
INTERNAL AUDIT CHARTER

Report by Chief Officer Audit & Risk

AUDIT & RISK COMMITTEE

29 March 2016

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Audit & Risk 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 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 1.3 In terms of the Public Sector Internal Audit Standards (PSIAS), the Council should formally define the terms of reference for the Internal Audit service i.e. the Charter. 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: defines the detailed arrangements and sets out the Head of Internal Audit's strategy for discharging its role and providing the necessary annual assurance opinions. The Chief Officer Audit & Risk is the Head of Internal Audit (hereinafter referred to as HIA) at Scottish Borders Council.
- 1.4 Approval of the Internal Audit Charter as shown in Appendix 1 to this report will 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 & Risk Committee approves the updated Internal Audit Charter, as shown in Appendix 1 to this report.**

3 BACKGROUND

- 3.1 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 3.2 The SBC 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, 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. The PSIAS sit alongside the CIPFA Role of the Head of Internal Audit document.
- 3.3 In terms of the PSIAS, the Council should formally define the terms of reference for the Internal Audit service i.e. the Charter. 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: defines the detailed arrangements and sets out the Head of Internal Audit's strategy for discharging its role and providing the necessary annual assurance opinions. The Chief Officer Audit & Risk is the Head of Internal Audit (hereinafter referred to as HIA) at Scottish Borders Council.
- 3.4 The Terms of Reference i.e. Charter for the Internal Audit function were last presented to the Audit & Risk Committee for approval on 23 March 2015 and includes details of the arrangements that are in place for auditing areas within the Audit & Risk service to ensure the independence and objectivity of internal audit are maintained and demonstrated within the current management arrangements. The Internal Audit Charter has been updated to:
- incorporate relevant improvement actions that were identified as part of the PSIAS internal self-assessment 2015/16 and external quality assessment 2015/16 carried out by Renfrewshire Council whose findings were reported to the Audit & Risk Committee in November 2015; and
 - reflect corporate management changes affecting the Audit & Risk service.

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 alongside other available sources of assurance to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment.

4.2 Risk and Mitigations

- (a) The aim of Internal Audit is to help Scottish Borders Council discharge its responsibilities and achieve its objectives by systematically reviewing how well it manages its risks and operates good internal control and governance procedures.

- (b) Approval of the Internal Audit Charter as shown in 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.

4.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report, as internal audit work is carried out in accordance with the appropriate legislation and professional standards.

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

It is anticipated that 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 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.
- 5.2 The Corporate Management Team has 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)

| Name | Designation and Contact Number |
|--------------|-----------------------------------------------|
| Jill Stacey | Chief Officer Audit & Risk, Tel. 01835 825036 |
| James Collin | Internal Audit Manager, Tel. 01835 825232 |

Background Papers: Local Code of Corporate Governance; Financial Regulations
Previous Minute Reference: Audit & Risk Committee 23 March 2015

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. James Collin can also give information on other language translations as well as providing additional copies.

Contact us at James Collin, Chief Executive’s Department
jcollin@scotborders.gcsx.gov.uk



INTERNAL AUDIT CHARTER

INTRODUCTION

Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.

In terms of the Public Sector Internal Audit Standards (PSIAS), the Council should formally define the terms of reference for the Internal Audit service i.e. the Charter. 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: defines the detailed arrangements and sets out the Head of Internal Audit's strategy for discharging its role and providing the necessary annual assurance opinions. The Chief Officer Audit & Risk is the Head of Internal Audit (hereinafter referred to as HIA) at Scottish Borders Council.

INTERNAL AUDIT

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.

The scope of Internal Audit allows for unrestricted coverage of the Council's activities and unrestricted access to all records and assets deemed necessary in the course of audit activity.

RESPONSIBILITIES 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 & Risk Committee (the 'board' for the purposes of internal audit activity).

It does this by:

- Providing high quality, independent internal audit services to the Council and its management.
- Performing a systematic and continuous review of the Council's internal control, risk management and governance arrangements in accordance with a risk-based annual plan approved by the Audit & Risk Committee.

¹ Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2013)
Audit & Risk Committee – 29 March 2016

- Discussing any matters to support and assist the Chief Financial Officer discharge the statutory responsibilities of the role, including reviewing the adequacy of the systems of internal financial control and recommending improvements.
- 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.
- Highlighting opportunities to reduce costs through greater economy, efficiency and effectiveness within existing internal controls throughout the Council's systems and activities.
- Advising on cost effective controls for new systems and activities.
- Reviewing the effectiveness of controls put in place by management to manage the risk of fraud. This requirement may involve Internal Audit in the following roles:
 - reviewing and recommending improvements to fraud prevention controls and detection processes put in place by management;
 - investigating the cause of fraud;
 - considering fraud risk in every audit;
 - advising the Audit & Risk Committee on counter fraud matters;
 - leading, assisting or liaising in fraud investigations where appropriate and requested by management; and
 - responding to whistleblowers.
- Focussing towards, and culminating each year in, the provision of the HIA's assurance statements and annual report to the Audit & Risk Committee on the annual internal audit opinion on the adequacy of the Council's overall control environment.

