

Internal Audit Charter – August 2022

1. Purpose and mission

The purpose of Test Valley Borough Council's internal audit team is to provide independent, objective assurance and consulting services designed to add value and improve Test Valley Borough Council's operations. 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 team helps Test Valley Borough Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

2. Standards for the Professional Practice of Internal Auditing

The internal audit team will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, 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, and the Definition of Internal Auditing. The Internal Audit Manager will report periodically to senior management and the Audit Committee regarding the internal audit team's conformance to the Code of Ethics and the Standards.

3. Authority

The Accounts and Audit Regulations 2015 section 5 requires that an Authority 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. The Internal Audit Manager will report functionally to the Audit Committee and administratively (i.e., day-to-day operations) to the Head of Finance & Revenues/s151 Officer. To establish, maintain, and assure that Test Valley Borough Council's internal audit team has sufficient authority to fulfil its duties, the Audit Committee will:

- (a) Approve the internal audit team's charter.
- (b) Approve the risk-based internal audit plan.
- (c) Approve the internal audit team's budget and resource plan.
- (d) Receive communications from the Internal Audit Manager on the internal audit team's performance relative to its plan and other matters.
- (e) Make appropriate inquiries of management and the Internal Audit Manager to determine whether there is inappropriate scope or resource limitations.

The Internal Audit Manager will have unrestricted access to, and communicate and interact directly with, the Audit Committee including in private meetings without senior management present, if considered necessary for the purposes of ongoing investigations.

The Council's Financial Procedure Rules authorise the internal audit team to:

- (a) Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- (b) Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- (c) Obtain assistance from the necessary personnel of Test Valley Borough Council, as well as other specialised services from within or outside Test Valley Borough Council, in order to complete the engagement.

4. Independence and objectivity

The Internal Audit Manager will ensure that the internal audit team 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. If the Internal Audit Manager determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties, including the Audit Committee.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- (a) Assessing specific operations for which they had responsibility within the previous year.
- (b) Performing any operational duties for Test Valley Borough Council or its affiliates.
- (c) Initiating or approving transactions external to the internal audit team.
- (d) Directing the activities of any Test Valley Borough Council employee not employed by the internal audit team, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Internal Audit Manager has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- (a) Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.

- (b) Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- (c) Make balanced assessments of all available and relevant facts and circumstances.
- (d) Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Internal Audit Manager will confirm to the Audit Committee at least annually, the organisational independence of the internal audit team

The Internal Audit Manager will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

5. Scope of internal audit activities

The scope of internal audit activities 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 Test Valley Borough Council. Internal audit assessments include evaluating whether:

- (a) Risks relating to the achievement of Test Valley Borough Council's strategic objectives are appropriately identified and managed.
- (b) The actions of Test Valley Borough Council's officers, Management Team, employees, and contractors are in compliance with Test Valley Borough Council's policies, procedures, and applicable laws, regulations, and governance standards.
- (c) The results of operations or programs are consistent with established goals and objectives.
- (d) Operations or programs are being carried out effectively and efficiently.
- (e) Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact Test Valley Borough Council.
- (f) Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- (g) Resources and assets are acquired economically, used efficiently, and protected adequately.

The Internal Audit Manager will report periodically to senior management and the Audit Committee regarding:

- (a) The internal audit team's purpose, authority, and responsibility.
- (b) The internal audit team's plan and performance relative to its plan.
- (c) The internal audit team's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- (d) Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- (e) Results of audit engagements or other activities.

- (f) Resource requirements.
- (g) Any response to risk by management that may be unacceptable to Test Valley Borough Council.

The Internal Audit Manager 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 team may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit team does not assume management responsibility.

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.

6. Responsibility

The Internal Audit Manager has the responsibility to:

- (a) Submit, at least annually, to senior management and the Audit Committee a risk-based internal audit plan for review and approval.
- (b) Communicate to senior management and the Audit Committee the impact of resource limitations on the internal audit plan.
- (c) Review and adjust the internal audit plan, as necessary, in response to changes in Test Valley Borough Council's business, risks, operations, programmes, systems, and controls.
- (d) Communicate to senior management and the Audit Committee any significant interim changes to the internal audit plan.
- (e) Ensure each engagement of the internal audit plan 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.
- (f) Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented.
- (g) Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- (h) Ensure the internal audit team collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- (i) Ensure trends and emerging issues that could impact Test Valley Borough Council are considered and communicated to senior management and the Audit Committee as appropriate.
- (j) Ensure emerging trends and successful practices in internal auditing are considered.
- (k) Establish and ensure adherence to policies and procedures designed to guide the internal audit team.

- (l) Ensure adherence to Test Valley Borough Council's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved by senior management and reported to the Audit Committee.
- (m) Ensure conformance of the internal audit team with the Standards, with the following qualifications:
 - (i) If the internal audit team is prohibited by law or regulation from conformance with certain parts of the Standards, the Internal Audit Manager will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
 - (ii) If the Standards are used in conjunction with requirements issued by other authoritative bodies, the Internal Audit Manager will ensure that the internal audit team conforms with the Standards, even if the internal audit team also conforms with the more restrictive requirements of other authoritative bodies.

7. Quality assurance and improvement programme

The internal audit team will maintain a quality assurance and improvement programme that covers all aspects of the internal audit team. The program will include an evaluation of the internal audit team'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 team and identify opportunities for improvement.

The Internal Audit Manager will communicate to senior management and the Audit Committee on the internal audit team'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 Test Valley Borough Council.