
INTERNAL AUDIT CHARTER

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

11 March 2019

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Audit and Scrutiny Committee with the updated Internal Audit Charter for approval that defines the terms of reference for the Internal Audit function to carry out its role to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment.**
- 1.2 The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
- 1.3 In accordance with the PSIAS, the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Officer Audit & Risk, as the Chief Audit Executive at Scottish Borders Council, must periodically review the Internal Audit Charter and present it to senior management (Corporate Management Team) and the board (Audit and Scrutiny Committee) for approval.
- 1.4 The Internal Audit Charter as shown in Appendix 1 to this report has been updated by the Chief Audit Executive (SBC's Chief Officer Audit & Risk) in conformance with the PSIAS for approval by the Audit and Scrutiny Committee to ensure that Internal Audit is tasked to carry out its role in accordance with best Corporate Governance practice.

2 RECOMMENDATIONS

- 2.1 **I recommend that the Audit and Scrutiny Committee approves the updated Internal Audit Charter, as shown in Appendix 1 to this report.**

3 BACKGROUND

- 3.1 The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
- 3.2 The SBC Internal Audit function follows the professional standards as set out in the PSIAS which came into effect on 1 April 2013 (amended 2017), along with the CIPFA Local Government Application Note for the United Kingdom. The PSIAS have been developed by the standard setters (CIPFA for local government) through the Internal Audit Standards Advisory Board (IASAB) and have been based on the Institute of Internal Auditors International Standards of Professional Practice.
- 3.3 In accordance with the PSIAS, the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Audit Executive at Scottish Borders Council (the Chief Officer Audit & Risk) must periodically review the Internal Audit Charter and present it to 'senior management' (Corporate Management Team) and the 'board' (Audit and Scrutiny Committee) for approval.
- 3.4 The Internal Audit Charter as shown in Appendix 1 to this report: establishes the Internal Audit activity's position within the organisation, including the nature of the Chief Audit Executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.
- 3.5 Within the PSIAS a Public Sector requirement states the Internal Audit Charter must also:
- define the terms 'board' and 'senior management' for the purposes of Internal Audit activity;
 - cover the arrangements for appropriate resourcing;
 - define the role of Internal Audit in any fraud-related work; and
 - include arrangements for avoiding conflicts of interest if Internal Audit undertakes non-audit activities.
- 3.6 The Internal Audit Charter, since its previous approval by the Audit and Scrutiny Committee on 19 March 2018, has been updated to:
- Explicitly emphasise the application of the code of ethics by the Internal Audit function to fulfil a quality improvement action arising from the internal self-assessment 2018/19 to ensure conformance with the requirements of the PSIAS; and
 - Amend reference to Corporate Risk Officer to reflect current business support team arrangements for risk management activity.
- 3.7 The Internal Audit Charter should be considered alongside the Internal Audit Strategy and Plan 2019/20 that sets out the Chief Audit Executive's strategy for discharging its role and providing the necessary annual assurance opinions. It also sets out the Council's assurance framework within which Internal Audit operates.

4 IMPLICATIONS

4.1 Financial

Internal Audit must have sufficient staff and other resources to enable it to carry out the objectives of the Charter and to deliver a programme of independent and objective audit assurance work to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment. Internal Audit resources are set out in the Internal Audit Strategy and Plan 2019/20.

4.2 Risk and Mitigations

- (a) The authority for Internal Audit to operate in Scottish Borders Council is contained in the Local Code of Corporate Governance and in the Financial Regulations. This Internal Audit Charter expands upon that framework.
- (b) Approval of the Internal Audit Charter (Appendix 1), as recommended in this report, will ensure that Internal Audit is tasked to carry out its role in accordance with PSIAS and best Corporate Governance practice.
- (c) The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. The work of Internal Audit (including its opinion on the control environment) shall contribute to the Council's review of its corporate governance arrangements the outcome of which is published in the Annual Governance Statement.
- (d) At all times, Management's responsibilities (led by the Corporate Management Team) include:
 - Designing and maintaining proper risk management, governance and internal control processes and systems for which they have responsibility to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. These evolve as the Council changes.
 - Checking that these governance arrangements and internal controls are operating effectively.

(The above are known as the first and second lines of defence.)

