

INTERNAL AUDIT CHARTER

1. INTRODUCTION

1.1 The Public Sector Internal Audit Standards (PSIAS) requires that 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 *International Standards for the Professional Practice of Internal Auditing* (Standards) detailed in the PSIAS.

1.2 The Internal Audit function of Scottish Borders Council (SBC) has adopted from the PSIAS¹: the definition of Internal Auditing,

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 processes².

the Mission Statement of Internal Audit "To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight" and the Core Principles.

2. OBJECTIVES OF INTERNAL AUDIT

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

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

2.3 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 management of risks, 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.

¹ Public Sector Internal Audit Standards (PSIAS) (2017)

² Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017)

- 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.
- 2.4 In addition to providing assurance services to Scottish Borders Council (SBC), the SBC Internal Audit function provides assurance services to the Scottish Borders Council Pension Fund (Pension Fund) and the Scottish Borders Health and Social Care Integration Joint Board (IJB). It will apply the same standards as defined in this Charter to any work undertaken for the Pension Fund and the IJB.

3. POSITION OF INTERNAL AUDIT WITHIN THE ORGANISATION

- 3.1 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"*³
- 3.2 The CAE within the Council (the Chief Officer Audit & Risk) has full access to those charged with governance for each organisation, specifically the elected members or board members and the 'senior management' team. The latter includes the Council's statutory officers: head of paid service (Chief Executive), s95 finance officer (Director Finance & Procurement), monitoring officer (Director Corporate Governance) and chief social work officer (interim arrangements in place due to vacant post Director Social Work and Practice). The CAE has free and unfettered access to the Chair of each organisation's 'board' (audit committee or equivalent) to discuss any matters the committee or auditors believe should be raised privately.
- 3.3 In terms of accountability and independence to ensure conformance with PSIAS, the CAE reports functionally to Scottish Borders Council's Audit Committee. In this context functional reporting⁴ means the Audit Committee will:
- Review or approve the following:
 - the Internal Audit Charter.
 - the risk-based Internal Audit Annual Plan.
 - the Internal Audit budget and resource plan (*to ensure that Internal Audit is adequately resourced to meet assurance and other key responsibilities*).
 - Receive confirmation of the organisational independence of the Internal Audit activity.
 - Consider the appointment or removal of the CAE, or the award of a contract for Internal Audit services.
 - Make enquiries of both Management and the CAE to determine if there are any inappropriate scope or resource limitations on Internal Audit.

³ Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017)

⁴ Chartered Institute of Internal Auditors (CIIA) – International Standards for Professional Practice of Internal Auditing and CIPFA Audit Committees practical guidance (2022)

- Approve, and periodically review, any safeguards put in place to limit impairments to independence and objectivity where the CAE has been asked to undertake any additional roles/responsibilities outside of internal auditing.
- Receive the CAE's annual report, which includes:
 - the annual opinion on the overall adequacy and effectiveness of governance, risk management and control;
 - a summary of the work on which Internal Audit has based the opinion;
 - a statement on conformance with the PSIAS and the Local Government Application Note (LGAN); and
 - the results of the quality assurance and improvement programme (QAIP), including specific detail as required in the PSIAS.
- Discuss with the CAE the form of the external assessment of internal audit and the qualifications and independence of the assessor.
- Receive the report on the external assessment of internal audit (at least once every five years), including its overall conclusion and any recommendations, and monitor the implementation of the improvement plan).

3.4 In terms of providing assurance services to the Pension Fund and the IJB, separate Internal Audit plans and reports will be presented by the CAE to their respective 'senior management' and 'board' (audit committee or equivalent) for approval and assurance, to reflect their systems of governance, risk and internal control.

3.5 The CAE is line managed by the Director Corporate Governance but retains responsibility for all operational audit activity and reports in their own name and retains final rights of edit over all Internal Audit reports.

The reporting line is managed in a manner which:

- ensures the CAE is accorded open and direct communication with relevant Management; and
- 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, and IJB.

4. RIGHTS OF ACCESS

4.1 The CAE and any member of the Internal Audit function, authorised by them relevant to the performance of audit engagements for each of the organisations, has authority to:

- Have access at any reasonable times to all computer systems and records (both paper and electronic).
- Require and receive explanations concerning any matter under examination from personnel relevant to their roles, including elected members and board members.
- Enter at all reasonable times and without notice any properties, provided that where such properties are leased to a third party that the terms of the lease are observed.
- Require personnel to produce cash, stores, or other assets under their control.

- 4.2 The Internal Audit function safeguards all data and information obtained in the carrying out of its duties, only uses it for defined purposes and makes no disclosure of any information held, unless this is authorised or there is a legal/professional requirement to do so. Data and information is retained and disposed of in line with the SBC records management policy.

