

# Governance, Risk and Best Value Committee

10.00am, Tuesday 8 March 2022

## Internal Audit: Internal Audit Charter Annual Update

Item number

Executive/routine

Executive

Wards

Council Commitments

### 1. Recommendations

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- 1.1 It is recommended that the Committee:
- 1.1.1 reviews and approves the refreshed 2022/23 Internal Audit (IA) Charter;
  - 1.1.2 notes no changes are proposed to the current IA follow-up process; and,
  - 1.1.3 agrees that the Convenor signs the refreshed charter, together with the Chief Executive Officer and Chief Internal Auditor, evidencing the commitment of all three key stakeholders to support IA in effective delivery of the annual plan and 2021/22 annual IA opinion.

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## Internal Audit: Internal Audit Charter Annual Update

### 2. Executive Summary

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- 2.1 The purpose of this paper is to present the revised Internal Audit Charter for 2022/23 to the Governance, Risk, and Best Value Committee for approval.
- 2.2 Public Sector Internal Audit PSIAS (the PSIAS) 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.
- 2.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) April 2019 statement on the ‘Role of the Head of Internal Audit (HIA) in Public Service Organisations’ sets out the responsibilities of the HIA and management teams across the public sector to ensure that Public Sector Internal Audit Standards (the PSIAS) are maintained and that both HIAs and their teams operative effectively. The Council’s IA charter also details how these IA and management responsibilities will be delivered.

### 3. Background

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- 3.1 CIPFA sets the standards for internal audit; governance; and financial accounting across the public sector.
- 3.2 CIPFA worked collaboratively with the Institute of Internal Auditors (the IIA) to develop a set of PSIAS that are based on the mandatory elements of IIA’s International Professional Practices Framework.
- 3.3 The PSIAS were originally published in April 2013 and last refreshed in April 2017.
- 3.4 In April 2019 CIPFA published a new Statement (the Statement) titled ‘the Role of the Head of Internal Audit (HIA) in Public Service Organisations’ that is aligned with PSIAS 2017 and is explicitly linked to the Core Principles for the Professional Practice of Internal Auditing.

- 3.5 The Statement includes five principles that set out not only the responsibilities of the HIA but also those of public sector organisations and their management teams to ensure that PSIAS compliance is maintained and that both HIAs and their teams operate effectively. The five principles are also supported by 28 leadership team and 23 core HIA responsibilities.
- 3.6 The PSIAS 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.
- 3.7 The PSIAS 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.
- 3.8 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.
- 3.9 The IA charter is presented to both the CLT and GRBV annually in March for scrutiny and approval.

## **4. Main report**

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- 4.1 The Charter specifies the authority, role, scope, and objectives of IA; outlines the IA operational framework; and management responsibilities to support IA with delivery of the annual plan in line with both PSIAS and the CIPFA Statement. The content of the Charter covers the following specific areas:
  - 4.1.1 Executive summary;
  - 4.1.2 Purpose of Internal Audit;
  - 4.1.3 Definitions;
  - 4.1.4 Independence and objectivity (including reporting lines);
  - 4.1.5 Authority;
  - 4.1.6 Objectives and responsibility of Internal Audit;
  - 4.1.7 Professionalism;
  - 4.1.8 Internal Audit plan;
  - 4.1.9 Agile Auditing and Consultancy;
  - 4.1.10 Resourcing;
  - 4.1.11 Management responsibilities;
  - 4.1.12 Follow up;
  - 4.1.13 Reporting
  - 4.1.14 Internal Audit annual opinion;

- 4.1.15 Fraud and corruption; and
- 4.1.16 Quality Assurance and Improvement Programme.

