

The background of the slide features a large, light blue crest of the University of Aberdeen. The crest is a shield divided into four quadrants. The top-left quadrant shows a saltire (X-shaped cross) on a field of lozenges. The top-right quadrant shows a stag's head facing left with a cross above its antlers. The bottom-left quadrant shows a three-masted sailing ship on wavy lines representing water. The bottom-right quadrant shows an eagle with wings spread, perched on a branch. Above the shield is a crown with four fleurs-de-lis. A banner at the bottom of the shield contains the Latin motto 'AN E FOR A'.

Agenda Item

5

Internal Audit Charter

Falkirk Council

Title: Internal Audit Charter
Meeting: Audit Committee
Date: 21 August 2017
Submitted By: Internal Audit Manager

1. Purpose of Report

- 1.1 This report seeks Audit Committee's approval of an Internal Audit Charter. The Charter sets out the role, authority, and responsibility of the Council's Internal Audit team.

2. Recommendation

2.1 It is recommended that Audit Committee:

2.1.1 considers and approves the Internal Audit Charter attached at Appendix 1.

3. Background

- 3.1 The Public Sector Internal Audit Standards 2017 (the Standards) were developed jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA). The objectives of the Standards are to:

- define the nature of Internal Auditing within the UK public sector;
- set basic principles for carrying out Internal Audit in the UK public sector;
- establish a framework for providing Internal Audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- establish the basis for the evaluation of Internal Audit performance and to drive improvement planning.

- 3.2 The Standards require that all public sector Internal Audit providers establish an Internal Audit Charter. The Charter must set out the role, authority, and responsibility of the Internal Audit section, and must be approved by 'the board (in this case Falkirk Council's Audit Committee).

3.3 The previous Falkirk Council Internal Audit Charter was approved by Audit Committee on 24 March 2014. This has been reviewed, and an updated version is attached at Appendix 1. This includes sections on:

- The Role of Internal Audit;
- Professionalism;
- Authority and Scope;
- Organisation;
- Independence and Objectivity;
- Responsibility: Assurance Work;
- Responsibility: Consultancy Work; and
- Quality Assurance.

3.4 The Charter is a high level document that sets out guiding principles. A more detailed Internal Audit Manual is in place setting out the arrangements for the practical planning, undertaking, and reporting of Internal Audit work.

3.5 The Charter will continue to be kept under review, with any changes presented to Audit Committee on a two yearly basis.

4. Implications

Financial

4.1 There are no financial implications.

Resources

4.2 There are no resource implications.

Legal

4.3 There are no legal implications.

Risk

4.4 The role of Internal Audit is to provide Members with assurance on the Council's arrangements for risk management, governance, and control. Recommendations made by Internal Audit aim to reduce or mitigate risk to which the Council may be exposed.

4.5 Failure to establish and agree an Internal Audit Charter, in compliance with Public Sector Internal Audit Standards, may impact on the role, independence, authority, and scope of Internal Audit.

Equalities

- 4.6 An equality and poverty impact assessment was not required.

Sustainability / Environmental Impact

- 4.7 A sustainability / environmental assessment was not required.

5. Conclusions

- 5.1 The Internal Audit Charter sets out the role, authority, and responsibility of the Internal Audit Section. It provides the high level framework within which the Section operates. The Internal Audit Charter attached at Appendix 1 updates the previous version approved by Audit Committee in March 2014.

Internal Audit Manager

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k Date: 2 August 2017

APPENDICES

- Appendix 1 – Internal Audit Charter.

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

- None.

Falkirk Council Internal Audit

2017/18 Internal Audit Charter



Distribution:

Audit Committee
Corporate Management Team
Internal Audit, Risk, and Corporate Fraud Team

1. INTERNAL AUDIT CHARTER

- 1.1 This Internal Audit Charter sets out the role, authority, and responsibility of the Council's Internal Audit Section, in accordance with the UK Public Sector Internal Audit Standards (PSIAS).
- 1.2 It is a requirement of PSIAS that the Charter is approved by the 'Board'. Within Falkirk Council, approval of the Charter has been delegated to the Audit Committee.

2. ROLE OF INTERNAL AUDIT

- 2.1 Internal Audit is an independent and objective assurance and consulting activity that aims to add value to, and improve the operations of, Falkirk Council.
- 2.2 The main objective of Internal Audit is to provide a high quality, independent, and innovative assurance service. This culminates in an Annual Assurance Report providing an opinion on the adequacy of the Council's arrangements for risk management, governance, and control.
- 2.3 In addition to this assurance role, Internal Audit:
- present periodic Progress Reports on the Section's work to Audit Committee;
 - provide ad hoc consultancy and advice to Services;
 - monitor and report on the implementation of Internal Audit recommendations; and
 - help promote, alongside the Corporate Fraud team, a zero tolerance fraud and corruption culture.

