

Internal Audit Charter 2018 to 2020

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1. Introduction

1.1. The Internal Audit Charter formally defines the purpose, authority and responsibility for the Orkney Islands Council internal audit activity.

1.2. The Charter acknowledges the mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Public Sector Internal Audit Standards (PSIAS) and the Definition of Internal Auditing.

1.3. In terms of the PSIAS, the “Board” shall mean the Monitoring and Audit Committee and “Senior Management” shall mean the Senior Management Team.

1.4. The Charter is in accordance with the Council’s Financial Regulations 2018.

2. Definition of Internal Audit (PSIAS)

2.1. 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. Position of Internal Audit

3.1. The Chief Executive has ultimate responsibility for the provision of the Internal Audit Service to the Council. Internal Audit shall have direct access to the Chief Executive when required.

3.2. The management of Internal Audit is under the control of the Chief Internal Auditor. The Internal Audit Service sits within Corporate Services, and the Chief Internal Auditor reports administratively to the Executive Director of Corporate Services. The Chief Internal Auditor has authority however to submit reports on Corporate Services without reference to the Executive Director of Corporate Services.

3.3. The Head of Finance has responsibility under Section 95 of the Local Government (Scotland) Act 1973 for promoting an effective system of internal financial control and the proper financial administration of the Council’s affairs. The Internal Audit Section shall support the Head of Finance in this role, and the Chief Internal Auditor has direct access to the Head of Finance.

3.4. The Chief Internal Auditor shall have direct access to the Council’s Monitoring Officer for any matters of legality.

3.5. The Chief Internal Auditor has the right, where circumstances warrant it, to report in his/her own name and without fear or favour to all officers and members.

4. Authority of Internal Audit

4.1. The Financial Regulations set out the authority of Internal Audit at section 16.3, whereby the Chief Internal Auditor or their authorised representative shall have authority to:

4.1.1. Enter at all reasonable times on any Council premises or land.

4.1.2. Have access to, and remove, all records, documents and correspondence, including computer records, relating to any financial and other transactions of the Council.

4.1.3. 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.

4.1.4. Require and receive such explanations as are necessary concerning any matter under examination.

4.1.5. Require any employee or member of the Council to produce cash, stores or any other Council property under his or her control.

4.1.6. Examine financial records of Council owned companies, trusts administered by the Council and other organisations funded by the Council.

5. Purpose and Scope of Internal Audit

5.1. The primary role of Internal Audit is that of an assurance function which provides an independent and objective opinion on the adequacy of the Council's control environment. Internal audit work is designed to add value to and improve an organisation's operations, in particular in evaluating and improving the effectiveness of risk management, control and governance processes. The Internal Audit remit will extend to the entire control environment of the Council.

5.2. While Internal Audit contributes to the internal control environment by examining, evaluating and reporting to management on its adequacy and effectiveness, it should be noted that Executive Directors are responsible for ensuring that adequate internal control systems, both financial and non-financial, are in place and that best value is achieved.

5.3. Internal Audit is independent having no operational responsibilities. It shall neither 'own' any systems under audit nor be given any responsibility for any aspect of work subject to audit.

5.4. Internal Audit is not an extension of, or a substitute for, the functions of line management. It is not a substitute for proper internal controls. It is the responsibility of management to establish and maintain an operating environment which is controlled, efficient and effective. Internal Audit can provide reassurance to management when control is adequate, as well as identify controls which require to be strengthened.

5.5. Internal Audit aims to work in partnership with management to improve the control environment and assist the organisation in achieving its objectives.

5.6. Internal Audit shall undertake the following duties:

- Review controls within and surrounding existing systems and systems under development.
- Check compliance with Financial Regulations, Standing Orders etc.
- Test transactions to confirm accuracy of processing.
- Undertake Computer audit.
- Undertake Contract audit.
- Investigate suspected fraud, corruption or irregularities;
- Undertake value for money studies.
- Undertake governance reviews.
- Review risk management arrangements.
- Audit statutory performance indicators.
- Provide advice to staff, Elected Members and to partner organisations.

Fraud and Corruption

5.7. All Officers and Elected Members of the Council have a duty to report any suspicion of fraud, bribery or irregularity to their Line Manager, Head of Service or Executive Director, who must inform the Head of Finance and the Council's Internal Audit Section. Matters can also be reported directly to the Head of Finance or the Chief Internal Auditor. The Chief Internal Auditor, in consultation with the Head of Finance, shall be responsible for the investigation of such matters. Action taken shall be in accordance with the Council's Anti-Fraud policies.

