

ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE - 23 SEPTEMBER 2021

REVIEW OF AUDIT CHARTER

REPORT BY CATHIE WYLLIE – SERVICE LEADER INTERNAL AUDIT

ABSTRACT

This report summarises a review of the Audit Charter and proposes minor amendments to it.

1. RECOMMENDATION

It is recommended that the Committee:-

- (i) Approve the amendments to the Audit Charter.

2. ALIGNMENT TO THE COUNCIL PLAN

The contents of this report set the framework within which the Internal Audit Service operates in order to provide the Scrutiny & Audit Committee and management with information and assurances about systems in place that contribute to achievement of the Council Plan.

3. BACKGROUND

3.1 The Audit Charter has previously been written to comply with good practice and is usually reviewed annually and updated as necessary.

3.2 The Charter was last updated in August 2019. A review against good practice in July 2020 identified no material changes required and no update was made pending the results of the External Quality Assurance Review (EQA) of the Internal Audit Service that was underway. The EQA was reported to committee in January 2021 and made no recommendations in relation to the charter.

4. CURRENT POSITION

The Charter was reviewed against good practice published by the Institute of Internal Auditors. The guidance has not changed since 2019.

5. PROPOSALS

The committee is asked to approve the following changes, which have been tracked in the document for ease of reference.

- Some changes to job titles in the footnote.
- One bullet point in the list of internal audit responsibilities has been removed as this responsibility sits with the committee. This has been added to the responsibilities noted in the footnote.

6. FINANCIAL IMPLICATIONS

There are no financial implications.

7. EQUALITY IMPACT ASSESSMENT

An Equality Impact Assessment is not required, as this report does not impact on people.

Background Papers

NOTE: No background papers as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing this report.

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Appendix 1 Audit Charter



INTERNAL AUDIT CHARTER

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Introduction

The Local Authority Accounts (Scotland) Regulations 2014 introduced a requirement for all Scottish Local Authorities to operate a professional and objective internal auditing service, which must be delivered in accordance with recognised standards. The standards and practices applied in the UK for all public sector internal audit providers, in-house, shared or outsourced, are the Public Sector Internal Audit Standards (PSIAS), which came into effect in April 2013, and were updated in April 2017.

PSIAS encompasses the mandatory elements of international internal audit professional practices framework and includes both standards of practice and a professional code of ethics.

A key requirement of the Standards is the need to hold a formal Internal Audit Charter. This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, and the related responsibilities of the Scrutiny & Audit Committee and managers, in accordance with PSIAS.

The Charter will be reviewed annually and presented to the Scrutiny and Audit Committee for final approval.

Definition

Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Angus Council.

It assists the Council in accomplishing its objectives by bringing a systematic, disciplined and risk-based approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.

Role

The internal audit activity is established by the Board, which for the purposes of internal audit is the Scrutiny and Audit Committee (the Committee). Internal Audit's responsibilities are defined by this Committee as part of their oversight role.

The main objective of Internal Audit is to provide, in terms of the PSIAS, a high quality, independent audit service to the Council which provides annual assurances in relation to internal controls and overall governance arrangements.

In addition to this primary assurance role, Internal Audit will also:-

- Support the Director of Finance in discharge of his Section 95 Officer duties.
- Support the Director - Legal and Democratic Services in discharge of her Monitoring Officer duties.
- Provide consultancy services to directorates.
- Provide a counter fraud function.
- Investigate any allegations of fraud or irregularity.

- Advise on internal control implications of new systems and provide a project assurance service.
- Support the Council and Senior Management during key transformational/ change projects.

The nature of the assurance services provided by Internal Audit include, but are not limited to the following:

- Risk based audit
- Developing systems audit
- Compliance audits
- Value for money audits
- Quality assurance audits
- Fraud/irregularity investigations
- Advisory/consultancy reviews

The standards defined in this Charter will also apply to any work which may be carried out to provide assurance services to parties external to the Council.

Professionalism

Internal audit will adhere to the PSIAS, which are based on the Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Core Principles of Professional Practice of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

Other professional guidance will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to the Council's relevant policies and procedures and Internal Audit's standard operating procedures manual.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies.

Authority and Scope

All internal audit staff shall have authority to:-

- a. enter any Council premises or land.
- b. have access to, and remove, all records, documents and correspondence which, in the view of the Service Leader – Internal Audit (or nominated representatives), are considered to relate to any matter which may have audit or assurance implications for the Council.
- c. be provided with full access to any computer system and personal computer or other computer storage device/ media in the ownership of the Council.
- d. require explanations considered necessary from any employee, including Chief Officers.
- e. require any employee, or agent of the Council, to produce cash, stores, assets or any other property under his control or to which he has access.

The scope of Internal Audit allows for unrestricted coverage of the Council's activities. In addition, Internal Audit through the Service Leader – Internal Audit, where they deem necessary, will have unrestricted access to:-

- The Chief Executive
- The Scrutiny and Audit Committee and all members
- Individual Chief Officers
- All Council employees

Right of access to other bodies funded by the Council should be set out in the conditions of funding.

Internal audit will safeguard all information obtained in performing its work and will only use it for the purposes of an audit, investigation or consultancy work. Internal audit will not disclose any information held unless this is authorised or there is a legal or professional requirement to do so.

All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities.