5. SCOPE OF INTERNAL AUDIT ACTIVITY

- 5.1 For each organisation, Internal Audit will systematically review, appraise, make appropriate recommendations for improvement, and report upon:

- The efficiency and effectiveness of governance arrangements put in place to achieve the organisation's objectives and priorities.
- 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 Corporate Risk Officer on an on-going basis to ensure that risk is considered in every audit and risk reviews take account of recommended 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 laws, regulations, policies, plans, and procedures, whether established by the organisation or externally.
- The effectiveness of arrangements for maximising income and safeguarding the organisation's assets and interests, including fraud prevention controls and detection processes (this involves engaging in counter fraud forums at local and national levels on an on-going basis to ensure current and emerging fraud risks are considered in every audit).
- 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.

- 5.2 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.

6. AUDIT RESOURCES AND WORK PRIORITISATION

6.1 The CAE ensures that Internal Audit resources are sufficient, appropriate and effectively deployed to achieve the approved plans for each organisation.

- Sufficient refers to the quantity of resources needed to accomplish the plans. The Internal Audit staff resources totalling 5.5 FTE comprise Chief Officer Audit & Risk (0.5 FTE as CAE for Internal Audit activity), Principal Internal Auditor, two Senior Internal Auditors (one is an interim contractor), and two Internal Auditors, for the provision of Internal Audit assurance services to Scottish Borders Council, Scottish Borders Council Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board.
- 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 and with the Nolan principles established in the Seven Principles of Public Life. This is of particular importance and relevance for the profession of Internal Audit, founded as it is on trust placed in its objective assurance about risk management, internal control and governance. The CAE holds a professional qualification (BA (Hons), ACMA, CGMA) and is suitably experienced. The Principal Internal Auditor and the two Senior Internal Auditors have a professional internal audit or accountancy qualification, and all staff, including the two Internal Auditors, have suitable experience, knowledge, skills and competencies to fulfil their respective roles.
- Effectively deployed refers to when they are used in a way that optimises the achievement of the approved Internal Audit plans for each organisation.

6.2 The Internal Audit Strategy, as approved by the Audit Committee, outlines the strategic direction for how Internal Audit will achieve its objectives in conformance with PSIAS. It guides the Internal Audit function in delivering high quality internal audit services to the Council, the Pension Fund and the IJB to meet statutory requirements and professional standards.

6.3 The SBC Internal Audit Annual Plan as approved by the Audit Committee is 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 the Pension Fund and the IJB being approved and monitored by their respective 'senior management' and 'board'.

6.4 The audit planning process, to determine the priorities of the Internal Audit activity consistent with each organisation's goals, includes consideration of the organisation's priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided. The CAE, in collaboration with the Principal Internal Auditor, determines the actual deployment of available resources covering the range and breadth of audit activity which is integral to the assurance process across the activities of the Council, Pension Fund, and IJB in order to provide the statutory annual internal audit opinion to each organisation's 'senior management' and 'board'. The plans also require to be sufficiently flexible to reflect the changing risks and priorities of each organisation. The plans will be periodically reviewed, amended as required, to reflect any new arrangement or changing risks and priorities, and brought to each organisation's 'senior management' and 'board' for approval.

- 6.5 The SBC Internal Audit Annual Plan has within it provision of resources as contingency to respond to specific control issues, and new or emerging risks highlighted during the year and covering other unforeseen variations in the level of resources available to Internal Audit, such as staff vacancies.
- 6.6 The SBC Internal Audit Annual Plan has within it provision of resources for Internal Audit 'critical friend' consultancy that are valued by Management to support them in delivering innovation, change and transformation. Requests are considered and approved by the CAE subject to any consultancy activity being deliverable within the boundaries of the role of Internal Audit and the resources available.
- 6.7 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, Director Corporate Governance and Director Finance & Procurement (s95 officer) followed by the Audit Committee as required. It will be for the Audit 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.

7. NON-AUDIT ACTIVITIES

- 7.1 The Internal Audit service preserves its independence and objectivity by ensuring that:
- Staff are free from any conflicts of interest when undertaking assurance audits by following the requirements of relevant professional bodies and HR policies; and
 - Providing clarity on duties undertaken during audit consultancy engagements or other work to ensure these do not impact on assurance audits and do not impair its independence and objectivity.
- 7.2 Specifically, when Internal Audit staff have transferred from roles in services within the Council or other associated organisations, for at least one year they will not be assigned assurance audits relating to their previous area of responsibility. In addition, audit consulting engagements or other work will be restricted to providing advice, guidance, observations and opinions, and Internal Audit staff will have no involvement in making operational decisions.
- 7.3 The Chief Officer Audit & Risk (COA&R) 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 to fulfil their responsibilities in systematically identifying and managing risks and in tackling fraud respectively. In order to prevent a perceived impairment of objectivity and to ensure that Internal Audit independence and objectivity is maintained and demonstrated, the Principal Internal Auditor will lead any planned audit engagements solely on Risk Management and Counter Fraud frameworks with the Chief Officer Audit & Risk as the client and therefore with no involvement in the delivery and reporting of the Internal Audit reviews. The Principal Internal Auditor will be accountable for those audit engagements directly to the Director Corporate Governance during the period.

8. APPROVAL

- 8.1 The Internal Audit Charter was reported to and approved by the SBC Audit Committee at its meeting on **11 March 2024** and will be subject to regular review by the CAE and the SBC Audit Committee.