

Governance, Risk and Best Value Committee

10.00am, Thursday 28 January 2016

Internal Audit Charter Update

Item number	7.2
Report number	
Executive/routine	
Wards	All

Executive Summary

The Internal Audit Charter (Charter) sets out the scope of the Internal Audit function. The Charter also sets out the roles, responsibilities, objectives and reporting structures for the Internal Audit function.

The Public Sector Internal Audit Standards (PSIAS) require that the Charter be periodically updated presented for approval. The Internal Audit function has elected to update the Charter annually.

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Internal Audit Charter update

1. Recommendations

- 1.1 To approve the updated Internal Audit Charter.

2. Background

- 2.1 The attached Charter is an update of the existing Internal Audit Charter. Under the PSIAS, the chief audit executive must review the Internal Audit Charter periodically and present it to senior management and the board for approval. The Internal Audit function has elected to update the Charter annually.
- 2.2 Within the Council, the role of the chief audit executive is fulfilled by the Chief Internal Auditor, the role of senior management is fulfilled by the Corporate Leadership Team and the board role is undertaken by the GRBV.

3. Main report

- 3.1 The Charter sets out the role, scope and objectives of the Internal Audit function. It also sets out the framework for Internal Audit in the following areas:
 - 3.1.1 Independence & objectivity of the Internal Audit function;
 - 3.1.2 Professionalism of Internal Audit Officers;
 - 3.1.3 Authority and reporting lines of the Internal Audit Function;
 - 3.1.4 The internal audit plan and resourcing requirements;
 - 3.1.5 Responsibilities in connection with fraud and corruption; and
 - 3.1.6 The Quality Assurance & Improvement Programme.
- 3.2 The Charter has been refreshed to reflect the current Internal Audit team structure and to ensure that it complies with the latest CIPFA guidance on PSIASs. The following changes have been made:
 - 3.2.1 The role of the chief audit executive is fulfilled by the Chief Internal Auditor ('CIA'). CIA replaces 'Chief Internal Audit and Risk Officer' throughout. This reflects the increased level of separation between the Internal Audit & Risk teams since the previous update in January 2015.

- 3.2.2 The role of senior management is now fulfilled by the Corporate Leadership Team ('CLT'). CLT replaces 'Corporate Management Team' throughout.
- 3.2.3 Internal Audit have adopted and set out the definition of 'assurance services' to ensure that the charter meets the most recent guidance.
- 3.2.4 The guidance surrounding 'Clearance meetings' in Appendix 1 has been amended to ensure consistency with our current practise.

4. Measures of success

- 4.1 A robust and independent Internal Audit function that is compliant with the PSIAS. The Audit Charter is a key component in ensuring that an appropriate governance structure is in place to allow the Internal Audit function to be compliant.

5. Financial impact

- 5.1 None.

6. Risk, policy, compliance and governance impact

- 6.1 Approval of this Charter will assist the Internal Audit service to operate within PSIAS requirements.

7. Equalities impact

- 7.1 None.

8. Sustainability impact

- 8.1 None.

9. Consultation and engagement

- 9.1 None.

10. Background reading/external references

- None.

Hugh Dunn

Acting Executive Director of Resources

Contact: Magnus Aitken, Chief Internal Auditor

Email: magnus.aitken@edinburgh.gov.uk | 0131469 3143

Links

Coalition pledges

Council outcomes CO25 - The Council has efficient and effective services that deliver on objectives.

Single Outcome Agreement

Appendices Appendix 1: Internal Audit Charter

**THE
CITY OF EDINBURGH
AUDIT AND REVIEW SERVICE**

INTERNAL AUDIT CHARTER

Version 3



November 2015

CITY OF EDINBURGH COUNCIL

INTERNAL AUDIT CHARTER

Purpose

The objective of Internal Audit is to provide a high quality independent audit service to the City of Edinburgh Council (CEC) which provides annual assurance in relation to internal controls and overall governance arrangements.

Internal Audit helps ensure an appropriate level of risk management and control is in place within CEC. Internal Audit adds value by reviewing the financial and business processes throughout CEC and objectively assessing the effectiveness of the control processes established by Management based on its knowledge and experience.

The purpose of this charter is to set out the role, responsibilities, objectives and authority of Internal Audit within CEC and to outline the scope of their work. The responsibilities of Internal Audit and its Auditees in respect of individual audit assignments are detailed in **Appendix 1**.

Role and Scope

The role of Internal Audit is to act as an independent, objective assurance and consulting function, designed to add value and improve the operational effectiveness of CEC.