### **IA Charter Changes**

- 4.2 The Charter has been reviewed and appropriate amendments made to refresh it for 2022/23. The refreshed charter includes the following changes that are brought to the Committee's attention.
  - 4.2.1 Senior management role titles have been updated to reflect the outcomes of the May 2021 Senior Leadership review.
  - 4.2.2 **Section 4 – Independence and Objectivity** has been updated to reflect that the CIA will meet regularly and independently with the Convenor of the Governance, Risk, and Best Value Committee. This is based on initial feedback from the Institute of Internal Auditors as part of the quinquennial external quality assurance process, who noted that whilst meetings currently take place, they are not fully independent.
  - 4.2.3 **Section 8 – Internal Audit Annual Plan** has been updated to reflect engagement with trade union representatives; external audit; and the external regulators who form part of the Council's Local Area Network. Whilst this engagement has always taken place as part of the IA annual planning process, it was not explicitly stated in the charter.
  - 4.2.4 **Section 13 – Reporting** has been updated to reflect inclusion of reporting on achievement of key delivery performance indicators by both IA and Council services following the reintroduction of KPIs in 2021/22. These had not been applied in 2020/21 reflecting the new challenges the Council faced in response to the Covid-19 pandemic.
  - 4.2.5 **Appendix 3 – IA Annual Opinion Definitions** has been updated to reflect that the annual opinion is based on the outcomes of completed IA reviews an assessment of the open and overdue IA findings and agreed management actions position as at 31 March.

### **IA Follow-Up Process**

- 4.3 The follow-up section of the charter (section 12) notes that IA does not currently apply a 'risk based' follow up approach based on the need to further improve risk and control awareness and embed the risk and control culture across the Council, and that this approach will be reconsidered annually.
- 4.4 IA has reviewed progress to confirm whether a risk-based approach can now be implemented, recognising that the Council continues to operate in an operational resilience environment, and the impact of the following activities initiated to support improvement:

- 4.4.1 June 2020 - extending all agreed implementation dates by four months in response to Covid-19;
- 4.4.2 Directorate allocation of additional first line resources from October 2020 - allocating additional support in Directorates to focus on implementation of IA findings, with the objective of seeing significant improvement by January 2021. This was enhanced by the addition of further first line permanent resources to support implementation of the proposed Governance and Assurance Model reported to GRBV in August 2021;
- 4.4.3 November 2020 - a complete refresh and rebase of all open IA findings and agreed management actions that resulted in:
- closure of 3 findings and associated management actions based on risk acceptance;
  - refresh of 22 agreed management actions with date extensions; and,
  - a further 65 implementation date extensions with no changes to agreed management actions.
- 4.4.4 Following completion of this process management agreed that no change was required to the remaining 277 agreed management actions, and that these would be completed within existing timeframes;
- 4.4.5 July 2021 - introduction of a phased implementation approach that provides management with time to explore the feasibility of solutions when agreeing management actions; clarification of risk acceptance considerations when finalising IA reports and working towards closure of previously agreed management actions; and the process for extending originally agreed implementation dates;
- 4.4.6 October 2021 – application of a further three-month implementation date extension. IA had initially proposed a six-month extension and GRBV agreed on a reduction to three months;
- 4.4.7 October 2021 - secondment of two IA team members into Directorates from until March 2022 to support close of IA findings and agreed management actions; and,
- 4.4.8 December 2021 - delivery of a further four IA training sessions that was open to all Council employees.
- 4.5 It is IA's view that these activities have had limited impact on progress with closure of IA findings and associated agreed management actions based on the current position (as at 26 January 2022) reported to GRBV, and that a risk-based approach cannot yet be implemented.
- 4.6 Consequently, all agreed management actions will continue to be subject to review by IA to confirm that they have been effectively implemented prior to closure, and this approach will be reconsidered next year.

- 4.7 It is anticipated that implementation of the Governance and Assurance model and the proposed refresh of the Council's Operational Risk Management framework will support further improvement and future adoption of a risk-based approach.

## **5. Next Steps**

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- 5.1 The charter will be signed as approved by the Chief Internal Auditor; the Chief Executive Officer; and the Convenor of the GRBV Committee and will then be applied by both IA and senior management to support delivery of the 2022/23 IA plan in line with both the PSIAS and the CIPFA Statement.

## **6. Financial impact**

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- 6.1 There are no direct financial impacts arising from this report.

## **7. Stakeholder/Community Impact**

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- 7.1 Approval of the Charter will enable IA to operate within the requirements specified in the PSIAS and the CIPFA Statement.