- 2.4 The Internal Audit Manager acts as Key Contact for the bi-annual National Fraud Initiative exercise, and as the Council's Single Point of Contact (SPOC) with Police Scotland in relation to Serious Organised Crime.

3. PROFESSIONALISM

- 3.1 Internal Audit aims to work in compliance with the PSIAS. These Standards set out the requirements for the professional practice of Internal Auditing, and are based on the Chartered Institute of Internal Auditors' (CIIA) mandatory guidance. They also set out requirements in relation to evaluating the Internal Audit Section's performance.
- 3.2 Internal Audit will adhere to Council policies, procedures, and guidance, and will operate in line with its own Internal Audit Manual.
- 3.3 All Internal Audit staff participate in the Continuous Professional Development (CPD) requirements of the relevant Chartered Institute, and in the Council's Achievement and Personal Development Scheme (APDS). To assist with compliance, the Council's Finance Division is an accredited CIPFA CPD employer, and the Internal Audit Section has been awarded the equivalent CIIA accreditation.
- 3.4 Internal Audit staff are also required to adhere to the CIIA Code of Ethics, and the Council's own Code of Conduct for Members and Officers.
- 3.5 Networking and sharing of good practice is achieved through the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) and its Computer Audit Sub-Group (CASG). Both of these Groups meet periodically throughout the year to discuss emerging issues, risks, and to progress specific initiatives.

4. AUTHORITY AND SCOPE

4.1 The scope of Internal Audit allows for unrestricted coverage of the Council's activities. To allow the Section to provide a truly independent service, all Internal Audit staff have authority to:

- enter any Council premises or land;
- access any records, documents, or correspondence (held in any format) relating to any matter which may have assurance or risk implications for the Council;
- require explanations relating to any matter under review from any employee, including Chief Officers and elected Members; and
- require any employee (or agent) of the Council to produce cash, stores, assets, records, or any other property under their control or to which they have access.

4.2 This access is on demand, and need not be subject to prior notice.

4.3 In addition, the Internal Audit Manager will have unrestricted access to:

- the Chief Executive;
- the Convener and Members of the Audit Committee;
- Chief Officers; and
- all Council employees.

4.4 The Internal Audit Manager has the right to report directly to the Council in any instance where he / she deems it inappropriate to report to the Chief

Finance Officer, Director of Corporate and Housing Services, Chief Executive, or Audit Committee.

4.5 Right of access to Arms Length External Organisations (ALEOs), such as Falkirk Community Trust, and to any bodies funded by the Council, should be set out in the relevant Service Level Agreement, conditions of funding, or contractual arrangement.

5. ORGANISATION

5.1 The Internal Audit Manager reports functionally to the Audit Committee and operationally to the Chief Finance Officer (CFO). The CFO attends meetings of the Corporate Management Team.

5.2 The Audit Committee meets four times per year. Its role and remit is formalised in Standing Orders. Pre-agenda meetings are held ahead of each Committee meeting to discuss matters relating to the agenda. The Internal Audit Manager attends all pre-agenda and Audit Committee meetings.

5.3 In relation to Internal Audit, it is the Audit Committee's role to:

- approve the Internal Audit Charter;
- approve the annual risk based Internal Audit Plan;
- consider reports on Internal Audit activity, including an Annual Assurance Report;
- seek assurances from Chief Officers that appropriate action has been taken to address Internal Audit recommendations; and
- make enquiries of management and the Internal Audit Manager to identify any inappropriate scope or resource limitations.

5.4 The Internal Audit Manager, Senior Internal Auditors, and Internal Auditors are required to hold a relevant professional qualification and to be suitably experienced.

6. INDEPENDENCE AND OBJECTIVITY

6.1 Internal Audit staff must always act independently and objectively. Internal Audit is not an extension of, or substitute for, the functions of line management, and must remain free from any undue influence or other pressure affecting its work.

6.2 Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. They will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment. They may, however, be consulted on the implementation of new systems or processes to ensure that, as far as possible, sound and proportionate arrangements for risk management, governance, and control are built in.

6.3 The Council's Risk Co-ordinator reports operationally to the Internal Audit Manager. Alternative arrangements will be established to provide assurance on the adequacy of risk management policies and practice. This may take the form of peer review by another Council's Internal Audit team.

6.4 It is Service management's (not Internal Audit's) responsibility, to:

- maintain a robust framework of internal control within their area of responsibility;

- put in place arrangements to prevent and detect fraud or corruption¹;

- implement Internal Audit findings and recommendations, or accept the risk of not doing so; and

- inform Internal Audit of any material proposed changes to systems or processes.

