



# BRISTOL INTERNAL AUDIT

## APPENDIX 2

### INTERNAL AUDIT CHARTER

#### **1. Introduction:**

- 1.1 The Chief Executive as the Head of Paid Service and the Section 151 Officer are responsible for maintaining an effective and appropriately resourced internal audit function, in line with the Accounts and Audit Regulations (2018). The regulations specifically require that “*A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, and taking into account public sector internal auditing standards or guidance*”.
- 1.2 This Internal Audit Charter defines the purpose, authority, scope and responsibility of the Internal Audit service and is consistent with the mandatory requirements of the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Authority Guidance Note (LGAN) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA).

#### **2. Purpose and mission:**

- 2.1 The purpose of the Bristol City Council Internal Audit Service is to provide independent, objective assurance and consulting services designed to add value and improve Bristol City Council’s operations.
- 2.2 The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The Internal Audit Service helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes consistent with the Bristol City Council Internal Audit Strategy.
- 2.3 The Internal Audit Service will govern itself by adherence to the Public Sector Internal Audit Standards (PSIAS) including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, the Definition of Internal Auditing and the CIPFA Statement on the role of the head of internal audit.
- 2.4 The Chief Internal Auditor will report periodically to senior management and the Audit Committee regarding the Internal Audit Service’s conformance to the Code of Ethics and the PSIAS.
- 2.5 The internal audit activity will be delivered by the in-house team with capacity and resilience support from a Strategic Partner. The Chief Internal Auditor will periodically receive assurance from the Strategic Partner on the Strategic Partner’s conformance to the Internal Auditing Code of Ethics and the PSIAS.

### **3. Authority:**

3.1 The Chief Internal Auditor will report functionally to the Audit Committee and administratively (i.e., day-to-day operations) to the Director of Finance (Section 151 Officer). The Director of Finance is a Corporate Leadership Board (CLB) member in their own right and these management arrangements meet the PSIAS requirements. To establish, maintain, and assure that the Internal Audit Service has sufficient authority to fulfil its duties, the Audit Committee will:

- Approve the Internal Audit Charter.
- Approve the risk-based internal audit plans.
- Receive communications from the Chief Internal Auditor on the Internal Audit Service's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Chief Internal Auditor.
- Make appropriate inquiries of management and the Chief Internal Auditor to determine whether there is inappropriate scope or resource limitations.

3.2 The Chief Internal Auditor will have unrestricted access to, and communicate and interact directly with, the Audit Committee including in private meetings without management present.

3.3 In accordance with the PSIAS internal audit shall have right of access to all:

- records, documents, correspondence, data or information systems, including those of third parties,
- assets including those held on behalf of others,
- personnel,
- premises or land
- information, explanations or assistance as it considers necessary to fulfil its responsibilities from any employee, contractor, supplier, customer, partner
- Senior Management and Statutory Officers, the Mayor, Cabinet and Audit Committee

These rights also apply to organisations which have links with or provide services on behalf of the Council, its group companies and associated partnerships where the Council has a statutory or contractual entitlement to exercise such right. These rights shall be included in all contractual arrangements entered into with such organisations.

3.4 Consistent with the Internal Audit Strategy, the remit of Internal Audit covers the whole of the Council, its companies and other joint working arrangements where the Council

is the Accountable Body as well as contract arrangements where the right of audit is included within the contract.

