

PERTH AND KINROSS COUNCIL**Audit Committee****25 November 2015****INTERNAL AUDIT CHARTER****Report by the Chief Internal Auditor****PURPOSE OF REPORT**

This report presents the Internal Audit Charter, in line with the Public Sector Internal Audit Standards.

1. BACKGROUND / MAIN ISSUES

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the purpose of and authority and responsibility for internal audit activity be formally documented in an Internal Audit Charter.
- 1.2 In 2012, the then Audit Sub-Committee endorsed the Internal Audit's Terms of Reference, which has functioned as the Charter (report 12/384 refers).
- 1.3 The PSIAS requires periodic review of the Internal Audit Charter. The outcome of this review is the proposed Internal Audit Charter which is attached as an appendix to the report. The significant changes include the documentation in the charter regarding Internal Audit's involvement with consultancy work (Section 8) and Counter-Fraud and Corruption (Section 9).
- 1.4 The purpose of this report is to present an Internal Audit Charter which is consistent with the PSIAS.

2. CONCLUSION AND RECOMMENDATIONS

- 2.1 This report presents the proposed Internal Audit Charter, which is consistent with the PSIAS.
- 2.2 It is recommended that the Committee approves the Internal Audit Charter as the purpose of and authority and responsibility for internal audit activity in Perth & Kinross Council.

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Strategic Plan	Yes
Resource Implications	
Financial	None
Workforce	None
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

1.1 Corporate Plan

- 1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

- 1.1.2 This report relates to all of these objectives.

2. Assessments

2.1 Equality Impact Assessment

- 2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

- 2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

2.2 Risk

- 2.2.1 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

3. **Consultation**

3.1 Internal

- 3.1.1 The Chief Executive and Head of Finance have been consulted in the preparation of this report.

2. **BACKGROUND PAPERS**

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 the above report.

3. **APPENDICES**

Appendix A – Internal Audit Charter

Appendix A

PERTH & KINROSS COUNCIL'S INTERNAL AUDIT CHARTER

1 Introduction

- 1.1 This Internal Audit Charter is produced in compliance with Institute of Internal Auditors Public Sector Internal Audit Standards (the Standards) which were approved by the Audit Committee in March 2013 as the relevant professional standards for the Council's Internal Audit service. The Charter sets out the purpose of and authority and responsibility for Internal Audit in a manner consistent with the Standards as set out under Standard 1000 Purpose, Authority and Responsibility.

2 Purpose of the Internal Audit Charter

- 2.1 The purpose of this document is to:

- i establish the purpose of and authority and responsibilities for the Council's Internal Audit activity;
- ii establish the organisational objectivity and independence of Internal Audit;
- iii establish the accountability, reporting lines and relationships between the Chief Internal Auditor and:
 - those charged with governance;
 - those to whom the Chief Internal Auditor may report.
- iv recognise that Internal Audit's remit extends to the entire control environment of the Council;
- v identify Internal Audit's contribution to the review of the effectiveness of the control environment;
- vi require and enable the Chief Internal Auditor to deliver an annual audit opinion on the effectiveness of the control environment and confirmation of compliance with the Standards;
- vii define the role of Internal Audit in any consultancy or fraud-related work;
- viii explain how Internal Audit's resource requirements will be assessed;

- ix establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain information and explanations;
- x require the Chief Internal Auditor to 'follow-up' the progress of agreed improvement actions arising from audit reports; and
- xi establish the arrangements in place for the review of the Internal Audit Charter.

3 Purpose, Authority & Responsibilities

3.1 The Standards define Internal Audit in the following way:

"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." [Standards, Section 3].

3.2 Perth & Kinross Council's Chief Internal Auditor will lead the Internal Audit function and is the "Chief Audit Executive" as defined in the Standards.

3.3 The primary function of Internal Audit is to provide an opinion to those charged with governance on the overall adequacy and effectiveness of the Council's framework of governance risk management and control.

3.4 The term 'those charged with governance' refers primarily to the Council and its committees, which are ultimately responsible for the organisation's governance arrangements. For the purposes of the Internal Audit process, the principal forum for reporting and accountability will be the Council's Audit Committee. In terms of PSIAS, the Audit Committee functions as "the Board".

3.5 In addition, Internal Audit's work will aim to assist those senior officers with significant governance responsibilities within the Council, such as the Chief Executive, Depute Chief Executives, Directors and those officers with specific statutory responsibilities, such as the Chief Financial Officer and the Monitoring Officer. With regard to PSIAS, these officers function as "senior management."

3.5 Internal Audit will conduct its work in such a way as to promote improvements across the control environment. In this way, Internal Audit aims to assist the Council in the achievement of its objectives.