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

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- 8.1 [Public Sector Internal Audit Standards PSIAS](#)
- 8.2 [CIPFA Statement on the role of the HIA in public sector organisations](#)
- 8.3 [Agile Auditing and Consultancy Support - item 8.2](#)
- 8.4 [Internal Audit: Covid-19 Response – item 8.1](#)
- 8.5 [Internal Audit: Revisiting Internal Audit Extension Timeframes – item 8.1](#)

## **9. Appendices**

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- 9.1 Appendix 1 – Refreshed Internal Audit Charter 2022 - 23

# The City of Edinburgh Council Internal Audit Charter 2022 – 2023



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[Appendix 3: Internal Audit annual opinion definitions](#)

[Appendix 4: Process for approving changes to the Internal Audit annual plan](#)

# 1. Executive Summary

The Chartered Institute of Public Finance and Accountancy (CIPFA) is the standard setter for internal audit; governance; and financial accounting across the public sector.

Recognising the need to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit (IA) across the public sector, CIPFA worked collaboratively with the Institute of Internal Auditors (the IIA) to develop a set of Public Sector Internal Audit Standards (the PSIAS) that are based on the mandatory elements of IIA's International Professional Practices Framework (IPPF).

The original PSIAS were published in April 2013 and last refreshed in April 2017.

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 for both IA and management to support delivery of IA services.

In April 2019 CIPFA published a new Statement (the Statement) titled 'the Role of the Head of Internal Audit (HIA) in Public Service Organisations' and an associated publication titled 'Leading Internal Audit in the Public Sector: Putting Principles into Practice' that highlights good practices adopted across public sector IA teams.

The Statement is aligned with PSIAS 2017 and is explicitly linked to the Core Principles for the Professional Practice of Internal Auditing, helping to demonstrate how the HIA role supports IA effectiveness.

CIPFA confirms in the Statement that the main reasons for its publication are the ongoing challenges faced by HIAs in public services in ensuring that professional standards are consistently maintained, and that their IA teams remain effective, as the organisations that they audit have a direct impact on IA resources, scope and authority.

Whilst HIAs must deliver a professional service to the best of their ability, it is important to recognise that successful audit delivery requires services to work together with the internal audit team and HIA to ensure that the organisation meets the standards required.

The Statement includes five principles that set out not only the responsibilities of the HIA but also those of the organisations and their management teams to ensure that IA professional standards are maintained and that both HIAs and their teams operate effectively. The five principles are also supported by 28 leadership team and 23 core HIA responsibilities.

This Charter sets out the purpose, scope, authority, and responsibility of the City of Edinburgh Council's (the Council) IA function in accordance with the Public Sector Internal Audit Standards (PSIAS) and the April 2019 CIPFA Statement.

The authority of this charter extends to the Council and all subsidiary companies owned and / or controlled by the Council where IA is requested to provide independent assurance.

# 2. Purpose of Internal Audit

The purpose of IA is to provide a high-quality independent audit service to the Council, in accordance with PSIAS, that provides assurance over the risk management frameworks; control environments; and governance frameworks established to manage the Council's key risks and ensure that the Council's strategic and operational objectives can be achieved.

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

IA assurance is provided by delivering an annual schedule of audit work that independently and objectively assesses the design and effectiveness of the controls established to manage the Council's most significant risks, with the remaining risks covered on a cyclical basis.

The IA scope covers all Council activities, and the activities of external parties listed in [Appendix 1](#).

In addition to their primary role, IA will also:

- Support the Chief Executive as the Council's statutory Head of Paid Service in the discharge of their duties;
- Support the Service Director, Finance and Procurement as the Council's statutory Chief Finance Officer in undertaking their duties as the 'Section 95 Officer';
- Support the Service Director, Legal and Assurance 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 management in their duties to prevent and detect fraud and corruption; and
- Aim to add value to the Council in all its undertakings.

### 3. Definitions

The PSIAS requires that all public sector IA 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 Service Director, Finance and Procurement 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 the Governance, Risk, and Best Value (GRBV) committee.

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 independence as follows:

*'Freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.'*

The Council has adopted the PSIAS definition of impairment as follows:

*'Impairment to organisational independence and individual objectivity may include personal conflict of interest; scope limitations; restrictions on access to records, personnel, and properties; and resource limitations (funding).'*

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'.*

## 4. Independence and Objectivity

To ensure that IA independence and objectivity is maintained, IA will remain free from interference from anyone within the Council in relation to audit selection, scope, procedures, frequency, timing, and report content.

### **CIA Responsibilities for Corporate Risk Management**

Where IA also has responsibility for non-audit activities, the PSIAS requires that appropriate arrangements are established to avoid conflicts of interest.