#### **4. Independence and objectivity:**

- 4.1 The Chief Internal Auditor will ensure that the Internal Audit Service remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content.
- 4.2 Internal Audit is independent of the activities that it audits to ensure the unbiased judgements essential to its proper conduct and impartial advice to management. The Chief Internal Auditor reports to the Audit Committee, on a regular basis, on the organisational independence of the Internal Audit service.
- 4.3 Internal Audit operates within a framework that allows unrestricted access to senior management and Council, particularly the Mayor, the Chair of the Audit Committee, the Chief Executive and the CLB. The Chief Internal Auditor reports in his/her own name to the CLB and the Audit Committee.
- 4.4 Should the independence or objectivity of the Internal Audit service be impaired in fact or appearance, the Chief Internal Auditor will disclose details of the impairment to the S.151 Officer and / or Chair of the Audit Committee depending upon the nature of the impairment.
- 4.5 When requested to undertake any additional roles / responsibilities outside of Internal Auditing, the Chief Internal Auditor must highlight to the Audit Committee any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics. The Audit Committee must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity.
- 4.6 As far as practicable, Internal Audit does not participate in the day to day operation of any systems without agreement of the Audit Committee. However, in strict emergency situations only, Internal Audit staff may be called upon to conduct operational work. In those instances, those seconded to operational areas will not be assigned to provide audit services to those parts of the organisation for a period of one year from the date they finish the secondment.
- 4.7 Where non-audit work, or consultancy work, is requested or required, the Chief Internal Auditor ensures that there are no conflicts of interest arising from undertaking the non-audit work, or consultancy work and if necessary makes alternative arrangements for internal audit review of any area where such a conflict exists.
- 4.8 Where new colleagues join Internal Audit from a different part of the Council, they do not complete audit work in their previous area of responsibility for a period of at least 1 year.
- 4.9 Internal Audit has responsibility for collating assurances in support of the Council's Annual Governance Statement; for drafting the Statement and for facilitating management review. The Chief Internal Auditor does not have line management

responsibility for those staff involved in governance processes and does not consider that the responsibilities in respect of the Annual Governance Statement restrict the ability to report objectively on governance.

- 4.10 Internal Audit manages the Council's whistle-blowing arrangements, including provision of a helpline and, where appropriate investigates instances of suspected or actual fraud, corruption or impropriety. To manage the self-review risk, an independent audit is commissioned every two years with outcomes being reported to the Audit Committee and Corporate Leadership Board.

## **5. Definitions and Responsibilities of Officers and the Council in Relation to Internal Audit:**

For the purpose of this Charter the following definitions apply:

- *The Board* is the Audit Committee - those charged with independent assurance on the adequacy of the Council's risk management framework, the internal control environment and the integrity of financial reporting arrangements. This includes oversight of the internal audit function and its activity
- *Chief Executive and Head of Paid Service* is also the Executive Director: Resources - who has responsibility for ensuring good governance, risk management and internal control arrangements exist and operate
- *Senior Management is the Corporate Leadership Board (CLB)* - those responsible for the leadership and the direction of the Council. Senior Management are also responsible for ensuring that internal control, risk management, and governance arrangements are sufficient to address the risks facing their Directorates and Services including the risk of fraud and corruption
- *Section 151 Officer* - is the Director of Finance - the Section 151 Officer is responsible for: ensuring lawfulness and financial prudence of decision making; providing financial advice; internal control; risk management; setting financial standards; and ensuring key financial controls are in place to secure sound financial management; ensuring there is adequate and effective internal audit service
- *Monitoring Officer* - is the Director of Legal and Democratic Services – responsible for maintaining the Constitution; ensuring lawfulness and fairness of decision making; providing legal advice; and conducting member investigations. As such the Monitoring officer works closely with internal audit on governance matters.

## **6. Scope of internal audit activities**

- 6.1 The scope of internal audit activities which is aligned with the Internal Audit Strategy encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for Bristol City Council. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed.
- The actions of the Council's members, officers, directors, employees, and contractors are in compliance with the Council's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being conducted effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact Bristol City Council.
- Information and the means used to identify, measure, analyse, classify, and report such information are dependable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

## **7. Internal Audit Activities:**

### *7.1 Internal Audit Plans*

- 7.1.1 The primary task of Internal Audit is to review the systems of governance, risk management and internal control operating throughout the Council and in this a predominantly risk based approach to assessing controls is adopted.
- 7.1.2 Risk based plans of internal audit work are prepared quarterly. The plans are derived from a risk assessment which is informed by the views of management, the Council's risk registers, performance management reports and the assurance framework.
- 7.1.3 The audit plans are discussed with the CLB and the Section 151 Officer before review and approval by the Audit Committee. The CLB is provided with details of the annual plan for information. The audit plans are reviewed quarterly to ensure that it reflects current risks. Any significant changes to the agreed plan are reported to the Audit Committee through the periodic activity reporting process.

