

Governance, Risk and Best Value Committee

10.00am, Tuesday 19 March 2024

Internal Audit: Internal Audit Charter Annual Update

Executive/routine
Wards

1. Recommendations

- 1.1 It is recommended that the Committee reviews and approves the 2024/25 Internal Audit (IA) Charter, which includes the Internal Audit Journey Map and Key Performance Indicators (KPIs) applicable to the audit process.

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Report

Internal Audit: Internal Audit Charter Annual Update

2. Executive Summary

- 2.1 The purpose of this paper is to present the annual update of the Internal Audit (IA) Charter for 2024/25 to the Governance, Risk and Best Value Committee (GRBV) for approval. There have been minimal changes to the IA Charter since it was last approved in March 2023.

3. Background

- 3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) sets the standards for internal audit, governance, and financial accounting across the public sector. CIPFA has worked collaboratively with the Institute of Internal Auditors (the IIA) to develop a set of Public Sector Internal Audit Standards (PSIAS) that are based on the mandatory elements of IIA's International Professional Practices Framework (IPPF).
- 3.2 The PSIAS specify that the purpose, authority, and responsibility of IA must be formally defined in an IA Charter that is periodically reviewed and presented to senior management and the board for approval. The Council's IA charter fulfils this requirement.

4. Main report

Annual review of the IA Charter

- 4.1 The PSIAS were originally introduced in April 2013 and last refreshed in April 2017. The IPPF was last updated in 2017 and is currently under review with a refreshed framework expected to be introduced in 2025.
- 4.2 Accordingly, the 2024/25 IA Charter includes minimal changes in line with an annual review and a full revision will be undertaken in 2025 to ensure alignment to the revised framework and standards.

5. Next Steps

- 5.1 Following approval by the Governance, Risk and Best Value Committee, the IA Charter will be published on the Council's website and applied by IA, senior management, and elected members to support delivery of the 2024/25 IA plan in line with both the PSIAS and CIPFA requirements.

6. Financial impact

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

7. Equality and Poverty Impact

- 7.1 None. An assessment is not required because the reason for this report is to report Internal Audit standards to Committee. Consequently, there will be no differential equality or poverty impacts, as a result of the proposals in this report.

8. Climate and Nature Emergency Implications

- 8.1 None. An assessment is not required because the reason for this report is to report Internal Audit standards to Committee. Consequently, there will be no differential equality or poverty impacts, as a result of the proposals in this report.

9. Risk, policy, compliance, governance and community impact

- 9.1 This report has a direct impact on the Council's risk, policy, compliance, and governance frameworks. IA, elected members and management are expected to review, and support adherence to the IA Charter. Any breaches will be reported to the Governance, Risk and Best Value Committee.

10. Background reading/external references

- 10.1 [Public Sector Internal Audit Standards PSIAS](#)
10.2 [2023-24 Internal Audit Charter Annual Review March 2023](#)

11. Appendices

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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), which were originally published in April 2013 and last refreshed in April 2017. Refreshed standards aligned to the 2024 framework are expected to be in place from January 2025.

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 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 highlight 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.

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 2017 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 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 programme of audit work that independently and objectively assesses the design and effectiveness of the controls established to manage the Council's most significant risks.

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
- 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 '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 of and delivery of 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.

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

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 committee, at least annually, the organisational independence of IA. The CIA will also inform the Convener of the GRBV of any actual 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 the GRBV committee
- 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 statements 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
- 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](#) which include a set of principles detailing the fundamental requirements for IA professional practice and evaluating the effectiveness of IA's performance.

IA must also comply with the [Code of Ethics](#) which sets out the expectations governing the behaviour of individuals and organisations in the conduct of internal auditing, in line with the four principles: Integrity, Objectivity, Confidentiality and Competency.

Additionally, IA will comply with relevant Council policies and procedures and IA's standard operating procedures and 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 risk-based prioritisation of the audit universe including input from a range of key stakeholders including Elected Members, the Chief Executive, CLT, 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, and trade union representatives.