- Engaging with Internal Audit (the third line of defence) in a positive way to achieve shared goals for robust internal control and governance, best value and improvement, and ensuring that Internal Audit can properly fulfil its role.
- Considering and acting upon Internal Audit findings and conclusions, including implementation of audit recommendations within agreed timescales and updating Pentana performance system, or accepting responsibility for any resultant risk from not doing so.
- Seeking advice and consultancy support from Internal Audit on existing controls and on changes to and transformation of governance, processes and procedures.

4.3 Equalities

It is anticipated there will be no equalities issues associated with this report. The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those in the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its objective assurance about risk management, internal control and governance.

4.4 Acting Sustainably

It is anticipated that there are no adverse economic, social or environmental effects of this report.

4.5 Carbon Management

It is anticipated that there are no carbon management issues associated with this report.

4.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

4.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required to either the Scheme of Administration or the Scheme of Delegation as a result of the proposals in this report.

5 CONSULTATION

5.1 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.

5.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR and the Clerk to the Council have been consulted on this report and any comments received have been taken into account.

Approved by

Jill Stacey, Chief Officer Audit & Risk **Signature**

Author(s)

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Background Papers: Local Code of Corporate Governance; Financial Regulations

Previous Minute Reference: Audit and Scrutiny Committee 19 March 2018

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INTERNAL AUDIT CHARTER

INTRODUCTION

In accordance with the Public Sector Internal Audit Standards (PSIAS), the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

The Council has adopted the definition of Internal Auditing as given in the PSIAS:

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes¹.

OBJECTIVES OF INTERNAL AUDIT

Internal Audit's responsibility is to report to the Council on its assessment of the adequacy of the entire control environment, through the Corporate Management Team ('senior management') and the Audit and Scrutiny Committee (the 'board' for the purposes of Internal Audit activity for the Council).

Internal Audit adds value to the organisation (and its stakeholders) by enhancing governance, risk management and control processes and objectively providing relevant assurance.

As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:

- In support of the Council's vision, values and priorities.
- As a contribution to the Council's corporate management of risk, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives.
- As an aid to ensuring that the Council and its elected members, employees and contracted third parties are operating within the law and relevant regulations, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
- As a contribution towards ensuring that financial statements and other published performance information are accurate and reliable.

¹ Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017) *Audit and Scrutiny Committee – 11 March 2019*

POSITION OF INTERNAL AUDIT WITHIN THE ORGANISATION

In terms of the PSIAS, the status of Internal Audit should enable it to function effectively, with recognition of the independence of Internal Audit fundamental to its effectiveness. The Chief Audit Executive (CAE) should have "sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management of the organisation"²

Within Scottish Borders Council, the Chief Officer Audit & Risk (CAE) has full access to those charged with governance, specifically the Elected Members and the Corporate Management Team. The CAE has free and unfettered access to the Chair of the Audit and Scrutiny Committee to discuss any matters the committee or auditors believe should be raised privately.

In terms of accountability and independence to ensure conformance with PSIAS, the CAE reports functionally to the Audit and Scrutiny Committee. In this context functional reporting³ means the Audit and Scrutiny Committee will:

- Approve the Internal Audit Charter.
- Approve the risk-based Internal Audit Annual Plan.
- Ratify the Internal Audit budget and resource plan to ensure that Internal Audit is adequately resourced to meet assurance and other key responsibilities.
- Receive communications from the CAE on the Internal Audit activity's performance relative to its plan and other matters.
- Ratify all decisions regarding the appointment or removal of the CAE.
- Provide feedback to contribute to the performance appraisal of the CAE.
- Make appropriate enquiries of Management and the CAE to determine whether there are inappropriate scope or resource limitations.

The CAE is line managed by the Service Director Regulatory Services but retains responsibility for all operational audit activity and reports in their own name and retains final right of edit over all Internal Audit reports.

The reporting line will be managed in a manner which: ensures the CAE is accorded open and direct communication with Management; ensures the CAE and the Internal Audit function have an adequate and timely flow of information concerning the activities, plans and initiatives of the Council, Pension Fund, SB Cares and IJB.

RIGHTS OF ACCESS

The CAE and any member of the Internal Audit service, authorised by them relevant to the performance of audit engagements, has authority to:

- Have access to all records (both paper and electronic) of the Council, Pension Fund, SB Cares and IJB.
- Require and receive explanations concerning any matter under examination from any employee including Chief Officers.
- Enter at all reasonable times and without notice any properties of the Council, provided that where such properties are leased to a third party that the terms of the lease are observed.

² Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2013)

³ Chartered Institute of Internal Auditors (CIIA) – International Standards for Professional Practice of Internal Auditing *Audit and Scrutiny Committee – 11 March 2019*

SCOPE OF INTERNAL AUDIT ACTIVITY

Internal Audit services are provided to the Council and Other Organisations to reflect the changes to governance arrangements, with separate Internal Audit plans and reports (as appropriate) presented to their respective 'senior management' and 'board' for approval, monitoring and oversight purposes. These Other Organisations include:

- The Scottish Borders Pension Fund;
- The Council's arm's length external organisation for adult social care services, SB Cares; and
- The Scottish Borders Health and Social Care Integration Joint Board.

For each organisation Internal Audit shall systematically review, appraise and report upon:

- The effectiveness of all internal controls and other arrangements put in place to manage risk, in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the organisation's objectives (this involves liaising with the Risk Management support team on an on-going basis to ensure that risk is considered in every audit and risk reviews take account of improvements arising from audit work).
- The completeness, reliability and integrity of information, both financial and operational performance, including working alongside Services in a 'critical friend' role to authenticate any self-assessment evidence of Service performance and improvement.
- The systems established to ensure compliance with policies, plans, procedures, laws and regulations whether established by the organisation or externally.
- The effectiveness of arrangements for safeguarding the organisation's assets and interests, including fraud prevention controls and detection processes (this involves liaising with the Corporate Fraud & Compliance Officer on an on-going basis to ensure fraud risk is considered in every audit; and this might involve assisting or liaising in fraud investigations where appropriate).
- The economy, efficiency and effectiveness with which resources are deployed.
- The extent to which Services' operational practices are being carried out as planned and objectives and goals are met.

Internal Audit's work covers:

- All activities, systems, processes, policies and protocols that are currently existing or under development.
- All records, personnel and properties.
- All services and other activities for which the organisation is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

AUDIT RESOURCES AND WORK PRIORITISATION

The CAE will ensure that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Appropriate refers to the mix of qualifications, knowledge, skills and other competencies needed to perform the plan such as compliance with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its objective assurance about risk management, internal control and governance. Sufficient refers to the quantity of resources needed to accomplish the plan. Effectively deployed refers to when they are used in a way that optimises the achievement of the approved plan.

The SBC Internal Audit Annual Plan as approved by the Audit and Scrutiny Committee shall be the main determinant of the relative priority to be placed on each part of the work of Internal Audit, with Internal Audit Annual Plans specific to each of the Other Organisations i.e. Pension Fund, SB Cares and IJB being approved and monitored by their respective 'senior management' and 'board'. The CAE shall determine the actual deployment of available resources covering the range and breadth of audit areas which are integral to the assurance gathering process across the activities of the Council, Pension Fund, SB Cares and IJB in order to provide an annual internal audit opinion to each organisation's 'senior management' and 'board'.

This plan also requires to be sufficiently flexible to reflect the changing risks and priorities of each organisation. The plan will have within it provision of resources to address unplanned work. This contingency shall be directed towards responding to specific control issues highlighted by Management or the Audit and Scrutiny Committee during the year and covering other unforeseen variations in the level of resources available to Internal Audit, such as staff vacancies.

In the event that there is a need for greater audit work than there are resources available, the CAE will identify the shortfall in the plan and initially advise the Chief Executive and Chief Financial Officer followed by the Audit and Scrutiny Committee as required. It shall be for the Audit and Scrutiny Committee to decide whether to accept the risks associated with the non-delivery of such audit work or to recommend to the Council that it requires Management to identify additional resources.

NON AUDIT ACTIVITIES

The Chief Officer Audit & Risk has managerial responsibility for the corporate functions and resources which develop, support and advise on the frameworks in place at the Council on Risk Management and on Counter Fraud, to support Management discharge their responsibilities to design and maintain proper risk management, governance and internal control processes and systems.

In order to prevent a perceived impairment of objectivity and to ensure that Internal Audit independence and objectivity is maintained and demonstrated, any planned audit engagements solely on Risk Management and Counter Fraud frameworks would be carried out by Internal Audit with the Chief Officer Audit & Risk as the client and therefore with no involvement in the delivery and reporting of the Internal Audit reviews. In addition the reports would be submitted in the name of the Principal Internal Auditor (PIA) who would report directly to the Service Director Regulatory Services during the period in which the PIA would be fulfilling the CAE role.

APPROVAL

The Internal Audit Charter was reported to and approved by the Audit and Scrutiny Committee at its meeting on *11 March 2019* and shall be subject to regular review by the CAE and the Audit and Scrutiny Committee.