



# **Corporate Services Internal Audit Charter**

December 2018 Introduction

The Local Authority Accounts (Scotland) Regulations 2014 at paragraph 7 (1) require the council to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing.

### **Definition and Purpose of Internal Auditing**

Internal Auditing is defined in the Public Sector Internal Audit Standards (PSIAS) as an independent, objective, assurance and consultancy activity designed to add value and improve an organisation's 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. Its mission, therefore, is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight.

CIPFA refines this slightly in its PSIAS Local Government Application Note, adding that Internal Audit 'may also undertake consulting services at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources'. Consulting services are referred to below.

### **Public Sector Internal Audit Standards**

The PSIAS were developed by a group of 'relevant standard setters' including government, accountancy and audit bodies and represent a common set of standards for all internal audit service providers in the public sector in the United Kingdom. The PSIAS comprises a definition and mission of internal auditing (as outlined above) together with a Code of Ethics and Professional Standards. Compliance with the PSIAS is mandatory.

### **Purpose and Responsibility**

In terms of the council's financial regulations, the Corporate Director (Corporate Services) has responsibility for securing the provision of a continuous internal audit service to provide an independent and objective opinion on the control environment comprising risk management, internal control and governance.

This remit is delegated to the Internal Audit Manager whose duties are to review, assess and report on:

- the effectiveness of systems of financial and non-financial controls
- compliance with council policies, plans and procedures
- compliance with regulations and legislation
- the degree to which assets are properly accounted for and safeguarded
- the reliability and integrity of data and performance information; and
- the extent to which value for money can be demonstrated.

In determining the scope of audit work, the Internal Audit Manager prepares an annual audit plan and reports throughout the year on findings from the audit projects completed, together with recommendations made and management responses thereto.. The Plan includes topics directed by the Moray Integration Joint Board and assurances from these projects are shared with the Board's Audit, Performance and Risk Committee. Internal Audit Annual Reports are prepared for the council and the Board which include an opinion on the adequacy and effectiveness of the system of internal control. The opinion informs the broader assurances on governance provided in the related Annual Governance Statements. The Council's Audit and Scrutiny Committee has responsibility for overseeing and supporting the work of the Internal Audit service.

Internal Audit responsibilities are not relieved in areas of the council's work that are subject to review by others, but reliance is placed on the work of other review agencies, principally the council's External Auditor, to avoid duplication, make best use of resources and inform the overall assessment of governance arrangements.

### **Organisational Status and Independence**

The Internal Audit Manager reports administratively to the Corporate Director (Corporate Services), who is a member of the Council's Corporate Management Team. This reporting line strengthens audit independence with, in the main, audit assignments being carried out on services and systems managed by Heads of Service.

The PSIAS requires the Internal Audit Manager to report functionally to the Audit and Scrutiny Committee. Functional reporting is defined as that which enables the Internal Audit Manager to ensure that internal audit can fulfil its responsibilities.

The Audit and Scrutiny Committee is charged with responsibility for ensuring good stewardship of the Council's resources, enhancing the profile, status and authority of internal audit and affirming its independence. Specifically, in relation to audit matters, the committee;

- Contributes towards making the Council, its committees and services more responsive to the audit function and its purpose;
- Enhances good governance arrangements by promoting internal control and risk management, by supporting an anti-fraud culture, and by the review of revisions to financial procedures;
- Has responsibility for focusing audit resources through agreeing the annual programme of work;
- Monitors delivery of the audit service through receipt of quarterly reports on work carried out by Internal Audit;
- Considers the annual opinion provided by the Internal Audit Manager on the adequacy and effectiveness of the control environment.

### **Authority**

The Local Authority Accounts (Scotland) Regulations 2014 at paragraph 7 (2) require that any officer or member of a local authority must, as required by those undertaking internal auditing:

- Make available such documents of that authority which relate to its accounting and other records for the purposes of internal auditing; and
- Supply such information and explanation as those undertaking internal auditing consider necessary for that purpose.

