



Governance, Strategy and Performance Internal Audit Charter

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Introduction

The Local Authority Accounts (Scotland) Regulations 2014 introduced a requirement for all Scottish Local Authorities to operate a professional and objective internal auditing service, which must be delivered in accordance with recognised standards. The standards and practices applied in the UK for all public sector internal audit providers, in-house, shared or outsourced, are the Public Sector Internal Audit Standards (PSIAS), which came into effect in April 2013, and were updated in March 2017. These standards are largely based on the International Professional Practices Framework (IPPF). A requirement of the PSIAS is that all local authorities should have an Internal Audit Charter.

Definition and Purpose of Internal Auditing

The overarching “mission” of an Internal Audit Service is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Auditing is defined in the PSIAS as ‘an independent, objective, assurance and consultancy activity designed to add value and improve an organisation’s operations. Internal Audit adds value to the organisation (and its stakeholders) by enhancing governance, risk management and internal control and objectively providing assurance.

As part of the meeting Moray Council’s system of corporate governance, Internal Audit’s purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:

- In support of the Council’s vision, values and priority.
- As a contribution to the Council’s management of risks, including assisting management to improve the risk identification and management process in particular where there is exposure to significant regulatory, financial, strategic, reputational and operational risk to the achievement of the Council’s objectives.
- As an aid to ensuring that the Council and its elected members, employees and contracted third parties are operating within the law and relevant regulations and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transaction.
- As a contribution towards ensuring that financial statements and other published performance information are accurate and reliable.

Moray Council also provides an internal audit service to Moray Integration Joint Board (MIJB) and the Grampian Valuation Joint Board (GVJB). It will apply the same standards as defined in this Charter to any work undertaken for the MIJB and the GVJB, with separate Internal Audit plans and reports presented to their respective 'senior management' and 'board'.

POSITION OF INTERNAL AUDIT WITHIN THE ORGANISATION

The Internal Audit Service is managed by the Audit and Risk Manager. The Audit and Risk Manager reports administratively to the Head of Governance, Strategy and Performance, who is a member of the Council's extended Corporate Management Team. The PSIAS requires the Audit and Risk Manager to report functionally to the Audit and Scrutiny Committee. Functional reporting is defined as that which enables the Audit and Risk 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 to 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 to an 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 Audit and Risk Manager on the adequacy and effectiveness of the control environment.

ORGANISATIONAL STATUS AND INDEPENDENCE

In terms of the PSIAS, the status of Internal Audit should enable it to function effectively, with recognition of the independence of Internal Audit that is fundamental to its effectiveness. Moray Council's financial regulations detail that the Depute Chief Executive (Education, Communities and Organisational Development) is responsible for securing 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 Audit and Risk Manager.

Internal Audit will systematically review, appraise, make appropriate recommendations for improvement, and report upon:

- The efficacy of governance arrangements put in place to achieve the organisation's objectives and priorities.

- The effectiveness of all internal controls and other arrangements put in place to manage risk, in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the organisation's objectives.
- The completeness, reliability and integrity of information, both financial and operational performance, including working alongside services in a 'critical friend' role to authenticate any self-assessment evidence of service performance and improvement.
- The systems formed to ensure compliance with policies, plans, procedures, laws and regulations whether established by the organisation or externally.
- The effectiveness of arrangements for safeguarding the organisation's assets and interests, including fraud prevention controls and detection processes.
- The economy, efficiency and effectiveness with which resources are deployed.
- The extent to which services' operational practices are being carried out as planned and objectives and goals are met.

Internal Audit's work covers:

- All activities, systems, processes, policies and protocols that currently exist or under development.
- All records, personnel and properties.
- All services and other activities for which the organisation is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

RIGHTS OF ACCESS

The Audit and Risk Manager and any member of the Internal Audit service are authorised in the performance of an audit engagement and have the authority to:

- Have access at any reasonable time to all computer systems and records (both paper and electronic).
- Require and receive explanations concerning any matter under examination from personnel relevant to their roles, including elected members or board members
- Enter at all reasonable times and without notice any properties provided that the terms of the lease are observed where such properties are leased to a third party.

- Require personnel to produce cash, stores, or other assets under their control.

Internal Audit safeguards all information obtained in the carrying out its duties, only uses it for defined purposes, and makes no disclosure of any information held, unless this is authorised or there is a legal/professional requirement to do so.

AUDIT RESOURCES AND WORK PRIORITISATION

The Moray Council's Internal Audit Annual Plan, as approved by the Audit and Scrutiny Committee, is the primary determinant of the relative priority to be placed on each part of the work of Internal Audit, with Internal Audit Annual Plans specific to the MIJB and the GVJB being approved and monitored by their respective 'senior management' and 'board'. The audit planning process, to determine the priorities of the Internal Audit activity consistent with the organisation's goals, includes consideration of the organisation's priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided. The Audit and Risk Manager determines the actual deployment of available resources covering the range and breadth of audit activity, which is integral to the assurance process across the activities of the Council, MIJB and GVJB in order to provide the statutory annual Internal Audit opinion to each organisation's 'senior management' and 'board'. This plan also requires to be sufficiently flexible to reflect the changing risks and priorities of each organisation.

The Audit and Risk Manager ensures that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Appropriate refers to the mix of qualifications, knowledge, skills and other competencies needed to perform the plan, such as compliance with the Code of Ethics set out in the PSIAS and with the Nolan principles established in the Seven Principles of Public Life. This is of particular importance and relevance for the profession of Internal Audit, founded as it is on the trust placed in its objective assurance about risk management, internal control and governance.

In the event that there is a need for additional audit work than there are resources available, the Audit and Risk Manager will identify the shortfall in the Plan and initially advise the Head of Governance, Strategy and Performance the Depute Chief Executive (Education, Communities and Organisational Development) followed by the Audit and Scrutiny Committee as required. It will be for the Audit and Scrutiny Committee to decide whether to accept the risks associated with the non-delivery of such audit work or to recommend to the Council that it requires Management to identify additional resources.

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 the best use of resources and inform the overall assessment of governance arrangements.

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.

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 Council takes the threat of fraud or related malpractice seriously and has adopted a Policy to Combat Fraud, Theft, Bribery and Corruption. In addition, a Whistle-blowing Policy has been developed in consultation with the Human Resources 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 of all employees and includes provisions for the declarations of interests, gifts and hospitality.

The Internal Audit service preserves its independence and objectivity by ensuring that: staff are free from any conflicts of interest when undertaking assurance audits by following the requirements of relevant professional bodies and HR policies; and by providing clarity on duties undertaken during audit consultancy engagements to ensure these do not impact on assurance audits and do not impair its independence and objectivity.

The Audit and Risk Manager has managerial responsibility for the corporate functions and resources, which develop, support and advise on the frameworks in place within the Council on Risk Management, Business Continuity and on Counter Fraud to support Management. In order to prevent a perceived impairment of objectivity and to ensure that Internal Audit independence and impartiality are maintained and demonstrated, no Internal Audit resources will be used in the performance of these functions.

OTHER PARTIES OUTWITH THE COUNCIL

The Council's Audit and Risk Manager is also the Chief Internal Auditor for the Moray Integration Joint Board and the Internal Auditor for the Grampian Valuation Joint Board. While separate and distinct governance arrangements apply to these bodies, the principles outlined in this Charter apply and are adopted in respect of all work completed by Internal Audit.

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 Audit and Risk Manager, senior management is the Corporate Management Team, and the Board is the Audit and Scrutiny Committee.

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