5.8. Managing the risk of fraud and corruption is the responsibility of management, not of Internal Audit. However, Internal Audit does have an involvement as follows:

- Internal audit work is planned to take into account and to minimise, the risks and exposures that could allow fraud or corruption. Audit procedures alone, however, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.
- Internal Audit carries out specific fraud related work when requested by managers.
- Internal Audit notifies the Council's External Auditors of all frauds.

6. Staffing and Training

6.1. Internal Audit shall be staffed with persons of appropriate qualifications and experience. In compliance with the PSIAS, the Chief Internal Auditor must hold a professional qualification (CMIIA (Chartered Internal Auditor), CCAB (Consultative Committee of Accountancy Bodies qualified accountant) or equivalent).

6.2. The Chief Internal Auditor shall ensure that training takes place to enable all staff within Internal Audit to carry out their work in accordance with the required standards laid down in the PSIAS and in the Internal Audit Manual.

6.3. The training needs of individual staff will be reviewed annually with them, and all training shall be recorded and assessed in a personal training record.

6.4. All professionally qualified staff are required as per the relevant professional institute to maintain their Continued Professional Development (CPD).

6.5. Upon request from the Head of Finance, appropriate specialists from services other than Finance should be made available to take part in any audit or review requiring such specialist knowledge, as per the Financial Regulation 16.4.

7. Code of Ethics and Professional Standards

7.1. Internal Auditors must conform to the Code of Ethics. Where individual Internal Auditors have membership of a professional body then they must also comply with the relevant requirements of that organisation.

7.2. Internal Auditors must comply with the following principles:

- Integrity – The integrity of Internal Auditors establishes trust and thus provides the basis for reliance on their judgement.
- Objectivity – Internal Auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal Auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgement.
- Confidentiality – Internal Auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- Competency – Internal Auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

7.3. Internal Audit staff are required to complete a Confirmation of Independence form annually. This is to ensure that individual auditors are sufficiently independent of the activities they are auditing to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.

7.4. The Confirmation of Independence form includes the requirement to declare any personal conflict of interest. This enables independence to be managed at the individual auditor, engagement, functional and organisational level.

7.5. Internal Auditors are not assigned assurance work in areas where they have a conflict of interest. In the event that a conflict of interest arises for the Chief Internal Auditor in respect of any audit or investigation, the Chief Internal Auditor shall not be involved in the work carried out, with immediate effect. Where required, an

independent auditor from outwith the Council shall be engaged to lead the audit or investigation.

7.6 Where a member of the Internal Audit team has had previous operational or other involvement in a service area, they shall not audit that particular area until the Chief Internal Auditor determines that a suitable period has elapsed.

7.7. Internal Auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.

7.8. In relation to objectivity, local government auditors must abide by the PSIAS including section 1130 which states that "If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend on the impairment". Auditors must also consider the following:

- Not accepting any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or third parties (other than as may be allowed by the Council's own policies).
- Not using information obtained during the course of the audit for personal gain.
- Disclosing of all material facts known to them which, if not disclosed, could distort their reports of unlawful practices, subject to any confidentiality agreements.
- Ensuring compliance with the Bribery Act 2010.

Auditors must only access records, personnel and properties as required to allow proper discharge of their duties and not for personal gain.

7.9. Auditors will not undertake non-audit duties as it may create a conflict of interest.

8. Monitoring and Audit Committee

8.1. The Chief Internal Auditor shall attend meetings of the Monitoring and Audit Committee.

8.2. The Chief Internal Auditor shall have a direct right of access to the Chair of the Committee.

8.3. The Chief Internal Auditor will bring the following items to the attention of the Committee:

- The Internal Audit Charter
- The annual Internal Audit Strategy and Audit Plan.
- A mid-year report on progress made against the plan including any material changes to the plan.
- Details of any management response received to Internal Audit advice and recommendations.
- The Chief Internal Auditor's Internal Audit Annual Report and Assurance Statement.

- The arrangements made for co-operation between Internal Audit, External Audit and other review bodies.
- Any issues which arise where the resourcing of the team is impacting negatively on the completion of the audit plan.
- The results of the quality assurance and improvement programme.

8.4. In addition to communicating with elected members via the Monitoring and Audit Committee, in the intervening period should communication be required between members and Internal Audit, this shall be mutually arranged.

