

## **Item: 6**

**Monitoring and Audit Committee: 9 June 2022.**

**Internal Audit Charter.**

**Report by Chief Internal Auditor.**

### **1. Purpose of Report**

To present the Internal Audit Charter for 2022 to 2024.

### **2. Recommendations**

The Committee is invited to note:

#### **2.1.**

That, in order to comply with the Public Sector Internal Audit Standards, an Internal Audit Charter, which defines the purpose, authority and responsibility of the Council's internal audit activity, requires to be prepared and be reviewed periodically.

#### **2.2.**

That the existing Internal Audit Charter, covering the period 2020 to 2022, approved in June 2020, requires updating.

**It is recommended:**

#### **2.3.**

That the Internal Audit Charter for 2022 to 2024, attached as Appendix 1 to this report, be approved.

### **3. Background**

Public Sector Internal Audit Standards (PSIAS) includes a requirement that the purpose, authority and responsibility of the internal audit activity must be formally defined in an Internal Audit Charter, and that the Charter is periodically reviewed.

### **4. Audit Charter**

#### **4.1.**

The Charter establishes the position of Internal Audit within the Council, including the Chief Internal Auditor's functional reporting relationship to the Monitoring and Audit Committee. The Charter also details the authority of internal audit to access records, personnel and physical properties relevant to the performance of audit engagements and defines the scope of internal audit activity.

## **4.2.**

The Charter conforms with the PSIAS and recognises the mandatory nature of the core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing.

## **4.3.**

The existing Internal Audit Charter, which was last updated in June 2020, has been reviewed as required by Public Sector Internal Audit Standards to ensure that it is up to date and compliant with the standards. The revised Charter is attached as Appendix 1 to this report.

## **5. Corporate Governance**

This report relates to the Council complying with governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

## **6. Financial Implications**

There are no financial implications associated directly with this report.

## **7. Legal Aspects**

There are no legal implications associated directly with this report.

## **8. Contact Officer**

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## **9. Appendix**

Appendix 1: Internal Audit Charter 2022 to 2024.



## Internal Audit

# Internal Audit Charter 2022 to 2024

**Issue date: 18 May 2022**

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## Introduction

The Internal Audit Charter formally defines the purpose, authority and responsibility for the Orkney Islands Council Internal Audit Service.

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.

In terms of the PSIAS, the “Board” will mean the Monitoring and Audit Committee and “Senior Management” will mean the Corporate Leadership Team.

The Charter is in accordance with the Council’s Financial Regulations 2019.

## Purpose and Mission

The purpose of Orkney Islands Council (OIC) Internal Audit Service is to provide independent, objective assurance and consulting services designed to add value and improve OIC’s operations.

The Internal Audit Mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit helps OIC accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## Standards for Professional Practice of Internal Auditing

The Internal Audit Service will be governed by adherence to the mandatory elements of the PSIAS, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing. The Chief Internal Auditor (CIA) will report periodically to senior management and the Monitoring and Audit Committee regarding Internal Audit’s conformance to the Code of Ethics and the Standards.

## Authority

The CIA will report functionally to the Monitoring and Audit Committee and administratively (i.e., line management and day-to-day operations) to the Head of Legal and Governance.

The Corporate Director of Enterprise and Sustainable Regeneration 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 will support the Corporate Director of Enterprise and Sustainable Regeneration in this role, and the Chief Internal Auditor has direct access to the Corporate Director of Enterprise and Sustainable Regeneration.

To establish, maintain, and assure that OIC’s Internal Audit Service has sufficient authority to fulfil its duties, the Monitoring and Audit Committee will:

- Approve the Internal Audit Charter.
- Approve the risk-based Internal Audit Strategy and Plan.

- Receive communications from the CIA on internal audit's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the CIA to determine whether there is inappropriate scope or resource limitations.

The CIA will have unrestricted access to, and communicate and interact directly with, the Monitoring and Audit Committee, including in private meetings without management present.

The CIA will also have unrestricted access and accountability to the Chief Executive as required.

The Financial Regulations set out the authority of Internal Audit at section 16.3, whereby the CIA or their authorised representative will have authority to:

- enter at all reasonable times on any Council premises or land,
- have access to, and remove, all records, documents and correspondence, including computer records, relating to any financial and 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 such explanations as are necessary concerning any matter under examination,
- require any employee or member of the Council to produce cash, stores or any other Council property under his/her control, and
- examine financial records of Council owned companies, trusts administered by the Council and other organisations funded by the Council.