Internal Audit will do this in accordance with:

- Relevant codes of ethics standards and guidelines issued by the professional institutes and Scottish Borders Council's Code of Conduct for Employees.
- Scottish Borders Council's Local Code of Corporate Governance and other relevant corporate governance documents, standards, policies and procedures.
- Its own Audit Manual and other internal standards, which will be adhered to by its entire staff including contracted external specialists where appropriate.

In particular, Internal Audit will adhere to the Public Sector Internal Audit Standards issued by the Internal Audit Standards Advisory Board in April 2013 which will sit alongside the CIPFA Role of the Head of Internal Audit document.

Internal Audit will consult with the Council's external auditor and with other relevant inspection and review bodies in order to coordinate effort and avoid duplication.

Internal Audit procedures are designed to ensure that all statutory and professional standards governing confidentiality of information are observed at all times.

OBJECTIVES OF INTERNAL AUDIT

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:

- As a contribution to the Council's corporate management of risk.
- As an aid to ensuring that the Council and its Members, managers and officers are operating within the law and relevant regulations.
- In support of the Council's vision, values and priorities.
- 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 information are accurate and reliable.

POSITION OF INTERNAL AUDIT WITHIN THE ORGANISATION

Internal Audit is an independent review activity. It is not an extension of, or a substitute for, the functions of line management and must remain free from any undue influence or other pressure affecting its actions and reporting.

At all times, management's responsibilities include:

- Maintaining proper internal controls in all processes for which they have responsibility to ensure probity in systems and operations.
- The prevention, detection and resolution of fraud and irregularities.
- Co-operating fully with Internal Audit and ensuring that Internal Audit can properly fulfil their role.
- Considering and acting upon Internal Audit findings and recommendations or accepting responsibility for any resultant risk from not doing so.

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 HIA should have "sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management of the organisation²"

Within Scottish Borders Council, the Chief Officer Audit & Risk (HIA) has unrestricted access to those charged with governance, specifically the Members, the Chief Executive, the Chief Financial Officer, who is the Council's nominated Section 95 Officer, the Service Director Regulatory Services, who is the Council's nominated Monitoring Officer, the Chief Social Work Officer, and the Depute Chief Executives, other Service Directors and Chief Officers who make up the Corporate Management Team. The HIA has direct access to the Chairman of the Audit & Risk Committee to discuss any matters the committee or auditors believe should be raised privately. One of the functions of the Audit & Risk Committee is to ensure that no unjustified restrictions and limitations are made to the scope and activities of Internal Audit. Additionally, unrestricted access to all Chief Officers and employees of the Council is accorded to all members of the Internal Audit service.

In terms of accountability and independence, the HIA reports functionally to the Audit & Risk Committee. In this context functional reporting³ means the Audit & Risk

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

³ Chartered Institute of Internal Auditors (CIIA) – International Standards for the Professional Practice of Internal Audit & Risk Committee – 29 March 2016

Committee will:

- Approve the internal audit charter.
- Approve the Internal Audit risk assessment and strategic and annual plans.
- Receive reports from the HIA on the results of Internal Audit activity or other matters the HIA determines necessary.
- Ratify all decisions regarding the appointment or removal of the HIA.
- Make enquiries of management to ensure that Internal Audit is adequately resourced to meet assurance and other key responsibilities.

The Chief Officer Audit & Risk (HIA) reports administratively to the Service Director Regulatory Services who reports to the Depute Chief Executive Place who in turn reports to the Chief Executive. However, the open access rights above allow the HIA discretion to apply the reporting arrangement determined to be most appropriate for the specific task undertaken.

In this context administrative reporting⁴ means reporting in relation to:

- Budgeting and management accounting.
- Human resource administration.
- Internal communications and information flows.
- Administration of the Council's internal policies and procedures.

The administrative reporting line will be managed in a manner which: ensures the HIA is accorded open and direct communication with management; ensures the HIA and the Internal Audit function have an adequate and timely flow of information concerning the activities, plans and initiatives of the Council; and ensures budgetary controls and considerations imposed by this reporting line do not impede the ability of Internal Audit to discharge its responsibilities.

It is recognised the administrative reporting line does not have authority over the scope of reporting of results of Internal Audit activity. Ultimate authority in this regard vests in the HIA, who reports in their own name and retains final right of edit over all Internal Audit reports.

The Chief Officer Audit & Risk has managerial responsibility for the functions which develop, support and advise on the frameworks in place at the Council on Risk Management and Counter Fraud. In order to ensure that internal audit independence and objectivity is maintained and demonstrated, the internal audit work on these areas 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 review. In addition the report would be submitted in the name of the Internal Audit Manager who would report directly to the Service Director Regulatory Services during the period in which he would be fulfilling the HIA role carrying out the planned audit reviews for Risk Management and Counter Fraud.

