

# Governance, Risk and Best Value Committee

10.00am, Tuesday 20 March 2018

## Internal Audit Charter – Annual Update

Item number	7.3
Report number	
Executive/routine	
Wards	
Council Commitments	

### Executive Summary

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The purpose of this paper is to present the revised Internal Audit (IA) Charter for 2018/19 to the Governance, Risk and Best Value Committee for approval.

Public Sector Internal Audit Standards (the “Standards”) specify that the purpose, authority, and responsibility of Internal Audit (IA) must be formally defined in an Internal Audit Charter (the “Charter”) that is periodically reviewed, and presented to senior management (the Corporate Leadership Team (CLT) and the board (the Governance, Risk, and Best Value Committee) for approval. The Council’s IA charter fulfils this requirement.

## Internal Audit Charter Update

### 1. Recommendations

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- 1.1 The Committee is requested to review and approve the refreshed 2018/19 IA Charter.

### 2. Background

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- 2.1 The Standards specify (at section 1000) that the purpose, authority, and responsibility of IA must be formally defined in a charter that is periodically reviewed, and presented to senior management and the board for approval.
- 2.2 The Standards state that the IA Charter must also define the terms 'board' and 'senior management' for the purposes of IA activity; cover arrangements for appropriate resourcing; define the role of IA in any fraud-related work; and include arrangements for avoiding conflicts of interest if IA audit undertakes non-audit activities.
- 2.3 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 CLT, and the board role is undertaken by the GRBV.
- 2.4 The IA charter is presented to both the CLT and GRBV annually in March for scrutiny and approval.

### 3. Main report

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- 3.1 The Charter specifies the authority; role; scope; and objectives of IA and outlines the IA operational framework. The content covers the following specific areas:
  - 3.1.1 Objectives and responsibility;
  - 3.1.2 Authority;
  - 3.1.3 Professionalism;
  - 3.1.4 Independence and objectivity (including reporting lines);
  - 3.1.5 Annual plan and resourcing;
  - 3.1.6 Management responsibility;
  - 3.1.7 Reporting and monitoring;
  - 3.1.8 Responsibilities in relation to fraud and corruption; and
  - 3.1.9 The Quality Assurance and Improvement Programme.

- 3.2 The Charter has been reviewed and appropriate amendments made to refresh it for 2018/19. The amendments made are set out in the revision marked document attached in Appendix 1 to this report. A clean version is attached in Appendix 2. In addition to the minor changes made, Committee is asked the note the following:
- 3.2.1 The Executive Summary and Definitions sections (pages 3 and 4) have been updated to reflect that the section 95 statutory responsibilities are performed by the Council's Head of Finance.
  - 3.2.2 IA's authority has been updated to include two changes. The first reflects the ability for IA to raise findings where significant control gaps are identified out with the scope of audit reviews included in the IA annual plan. This allows IA to readily highlight any major weaknesses. The second change reflects the authority of IA to review and report on the adequacy of the content of the annual governance attestations prepared by the Chief Executive and the Executive Directors, to confirm whether they appropriately reflect the outcomes of completed audit work and progress with implementation of agreed management actions.
  - 3.2.3 The section on Independence and Objectivity now reflects IA reporting lines through the Head of Legal and Risk and statutory Monitoring Officer, to the Executive Director of Resources. This section also states that IA should not have responsibility for any operational processes to ensure that independence and objectivity is maintained. Additional narrative has also been included detailing how IA independence will be maintained where consultancy services are provided, as per the requirements of the standards.
  - 3.2.4 The IA Plan section has been updated to reflect that the plan is annual, with input provided by both elected members and senior officers of the Council.
  - 3.2.5 Resourcing now reflects the requirement for the Chief Internal Auditor to communicate the impact of resource limitations and significant interim changes in the team to both the CLT and GRBV, rather than just to GRBV.
  - 3.2.6 Reporting and monitoring and Appendix 1 to the Charter have been updated to reflect that follow-up of implementation of management recommendations will be performed monthly, and that IA may include a historic validation review in the annual plan to confirm whether historic management actions implemented to address control gaps have been effectively sustained.
  - 3.2.7 Appendix 2 to the Charter has been updated to reflect that audit assurance is no longer provided to the Lothian and Borders Community Justice Authority, which has now been dissolved.

#### **4. Measures of success**

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- 4.1 A robust and independent IA function that is fully compliant with the Standards. The Audit Charter is a key component in ensuring that an appropriate governance structure is in place enabling ongoing IA compliance.

## **5. Financial impact**

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5.1 There is no direct financial impact arising from this report.

