

Internal Audit Charter

1. Purpose and Mission

- 1.1. The purpose of Perth and Kinross Council's (the Council) Internal Audit function is to provide an independent, objective assurance and consulting service designed to add value and improve the Council's operations. Internal Audit helps Perth & Kinross Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.
- 1.2. The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.

2. Applicable Professional Standards

- 2.1. Internal Audit will work in compliance with the Institute of Internal Audit's Public Sector Internal Audit Standard (PSIAS) which were approved as the applicable professional standards for the Council's Internal Audit function by the Audit Committee (who act as the Board under PSIAS) in March 2013. The Chief Internal Auditor will report periodically to senior management and the Audit Committee regarding Internal Audit's compliance with the Code of Ethics and the Standards.

3. Authority

- 3.1. In order to establish, maintain, and assure that Perth & Kinross Council's Internal Audit function has sufficient authority to fulfil its duties, the Audit Committee will:
 - 3.1.1. Approve the Internal Audit's Charter (this document);
 - 3.1.2. Approve the risk-based Internal Audit plan;
 - 3.1.3. Approve Internal Audit's budget and resource plan;
 - 3.1.4. Receive communications from the Chief Internal Auditor on Internal Audit's performance relative to its plan and other matters; and
 - 3.1.5. Make appropriate inquiries of management and the Chief Internal Auditor to determine whether there is inappropriate scope or resource limitations.
- 3.2. Audit Committee also authorises the Chief Internal Auditor to:
 - 3.2.1. Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information;
 - 3.2.2. Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports; and
 - 3.2.3. Obtain assistance from the necessary Council personnel as well as other specialised services from within or outwith Perth & Kinross Council, in order to complete the engagement.
- 3.3. The Chief Internal Auditor will report functionally to the Audit Committee and administratively (i.e., day-to-day operations) to the Council's Head of Legal and Governance Services (the Council's Monitoring Officer). The Chief Internal Auditor will have access to the Chief Executive, to all Council officers and to the elected members of the Audit Committee in connection with any relevant matter
- 3.4. The Chief Internal Auditor will have unrestricted access to, and communicate and interact directly with, the Audit Committee, including in private meetings without management present.

4. Independence and Objectivity

- 4.1. The Chief Internal Auditor leads the Internal Audit function and is the Chief Audit Executive as defined in the PSIAS.
- 4.2. The Chief Internal Auditor will ensure that the Internal Audit function remains free from all conditions that threaten the ability of Internal Auditors to carry out their responsibilities in an

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unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Chief Internal Auditor determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

- 4.3. 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.
- 4.4. 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:
 - 4.4.1. Assessing specific operations for which they had direct responsibility within the previous two years;
 - 4.4.2. Performing any operational duties for the Council or its affiliates;
 - 4.4.3. Initiating or approving transactions external to the Internal Audit function; and
 - 4.4.4. Directing the activities of any Council employee not employed by Internal Audit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist Internal Auditors.
- 4.5. Where the Chief Internal Auditor has or is expected to have roles and/or responsibilities that fall outside of Internal Auditing, safeguards will be established to limit impairments to independence or objectivity.
- 4.6. Internal Auditors will:
 - 4.6.1. Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties;
 - 4.6.2. Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined;
 - 4.6.3. Make balanced assessments of all available and relevant facts and circumstances; and
 - 4.6.4. Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.
- 4.7. The Chief Internal Auditor will confirm to the Audit Committee, at least annually, the organisational independence of Internal Audit.
- 4.8. The Chief Internal Auditor will disclose to the Audit Committee any interference and related implications in determining the scope of Internal Auditing, performing work, and/or communicating results.

5. Scope of Internal Audit Activities

- 5.1. 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 Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes (the control environment) for Perth & Kinross Council, including the full range of activities undertaken by the Council.
- 5.2. Internal Audit assessments include evaluating the Council's control environment with regard to whether:
 - 5.2.1. Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed;
 - 5.2.2. The actions of Council's officers, employees, and contractors are in compliance with Perth & Kinross Council's policies, procedures, and applicable laws, regulations, and governance standards;