The Internal Audit function is established by the Governance Risk and Best Value Committee (GRBV). The scope of Internal Audit is defined by the GRBV as part of its oversight role.

The Internal Audit scope covers all activities of CEC, and the external parties listed in **Appendix 2**. Internal Audit will execute a schedule of audit work designed to meet its objectives and provide assurance which will assist management in establishing and monitoring appropriate risk management and internal control procedures over all operational controls (both financial & non-financial), to help ensure that business objectives are achieved.

The nature of evolving business risks makes it likely that assignments may need to be completed outside of the scope of the annual audit plan and consequently Internal Audit will be flexible in their response to such changes. Variations from the annual audit plan will be discussed with the GRBV who will monitor and review the performance of Internal Audit.

Definitions

The Public Sector Internal Audit Standards (PSIAS) requires that all public sector Internal Audit charters define the terms 'Chief Audit Executive (CAE)', 'Senior Management' and 'Board'

Within CEC, the role of the 'CAE' is fulfilled by the Chief Internal Auditor (CIA), the role of the 'Chief Financial Officer' is fulfilled by the Head of Finance (who is also the Section 95 Officer), the role of the 'Senior Management' is fulfilled by the CEC's Corporate Leadership Team (CLT) and the 'Board' role is undertaken by GRBV.

CEC have adopted the PSIAS definition of internal auditing as follows:

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation establish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'

CEC have adopted the PSIAS definition of assurance services as follows:

'An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.'

CEC have adopted the PSIAS definition of consulting services as follows:

'Advisory and Auditee related service activities, the nature and scope of which are agreed with the Auditee, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.'

Objectives & Responsibilities of Internal Audit

The primary objective of Internal Audit is to independently review, appraise and report upon the adequacy and effectiveness of the system of risk management and internal controls as a contribution to the proper, economic, efficient and effective use of resources.

Internal Audit, therefore, has unrestricted access to all activities undertaken in CEC, in order to independently review, appraise and report on:

- the adequacy and effectiveness of the systems of financial, operational and management control and their operation in practice in relation to the business risks to be addressed;
- the extent of compliance with, relevance of, and financial effect of, policies, standards, plans and procedures established by the Council and the extent of compliance with external laws and regulations, including reporting requirements of regulatory bodies;
- the extent to which the assets and interests are acquired economically, used efficiently, accounted for and safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, poor value for money, fraud or other cause and that adequate business continuity plans exist;
- the suitability, accuracy, reliability and integrity of financial and other management information and the means used to identify measure, classify and report such information;
- the integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud and loss of all kinds; and that the process aligns with CEC's strategic goals;
- the follow-up action taken to remedy weaknesses identified by Internal Audit review, ensuring that good practice is identified and communicated widely;
- the operation of CEC's corporate governance arrangements; and
- CEC Internal Audit evaluates the risk of fraud as part of the audit work performed. Where required, the role of Internal Audit is to provide support to the officers appointed to investigate potential fraud cases.

It is the responsibility of the CIA to provide an independent and objective opinion annually on the overall adequacy and effectiveness of CEC's framework of governance, risk management and control. The CIA's annual report will be presented to GRBV.

In addition to the primary assurance role, Internal Audit will if requested, support the Chief Executive Officer, the Section 95 Officer and the Monitoring Officer in discharging their responsibilities.

Internal Audit will ensure that it conduct its work with due professional care and in line with the requirements of the Public Sector Internal Audit Standards' (PSIAS) or other relevant professional standards.

When dealing with an external party, Internal Audit will clearly define the respective roles, responsibilities and other expectations (including restrictions on distribution of results of the engagement and access to engagement records).

Authority

Internal Audit derives its authority from the GRBV of the Council and the Council's CLT.

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised by the CLT and gives full, free, and unrestricted access to any and all of the Council's records, assets, physical properties, and personnel pertinent to carrying out any engagement. All Officers are required to assist the Internal Audit activity in fulfilling its roles and responsibilities. Internal Audit will also have free and unrestricted access to all Officers, the CLT and GRBV.

GRBV will review the scope and nature of the Internal Audit plan and receives summaries of the results of the work completed including assessments of the standard of controls in each area of the Council as well as a status report covering the implementation of agreed recommendations.

Internal Audit does not perform operational tasks as this would impair its objectivity; neither has it any direct responsibility for, nor authority over, the activities it reviews.

Professionalism

Internal Audit will govern itself by adherence to the PSIAS mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of Internal Audit's performance.