## **6. Risk, policy, compliance and governance impact**

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6.1 Approval of the Charter will enable IA to operate within the requirements specified in the Standards.

## **7. Equalities impact**

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7.1 None.

## **8. Sustainability impact**

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8.1 None.

## **9. Consultation and engagement**

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9.1 The draft Charter has been reviewed and approved by the Corporate Leadership Team prior to submission to the Governance, Risk and Best Value Committee.

## **10. Background reading/external references**

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10.1 [Public Sector Internal Audit Standards](#)

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## **11. Appendices**

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Appendix 1 – 2018/19 Internal Audit Charter showing proposed changes

Appendix 2 - 2018/19 Internal Audit Charter showing proposed changes (clean version)

# The City of Edinburgh Council

## ~~Audit and Review Service~~

Internal Audit Charter 2018–2019

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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 ("IA") function in accordance with the Public Sector Internal Audit Standards (PSIAS). The PSIAS, ~~which~~ are applicable across the whole of the public sector ~~and~~ are intended to ensure sound corporate governance and set out roles and responsibilities with regard to delivery of ~~internal audit~~ IA services

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

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

- Support the Chief Executive ~~as the Council's statutory Head of Paid Service~~ in the discharge of ~~his~~ their duties;
- Support the ~~Executive Director~~ Head of ~~Resources in undertaking his duties~~ Finance as the ~~Council's statutory Chief Finance Officer in undertaking their duties as the~~ 'Section 95 Officer';
- Support the ~~Head of Legal and Risk as the Council's statutory~~ Monitoring Officer in undertaking ~~his~~ their 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; ~~and~~
- Aim to add value to the Council management in all of its undertakings.

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

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## 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 ~~established to manage the Council's key risks~~ and overall governance arrangements.

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Internal Audit helps ensure that an appropriate level of risk management and control is in place within the Council. ~~Internal Audit, and~~ 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.

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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 and scrutiny role.

The Internal Audit scope covers all ~~the Council's~~ Council activities, and the activities of external parties listed in **Appendix 2**. Internal Audit will ~~execute a~~ deliver an annual 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~~ the Council's strategic and operational 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 the that all public sector Internal Audit charters define the terms 'Chief Audit Executive (CAE)', 'Senior Management' and 'Board'

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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~~ Council's Head of Resources Finance (who is ~~also~~ the designated statutory 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, that 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.

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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 any weaknesses identified by Internal Audit review, ensuring that good practice is identified and communicated widely;
- the operation of the Council's corporate governance arrangements; and
- 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.

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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.

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

Internal Audit will ensure that it ~~conduct~~conducts 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 Corporate Leadership Team (CLT).

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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~~receive 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 also has the authority to raise findings in relation to any control gaps identified that could expose the Council to significant risk where these are identified outwith the scope of audit reviews included in the Internal Audit annual plan.

Internal Audit will also review and report on the content of the annual governance attestations prepared by the Council's Chief Executive and the Executive Directors to confirm whether the content in relation to effective management of risk and control across the services delivered by the Council appropriately reflects the outcomes of completed audit work and progress with implementation of agreed management actions.

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.

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## 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.

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The CIA is expected to report ~~conformance~~ on ~~the~~ PSIAS compliance 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.

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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

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

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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 ~~& and~~ Risk, the ~~Executive Director of Resources, the~~ Chief Executive and ~~the~~ GRBV. The CIA is however ~~ultimately professionally~~ responsible ~~and accountable to GRBV for the GRBV~~ performance of their functions.

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 ~~perform operational processes,~~ implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair ~~the internal auditor's~~ judgment ~~or independence.~~ 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.

~~Where consulting services are provided, the Internal Audit role will be specifically restricted to providing guidance, views and opinions. To comply with PSIAS independence requirements Internal Audit will not be involved in any aspects of operational decisions subsequently taken by management.~~

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.

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## Internal Audit Plan

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

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This plan will be developed, based on a prioritisation of the audit universe using a risk-based methodology, including input, as a minimum, from Elected Members, the Chief Executive, the Monitoring Officer, ~~the~~ Executive Director of Resources, the Head of Legal and Risk (statutory Monitoring Officer), the Head of Finance (statutory section 95 Chief Financial Officer), 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'*.

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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 both the CLT and 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.~~

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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~~ Service Areas.

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It is ~~for management~~ management's responsibility 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~~ intends to accept the risk, where it is ~~felt~~ considered that the risk should not or need not be borne.

The Internal Audit team will track and report against the implementation of agreed management actions on a regular basis and seek to confirm that they have been undertaken within the agreed timescale. This will involve a review of evidence provided by management to support implementation of agreed management actions, and reperformance testing (where necessary). Additionally, IA may opt to include a 'validation' audit in the annual plan that will challenge and confirm whether historic management actions implemented to address control gaps and mitigate risks have been appropriately sustained and embedded.