## Independence and Objectivity

The CIA will ensure that the Internal Audit Service remains free from all conditions that threaten the ability of Internal Auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the CIA determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal Auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, Internal Auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Initiating or approving transactions external to the Internal Audit Service.
- Directing the activities of any Council employee not employed by the Internal Audit Service, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist Internal Auditors.

Where the CIA has roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal Auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The CIA will confirm to the Monitoring and Audit Committee, at least annually, the organisational independence of the Internal Audit Service.

The CIA will disclose to the Monitoring and Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

## Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Monitoring and Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the Council.

Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed.
- The actions of the Council's Officers, Directors, employees, and contractors are in compliance with Council policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programmes are consistent with established goals and objectives.
- Operations or programmes are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Council.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.
- There are adequate governance arrangements in place for programmes and projects.

The CIA will report periodically to senior management and the Monitoring and Audit Committee regarding:

- The internal audit service's purpose, authority, and responsibility.
- The internal audit service's plan and performance relative to its plan.
- The internal audit service's conformance with The Code of Ethics and Standards, and action plans to address any significant conformance issues.

- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Monitoring and Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the Council.

The CIA also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed.

The internal audit service may perform consultancy and advisory services, the nature and scope of which will be agreed with the client, and which are intended to add value and improve the organisation's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples of consultancy services include providing advice, facilitation and training as well as specific reviews tailored to meet client needs.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

## Responsibility

The CIA has the responsibility to:

- Submit, at least annually, to senior management and the Monitoring and Audit Committee a risk-based internal audit plan for review and approval.
- Communicate to senior management and the Monitoring and Audit Committee the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in the Council's business, risks, operations, programmes, systems, and controls.
- Communicate to senior management and the Monitoring and Audit Committee any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programmes and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Monitoring and Audit Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the Internal Audit Service collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Internal Audit Charter.
- Ensure trends and emerging issues that could impact the Council are considered and communicated to senior management and the Monitoring and Audit Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the Internal Audit Service.

- Ensure adherence to the Council's relevant policies and procedures, unless such policies and procedures conflict with the Internal Audit Charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Monitoring and Audit Committee.
- Ensure conformance of the Internal Audit Service with the Standards.

## Fraud

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 Corporate Director, who must inform the Corporate Director of Enterprise and Sustainable Regeneration and the Chief Internal Auditor. Matters can also be reported directly to the Corporate Director of Enterprise and Sustainable Regeneration or Chief Internal Auditor. The Chief Internal Auditor, in consultation with the Corporate Director of Enterprise and Sustainable Regeneration, will be responsible for the investigation of such matters. Action taken will be in accordance with the Council's Anti-Fraud policy.

## Staffing and Training

Internal audit will be staffed with persons of appropriate qualification and experience. In compliance with the PSIAS, the CIA must hold a professional qualification, CMIIA (Chartered Member of the Institute of Internal Auditors), CCAB (Consultative Committee of Accountancy Bodies qualified accountant) or equivalent.

The CIA will 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.

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

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

Upon request from the Corporate Director of Enterprise and Sustainable Regeneration, 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.

## External Audit

The statutory role of external audit 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.

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.

The CIA 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.



The CIA may raise concerns directly with the external auditor.

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

## **Other Internal Auditors and Review Bodies**

Where internal audit work with the internal auditors of another organisation, the roles and responsibilities of each party will be defined and agreed. All work undertaken will be done in compliance with the current professional standards.

Internal audit will share information and coordinate 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.

## **Quality Assurance and Improvement**

The Internal Audit Service will maintain a quality assurance and improvement programme that covers all aspects of internal audit activity. The programme will include an evaluation of the Internal Audit Service's conformance with the PSIAS and an evaluation of whether Internal Auditors apply the Code of Ethics. The programme will also assess the efficiency and effectiveness of the Internal Audit Service and identify opportunities for improvement.

The CIA will communicate to senior management and the Monitoring and Audit Committee on the quality assurance and improvement programme, including results of internal assessments (both ongoing and periodic) and the external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council.