

To: POLICY & RESOURCES (FINANCE) SUB COMMITTEE	Subject: INTERNAL AUDIT REVISED INTERNAL AUDIT CHARTER
From: DIRECTOR OF FINANCE	
Date: 3 February 2005	Ref: AC/KA

1 **Purpose of Report**

- 1.1 To seek Committee approval for the adoption of a new Internal Audit Charter that sets out the purpose, authority and principal responsibilities of the Council's Internal Audit Section.

2 **Background**

- 2.1 The current terms of reference under which Internal Audit operate, although adequate, have not been revised for a number of years and do not fully reflect current best practice and the requirements contained within the most recent CIPFA Code of Practice for Internal Audit in Local Government. As part of the response to the Audit Scotland review of Internal Audit undertaken in 2004, the Audit Manager agreed to update the Section's terms of reference.
- 2.2 The proposed Internal Audit Charter (at Appendix A) has been prepared by the Audit Manager and is based on recognised good practice as identified by CIPFA and which was published in December 2004.
- 2.3 The Charter clarifies the purpose of the Internal Audit function and details the principal responsibilities of the Section. The document does not significantly alter the role of Internal Audit and to a considerable extent merely codifies existing practices. Accordingly, there are no significant new developments or issues arising from the Charter which require to be highlighted.

3 **Recommendation**

- 3.1 The Committee is invited to approve the attached Internal Audit Charter.



Director of Finance

For further information please contact Ken Adamson, Audit Manager on Ext. 2188

Internal Audit Charter

- 1.1 This charter describes the purpose, authority and principal responsibilities of the Council’s Internal Audit Section.

Definition of Internal Audit

The CIPFA *Code of Practice for Internal Audit in Local Government* defines Internal Audit as an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

- 1.2 For the purposes of planning and undertaking, Internal Audit activity, the control environment is defined as follows:

Definition of control environment

The **control environment** comprises the organisation’s policies, procedures and operations in place:

- To establish, and monitor the achievement of, the organisation’s objectives;
- To identify, assess and manage the risks to achieving the organisation’s objectives;
- To facilitate policy and decision making;
- To ensure the economical, effective and efficient use of resources;
- To ensure compliance with established policies (including behavioral and ethical expectations), procedures, laws and regulations;
- To safeguard the organisation’s assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption; and
- To ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes. This encompasses elements of corporate governance and risk management.

Purpose

- 1.3 It is primarily the responsibility of line management to establish internal control and Internal Audit should not be seen as a substitute for effective control. Internal Audit activity is planned to provide assurance to senior management and elected members on the Council’s control environment and to enable an annual opinion to be given by the Audit Manager on the adequacy and effectiveness of internal controls within the authority.
- 1.4 While Internal Audit primarily provides an independent and objective opinion on the control environment as a source of assurance to management, it may also undertake other, non-assurance work at the request of senior management subject to the availability of skills and resources. This can include investigative and consultancy work, providing input on systems development issues and the provision of advice on general control and risk issues. In this regard, it is important that line management contacts Internal Audit where significant changes are being proposed which affect internal control systems.