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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 Council'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; and.
- 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.

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## Fraud and Corruption

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

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Audit procedures alone cannot guarantee that all 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 compliance with PSIAS requirements and an evaluation of whether internal auditors apply the Code of Ethics. The

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programme also assesses the efficiency and effectiveness of Internal Audit and identifies opportunities for improvement.

The CIA is also responsible also for providing ~~periodically~~ as periodic 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.

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### Signed by:

Chief Internal Auditor:

Convener of the Governance, Risk and Best Value Committee:

Content approved by the Governance, Risk and Best Value Committee: ~~920~~ March  
~~2017~~2018

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## Appendix 1

## Key Audit Stages, Responsibilities and Timetable

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

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Area	Principles	Further guidance
Reporting	Management response to <del>the</del> internal audit report	<ul style="list-style-type: none"> <li>The responsible Director/Manager will have two weeks to provide management comments. <del>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.</del></li> <li>Internal Audit will issue the final report within one week of receipt of management comments to the responsible <u>Executive</u> Director, Audit Scotland and if appropriate, the Chief Executive, the Executive Director of Resources and the Head of Legal <u>&amp;and</u> Risk.</li> </ul>
Reporting	Reporting of <u>internal audit</u> findings to the CLT	<ul style="list-style-type: none"> <li>Four weeks before the GRBV Committee meeting, <del>the</del> CIA and CLT will meet to review the internal audit findings being reported to the GRBV Committee.</li> </ul>
Reporting	Reporting of <u>internal audit</u> findings to the GRBV Committee	<ul style="list-style-type: none"> <li>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 <u>internal audit</u> report.</li> </ul>
Follow up	Monitoring the implementation of <u>internal audit</u> recommendations	<ul style="list-style-type: none"> <li>Internal audit will track the status of all open recommendations- <u>on a regular basis</u>. Medium- and high-rated recommendations that are overdue will be reported to the GRBV committee on a quarterly basis. Internal Audit will <u>regularly</u> advise departments- <del>at least quarterly</del> of all open recommendations and invite departments to provide evidence that the recommendations have been actioned. <u>Reperformance testing will be performed where considered necessary.</u></li> <li><u>Sustainability of previously implemented agreed management actions will be assessed via a historic validation review that will be included in the annual plan at an appropriate frequency.</u></li> </ul>
Follow up	Auditee/ <del>reviewee</del> feedback	<ul style="list-style-type: none"> <li>A questionnaire will be issued to be completed by <del>the</del> <u>auditee/reviewee</u> <u>Auditee</u> 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.</li> </ul>

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## 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

# The City of Edinburgh Council

## Internal Audit Charter 2018–2019



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

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

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

- Support the Chief Executive as the Council's statutory Head of Paid Service in the discharge of their duties;
- Support the Head of Finance as the Council's statutory Chief Finance Officer in undertaking their duties as the 'Section 95 Officer';
- Support the Head of Legal and Risk as the Council's statutory Monitoring Officer in undertaking their 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; and
- Aim to add value to the Council management in all of its undertakings.

The PSIAS recognise 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 established to manage the Council's key risks and overall governance arrangements.

Internal Audit helps ensure that an appropriate level of risk management and control is in place within the Council, and adds value by reviewing the financial and business processes and objectively assessing the effectiveness of 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 full Council. The scope of Internal Audit is defined by the Governance, Risk and Best Value Committee (GRBV) as part of its oversight and scrutiny role.

The Internal Audit scope covers all Council activities, and the activities of external parties listed in **Appendix 2**. Internal Audit will deliver an annual 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 the Council's strategic and operational objectives are achieved.

The nature of evolving 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 Council's Head of Finance (who is the designated statutory 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, that 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, evaluate 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 any weaknesses identified by Internal Audit review, ensuring that good practice is identified and communicated widely;
- the operation of the Council's corporate governance arrangements; and
- 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 statutory Section 95 Officer and the statutory Monitoring Officer in discharging their responsibilities.

Internal Audit will ensure that it conducts its work with due professional care and in line with the requirements of the Public Sector Internal Audit Standards' 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 full Council and the Corporate Leadership Team (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 receive 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 also has the authority to raise findings in relation to any control gaps identified that could expose the Council to significant risk where these are identified outwith the scope of audit reviews included in the Internal Audit annual plan.

