

Governance, Risk and Best Value Committee

10.00am, Thursday, 9 March 2017

Internal Audit Charter Update

Item number	7.4
Report number	
Executive/routine	
Wards	All

Executive Summary

The Internal Audit Charter (the 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 and presented for approval. The Internal Audit function has elected to update the Charter annually.

Links

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Council outcomes

[CO25](#)

Single Outcome Agreement

Internal Audit Charter update

1. Recommendations

- 1.1 To approve the revised 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 Governance, Risk and Best Value Committee (GRBV).
- 2.3 Internal Audit normally presents the Charter for approval in February each year but this year, Internal Audit elected to await the results of the External Quality Assessment (EQA) being undertaken by the internal audit function of North Lanarkshire under the auspices of the Scottish Local Authorities Chief Internal Auditors Group, in case this EQA made any recommendations that impacted upon the Charter. In the event the EQA did not make any such recommendations. The outcome of the EQA is considered further in Internal Audit's March 2017 Quarterly Update.

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 and 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 reviewed and minor amendments made to refresh it for 2017/18. The amendments made are:
- 3.2.1 The section covering 'Independence and Objectivity' has been amended to reflect Internal Audit's direct reporting line to the Head of Legal & Risk under the current Council structure.
 - 3.2.2 Appendix 1 has been amended to reflect the Major Project Assurance reviews that we will shortly commence undertaking (see the 2017/18 Internal Audit Plan for further details). It has also been updated to recognise that we are currently reporting to CLT four weeks in advance of GRBV rather than two.
 - 3.2.3 Appendix 2 has been updated to reflect the audit work that we conduct for the Edinburgh Integration Joint Board. It is anticipated that the Lothian and Borders Community Justice Authority will be removed at the next update after its planned dissolution this year but as we have yet to complete our final commitment to the Lothian and Borders Community Justice Authority, it is retained in the current version.

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

10.1 None.

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11. Links

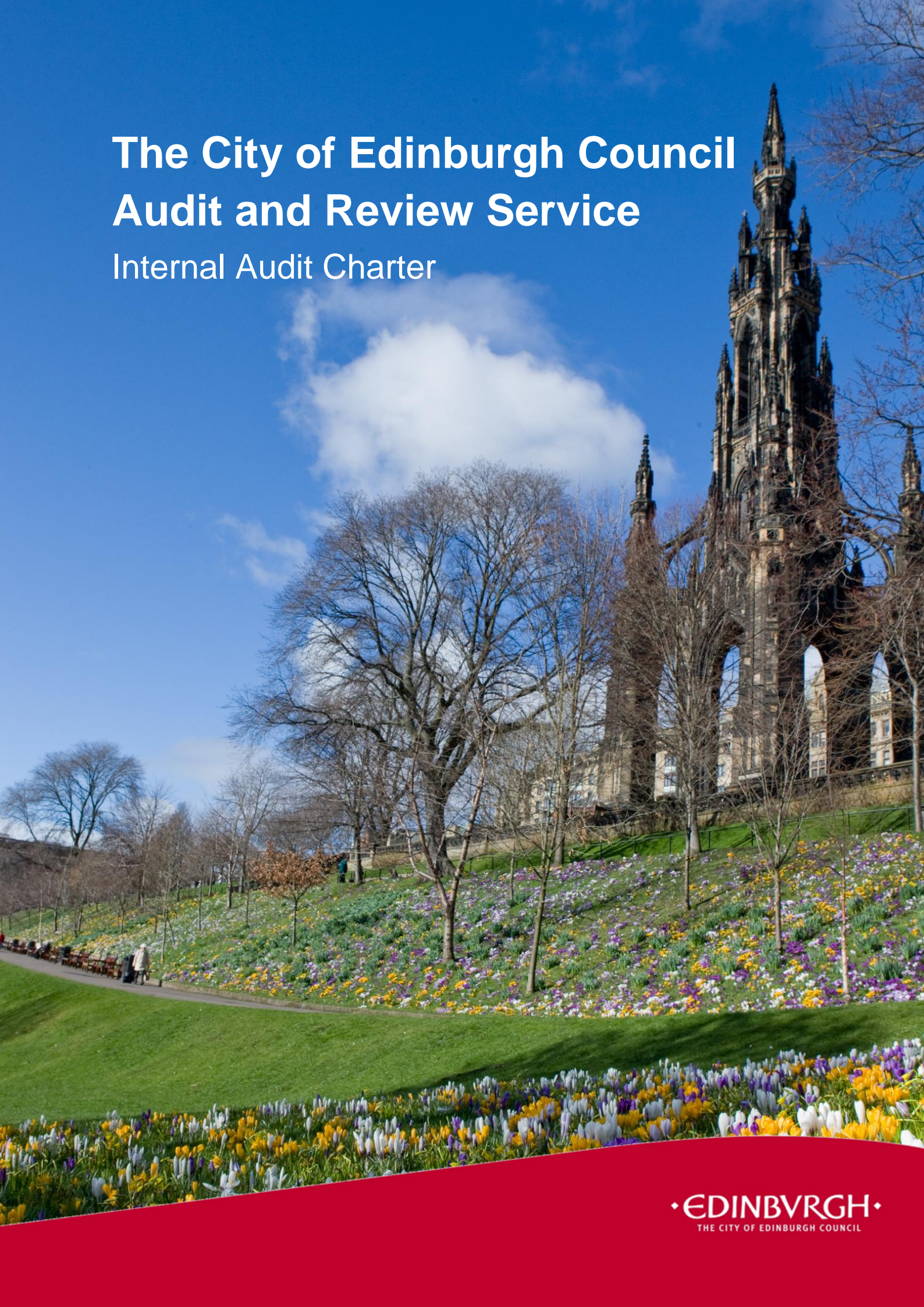
Coalition pledges

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 Council Audit and Review Service Internal Audit Charter