### *7.2 Audit and Assurance Reviews*

- 7.2.1 For each audit assignment within the quarterly audit plans, a 'Terms of Reference' is drawn up and shared with the relevant managers. The Terms of Reference identifies the key risks to the achievement of Council objectives and identifies the scope of the work being conducted.
- 7.2.2 During the course of the audit, key issues are brought to the attention of the relevant manager to enable them to take corrective action. On completion of the audit, Internal Auditors communicate the results of the audit to the relevant Chief Executive / Director / Executive Director.

7.2.3 The completion of each planned assignment leads to individual reports to Heads of Service and /or Directors of Service and Executive Directors and these may include an opinion on the control framework in place to manage the risks in the area reviewed. These opinions, together with other knowledge of issues identified in other audit work, assist the Chief Internal Auditor in providing an overall opinion on the control environment to management for the Annual Governance Statement.

### 7.3 *Fraud and Irregularity work*

7.3.1 The PSIAS recognise that Internal Audit may go beyond the work needed to meet its assurance responsibilities and provide services to support management, including consultancy services or assistance with the investigation of suspected fraud or corruption. Such services apply the professional skills of internal audit and contribute to the overall assurance opinion.

7.3.2 Internal Auditors plan and evaluate their work to have a reasonable chance of detecting fraud. However, Internal Audit is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management.

7.3.3 The Council's Anti-Fraud, Bribery and Corruption Policy requires the Chief Internal Auditor to be informed of all suspected or detected fraud. A fraud risk assessment is performed on all suspected or detected fraud which determines whether the irregularity is investigated by Internal Audit or by the relevant directorate with support from Internal Audit where required.

7.3.4 Investigation of fraud and corruption is conducted in compliance with statutory requirements and the fraud investigation protocol, by staff with the necessary skills to do so.

7.3.5 In addition to determining the extent of the fraud, attention is given to correction of any control failures to prevent recurrence of the fraud.

7.3.6 Internal Audit facilitates participation in the National Fraud Initiative, which matches data from Council information systems with information held by other bodies to identify potentially fraudulent activity.

7.3.7 As well as responding to incidents of fraud and corruption, Internal Audit staff maintains and deliver a programme of pro-active fraud prevention and detection work including national initiatives to prevent and detect fraud and testing of priority fraud risk areas.

### 7.4 *Consultancy Reviews as Requested/Required*

7.4.1 Internal Audit provides both statutory and discretionary services. Discretionary services provided by Audit are a form of consultancy. These services may be on request by management or the Council, or recommended by Internal Audit. Each of these reviews has a clearly defined and agreed Terms of Reference with agreed timescales for completion of the work and agreed reporting format.

7.4.2 In addition to planned audit reviews, Internal Audit offer advice on the internal control implications of new systems being implemented across the Council, as well as guidance and advice with regard to transformation projects within the Council.

7.4.3 The Chief Internal Auditor ensures that no conflicts of interest arise from undertaking any consultancy work by reviewing the scope of the work to be undertaken and maintaining Internal Audit's independence from management functions.

7.4.4 Where significant consultancy reviews are commissioned in year, outside of the approved plan, then Audit Committee approval is sought in advance.

#### 7.5 *External Clients*

7.5.1 Internal Audit provides internal audit services and assurances to a number of public sector / quasi-public sector clients including Bristol City Council wholly owned companies, WECA (grant certifications) and Academies.