The CIA is expected to report conformance on the PSIAS in the annual report.

Internal Audit operates within the code of ethics set out by the PSIAS. The four principles contained within the code are: Integrity, Objectivity, Confidentiality and Competency.

In addition, Internal Audit will adhere to CEC's relevant policies and procedures and Internal Audit's standard operating procedures manual.

Independence and Objectivity

Internal Audit will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content, to permit maintenance of the necessary independent and objective mental attitude.

The PSIAS requires the CIA to report to a level within the organisation which allows Internal Audit to fulfil its responsibilities and ensure that organisational independence is maintained. Within CEC, the CIA reports to the Director of Corporate Governance, the Chief Executive Officer and GRBV. The CIA is however ultimately solely responsible to GRBV.

In order to maintain auditor independence, internal auditors will have no operational responsibility or authority over any of the activities audited in order to prevent any conflicts of interest. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgment. In addition, internal auditors will not be permitted to audit any activities for which they have previously been responsible within a period of 1 year.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The CIA will confirm to the GRBV at least annually the organisational independence of Internal Audit. The CIA will also inform the Convener of the GRBV of any real or potential impairment of organisational independence.

Internal Audit Plan

Annually, the CIA will submit to the GRBV an internal audit plan, designed with the objective of giving an evidence based opinion, for their review and approval.

This plan will be developed, based on a prioritisation of the audit universe using a risk-based methodology, including input from the Chief Executive, the Monitoring Officer, the Director of Corporate Governance, the Chief Risk Officer, the CLT & the GRBV.

The audit plan will be kept under review and any significant deviation from the approved internal audit plan (due to emerging risks, fraudulent activity or other factors that result in changes to planned Internal Audit or consulting activities) will be reported through the quarterly Internal Audit monitoring process to CLT and GRBV.

Resourcing

The CIPFA Local Government Application note for applying UK Public Sector Internal Auditing Standards states that *'No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence based opinion. Local factors within each organisation will determine this minimum level of coverage.'*

Audit Scotland have advised that that they expect a risk based internal audit plan to be prepared and that they would expect sufficient resources to be in place to accommodate all high risk items identified.

The CEC internal audit plan will reflect Audit Scotland's requirements and include budgeted resource requirements for the following year. It will also include a contingency to address unplanned work. Should circumstances arise during the year that suggests that available resource levels will fall or appear to be falling below the level required to deliver the plan, the CIA will communicate the impact of resource limitations and significant interim changes to the GRBV.

Management Responsibility

The CLT is responsible for the CEC's systems of internal control to ensure that CEC's resources are properly applied in the manner and on the activities intended as detailed in the Financial Regulations.

Management will co-operate with Internal Audit on assignments and provide access to records, systems and staff as required within a reasonable timeframe following the request.

Where an audit report is delivered, management are required to provide formal responses to all recommendations, including specifying responsibility and anticipated dates for the implementation of the solutions within two weeks of the draft report being issued. They are also responsible for the implementation of the solutions and this implementation will be monitored and subject to follow-up review.

Reporting and Monitoring

All audit and consulting assignments will be the subject of formal reports or formal management letters. Draft reports will be sent to the responsible management for agreement as to the factual accuracy of findings and for their completion of action plans. After agreement, the reports will be issued to the relevant department.

It is for management to accept and implement internal audit findings and recommendations, or to accept the risk resulting from not taking action. However, the CIA will escalate to GRBV any areas where management intend to accept risk, where it is felt that the risk should not or need not be borne.

The Internal Audit team will track the implementation of agreed management actions and seek to confirm that they have been undertaken within the agreed timescale.

Internal Audit reports regularly on the results of its work to CLT and the GRBV. The CIA is accountable to the GRBV for:

- providing regular assessments of the adequacy and effectiveness of the organisation's systems of risk management and internal control based on the work of Internal Audit;
- reporting significant control issues and potential for improving risk management and control processes;
- periodically providing information on the status and results of the annual audit plan, the status of agreed management actions which are past their agreed implementation date and the sufficiency of Internal Audit resources.

Fraud and Corruption

Management is responsible for the prevention and detection of fraud or corruption. Internal Audit will assist management in the discharge of this responsibility.

Audit procedures alone cannot guarantee that fraud or corruption will be detected. The Internal Audit will however exercise an appropriate level of professional skepticism during audit field work and be alert to risks and exposures that could allow fraud or corruption to occur.

Discovery of any fraud or irregularity that affects CEC's affairs should be reported immediately to the CIA as specified within CEC's Fraud Prevention, Anti-Bribery Policies and the Employee Code of Conduct, to inform the annual audit opinion and the risk based plan.