9. Audit Planning and Assignments

Audit Planning

9.1. The Chief Internal Auditor shall prepare annually a risk-based Audit Plan, and shall be free from interference in determining the scope of internal auditing activity. The plan shall outline the assignments to be carried out and the resources required to deliver the plan. The key focus shall be on high, medium/high and medium risk. The Chief Internal Auditor shall inform the Monitoring and Audit Committee should there be a concern that resource levels will impact on the provision of the annual audit opinion.

9.2. The risk management framework shall be taken into account when the audit plan is being developed, as shall the views of senior management and the Monitoring and Audit Committee.

9.3. The audit plan will be kept under review, to identify any adjustments required to respond to changes in the organisation's business, risks, operations, programmes, systems and controls. The plan will include a contingency to accommodate assignments that cannot be reasonably foreseen.

9.4. A mid-year progress report on the completion of the audit plan will be provided to the Monitoring and Audit Committee, including details of any changes required to the plan.

Audit Assignments

9.5. As part of the preparation for each individual audit, auditors shall obtain sufficient knowledge of the purpose, risks and issues of the service area to be reviewed; the scope of each audit assignment and relevant legislation and other regulatory arrangements that relate to the audit.

9.6. Objectives shall be set for each individual audit which shall be agreed with the responsible manager prior to the commencement of the audit.

9.7. Internal Audit shall ensure comprehensive working papers are held for each audit assignment, and will record sufficient evidence to support the conclusions reached.

9.8. Following each audit assignment Internal Audit will issue a report to the responsible Head of Service and Executive Director. The report provides a formal record of points arising from the audit, and actions agreed with management to lead to an improvement in control and performance. Draft reports are issued prior to the issue of the final report to confirm the factual accuracy of the report, seek comments and obtain the agreed management actions.

9.9. All internal audit reports shall be reported in full to the Monitoring and Audit Committee.

9.10. Internal Audit shall monitor the implementation of agreed management actions arising from previous audit assignments on a six monthly basis via the Council's Performance and Risk System, "Aspireview". Actions which have not been implemented by the agreed target date and have therefore been given a RED classification will be reported to a meeting of the Senior Management Team.

9.11. Following the end of each financial year the Chief Internal Auditor shall issue an annual internal audit opinion and report. The report shall incorporate the opinion, a summary of the work that supports the opinion and a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

9.12. In providing an opinion, this does not simply mean 'view', 'comment' or 'observation'; it means that Internal Audit will have done sufficient evidenced work to form a supportable conclusion about the activity that it has examined.

9.13. Where an audit engagement is being carried out for a party outside the Council, a written understanding will be prepared to cover objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

10. External Audit

10.1. The statutory role of External Auditors is to provide assurance on the Council's financial statements, and also to review matters such as propriety, performance and the use of resources in accordance with the principles of Best Value and 'value for money'.

10.2. The External Auditors review the Council's corporate governance arrangements including its systems of internal control. Internal Audit forms an integral part of the Council's internal control framework, and therefore External Audit review the internal audit arrangements regularly to ensure it is of sufficient quality and volume and complies with best practice.

10.3. The Chief Internal Auditor and External Audit representatives meet regularly, and liaise each year on audit planning to ensure that effective and efficient use is made of the combined audit resource and to avoid any duplication of work.

10.4. The Chief Internal Auditor may raise concerns directly with the External Auditor.

10.5. The External Auditors are provided with copies of all internal audit reports, and the working papers are available to them for examination.

11. Other Internal Auditors and Review Bodies

11.1. Where Internal Audit need to work with the Internal Auditors of another organisation, the roles and responsibilities of each party shall be defined and agreed. All work undertaken shall be done so in compliance with the current professional standards.

11.2. Internal Audit shall share information and co-ordinate activities with other review bodies where possible, in order to ensure proper coverage and minimise duplication of effort. This will include mapping of assurances provided by others and determination of the extent of reliance which can be placed on their work.

12. Quality Assurance and Improvement Programme

12.1. A quality assurance and improvement programme shall operate which evaluates Internal Audit's conformance with the Definition of Internal Auditing and the PSIAS and an evaluation of whether Internal Auditors apply the Code of Ethics.

12.2. The programme shall also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

12.3. The programme shall involve internal assessments including ongoing monitoring of the performance of the internal audit activity and periodic internal assessments by the Chief Internal Auditor.

12.4. External assessments shall be conducted every five years by a qualified, independent assessor or assessment team from outside the organisation in compliance with the PSIAS.

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