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Executive Summary

This Charter sets out the purpose, scope, authority and responsibility of the City of Edinburgh Council's (the Council) Internal Audit function in accordance with the Public Sector Internal Audit Standards (PSIAS). The PSIAS, which are applicable across the whole of the public sector are intended to ensure sound corporate governance and set out roles and responsibilities with regard to delivery of internal audit services

The main objective of Internal Audit is to provide, in accordance with the PSIAS, a high quality, independent audit service to the Council which provides assurance in relation to internal controls and overall governance arrangements.

In addition to this primary role, Internal Audit will also:

- Support the Chief Executive in the discharge of his duties
- Support the Executive Director of Resources in undertaking his duties as the 'Section 95 Officer'
- Support the Monitoring Officer in undertaking his duties
- Advise on the internal control implications of system or process changes within the Council
- Assist the Council management in their duties to prevent and detect fraud and corruption
- Aim to add value to the Council management in all of its undertakings.

The PSIAS recognises that internal audit's remit extends to the entire control environment of the organisation and not just to financial controls.

Purpose of Internal Audit

The objective of Internal Audit is to provide a high quality independent audit service to the Council, in accordance with the requirements of PSIAS, which provides assurance over the control environment and overall governance arrangements.

Internal Audit helps ensure that an appropriate level of risk management and control is in place within the Council. Internal Audit adds value by reviewing the financial and business processes and objectively assessing the effectiveness of the controls, established by Management.

The purpose of this charter is to set out the role, responsibilities, objectives and authority of Internal Audit within the Council 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 the Council.

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

The Internal Audit scope covers all the Council's activities, and the activities of 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 controls (both financial and 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. Significant variations from the annual audit plan will be considered by GRBV who will monitor and review the performance of Internal Audit.

Definitions

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

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

The Council has 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.'

The Council has 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.'

The Council has 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 and 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, requires and has unrestricted access to all activities undertaken in the Council, 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 risks facing the Council
- 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 the Council’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 the Council’s corporate governance arrangements
- The Council’s 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 the Council’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, 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 Council's full Council and the CLT.

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised by the CLT to have 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 Internal Audit in fulfilling its roles and responsibilities. Internal Audit will also have free and unrestricted access to all Officers, the CLT and GRBV.

CLT and 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 control environment 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 comply with the PSIAS mandatory guidance including the Definition of Internal Auditing and the Code of Ethics. 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 the Council'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 the Council, the CIA reports to the Head of Legal & Risk, the Chief Executive and the GRBV. The CIA is however ultimately responsible to the 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 one 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 Executive Director of Resources, the Chief Risk Officer, the CLT and 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 Council's 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 Council's systems of internal control to ensure that the Council'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. 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 the Council's affairs should be reported immediately to the CIA as specified within the Council's Fraud Prevention Policies, 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 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 and Best Value Committee:

Content approved by the Governance, Risk and Best Value Committee: 9 March 2017

Appendix 1

Key Audit Stages, Responsibilities and Timetable

Area	Principles	Further guidance
Planning the audit or project assurance review	Agreeing the scope and objectives	<ul style="list-style-type: none"> Internal Audit will determine and make arrangements for sufficient resources to achieve the audit or review objectives. This will be based on an evaluation of the nature and complexity of each audit or review, time constraints and available resources. An initial planning meeting will be held between Internal Audit and the responsible Director/ Manager for each audit or 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 audit or review, requirements during the process 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 or review scope. The Director/Manager will be responsible for notifying these staff of the 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/review fieldwork	Timely communication of issues identified during fieldwork	<ul style="list-style-type: none"> The auditee/reviewee 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 responsible Director/Manager immediately as they arise.
Reporting	Closeout meeting to discuss and agree the 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 two weeks of completing the fieldwork.

Area	Principles	Further guidance
Reporting	Management response to the report	<ul style="list-style-type: none"> The responsible Director/Manager will have two weeks to provide management comments. During this period, where appropriate, the responsible Director should consult with the Director of Resources and/or the CLT on the findings and recommendations in the report. Internal Audit will issue the final report within one week of receipt of management comments to the responsible Director, Audit Scotland and if appropriate, the Chief Executive, the Executive Director of Resources and the Head of Legal & Risk.
Reporting	Reporting of findings to the CLT	<ul style="list-style-type: none"> Four weeks before the GRBV Committee meeting, the CIA and CLT will meet to review the internal audit findings being reported to the GRBV Committee.
Reporting	Reporting of 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 summarise the findings arising from each finalised report.
Follow up	Monitoring the implementation of recommendations	<ul style="list-style-type: none"> Internal audit will track the status of all open recommendations. Medium- and 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.
Follow up	Auditee/reviewee feedback	<ul style="list-style-type: none"> A questionnaire will be issued to be completed by the auditee/reviewee 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.

Appendix 2

External bodies for which the City of Edinburgh Council Internal Audit carries out internal audit work

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