Authority

- 1.5 The requirement for internal audit in Scottish local authorities is not defined under statute, although Section 95 of the Local Government (Scotland) Act 1973 does specify “every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer (the Director of Finance) has responsibility for those affairs”. Additionally, the Scottish Office Circular 5/85 states that effective internal audit cover is regarded as a matter of good practice and the Accounts Commission has commented on the importance of all local authorities having effective internal audit functions.
- 1.6 Internal Audit is governed by policies, procedures, rules and regulations established by the Council. These include the Council’s Financial Regulations, Conditions of Service and other policies including guidance notes on Fraud and Defalcation.
- 1.7 The Internal Audit Section is expected to meet the standards laid down by the Chartered Institute of Public Finance and Accountancy (CIPFA) in the *Code of Practice for Internal Audit in Local Government in the United Kingdom* (2003).
- 1.8 Internal Audit is located within the Finance Department in accordance with the Council’s Financial Regulations, under the direction of the Director of Finance. The Audit Manager reports directly to the Director of Finance and to the Chief Executive’s Audit Group and the Policy and Resources (Finance) Sub-Committee.
- 1.9 Responsibility for the production and execution of the audit plan and subsequent audit activities rests with the Council’s Audit Manager. The Audit Manager consults with relevant stakeholders, but is solely responsible for the preparation of audit plans. After consultation and approval by the Chief Executive’s Audit Group, the audit plan is subsequently presented for approval to the Policy and Resources (Finance) Sub-Committee.
- 1.10 Under the Financial Regulations, Internal Audit staff have authority to enter Council premises or land at all reasonable times, have unrestricted access to all Council records and can require and receive any explanations from Council staff as considered necessary to fulfil Internal Audit’s responsibilities.
- 1.11 In addition, Internal Audit, through the Audit Manager, where he deems necessary, will have unrestricted access to:
 - the Chief Executive;
 - individual chief officers;
 - the Convenor of the Policy and Resources (Finance) Sub-Committee;
 - all Council employees; and
 - the Council’s external auditor.

Reporting

- 1.12 Internal Audit reports regularly on the results of its work to the Director of Finance, the Chief Executive’s Audit Group and the Policy and Resources (Finance) Sub-Committee. The Audit Manager is accountable for:
 - Providing regular assessments on the adequacy and effectiveness of the Council’s systems of risk management, internal control and governance arrangements based on the work undertaken;
 - Reporting significant control issues and potential for improvements in risk management and control processes; and
 - Periodically providing information on the status and results of the annual audit plan and the sufficiency of Internal Audit resources.

Independence

1.13 As one of the main determinants of the effectiveness of Internal Audit is that it is seen to be independent, to ensure this, Internal Audit will operate within a framework that allows:

- unrestricted access to senior management;
- reporting in its own name; and
- segregation from operational management and/or operational responsibilities.

1.14 Every effort will be made to preserve objectivity by ensuring that all members of internal audit staff are free from any conflicts of interest and do not routinely undertake any non-audit duties, with the exception of any high-priority duties allocated by the Director of Finance and subject to the exigencies of the service.

Responsibilities

1.15 The responsibilities of Internal Audit are:

Key responsibilities

- To independently review and appraise systems of control throughout the authority and its activities and where appropriate, make recommendations for improvements in control, performance and productivity in achieving corporate and departmental objectives;
- To ascertain the relevance of and extent of compliance with procedures, policies and plans established by the Council and the extent of compliance with external laws and regulations, including those of relevant regulatory/inspection bodies;
- To provide reassurance to management that their agreed policies are being carried out effectively;
- To facilitate good practice in control and managing risks;
- To review the value for money, best value and corporate governance arrangements within the authority;
- To work in partnership with the external auditors to ensure that assurance from both internal and external sources is provided cost effectively; and
- To identify and investigate fraud and other irregularities identified as a consequence of its reviews or otherwise brought to its attention.

1.16 In addition to the above key responsibilities, the Internal Audit function will seek:

- To support the Director of Finance in discharging his duties as Proper Officer;
- To contribute to and support the Finance Department's objective of ensuring the provision of, and promoting the need for, sound financial systems;
- To support the continuing development of good corporate governance arrangements; and
- To support the corporate best value processes by conducting VFM studies and supporting the work of the Best Value Corporate Working Group

1.17 The Audit Manager is responsible for:

- Developing strategic and annual audit plans based on an understanding of the significant risks to which the Council is exposed;
- Submitting the plans to the Chief Executive's Audit Group and the Policy and Resources (Finance) Sub-Committee for review and approval;
- Implementing the agreed annual audit plan; and
- Maintaining a high quality internal audit function with professional audit staff who have sufficient knowledge, skills and experience to carry out the audit plan.