Quality Assurance and Improvement Programme

Internal Audit will maintain a quality assurance and improvement programme that covers all aspects of Internal Audit activity. The programme will include an evaluation of the Internal Audit's conformance with the Public Sector Internal Audit Standards and an evaluation of whether internal

auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of Internal Audit and identifies opportunities for improvement.

The CIA is also responsible also for providing periodically a self-assessment of Internal Audit as regards its consistency with the Audit Charter (purpose, authority, and responsibility) and performance relative to its Plan.

The CIA will communicate to the CLT and the GRBV on Internal Audit's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years.

Approval

This charter is subject to approval by the Governance, Risk and Best Value Committee on an annual basis.

Signed by:

Chief Internal Auditor:

Convener of the Governance, Risk & Best Value Committee:

Content approved by the Governance, Risk & Best Value Committee: 28 January 2016

Key Audit Stages, Responsibilities and Timetable

Area	Principles	Further guidance
Planning the audit	Agreeing the audit scope and objectives	<ul style="list-style-type: none"> • Internal Audit will determine and make arrangements for sufficient resources to achieve audit engagement objectives. This will be based on an evaluation of the nature and complexity of each engagement, time constraints and available resources. • An initial planning meeting will be held between Internal Audit and the responsible Director/ Manager for each review. The planning meeting will be held in advance of the audit fieldwork commencing. The purpose of the meeting will be to agree the scope and objectives for the review, requirements during the audit and a reporting and closeout timetable. • The responsible Director/Manager will identify the personnel who have the relevant knowledge and are best placed to answer questions in relation to the audit scope. The Director/Manager will be responsible for notifying these staff of the audit scope and any other requirements agreed with Internal Audit during the planning meeting. • Internal Audit shall be responsible for organizing meetings with relevant staff
Audit fieldwork and planning	Timely communication of issues identified during fieldwork	<ul style="list-style-type: none"> • The Auditee will be informed of the progress of the audit on a regular basis. • Any issues identified during the fieldwork by Internal Audit will be discussed with the relevant staff to ensure that they are accurate and proposed recommendations are valid and achievable. • Any material issues (Critical) will be raised by Internal Audit with the commissioning Director/Manager immediately as they arise.
Reporting	Closeout meeting to discuss and agree the internal audit report	<ul style="list-style-type: none"> • A closeout meeting will be undertaken with the Director/Manager at the end of audit fieldwork. • Internal Audit will provide the responsible Director/Manager with a copy of the draft report within 2 weeks of completing the fieldwork.

Area	Principles	Further guidance
Reporting	Management response to internal audit report	<ul style="list-style-type: none"> The responsible Director/Manager will have 2 weeks to provide management comments. During this period, where appropriate, the responsible Director should consult with the Director of Corporate Governance and/or the CLT on the findings and recommendations in the Internal Audit report. Internal Audit will issue the final report within 1 week of receipt of management comments to the responsible Director, Audit Scotland and if appropriate, the Chief Executive, Director of Corporate Governance & the Head of Legal, Risk & Compliance.
Reporting	Reporting of internal audit findings to the CMT	<ul style="list-style-type: none"> Two weeks before the GRBV Committee meeting, the CIA and CLT will meet to review the internal audit findings being reported to the GRBV committee and advise the GRBV committee which commissioning Director (or another appropriate member of staff) should attend the GRBV committee meeting.
	Reporting of internal audit findings to the GRBV Committee	<ul style="list-style-type: none"> Internal Audit shall prepare an internal audit update report quarterly for the GRBV committee. The update report will summarize the findings arising from each finalized internal audit report. It will also include progress on implementation of critical or high internal audit recommendations.
Follow up	Monitoring the implementation of internal audit recommendations	<ul style="list-style-type: none"> A questionnaire will be issued to be completed by the Auditee to allow opportunity to comment directly to the CIA on the satisfaction of the audit service provided. This forms part of the Internal Audit Quality Review program. Internal audit will track the status of all open recommendations. Medium- & high-rated recommendations that are overdue will be reported to the GRBV committee on a quarterly basis. Internal Audit will advise departments at least quarterly of all open recommendations and invite departments to provide evidence that the recommendations have been actioned.

External bodies for which CEC Internal Audit carries out internal audit work

- Lothian & Borders Criminal Justice Authority
- Lothian Valuation Joint Board
- South East of Scotland Transport Partnership
- The Royal Edinburgh Military Tattoo (Charities) Limited