearance meeting to resolve material factual accuracy issues and discuss management responses	Internal Audit and Sponsor	No more than 2 weeks after receipt of initial draft report. A revised report will then be issued within 1 week
Management Responses		

¹ The audit sponsor is, typically, the Head of Service or other delegated member of Council staff.

² The scoping document will confirm key audit milestone dates for the fieldwork and reporting stages of the audit and represents a contract of agreement between the audit sponsor and internal audit.

Protocol	Responsible	Timescale
Management Responses Audit sponsor provides: <ul style="list-style-type: none"> • Management responses, including responsible officers for implementation and deadlines, to audit recommendation • Overall conclusion for inclusion within executive summary of the report 	Audit Sponsor	No more than 1 week after issue of revised report following clearance meeting. If a clearance meeting is not required, management responses will be provided 2 weeks after confirmation of material accuracy of initial draft report by audit sponsor
Report finalisation		
Report finalised, and circulated.	Internal Audit	No more than 1 week after final draft report has been issued
Actions		
Implementation of recommendations in line with agreed report	Audit sponsor	In line with agreed report

This document has been prepared for the intended recipients only. To the extent permitted by law, PricewaterhouseCoopers LLP does not accept or assume any liability, responsibility or duty of care for any use of or reliance on this document by anyone, other than (i) the intended recipient to the extent agreed in the relevant contract for the matter to which this document relates (if any), or (ii) as expressly agreed by PricewaterhouseCoopers LLP at its sole discretion in writing in advance.

© 2013 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.