6.5 Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being reviewed. They must make a balanced assessment of all the relevant circumstances, and not be unduly influenced in forming judgments.

6.6 The Internal Audit Manager will report to Audit Committee in his own name, and will confirm, in his Annual Assurance Report, the organisational independence of the Internal Audit Section.

7. RESPONSIBILITY: ASSURANCE WORK

7.1 The scope of Internal Auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of risk management, governance, and control arrangements.

7.2 Internal Audit must complete sufficient work to allow an Annual Assurance Report to be presented to the Audit Committee. This report provides an annual, overall, opinion on the adequacy of arrangements for risk management, governance, and control, and informs the Council's Annual Governance Statement.

¹ With support from the Corporate Fraud team.

7.3 The Annual Assurance Report will be based on the outcomes of the risk based assignments set out in the Annual Internal Audit Plan.

7.4 As required by PSIAS, the Annual Internal Audit Plan is developed taking account of key financial and other risks. This is done by:

- reviewing high and medium risks and the associated Assurance Map²;
- consulting with senior managers;
- considering previous Internal Audit reports and other independent review activities; and
- taking account of the Internal Audit Needs Assessment model.

7.5 For each individual assignment, Internal Audit will develop a Terms of Reference and agree this with the relevant managers. Assignments are carried out using a risk based approach, taking account of the objectives of the activity being reviewed, risks to that activity, and the adequacy of existing risk management, governance, and control arrangements.

7.6 Internal Audit will develop and document work programs for each assignment, setting out the approach to be taken for identifying, analysing, evaluating, and documenting information. A detailed file will be kept as a record of work undertaken. This will be done in line with the standards set out in the Section's Internal Audit Manual.

7.7 Matters arising from each assignment will be reported to management in the form of a draft report. Each report will be reviewed by the Internal

Audit Manager prior to issue, and will include a statement on the level of assurance that can be provided, as well as an action plan setting out any recommendations. The overall assurance will be provided in line with the definitions set out below.

Level of Assurance	Definition
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There may be some scope for improvement as current arrangements may undermine the achievement of objectives or leave them vulnerable to error or abuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.

7.8 The report and completed Action Plan will form the final record of each audit.

7.9 Periodic reports will be provided to the Audit Committee detailing progress in completing the Annual Internal Audit Plan and highlighting any key matters arising. These progress reports will also provide information on any consultancy work undertaken by Internal Audit.

7.10 The progress reports to Audit Committee also provide information in relation to Internal Audit recommendations that remain outstanding.

7.11 All Internal Audit recommendations are logged on the corporate Covalent system, with responsibility for monitoring implementation allocated to the relevant manager. This allows managers to close recommendations as they are implemented, and

² this maps sources of internal and external assurance against each corporate risk.

allows Internal Audit to monitor real time progress on an ongoing basis.

7.12 The reporting to Audit Committee of recommendations outstanding focusses on:

- recommendations where the agreed Action Date has lapsed; and
- where no revised (and reasonable) Action Date has been agreed with Managers.

8. RESPONSIBILITY: CONSULTANCY WORK

8.1 Internal Audit includes an allocation of 'days' in the Annual Internal Audit Plan for consultancy work. This time will be used to allow Internal Audit to, for example:

- be involved in corporate projects and working groups;
- provide advice on written procedures and controls; and
- deliver short term assignments requested by Services.

8.2 Approval will be sought from the Audit Committee if there is to be a significant variation in consultancy work above the allocation within the Internal Audit Plan.

8.3 As per Section 24.6 of Financial Regulations, Chief Officers are responsible for identifying and managing the risk of fraud. Chief Officers are, however, required to notify the Chief Finance Officer of all financial irregularities or of any circumstances that may suggest the possibility of irregularities.

8.4 The Chief Finance Officer will form an opinion on the process to be followed on notification of an irregularity. This will be done in conjunction with the Internal Audit Manager, and with due regard to the Council's Anti Fraud and Corruption Strategy. This may lead to an investigation by the Corporate Fraud team with input from Internal Audit.

9. QUALITY ASSURANCE

9.1 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of the Section's activity (and its compliance with PSIAS). This consists of an annual self assessment, ongoing performance monitoring, and a periodic external assessment.

9.2 The Internal Audit Manager is responsible for undertaking an annual self assessment and for reporting the results of this self assessment to the Audit Committee (within the Internal Audit Annual Assurance Report).

9.3 External assessments will be conducted at least once every five years by a suitably qualified, independent, assessor. The Internal Audit Manager will discuss and agree options for these assessments with the Chief Finance Officer and Convener of the Audit Committee. One option is participation in the External Quality Assessment peer review process established by the Scottish Local Authorities Chief Internal Auditors' Group.