Organisation

The Service Leader – Internal Audit is the senior officer responsible to the Committee for the provision of a full independent core assurance internal audit service. The Service Leader – Internal Audit is full-time, directly employed by the Council, and will discharge their responsibility through a directly employed team, comprising both Internal Audit and Counter-Fraud staff. Specialist support for computer audit will continue to be procured via an external tendering exercise.

The Service Leader – Internal Audit will be the Chief Audit Executive for the purposes of the PSIAS. In relation to this the Service Leader – Internal Audit will report functionally¹ to the Committee, and administratively to the Head of Strategic Policy, Transformation and Public Sector Reform. It is recognised the administrative reporting line does not have authority over the scope or reporting of results of Internal Audit activity. Ultimate authority in this regard vests in the Service Leader – Internal Audit, who reports in their own name and retains final right of edit over all Internal Audit reports.

The Service Leader – Internal Audit will also have open access to the Chief Executive and Corporate Leadership Team. The Service Leader – Internal Audit will be responsible to the Committee for all elements of core assurance internal audit planning, delivery and reporting and provision of an annual report and opinion on governance, risk and internal control.

¹ In this context functional reporting means the Committee will:-

- Approve the audit charter.
- Approve the Internal Audit risk based internal audit plan, [ensuring there are no inappropriate limitations on scope.](#)
- Approve the Internal Audit Resources, [having considered any resource limitations reported by the Service Leader - Internal Audit.](#)
- Receive reports from the [Service Leader – Internal Audit Audit Manager](#) on the result of Internal Audit activity or other matters the [Service Leader – Internal Audit Audit Manager](#) determines necessary.
- Approve decisions regarding the appointment or removal of the [Service Leader – Internal Audit Audit Manager](#).

The Service Leader – Internal Audit, and the Team Leader – Internal Audit are required to hold a professional qualification and be suitably experienced.

Independence and objectivity

To maintain the internal auditors' independence and objectivity, Internal Audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, manage risks, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Service Leader – Internal Audit will confirm to the Committee, at least annually, the organisational independence of the internal audit activity. Any interference experienced will be disclosed by the Service Leader – Internal Audit to the Committee and the implications discussed.

Responsibility

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council's governance, risk management, and internal control processes in relation to the Council's defined goals and objectives.

Areas to be considered by Internal Audit include:

- Consistency of operations or programs with established objectives and goals and effective performance,
- ~~Make enquiries of management and the Service Leader – Internal Audit to determine whether there are inappropriate scope or resource limitations,~~
- Effectiveness and efficiency of operations and employment of resources,
- Compliance with significant policies, plans, procedures, laws, and regulations,
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information,
- Safeguarding of assets.

Internal Audit is responsible for evaluating all processes ('audit universe') of the entity including governance processes and risk management processes. In doing so, Internal Audit maintains a proper degree of co-ordination with external audit.

Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Committee and to Senior Management (the Council's Corporate Leadership Team), including fraud risks, governance issues, and other matters needed or requested by the committee.

Internal Audit resource may be used to support consultancy and advisory services, related to governance, risk management and control, but not to the detriment of provision of core assurances. It may also evaluate specific operations at the request of the Committee or senior management, as appropriate.

Fraud and Corruption

Managing the risk of fraud and corruption is the responsibility of management. Management is also responsible for developing, implementing and maintaining systems of internal control to guard against fraud or irregularity and ensure probity in systems and operations. Internal Audit will assist management by reviewing the controls and procedures in place.

Audit procedures alone cannot guarantee that fraud and corruption will be detected, nor does Internal Audit have the responsibility for prevention and detection of fraud. However, individual auditors will be alert in their work to risks and exposures that could allow a fraud, irregularity or corrupt practice to take place.

Financial Regulations lay out the responsibilities of Council Chief Officers, Managers and other staff in relation to any suspicion of fraud or irregularity. The role of Internal Audit is to fully investigate any suspicion of fraud, irregularity or corrupt practice and report in accordance with the Fraud Response Plan.

Internal audit plan

At least annually, the Service Leader – Internal Audit will submit an internal audit plan that includes risk assessment criteria to the Committee for review and approval. The Service Leader – Internal Audit will communicate the impact of any resource limitations and significant interim changes to senior management and the Committee.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Committee. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process to the Committee.

Audits will be only allocated to staff who have the appropriate skills, experiences and competence.

Reporting and monitoring

A written report will be prepared and issued by the Internal Audit Service Leader or Team Leader – Internal Audit following the conclusion of each Internal Audit engagement and will be distributed as appropriate for management responses and comment. Internal Audit results will also be reported to the Committee.

The Internal Audit report may include management's response and corrective action taken, or to be taken, in regard to the specific findings and recommendations. Management's response should include an action owner, a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. Agreed actions will be monitored using the Council's Pentana Performance system. Action owners should update Pentana Performance with progress of implementation.

Internal Audit will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain open until evidentially cleared.

Periodic assessment

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK PSIAS, ongoing performance monitoring and external assessment.

The Service Leader – Internal Audit is responsible for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to the Annual Plan.

In addition, the Service Leader – Internal Audit will communicate to senior management and the Committee on Internal Audit's quality assurance and improvement programme, including results of ongoing internal assessments.

External assessments will be conducted at least every five years in accordance with Public Sector Internal Audit Standards. Review arrangements and findings will be reported to the Committee. The scope of the review will be agreed with the Convener of the Committee.

Approved by the Scrutiny & Audit Committee on 23 September 2021~~20 August 2019~~