Internal Audit will also review and report on the content of the annual governance attestations prepared by the Council's Chief Executive and the Executive Directors to confirm whether the content in relation to effective management of risk and control across the services delivered by the Council appropriately reflects the outcomes of completed audit work and progress with implementation of agreed management actions.

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 on PSIAS compliance 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

To ensure maintenance of Internal Audit independence and objectivity, Internal Audit will remain free from interference from anyone within the Council in relation to audit selection, scope, procedures, frequency, timing, and report content.

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 and Risk, the Executive Director of



Resources, the Chief Executive and GRBV. The CIA is however professionally responsible and accountable to GRBV for the performance of their functions.

In order to maintain 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 perform operational processes, implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair judgment or independence. 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.

Where consulting services are provided, the Internal Audit role will be specifically restricted to providing guidance, views and opinions. To comply with PSIAS independence requirements Internal Audit will not be involved in any aspects of operational decisions subsequently taken by management.

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 for the following audit year, designed with the objective of providing 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, as a minimum, from Elected Members, the Chief Executive, the Executive Director of Resources, the Head of Legal and Risk (statutory Monitoring Officer), the Head of Finance (statutory section 95 Chief Financial Officer), 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 both the CLT and GRBV.

## Management Responsibility

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 Service Areas.

It is management's responsibility 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 intends to accept the risk, where it is considered that the risk should not or need not be borne.

The Internal Audit team will track and report against the implementation of agreed management actions on a regular basis and seek to confirm that they have been undertaken within the agreed timescale. This will involve a review of evidence provided by management to support implementation of agreed management actions, and reperformance testing (where necessary). Additionally, IA may opt to include a 'validation' audit in the annual plan that will challenge and confirm whether historic management actions implemented to address control gaps and mitigate risks have been appropriately sustained and embedded.

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 Council'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; and,
- 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 are 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 all 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 compliance with PSIAS requirements 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 a periodic 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: 20 March 2018

## Appendix 1

## Key Audit Stages, Responsibilities and Timetable

Area	Principles	Further guidance
<b>Planning the audit or project assurance review</b>	Agreeing the audit scope and objectives	<ul style="list-style-type: none"> <li>Internal Audit will determine and make arrangements for sufficient resources to achieve the audit objectives. This will be based on an evaluation of the nature and complexity of each audit, time constraints and available resources.</li> <li>An initial planning meeting will be held between Internal Audit and the responsible Executive 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 audit, requirements during the audit and a reporting and closeout timetable.</li> <li>The responsible Executive 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 Executive 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.</li> <li>Internal Audit shall be responsible for organising meetings with relevant staff</li> </ul>
<b>Audit fieldwork</b>	Timely communication of issues identified during fieldwork	<ul style="list-style-type: none"> <li>The Auditee will be informed of the progress of the audit on a regular basis.</li> <li>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.</li> <li>Any material issues (Critical) will be raised by Internal Audit with the responsible Executive Director/Manager immediately as they arise.</li> </ul>
<b>Reporting</b>	Closeout meeting to discuss and agree the internal audit report	<ul style="list-style-type: none"> <li>A closeout meeting will be undertaken with the Executive Director/Manager at the end of audit fieldwork.</li> <li>Internal Audit will provide the responsible Executive Director/Manager with a copy of the draft report within two weeks of completing the fieldwork.</li> </ul>

Area	Principles	Further guidance
<b>Reporting</b>	Management response to internal audit report	<ul style="list-style-type: none"> <li>The responsible Director/Manager will have two weeks to provide management comments.</li> <li>Internal Audit will issue the final report within one week of receipt of management comments to the responsible Executive Director, Audit Scotland and if appropriate, the Chief Executive, the Executive Director of Resources and the Head of Legal and Risk.</li> </ul>
<b>Reporting</b>	Reporting of internal audit findings to the CLT	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Reporting</b>	Reporting of internal audit findings to the GRBV Committee	<ul style="list-style-type: none"> <li>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 internal audit report.</li> </ul>
<b>Follow up</b>	Monitoring the implementation of internal audit recommendations	<ul style="list-style-type: none"> <li>Internal audit will track the status of all open recommendations on a regular basis. Medium - and high-rated recommendations that are overdue will be reported to the GRBV committee on a quarterly basis. Internal Audit will regularly advise departments of all open recommendations and invite departments to provide evidence that the recommendations have been actioned. Reperformance testing will be performed where considered necessary.</li> <li>Sustainability of previously implemented agreed management actions will be assessed via a historic validation review that will be included in the annual plan at an appropriate frequency.</li> </ul>
<b>Follow up</b>	Auditee feedback	<ul style="list-style-type: none"> <li>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.</li> </ul>

## Appendix 2

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

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