The council's Financial Regulations provide that Internal Audit staff, for the purposes of conducting their work, shall have authority to:-

- have a right of access to all records, assets, personnel and premises, including those of partner organisations in receipt of council funding or other resources,
- have access to all records, documents and correspondence relating to any financial and other transactions of the Council,
- require and receive such explanations as are necessary concerning any matter under examination,
- require any employee of the Council to produce cash, stores or any other Council property under his control, which is relevant to any investigation being carried out.

The Internal Audit Manager has unrestricted access to all officers of the Council (including the Chief Executive and other Senior Managers) and to Members of the Council as necessary.

### **Management Responsibilities**

Responsibility for internal control rests with management, who must ensure that proper internal control arrangements are in place. Internal audit's role is to evaluate the effectiveness of such internal control arrangements. Management is responsible for accepting and implementing audit recommendations and bears any risk from not taking agreed action. Internal Audit is not a substitute for an effective system of internal control implemented by management.

### **Resources**

Responsibility for resourcing the internal audit service rests with the Corporate Director (Corporate Services). The Corporate Director ensures that resources are sufficient to enable internal audit to conduct an ongoing review of governance, risk and control processes based on an assessment of risk. The Internal Audit Manager is responsible for managing the resource provided and for delivery of the internal audit service.

### **Counter Fraud Work**

The prevention and detection of fraud is a management function and management is responsible for implementing and maintaining suitable systems of control to mitigate the risk of fraudulent activity. Internal audit supports the Council's commitment to fraud prevention and detection by overseeing data matching exercises carried out under the National Fraud Initiative. The Internal Audit Manager oversees the work of the Corporate Investigations Officer. The council takes the threat of fraud or related malpractice seriously and has adopted a Policy to Combat Fraud, Theft, Bribery and Corruption. A Whistle-blowing Policy has been developed in consultation with the HR service to facilitate the reporting of any concerns.

The Financial Regulations provide that whenever any matter arises which involves, or is thought to involve, irregularities concerning cash, stores or other property of the Council or any suspected irregularity in the exercise of the functions of the Council, any Officer, having knowledge thereof, shall, as soon as possible, notify Internal Audit.

### **Objectivity and Conflicts of Interest**

The Council's Code of Conduct for Employees sets out the required standards for the conduct for all employees and includes provisions for the declarations of interests, gifts and hospitality.

In addition, internal audit staff in line with the Code of Ethics forming part of the PSIAS are required to disclose any potential conflicts of interest which may impact on their audit work, for example, in relation to previous employment within the council, relatives employed with the council and other such similar circumstances.

Internal Audit has neither responsibility for, nor authority over, the subject areas it reviews. Internal Audit resources are applied exclusively to audit, risk and counter fraud processes. This limits any potential conflicts of interest and secures objectivity. Alternative sources of assurance are sought in relation to the effectiveness of these functions, for example, by utilising the work of other council internal audit teams for the external quality assurance process or by having regard to work completed by the external auditor.

### **Consultancy Work**

Internal Audit provides advice on an ad-hoc basis on control related issues; otherwise its consultancy role extends primarily to the provision of advice, and guidance on matters relating to risk management. The team is not resourced to routinely become involved in the assessment of controls in new systems prior to their installation or implementation.

### **Review**

The PSIAS requires that the chief audit executive periodically reviews the Internal Audit Charter and presents it to senior management and also to the Board for approval. In this context the chief audit executive is the Internal Audit Manager, senior management is the Corporate Director (Corporate Services) and the Board is the Audit and Scrutiny Committee.

Atholl Scott  
Internal Audit Manager  
December 2018

### **Approval of the Charter**

This Internal Audit Charter was considered and approved at a meeting of the Audit and Scrutiny Committee on 4 December 2018.

Signed.....

Councillor M Macrae Chair,  
Audit and Scrutiny Committee

Dated.....