
INTERNAL AUDIT CHARTER

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

14 March 2022

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 Audit Executive to prepare the annual Internal Audit opinions on the adequacy of each organisation'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 Audit Executive must periodically review the Internal Audit Charter and present it to senior management (Strategic Leadership Team) and the board (Audit and Scrutiny Committee) for approval.
- 1.4 The Internal Audit Charter has been updated by the Chief Audit Executive (SBC's Chief Officer Audit & Risk) and the Principal Internal Auditor in conformance with the PSIAS. The Internal Audit Charter is shown in Appendix 1 to this report 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:**
 - a) Notes the changes to the Internal Audit Charter outlined in section 4 of this report in conformance with PSIAS;**
 - b) Approves the updated Internal Audit Charter, as shown in Appendix 1 to this report; and**
 - c) Notes that the Internal Audit Charter will be reviewed annually.**

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 Scottish Borders Council Internal Audit function follows the professional standards as set out in the Public Sector Internal Audit Standards (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 must periodically review the Internal Audit Charter and present it to 'senior management' (Strategic Leadership Team) and the 'board' (Audit and Scrutiny Committee) for approval.
- 3.4 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.
- 3.5 Internal Audit assurance resources and services are also provided by Scottish Borders Council's Internal Audit team to the Scottish Borders Council Pension Fund (SBCPF) and to the Scottish Borders Health and Social Care Integration Joint Board (SBIJB), including the appointed Chief Internal Auditor. The Internal Audit Charter and Strategy are applicable to these organisations.

4 INTERNAL AUDIT CHARTER

- 4.1 The authority for Internal Audit to operate in Scottish Borders Council is contained in the Council's Local Code of Corporate Governance, and Financial Regulations. This Internal Audit Charter expands upon that framework.
- 4.2 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.

- 4.3 The Internal Audit Charter, which was previously approved by the Audit and Scrutiny Committee on 8 March 2021, has been updated by the Chief Audit Executive (SBC's Chief Officer Audit & Risk) and the Principal Internal Auditor. The summary of the changes reflect the following:
- The restructure of the Strategic Leadership Team in September 2021 and the change in roles and responsibilities of each Director; and
 - The associated change in the line management arrangements for the Chief Audit Executive.
- 4.4 The Internal Audit Charter should be considered alongside the Internal Audit Strategy and Annual Plan 2022/23. The Internal Audit Strategy sets out the Council's assurance framework within which Internal Audit operates, and the Chief Audit Executive's strategy for discharging its role and providing the necessary annual assurance opinions to the Council, the Pension Fund and the IJB. The Internal Audit Charter and Strategy are applicable to these organisations. There are separate Internal Audit Annual Plans for each organisation, which set out the range and breadth of audit activity.

5 IMPLICATIONS

5.1 Financial

The Local Authority Accounts (Scotland) Regulations 2014 that came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service.

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 alongside other available sources of assurance to enable the Chief Audit Executive (Chief Officer Audit & Risk) to prepare annual Internal Audit opinions on the adequacy of each organisation's overall control environment (Council, Pension Fund, and IJB). Internal Audit resources are set out in the Internal Audit Strategy and Plan 2022/23.

5.2 Risk and Mitigations

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.

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.

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.

At all times, Management's responsibilities (led by the Strategic Leadership 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, and obtaining assurances from internal compliance, risk, inspection, quality, and control functions.

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

- Engaging with Internal Audit (the third line) 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.

Applying the framework of the PSIAS will give the Audit and Scrutiny Committee assurance that the Internal Audit function is compliant with legislative requirements and current best practice.

5.3 **Integrated Impact Assessment**

There is no relevance to Equality Duty or the Fairer Scotland Duty for this report, based on the completion of the Integrated Impact Assessment (IIA); a full IIA is not required. The revised Internal Audit Charter, Strategy and Annual Plan 2022/23 are designed to ensure that Internal Audit is tasked to carry out its role in accordance with best Corporate Governance practice (Charter), to set out the Council's assurance framework within which Internal Audit operates, and the Chief Audit Executive's (CAE) strategy for discharging its role and providing the necessary annual assurance opinions (Strategy), and to set out the range and breadth of audit activity and sufficient work within the audit programme of work to enable the CAE to prepare an Internal Audit annual opinion (Annual Plan 2022/23).

This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014 and the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017).

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.

5.4 **Sustainable Development Goals**

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist, alongside the Internal Audit Strategy and Annual Plan 2022/23. Good governance is important to enable Scottish Borders Council to achieve its objectives, including those supporting sustainable development.

5.5 **Climate Change**

This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration.

5.6 Rural Proofing

The revised Internal Audit Charter is unlikely to have a different impact in rural areas, based on completion of the checklist.

5.7 Data Protection Impact Statement

There are no personal data implications arising from content of this report.

5.8 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 content in this report.

6 CONSULTATION

6.1 The report and appendix have been presented to the Strategic Leadership Team (Chief Executive and Directors) on 2 March 2022 to outline the key role of Internal Audit as part of good governance.

6.2 In addition, the Chief Legal Officer (and Monitoring Officer), Clerk to the Council, and Communications team have been consulted on this report and appendix and any comments received have been taken into account.

Approved by

Jill Stacey, Chief Officer Audit & Risk

Signature

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Background Papers: Local Code of Corporate Governance; Financial Regulations

Previous Minute Reference: Audit and Scrutiny Committee 8 March 2021

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

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