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- 5.2.3. The results of operations or programs are consistent with established goals and objectives;
- 5.2.4. Operations or programs are being carried out effectively and efficiently;
- 5.2.5. Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Council;
- 5.2.6. Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity; and
- 5.2.7. Resources and assets are acquired economically, used efficiently, and protected adequately.
- 5.3. As requested by the Council, Internal Audit may provide consultancy services to provide advice as to the more effective and efficient use of resources and in the development of significant systems to improve risk management pertinent to their area of operation. Any requests for such work will be assessed in accordance with the risk to the Council and the impact such activity would have on the Annual Audit Plan.
- 5.4. The Chief Internal Auditor will report periodically to senior management and the Audit Committee regarding:
 - 5.4.1. Internal Audit's purpose, authority, and responsibility;
 - 5.4.2. Internal Audit's plan and performance relative to its plan;
 - 5.4.3. Internal Audit's compliance with The IIA's Code of Ethics and Standards, and action plans to address any significant compliance issues;
 - 5.4.4. Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee;
 - 5.4.5. Results of audit engagements or other activities;
 - 5.4.6. Resource requirements; and
 - 5.4.7. Any response to risk by management that may be unacceptable to Perth & Kinross Council.
- 5.5. The Chief Internal Auditor will make the necessary arrangements for resources to be available to comply with requirements from external bodies such as Scottish Government for the auditing of grant claims or to work with partners such as the Integration Joint Board, as part of the planning process.
- 5.6. The Chief Internal Auditor will, in drawing up the audit plan, consider the resources necessary to complete such work of this nature as is required by the Council. Where the level of work is excessive, the Chief Internal Auditor will report on the situation, setting out the likely impact on planned audit work.
- 5.7. The Chief Internal Auditor also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. Internal Audit may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided Internal Audit does not assume management responsibility. All such activities are to be agreed with the Audit Committee in advance.
- 5.8. 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.

6. Responsibility

- 6.1. The Chief Internal Auditor has the responsibility to:
 - 6.1.1. Submit, at least annually, to senior management and the Audit Committee a risk-based Internal Audit plan for review and approval;

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- 6.1.2. Communicate to senior management and the Audit Committee the impact of resource limitations on the Internal Audit Plan;
- 6.1.3. Review and adjust the Internal Audit Plan, as necessary, in response to changes in Perth & Kinross Council's business, risks, operations, programmes, systems, and controls;
- 6.1.4. Communicate to senior management and the Audit Committee any significant interim changes to the Internal Audit plan;
- 6.1.5. 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 programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties;
- 6.1.6. Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented;
- 6.1.7. Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld;
- 6.1.8. Ensure Internal Audit collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Internal Audit Charter;
- 6.1.9. Ensure trends and emerging issues that could impact Perth & Kinross Council are considered and communicated to senior management and the Audit Committee as appropriate;
- 6.1.10. Ensure emerging trends and successful practices in Internal Auditing are considered;
- 6.1.11. Establish and ensure adherence to policies and procedures designed to guide the Internal Audit function;
- 6.1.12. Ensure adherence to Perth & Kinross 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 Audit Committee; and
- 6.1.13. Ensure compliance of Internal Audit with the applicable Standards, with the following qualifications:
 - 6.1.13.1. If Internal Audit is prohibited by law or regulation from compliance with certain parts of the Standards, the Chief Internal Auditor will ensure appropriate disclosures and will ensure compliance with all other parts of the Standards; and
 - 6.1.13.2. If the Standards are used in conjunction with requirements issued by other authoritative bodies, the Chief Internal Auditor will ensure that Internal Audit conforms with the applicable Standards, even if Internal Audit also conforms with the more restrictive requirements of other authoritative bodies.
- 6.2. The Chief Internal Auditor will ensure oversight of the implementation of the Counter-Fraud and Corruption Strategy:
 - 6.2.1. To provide assurance that Council management have assessed the risks of fraud and corruption and put sufficient systems and controls in place to prevent, detect and deter fraud and corruption;
 - 6.2.2. To establish sufficient resources to investigate cases of suspected irregularity (and for which may seek support from Services or Human Resources where appropriate to do so);
 - 6.2.3. To make reasonable arrangements to ensure that Internal Audit is equipped to undertake this type of work;
 - 6.2.4. To ensure that a reasonable allowance is made for the resources likely to be required for investigation-related work;

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- 6.2.5. To facilitate the Council's involvement with the National Fraud Initiative and will deal with enquiries from other public sector bodies, including through the National Anti-Fraud Network; and
- 6.2.6. To recommend changes in procedures and improvements in control to prevent losses due to fraud to the Council.

7. Quality Assurance and Improvement Programme

- 7.1. The Chief Internal Auditor will maintain a quality assurance and improvement programme that covers all aspects of its activity. The programme will include an evaluation of Internal Audit's compliance with the applicable Standards and an evaluation of whether Internal Auditors apply the IIA's Code of Ethics. The programme will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.
- 7.2. The Chief Internal Auditor will communicate to senior management and the Audit Committee on Internal Audit's quality assurance and improvement programme, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside Perth & Kinross Council.

8. Approval and Review

- 8.1. The Chief Internal Auditor will review this document annually and will advise the Audit Committee on any amendments considered necessary.
- 8.2. No change to the Internal Audit Charter shall be made unless the Chief Internal Auditor has been consulted and has been given a reasonable opportunity to present to the Audit Committee their views on the proposed changes.

Signatures

Chief Internal Auditor | Date

Audit Committee Chair | Date

[Chief Executive Officer] | Date