SCOPE OF INTERNAL AUDIT ACTIVITY

Internal Audit shall review, appraise and report upon:

Auditing

⁴ Chartered Institute of Internal Auditors (CIIA) – International Standards for the Professional Practice of Internal Auditing

- The effectiveness of all controls and other arrangements put in place to manage risk.
- The completeness, reliability and integrity of information, both financial and operational.
- The systems established to ensure compliance with policies, plans, procedures, laws and regulations whether established by the Council or externally.
- The effectiveness of arrangements for safeguarding the Council's assets and interests.
- The economy, efficiency and effectiveness with which resources are deployed.
- The extent to which operational are being carried out as planned and objectives and goals are met.

Internal Audit's work covers:

- All Council activities, systems, processes, policies and protocols that are currently existing or under development.
- All Council departments, cost centres and other business units and establishments.
- All services and other activities for which the Council is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

RIGHTS OF ACCESS

The Chief Officer Audit & Risk and any member of Internal Audit service has authority to:

- Enter at all reasonable times and without notice any premises or land of the Council, provided that where such premises or land are leased to a third party that the terms of the lease are observed.
- Have access to, and remove, all records (both paper and electronic), documents and correspondence within the possession or control of any officer of the Council, relating to any financial or other transactions of the Council.
- Be provided with a separate log-in to any computer system within the Council and have full access to any system, personal computer or other device in the ownership of the Council.
- Require and receive explanations concerning any matter under examination from any employee including Chief Officers.
- Require any employee of the Council to produce cash, stores or any other Council assets under their control.

CONSULTANCY WORK

Internal Audit, using its systematic and disciplined approach, plays an important role for the Council within its transformation and change programme and its performance

improvement framework through the provision of advice and consultancy services to:

- advise on cost effective controls for new systems and activities to balance risk and control;
- highlight opportunities to reduce costs through greater economy and efficiency within systems and activities as part of strategic and service reviews;
- provide quality assurance on projects involving major change and systems development;
- provide an independent and objective assessment of the evidence on progress with implementing action plans to demonstrate continuous improvement; and
- provide independent validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's services.

Increasingly management have engaged Internal Audit at an early stage in new developments and transformation programmes and projects to conduct consultancy work. Acceptance of the assignment will be dependant on available resources, the nature of the assignment and any potential impact on assurances.

The role of Internal Audit in a consultancy assignment is to provide advice, facilitation and support to management who retain the responsibility for the ultimate decisions taken within the area under review.

REPORTING

Internal Audit:

- Reports after each audit assignment its findings and audit opinion, highlights good practice and deficiencies, and makes recommendations as appropriate addressed to the relevant Depute Chief Executive, Service Director and such other levels of management as need to know and are capable of ensuring that appropriate action is taken to improve the mechanisms put in place to ensure systems and activities achieve their objectives.

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| Findings and recommendations are prioritised as follows: | Generally we would expect recommendations to be implemented within the following time scales: |
| Priority 1 High risk, material observations requiring immediate action. Added to the relevant department's Risk Register. | within one month of formally raising the issue |
| Priority 2 Medium risk, significant observations requiring reasonably urgent action. | within three months of formally raising the issue |
| Priority 3 Low risk, minor observations which require action to improve the efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management. | within six months of formally raising the issue |

- Accepts that its responsibility does not cease at the point where a report is issued and will take reasonable action to follow up the implementation of agreed actions to ensure they are in place and are effective.
- Failure to address recommendations within the agreed timescales will be

reported to the Audit & Risk Committee. In some cases it will not be practicable to implement recommendations within the above timescales and in these cases background circumstances and progress to date will be taken into account.

- Will report as required on the results of its work (including summarising the findings arising from each completed review, and progress made in delivering the agreed Audit Plan) to the Audit & Risk Committee. An annual report will be presented to Corporate Management and the Audit & Risk Committee which will contain the annual audit opinion on the effectiveness of the Council's internal control and corporate governance arrangements. Progress on implementation of all Priority 1 items will be highlighted on an annual basis as appropriate to inform the Audit & Risk Committee of the current areas of greatest risk and how management is managing these effectively.
- Will make available, as requested, to Members of the Audit & Risk Committee its final internal audit reports in accordance with statutory and professional standards governing confidentiality of information.
- Will evaluate its performance and maintain and publish information accordingly.

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.

AUDIT RESOURCES AND WORK PRIORITISATION

The internal audit annual plan as approved by the Audit & Risk Committee shall be the main determinant of the relative priority to be placed on each part of the work of Internal Audit. The Chief Officer Audit & Risk (HIA) 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 Council's activities in order to provide an annual internal audit opinion.

This plan also requires to be sufficiently flexible to reflect the changing risks and priorities of the 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 managers during the year by carrying out specific unplanned work within audit scopes 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 HIA will identify the shortfall in the plan and initially advise the Chief Executive and Chief Financial Officer followed by the Audit & Risk Committee as required. It shall be for the Audit & Risk 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.

APPROVAL

The Internal Audit Charter was reported to and approved by the Audit & Risk Committee at its meeting on *29 March 2016* and shall be subject to regular review by the Chief Officer Audit & Risk and the Audit & Risk Committee.