4 The Control Environment

- 4.1 The role of internal audit is to independently review the effectiveness of the control environment in order to promote the achievement of the Council's objectives. The scope of Internal Audit's remit includes the entire control environment.
- 4.2 The Council's control environment comprises its systems of governance, risk management and internal control. The control environment exists in order to ensure:
- i the establishment of, and monitoring the achievement of, the Council's objectives;
 - ii compliance with the relevant laws, regulations, policies, plans and procedures;
 - iii the economical, efficient and effective use of the Council's resources;
 - iv proper financial management of the Council, including the reporting of financial management; and
 - v proper performance management and continuous improvement.
- 4.3 It is the responsibility of the Council and its senior officers to maintain the control environment by putting in place appropriate internal controls relating to the activities for which they are responsible. These internal controls include the full range of policies, procedures and practices intended to ensure the proper conduct of the Council's operations and the achievement of its objectives. They may include organisational structures, job descriptions, authorisation limits, management supervision, risk management processes, reports and decisions.
- 4.4 Internal Audit's role will extend to the whole of the Council's control environment. The Chief Internal Auditor will report any restriction or limitation placed on the scope of its work.
- 4.5 In order to carry out its duties, Internal Audit will have the right of access, at all reasonable times, to all Council records or assets (in whatever form), premises and personnel, as well as those of partner organisations.
- 4.6 Internal Auditors may require the relevant persons to provide explanations relating to their knowledge, duties and actions in respect of any part of the Council's control environment.

5 Organisational Independence

- 5.1 Internal Audit must be operationally independent of the activities that it audits, in order to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and to form objective opinions.
- 5.2 It is the responsibility of the Council to put in place arrangements to ensure that this operational independence is achieved and safeguarded, in a manner consistent with the Standards.
- 5.3 The Chief Internal Auditor has direct access to the Chief Executive, to all Council officers and to the elected members of the Audit Committee in connection with any relevant matter. The Chief Internal Auditor has the freedom to report in her own name, 'without fear or favour'.
- 5.4 The Chief Internal Auditor will report at least annually on the extent to which organisational independence has been achieved. The Chief Internal Auditor will report any cases where organisational independence has been compromised.
- 5.5 The Chief Internal Auditor will put in place appropriate procedures to ensure an objective approach to audit work on the part of individual auditors and audit contractors in accordance with the Code of Ethics detailed in the Standards.

6 Planning and Resources

- 6.1 Internal Audit will plan its work in order to ensure that its objectives are achieved. Internal Audit's plan will be based on its independent assessment of the risks to the achievement of the Council's objectives associated with each activity. Where appropriate, the audit risk assessment will take into account the Council's corporate risk management arrangements.
- 6.2 The Chief Internal Auditor will ensure that the annual audit plans reflect a proper degree of understanding of the Council, its objectives and risks. In general, the audit planning process will take into account:
 - i the Council's objectives, as set out in corporate and service plans;
 - ii the views of senior officers in respect of areas of perceived, current or future risk;
 - iii the results of past work by internal audit, external auditors and other statutory inspection agencies;

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- iv planned work by external auditors and other statutory inspection agencies;
 - v corporate and service risk profiles;
 - vi other available information relating to significant local or national issues that may affect the Council's control environment.
- 6.3 The Chief Internal Auditor will assess the level of audit resources required and those available independently of each other and will report on any significant discrepancy between the two.
- 6.4 The Chief Internal Auditor will prepare an annual audit plan for consideration and approval by the Audit Committee.
- 6.5 The Chief Internal Auditor will review progress and will report on any matters that may jeopardise the achievement of the approved plan.
- ## 7 Reporting
- 7.1 Internal Audit will report on the results of its work, in order to provide an opinion on the control environment and to assist the Council and its officers in identifying improvements where necessary.
- 7.2 The Chief Internal Auditor will determine the way in which Internal Audit reports. In general and unless otherwise determined:
- i Internal Audit reports will be issued in draft form to the relevant officers for comment and response prior to issue;
 - ii Internal Audit will invite the relevant officers to propose the actions to be taken (and the associated timescales) in response to the findings of draft reports;
 - iii Internal Audit will make reasonable efforts to resolve any areas of disagreement with the relevant officers prior to the issue of final audit reports;
 - iv the Chief Internal Auditor will make arrangements for final Internal Audit reports to be issued to the relevant officers, to Committee Services and to the Council's appointed external auditor;
 - v final Internal Audit reports will specify the areas of the Council's control environment under review and provide an opinion on their effectiveness;