#### 7.6 *Reporting to the Audit Committee*

7.6.1 The Chief Internal Auditor will report periodically to senior management and the Audit Committee regarding:

- The Internal Audit Service's purpose, authority, and responsibility.
- The Internal Audit Service's plan and performance relative to its plan.
- The Internal Audit Service's conformance with The IIA's Code of Ethics and *Standards*, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the Council.

#### 7.7 *Assurance Mapping*

7.7.1 The Chief Internal Auditor also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The Internal Audit Service may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the Internal Audit Service does not assume management responsibility.

7.7.2 Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

#### 7.8 *Reporting; Follow Up and Escalation Procedures:*

- 7.8.1 Following the completion of all audit assignments a draft internal audit report is issued containing an opinion on the level of assurance that can be deemed from the control environment. The report outlines the findings or weaknesses, their causes and the associated risks and implications to the Council. Internal Audit will then engage with the relevant Senior Responsible Officers to agree the appropriate management actions required to address the weaknesses identified.
- 7.8.2 It is the full responsibility of the relevant Senior Responsible Officers to implement the agreed management actions and senior management are responsible for ensuring that there are appropriate arrangements for monitoring and reporting the progress in the implementation of agreed management actions
- 7.8.3 Under the escalation element of this procedure, some audits with a no or limited assurance opinion will be subject to re-performance in the following year.
- 7.8.4 Internal Audit uses the Pentana Audit Management System to monitor and report the implementation of agreed management actions. The progress in the implementation of agreed management actions is reported to the Audit Committee as part of its regular activity reports. Repeated failure to implement the agreed management actions will be reported to CLB and the Audit Committee, who may call the appropriate Senior Responsible Officer to account for the failure to correct the control environment.
- 7.8.5 The Chief Internal Auditor routinely reports to the Audit Committee providing Activity Reports to every meeting, together with an annual report incorporating details of significant control issues identified by audit work. The annual report provided by the Chief Internal Auditor includes the required opinion on the risk management and control arrangements in place and as such is an essential assurance to management in making their Annual Governance Statement.
- 7.9 *Collaboration and Liaison with Other Auditors*
- 7.9.1 The External Auditor has a statutory duty to express an opinion on the Council's financial statements and a Value for Money opinion on its arrangements for securing economy, efficiency and effectiveness. In doing so, there is potential for duplication of work completed by Internal Audit, particularly now that International Standards for Auditing (which apply to External Auditors) require a more detailed understanding of systems. Wherever possible, the Chief Internal Auditor seeks to co-ordinate the work of Internal Audit with that of the External Auditor through sharing of plans and quarterly liaison meetings, where appropriate.
- 7.9.2 The Chief Internal Auditor also consults with equivalents in neighbouring local authorities where services are shared or delivered jointly. Liaison is also ongoing with equivalents in Core City Local Authorities and the Local Authority Chief Auditors' Network.

## **8. Responsibility**

### 8.1 *Internal Audit responsibilities:*

The responsibilities incumbent on the Internal Audit Service are summarised below:



- Formulation and delivery of quarterly audit plans which will enable the Chief Internal Auditor to provide management and the Audit Committee with the required objective opinion on the internal control, governance and risk management arrangements in place across the Council to inform the Annual Governance Statement
- Support of the Section 151 officer in discharging their statutory duties
- Reporting significant risk exposures and control issues identified to management and the Audit Committee, including fraud risks, governance issues, and other matters and making recommendations for improvement
- Ensuring the Council has a robust and proactive approach to fraud identification and investigation, investigating alleged frauds and other irregularities
- The review and certification of grant/funding claims as required
- Providing reports to the Audit Committee to enable it to discharge its duties
- Communicating risk and control information to the appropriate officers across the Council, whilst providing expertise and guidance in the matter of risk management
- Facilitating the establishment of assurances in support of the Annual Governance Statement
- Raising awareness of internal control, risk management and governance across the Council
- Undertake ad-hoc audit reviews, as required by senior management.