In response to the CIAs combined responsibilities Corporate Risk Management and Internal Audit with effect from November 2020, the following arrangements have been established to ensure that any any potential conflicts of interest that could impact upon IA independence and objectivity are avoided:

- IA Principal Audit Managers (PAMs) will independently determine whether an audit of second line Corporate Risk Management should be included in the annual plan, and a statement will be included in the annual plan to confirm why Corporate Risk Management has not been included.
- Any internal audits of Corporate Risk Management will be performed by independent arms-length external consultants, with the terms of reference and final report reviewed and approved by Internal Audit Principal Audit Managers.
- Follow-up to confirm effective implementation of findings raised in Corporate Risk Management internal audits will be performed by the external consultants who completed the initial review.
- PAMs will independently determine the extent of second line Corporate Risk Management audit coverage in any other audits (for example Council wide audits) included in the external audit annual plan when planning these reviews.
- The Head of Audit and Risk will clearly state in which capacity (audit or risk) they are attending meetings.
- A statement will be included in the annual opinion from the PAMs confirming whether there has been any conflict of interest between the Chief Internal Auditor and Chief Risk Officer roles that have potentially impacted internal audit independence.
- A direct escalation route will apply enabling PAMs to raise any potential concerns in relation to conflicts of interest with the Service Director: Legal and Assurance; the

Executive Director of Corporate Services; the Chief Executive; and independently to the Convenor of the Governance, Risk, and Best Value Committee.

Additionally, IA will not be permitted to audit any activities for which they have previously been responsible within a period of one year; and will not engage in any other activity that may impair judgment or independence.

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

PSIAS also requires the CIA to report to a level within the organisation which allows IA to fulfil its responsibilities and ensure that organisational independence is maintained. Within the Council, the CIA reports to the Service Director: Legal and Assurance; the Executive Director of Corporate Services; the Chief Executive, and GRBV.

The CIA will confirm to the GRBV, at least annually, the organisational independence of IA. The CIA will also inform the Convenor of the GRBV of any real or potential impairment of organisational independence.

## 5. Authority

IA derives its authority from full Council and the Corporate Leadership Team (CLT). To ensure that IA objectives are achieved, and their independence maintained with no impairment, and with strict accountability for confidentiality and safeguarding records and information, IA 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.
- have free and unrestricted access to all Officers, the CLT and GRBV;
- 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 IA annual plan.
- 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.

Additionally, all Officers are required by the CLT to assist Internal Audit in fulfilling its roles and responsibilities.

## 6. IA Objectives and Responsibilities

IA responsibilities include the requirement to independently review, evaluate and report on the following across all areas of the Council:

- 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 Council 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 IA 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 IA is to provide support to the officers appointed to investigate potential fraud cases.

## 7. Professionalism

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

To achieve this, IA will ensure that it conducts its work with due professional care and in line with the requirements of the PSIAS or other relevant professional standards.

IA will comply with the PSIAS mandatory guidance, including the Definition of Internal Auditing and the Code of Ethics (the Code). This mandatory guidance is a set of principles detailing the fundamental requirements for IA professional practice and evaluating the effectiveness of IA's performance.

The four principles contained within the Code are: Integrity, Objectivity, Confidentiality and Competency.

Additionally, IA will comply with relevant Council policies and procedures and IA's standard operating procedures manual.

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

## 8. Internal Audit Plan

Annually, the CIA will submit to the GRBV an IA plan for the following audit year, designed to support provision of an annual 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 Corporate Services; the Service Director: Legal and Assurance (statutory Monitoring Officer); the Service Director: Finance and Procurement (statutory section 95 Chief Financial Officer); the Corporate Risk Management team; the CLT; GRBV; and trade union representatives.

There will also be engagement with the Council's external auditors, and the external regulators who form part of the Council's Local Area Network (LAN).

The nature of evolving risks makes it likely that the audit assignments included annual plan may be subject to change.

Consequently, the IA audit plan will be kept under review and any significant deviation from the approved plan (due to emerging risks, fraudulent activity or other factors that result in changes to planned IA or consulting activities) will be approved by both CLT and GRBV in line with the agreed process for approving changes to the annual plan (included at [Appendix 4](#)).

The PSIAS also notes that when preparing the annual plan, the CIA should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of effort.