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 reviewed quarterly and any proposed changes to the approved plan (due to emerging risks, suspected 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](#)).

Other sources of assurance

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.

There is achieved via a shared risk assessment with the Council's external auditors and other sources of external assurance, where relevant.

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.

Therefore, 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](#).

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. The 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’.

The Council’s IA plan will reflect CIPFA requirements and include budgeted resource requirements. 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 to both the CLT and GRBV.

11. Management Responsibilities

Management will cooperate 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) which aim to ensure that both IA and management support effective and timely delivery of the annual plan is in place ([Appendix 2](#)). Performance in meeting KPIs is reported monthly to CLT and quarterly to GRBV.

All audit assignments will be the subject of formal terms of reference and formal reports. Consultancy arrangements will be agreed in writing and a relevant output agreed (for example full report/summary findings, focused feedback or action plan).

Draft reports will be shared with management 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 agree to either:

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

When a draft audit report is delivered, management are required to provide 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 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 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.

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

If, following initial agreement to implement an agreed management action, management subsequently decide to risk accept either the full or partial risks associated with an IA finding, a risk acceptance proforma should be completed by management which details the mitigating actions and residual risks. IA will process the closure as 'Closed – Management Accepts Risk' and all high and medium risk acceptances will be reported to GRBV for information in the quarterly open and overdue actions report.

IA operates a risk-based approach to follow-up in line with best practice. All high rated management actions are validated when presented for closure together with a sample of medium actions. The remaining medium actions and low actions are closed via a 'self-attestation' once confirmed as complete by management.

Additionally, IA includes a 'validation' audit in the annual plan which reviews a sample of previously completed High and Medium management actions to confirm whether they have been appropriately sustained and continue to be effective in mitigating risks. From April 2023 onwards, this review has included a sample of self-attested Medium and Low actions.

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, including: <ul style="list-style-type: none"> • achievement of IA and management KPIs) • audit outcomes • management's acceptance of risk. 	quarterly	quarterly
4. Proposed changes to the IA annual plan	quarterly	quarterly
5. Open and overdue IA management actions, including ongoing achievement of key delivery performance indicators by both IA and Council services.	monthly	quarterly
6. Annual opinion, including: <ul style="list-style-type: none"> • IA independence • conformance with Code of Ethics • conformance with PSIAS and the CIPFA statement. 	annually	annually

14. Internal Audit Annual Report and Opinion

The PSIAS specify that the CIA must deliver an annual report and opinion 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, 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
- include a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

The annual report and 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.

In April 2023, the Council adopted the standard CIPFA standard engagement definitions for all audit report opinions and the overall annual audit opinion. Details of the opinion definitions applied by IA, aligned to the CIPFA standard engagement definitions are included at [Appendix 3](#).

15. Fraud and Corruption

Management is 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 (QAIP) that covers all aspects of IA activity. The QAIP will include an evaluation of IA's compliance with PSIAS and CIPFA 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 the QAIP, including results of ongoing internal assessments and external assessments conducted at least every five years.