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- vi final Internal Audit reports will be considered by the Council's Audit Committee.
- 7.3 The Chief Internal Auditor will provide an annual opinion on the effectiveness of the control environment in such a way as to support the production of the Council's Annual Governance Statement. This opinion will conclude on the overall adequacy and effectiveness of the Council's framework of governance risk management and control and will include a summary of the work that supports this conclusion..
- 7.4 The Chief Internal Auditor shall have the right to report to the Council's appointed external auditor on any relevant matter.
- 7.5 The Chief Internal Auditor shall have the right to report to the Council or any Committee on a relevant matter, notwithstanding that the normal reporting route to elected members is to the Audit Committee. The Chief Internal Auditor may meet privately with the Audit Committee, subject to the guidance of the Head of Democratic Services.
- 7.6 The normal reporting arrangements to the Audit Committee will be described in the 'Audit Committee – Role and Remit' document.
- 7.7 The Chief Internal Auditor shall have access to the elected members of the Council in connection with any relevant matter.
- 7.8 The Chief Internal Auditor shall have access to the Chief Executive in connection with any relevant matter.
- 7.9 Internal Audit is part of the Finance Division within Corporate and Democratic Services and operationally, the Chief Internal Auditor reports to the Head of Finance who supports the work of Internal Audit throughout the Council as part of his strategic role.
- 8 Consultancy and Systems Developments
- 8.1 The Chief Internal Auditor will require to be informed of all significant systems developments within the Council and will determine the extent of Internal Audit's involvement in the development process. Any such contribution will be advisory in nature and will be provided in such a way as to ensure that the impartiality of future audit work is not compromised.

- 8.2 As part of the research and planning undertaken in arriving at the risk-based Internal Audit Plan for the year, the Chief Internal Auditor will take account of significant changes planned for the Council's environment. The Chief Internal Auditor may include an allowance of resources towards specific projects to support the Council in building in controls for new systems and processes at the outset.
- 8.3 The Chief Internal Auditor will, in drawing up the audit plan, consider the resources necessary to provide ad-hoc advice within the Council on matters relating to the control environment.
- 8.4 Where the Council requests that Internal Audit carries out consultancy work in addition to planned audit work, the Chief Internal Auditor will assess the request in accordance with the risk to the Council and the impact on the achievement of the Audit Plan. The Audit Committee will be updated with any deviation from the Audit Plan.

9 Counter-Fraud and Corruption

- 9.1 It is the responsibility of the Council to ensure that the risks associated with fraud and corruption are managed effectively across all parts of the organisation. It is not the primary purpose of Internal Audit to detect fraud and corruption within the Council. However, it is the role of Internal Audit to ensure that management have established systems and procedures in place to prevent fraud and corruption.
- 9.2 The Chief Internal Auditor, in conjunction with Legal Services, has oversight of the implementation of the Counter-Fraud and Corruption Strategy. This oversight provides assurance that Services have assessed the risks of fraud and corruption and put in place controls to prevent, detect and deter fraud and corruption.
- 9.3 Internal Audit will investigate cases of suspected irregularity and may seek support from Services or Human Resources where appropriate in doing so.
- 9.4 Internal Audit will facilitate the Council's involvement with the National Fraud Initiative and will deal with enquiries from other public sector bodies through the National Anti-Fraud Network.
- 9.5 Internal Audit will liaise with management to recommend changes in procedures and improvements in control to prevent losses to the Council. The Chief Internal Auditor will:

- i make reasonable arrangements to ensure that Internal Audit is equipped to undertake this type of work;
- ii ensure that a reasonable allowance is made for the resources likely to be required for investigation-related work.

9.6 Where the level of investigation work is excessive, the Chief Internal Auditor will report on the situation, setting out the likely impact on planned audit work.

9.7 Where other agencies within the Council also deal with the investigation of fraud and/or corruption (for example, benefit fraud), the Chief Internal Auditor will consider, as part of the planning process, the audit work required to provide an independent opinion on their effectiveness.

10 Work for External Bodies

10.1 Some aspects of Internal Audit's work are determined effectively by a requirement placed upon it by external bodies, rather than through the risk-based planning process described above. These include the audit of grant claims on behalf of funding providers such as the Scottish Government.

10.2 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.

11 Follow-Up

11.1 The Chief Internal Auditor will put in place appropriate arrangements for tracking progress with the improvement actions agreed with management.

11.2 The Chief Internal Auditor will report to the Audit Committee any significant issues arising from this process.

12 Approval and Review

11.1 It is the responsibility of the Audit Committee to consider and approve the Internal Audit Charter.

11.2 The Chief Internal Auditor will review this document annually and will advise the Audit Committee on any amendments considered to be necessary.

- 11.3 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.