Where this approach is adopted, a consistent process for the basis of reliance should be established. Where reliance is placed on the work of others, the CIA remains accountable and responsible for ensuring that there is adequate support for conclusions and opinions reached where reliance has been placed on work performed by other assurance providers.

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

IA also reserves the right to raise findings on areas that have not been specifically included in the annual plan where significant or systemic control gaps are evident.

## 9. Agile Auditing and Consultancy

The PSIAS notes that IA should also consider providing consultancy services based on their potential to improve management of risks, add value, and improve the organisation's operations, and states that approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement

IA has established an agile auditing and consultancy approach to provide assurance and support across the Council in addition to established IA methodology. This approach is detailed in the paper presented to; considered; and noted by the GRBV in [July 2020](#) – item 8.2.

To ensure full conformance with PSIAS, details of the agile audits and consultancy work undertaken will be included in the IA annual plan, and their outcomes included in the IA annual opinion. Consequently, addition of agile audits and consultancy reviews to the IA annual plan will also follow the agreed process for approving changes to the annual plan (included at [Appendix 4](#)).

The design of the agile assurance methodology and consultancy support processes are fully aligned with PSIAS requirements to ensure that they will not impact upon, or result in, impairment of IA independence and objectivity.

## 10. 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 IA 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 IA 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.

## 11. Management Responsibilities

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

An IA journey map and key performance indicators (KPIs) have been developed and were approved by both the CLT and GRBV in January 2019. The purpose of the key performance indicators is to ensure that both IA and management support effective and timely delivery of the annual plan (refer Appendix 2).

All audit and consulting assignments will be the subject of formal reports or formal terms of reference. Draft reports will be shared with management teams for agreement as to the factual accuracy of draft findings raised, and awareness of IA recommendations designed to address the control weaknesses identified.

It is management's responsibility to:

- accept the risk associated with not implementing IA recommendations (with supporting rationale); or
- agree to address the risks identified by adopting an alternative approach to that recommended by IA; or
- accept and fully implement all IA recommendations.

When a draft audit report is delivered, management are required to provide formal responses (agreed management actions) to all IA findings raised and supporting recommendations, including specifying responsibility and anticipated dates for the implementation of these actions, in line with timeframes specified in the KPIs included at [Appendix 2](#).

Management is also responsible for the ensuring that agreed management actions are implemented and effectively sustained.

PSIAS also require the CIA to report to both CLT and GRBV information about management's response to risk that (based on the CIA's judgement) may be unacceptable to the Council. Consequently, any High and Medium rated IA findings where management has accepted the risk will be highlighted in IA GRBV reports.

## 12. Follow up

IA will follow up and report progress with implementation of agreed management actions to support closure of findings raised on a regular basis and seek to confirm that they have been undertaken within agreed timescales.

IA does not currently apply a 'risk based' follow up approach based on the need to further improve risk and control awareness and embed the risk and control culture across the Council. Consequently, all agreed management actions will continue to be subject to review by IA to confirm that they have been effectively implemented prior to closure. This approach will be reconsidered annually.

The follow up process involves review of evidence provided by management to support implementation of agreed management actions, and reperformance testing to confirm that they have been effectively implemented and sustained.

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.

## 13. Reporting

The CIA is also professionally responsible and accountable to GRBV for IA performance, and reports regularly on the progress with, and results of its work to both the CLT and the GRBV, enabling review and scrutiny of the following areas as required by PSIAS:

Report	CLT	GRBV
1. IA Annual Charter	annually	annually
2. IA annual audit plan, including IA capacity and resourcing	annually	annually
3. Plan delivery progress: <ul style="list-style-type: none"> <li>including achievement of IA and management KPIs)</li> <li>audit outcomes</li> <li>management's acceptance of risk</li> </ul>	quarterly	quarterly
4. Proposed changes to the IA annual plan	as required	as required
5. Open and overdue IA findings and management actions, including ongoing achievement of key delivery	monthly	quarterly

performance indicators by both IA and Council services.		
6. Annual opinion including: <ul style="list-style-type: none"> <li>• IA independence</li> <li>• conformance with Code of Ethics;</li> <li>• conformance with PSIAS and the CIPFA statement</li> </ul>	annually	annually

## 14. Internal Audit Annual Opinion

The PSIAS specify that the CIA must deliver an annual IA opinion and report that can be used by the organisation to inform its annual governance statement.