17. Approval

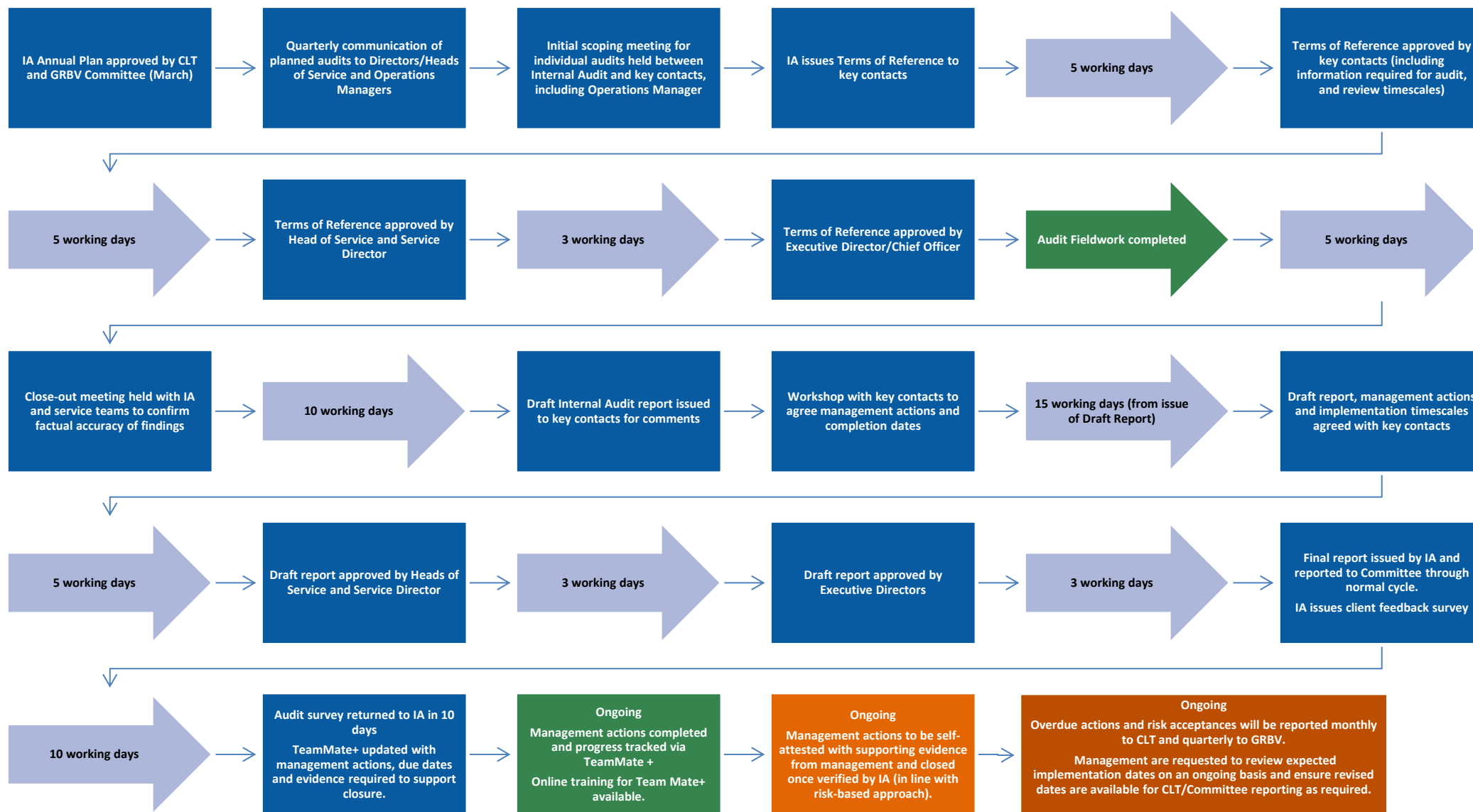
This charter is subject to approval by the Chief Executive Officer and the Governance, Risk, and Best Value Committee on an annual basis.

Approval will be evidenced through CLT and Committee meeting papers and minutes.

Appendix 1: External bodies for which the City of Edinburgh Council Internal Audit function performs internal audit services

- 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 March 2024



Appendix 3: Internal Audit Engagement Opinion Definitions March 2024

In line with the Chartered Institute of Public Finance and Accountancy (CIPFA) April 2020 review of [IA Engagement Opinions – Setting Common Definitions](#), the Council has adopted the CIPFA standard audit opinion definitions as detailed below:

Overall Assurance Ratings	
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

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 will be 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 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 CLT and discussed and approved by 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 of 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 of the GRBV, and the CIA.
- 2.4 Details of the proposal and the final decision will then be reported retrospectively to both CLT and GRBV.