## 8.2 *Chief Internal Auditor responsibilities*

Specifically, the Chief Internal Auditor has the responsibility to:

- Submit to senior management and the Audit Committee risk-based quarterly plans for review and approval.
- Communicate to senior management and the Audit Committee the impact of resource limitations on internal audit plans.
- Review and adjust internal audit plans, as necessary, in response to changes in Bristol City Council's business, risks, operations, programmes, systems, and controls.
- Communicate to senior management and the Audit Committee any significant changes to internal audit plans.
- Ensure each engagement of the internal audit plans is executed, including the establishment of objectives and scope, the assignment of appropriate and

adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.

- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the Internal Audit Service collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact Bristol City Council are considered and communicated to senior management and the Audit Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the Internal Audit Service.
- Ensure adherence to Bristol City Council's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committee.
- Ensure conformance of the Internal Audit Service with the *Standards*.

### 8.3 *Responsibilities for senior management:*

- Engagement in the Internal Audit planning process – providing insight into high risk areas within the respective directorates
- Nomination of responsible officers for all planned and ad-hoc internal audit reviews
- Timely engagement and clearance of relevant Terms of Reference, Audit queries, Draft and Final reports. Timely being defined as within a two week timeframe unless otherwise defined and/or agreed
- Engagement with the Internal Audit follow-up process, providing evidence of agreed management action implementation as and when implementation is achieved, should this be before a planned follow-up has commenced or after the follow-up has been completed.

## **9. Code of Ethics**

- 9.1 To enhance the environment of trust between Internal Audit and management, all staff involved in the delivery of Internal Audit services must comply with the Code of Ethics

laid down in the PSIAS. Staff induction and training ensures all staff are aware of this requirement. Additionally, many Internal Audit staff are bound by the ethical codes of the professional bodies they have qualified with and all are bound by the Council's own Code of Conduct for employees. Fundamentally, the following ethical principles are observed:

### ***Integrity Principle***

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

- Shall perform their work with honesty, diligence and responsibility;
- Shall observe the law and make disclosures expected by the law and the profession;
- Shall 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; and
- Shall respect and contribute to the legitimate and ethical objectives of the organisation.

### ***Objectivity Principle***

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. Internal auditors:

- 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; and
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

### ***Confidentiality Principle***

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

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

### ***Competency Principle***

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

- Shall engage only in those services for which they have the necessary knowledge, skills and experience;
- Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing; and
- Shall continually improve their proficiency and effectiveness and quality of their services

9.2 Internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life. These are

| <b>Principle</b> | <b>Description</b>   |
|------------------|--|
| Selflessness     | Holders of public office should act solely in terms of the public interest.  |
| Integrity        | Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationship. |
| Objectivity      | Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.   |
| Accountability   | Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.  |
| Openness         | Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.   |
| Honesty          | Holders of public office should be truthful.   |
| Leadership       | Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.   |

9.3 Internal Auditors are required to complete a Declaration of Interest every two years consistent with the Council's policy to ensure that any interests are known by management and safeguards can be put in place as required. Additionally, they are required to consider any potential conflicts of interest at the start of every audit assignment.

## 10. Quality assurance and improvement programme

- 10.1 The Internal Audit Service will maintain a quality assurance and improvement programme that covers all aspects of the Internal Audit Service. The program will include an evaluation of the Internal Audit Service's conformance with the *Standards* and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the Internal Audit Service's and identify opportunities for improvement.
- 10.2 The Chief Internal Auditor will communicate to senior management and the Audit Committee on the Internal Audit Service's quality assurance and improvement programme, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside Bristol City Council.

## **11. *Review of the Internal Audit Charter***

- 11.1 In accordance with the PSIAS, the Internal Audit Charter is reviewed annually and presented to the Audit Committee for reconsideration and approval, as appropriate.