This opinion is based on the outcomes of the audits included in the annual plan; progress with implementation of agreed management actions to support closure of IA findings; the result of any other IA activities that have identified control gaps that are exposing the Council to risk; and the professional judgement of the CIA

PSIAS specify that the IA annual opinion must:

- conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control; and
- include a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

The annual opinion will also include a statement that confirms whether both IA and management have met their collective responsibilities as specified in the CIPFA Statement published in April 2019.

Details of the definitions applied by IA when preparing the annual opinion have been refreshed and are included at [Appendix 3](#).

## 15. Fraud and Corruption

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

Audit procedures alone cannot guarantee that all fraud or corruption will be detected. IA 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.

## 16. Quality Assurance and Improvement Programme

IA will maintain a quality assurance and improvement programme that covers all aspects of IA activity. The programme will include an evaluation of IA's compliance with PSIAS and CIPFA statement requirements, and an evaluation of whether internal auditors apply the Code of Ethics. The programme will also assess the efficiency and effectiveness of IA and identify opportunities for improvement.

The CIA is also responsible also for providing a periodic self-assessment of IA, 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 IA's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years.

## 17. Approval

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

**Signed by:**

Chief Internal Auditor:

Chief Executive Officer, City of Edinburgh Council

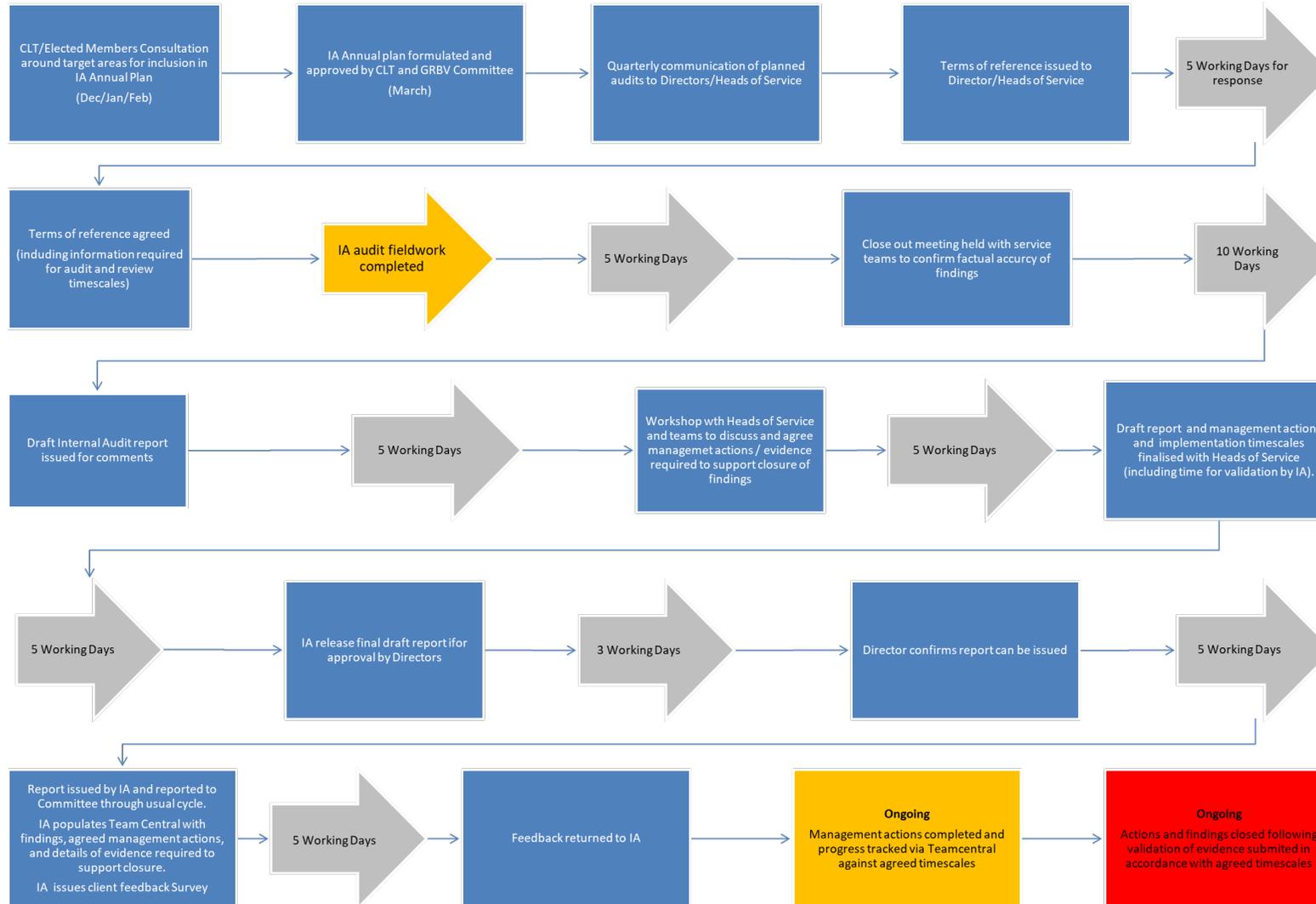
Convener of the Governance, Risk, and Best Value Committee:

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

## **Appendix 1: External bodies for which the City of Edinburgh Council Internal Audit performs internal audit work**

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

## Appendix 2: Internal Audit journey map and key performance indicators



## Appendix 3: Internal Audit Annual Opinion Definitions

The PSIAS require the provision of an annual Internal Audit opinion, but do not provide any methodology or guidance detailing how the opinion should be defined.

Professional judgement is exercised in determining the appropriate opinion, and it should be noted that in giving an opinion, assurance provided can never be absolute.

The annual opinion is based on the outcomes of completed IA reviews, and an assessment of the open and overdue IA findings and agreed management actions position as at 31 March.

The approach set out below to support our assessment of the annual opinion for the City of Edinburgh Council came into effect from 1 April 2019. This involves an assessment against 4 possible opinion types:

<p><b>1. Effective</b></p> <p>The control environment and governance and risk management frameworks have been adequately designed and are operating effectively, providing assurance that risks are being effectively managed, and the Council's objectives should be achieved.</p>	<p><b>2. Some improvement required</b></p> <p>Whilst some control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks, they provide reasonable assurance that risks are being managed, and the Council's objectives should be achieved.</p>
<p><b>3. Significant improvement required</b></p> <p>Significant and / or numerous control weaknesses were identified, in the design and / or effectiveness of the control environment and / or governance and risk management frameworks. Consequently, only limited assurance can be provided that risks are being managed and that the Council's objectives should be achieved.</p>	<p><b>4. Inadequate</b></p> <p>The design and / or operating effectiveness of the control environment and / or governance and risk management frameworks is inadequate, with a number of significant and systemic control weaknesses identified, resulting in substantial risk of operational failure and the strong likelihood that the Council's objectives will not be achieved.</p>

## **Appendix 4: Process for approving changes to the Internal Audit annual plan**

### **1. Process for routine (non-urgent) changes to the annual Internal Audit plan**

- 1.1 Changes to the IA plan can be proposed by IA based on the Council's changing risk profile or requested by management.
- 1.2 All changes proposed by IA will be clearly documented, with the rationale for the change and the associated risks clearly articulated. All requests from management for routine changes to the IA plan will be provided to the Council's Chief Internal Auditor (CIA), with the rationale for the change and the associated risks clearly articulated.
- 1.3 The CIA will consider the request based on the significance of the associated risks and make a proposal to either accept or reject the change.
- 1.4 Where there is insufficient capacity to incorporate the requested change, the CIA will also consider which existing audit included in the plan should be replaced (if the change is approved) and reflect this in the proposal.
- 1.5 The proposal will be discussed with the Corporate Leadership Team (CLT) and discussed and approved by the Governance, Risk, and Best Value Committee (GRBV), with the final decision to accept or reject the proposed change made by the GRBV.

### **2. Process for urgent changes to the annual Internal Audit plan**

- 2.1 The process as outlined in section 1.1 to 1.4 above will be applied.
- 2.2 The CIA's proposal will then be discussed with the relevant Executive Directors affected by the proposed change; the Chief Executive; and the Convenor and Vice Convenor of the GRBV.
- 2.3 The final decision to accept or reject the proposed change will be made by the Chief Executive Officer or relevant Executive Director (in line with the Council's urgent decisions process) in consultation with the Convenor and Vice-Convenor of the GRBV, and the Chief Internal Auditor.
- 2.4 Details of the proposal and the final decision will then be reported retrospectively to both the CLT and GRBV.