

North Lanarkshire Council Report

Audit and Scrutiny Panel

approval noting

Ref KA/ASP/Sep21

Date 22/09/21

Internal Audit Charter

From Audit and Risk Manager

E-mail: adamsonk@northlan.gov.uk **Telephone** 07939 280602

Executive Summary

The Internal Audit Charter is an important document which sets out the purpose, authority and principal responsibilities of the Council's Internal Audit Section.

The purpose of this report is to seek approval for the attached Internal Audit Charter (at Appendix 1) which has recently been reviewed and revised, in line with best practice, to ensure that the Charter remains up-to-date, reflects the Council's current arrangements and expectations and is consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS) and the associated Local Government Application Note (LGAN).

There are no material changes to the proposed Charter or the purpose, authority and principal responsibilities of the Council's Internal Audit Section from that approved by the Panel in 2018. The opportunity has been taken to update job titles and make some minor amendments to the narrative to ensure that the Internal Audit Charter remains consistent with the PSIAS and LGAN, both of which have been revised since 2018.

The revised Charter, which has recently been approved by the Corporate Management Team, is now submitted for consideration and approval by the Audit and Scrutiny Panel in line with good practice and the Panel's own terms of reference.

Recommendations

The Panel is invited to approve the revised Internal Audit Charter at Appendix 1.

The Plan for North Lanarkshire

Priority All priorities

Ambition statement All ambition statements

1. Background

- 1.1 The Internal Audit Charter is a formal document that defines Internal Audit’s purpose, authority and responsibility. It establishes Internal Audit’s position within the Council, including the nature of the Audit and Risk Manager’s functional reporting relationship with senior management and the Panel; authorises access to records, personnel and physical properties relative to the performance of audit engagements; and defines the scope of Internal Audit activities. Although the Charter is discussed and agreed with senior management (including the Chief Executive), final approval of the Internal Audit Charter resides with the Audit and Scrutiny Panel.
- 1.2 The current terms of reference (Internal Audit Charter) under which Internal Audit operate were most recently approved by the Audit and Scrutiny Panel in February 2018.
- 1.3 PSIAS requires that the “chief internal audit executive periodically review the internal audit charter” to determine whether the charter needs to be amended to address the requirements in the PSIAS and present it to senior management and the Panel for approval.

2. Report

- 2.1 The current Internal Audit Charter approved in February 2018 has now been reviewed against the PSIAS requirements (which were most recently revised in April 2017) and the LGAN (which was updated in April 2019) and a revised Internal Audit Charter is at Appendix 1.
- 2.2 Some of the changes are required by the revision to the LGAN requirements, particularly around making more explicit reference to mandatory elements of professional guidance including updating text in relation to the *Mission of Internal Audit* and the *Code of Ethics*.
- 2.4 Other than this, there are no material changes from the previously approved Charter. Although some minor amendments to wording have been made in the revised Internal Audit Charter in a few different areas, the fundamental purpose, authority and responsibility of Internal Audit remain unchanged. The expectations placed upon Internal Audit will continue to be about delivering a high quality and effective Internal Audit service consistent with recognised professional standards.
- 2.5 In line with good practice, the proposed revised charter, which it is intended will come into effect from 1 October 2021, has been agreed with the Chief Executive and the Head of Financial Solutions (as the Council’s s95 officer).

3. Public Sector Equality Duty and Fairer Scotland Duty

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|-----|-----------------------------------|-----------------------|
| 3.1 | Equality Impact Assessment | No impacts identified |
| 3.2 | Fairer Scotland | No impacts identified |
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4. Impact

4.1	Financial impact	None identified
4.2	HR policy/Legislative impact	None identified
4.3	Technology / Digital impact	None identified
4.4	Environmental impact	None identified
4.5	Communications impact	None identified
4.6	Risk impact	None identified

5. Measures of success

5.1 The Council is required to ensure that it has an effective internal audit function consistent with PSIAS. The Council's appointed external auditors regularly review and report on the Council's Internal Audit function to establish whether they can place reliance on its work and as part of their wider reviews of the Council's corporate governance framework. In addition, PSIAS requires an external quality assurance review of the Internal Audit function be undertaken at least every five years.

6. Supporting documents

Appendix 1 Internal Audit Charter for CMT and A&SP approval

Appendix 2 Internal Audit Reporting Protocol



Ken Adamson. Audit and Risk Manager

Appendix 1 Internal Audit Charter (draft for CMT and A&SP approval)

Proposed effective date: October 2021

Purpose

1. The purpose of this charter is to define what Internal Audit is and to explain its purpose, authority and responsibilities.

Introduction

2. The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
3. Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the Council's risk management, internal control and governance processes.
4. The Local Authority Accounts (Scotland) Regulations 2014 require the Council to operate a professional and objective internal auditing service in accordance with recognised standards and practices. In this regard, the Council recognises the mandatory nature of the *Public Sector Internal Audit Standards (PSIAS)* and the associated *CIPFA Local Government Application Note (LGAN)* and the need to ensure compliance with the PSIAS and LGAN.
5. For the purposes of implementing the PSIAS and LGAN, which make widespread use of the terms 'board' and 'senior management', the Council defines 'the board' as the Audit and Scrutiny Panel and 'senior management' as the Corporate Management Team. The Audit and Scrutiny Panel's terms of reference, which reflect the Panel's responsibilities for the 'audit committee' role, were most recently approved by the Council in May 2017.
6. In undertaking its responsibilities, Internal Audit will have due regard to the particular roles and responsibilities of the Council's Chief Executive (as the head of the paid service), the Head of Financial Solutions (as the Council's Section 95 Officer) and the Head of Legal and Democratic Solutions (as the Council's Monitoring Officer).
7. It is primarily the responsibility of line management to establish internal control and Internal Audit should not be viewed 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 and Risk Manager on the adequacy and effectiveness of internal controls within the authority.

Authority

8. Internal Audit is established by the Council and governed by the Council's policies, procedures, rules and regulations. These include the Council's Financial Regulations and other policies including the Council's Anti-Fraud Policy and Fraud Response Plan.
9. Internal Audit staff have unrestricted access to all Council records and can require and receive any explanations from Council staff as considered necessary to allow Internal Audit to fulfill its role and responsibilities. Internal Audit staff also have authority to enter Council premises or land at all reasonable times.
10. Where internal audit work is undertaken for parties external to the Council, such as the North Lanarkshire Health and Social Care Integration Joint Board, the nature of services to be provided will be detailed in a Service Level Agreement.

Appendix 1 (continued)

Internal Audit Charter (draft for CMT and A&SP approval)

Professionalism

11. Internal Audit staff will at all times conduct themselves with proficiency and due professional care and in accordance with the relevant Code of Ethics and standards laid down by the PSIAS and LGAN and other relevant professional guidance in respect of integrity, objectivity, confidentiality and competency. Internal Audit staff will also adhere to all relevant Council policies and procedures.

Organisation

12. Internal Audit is located within the Chief Executive's Office and the Audit and Risk Manager reports directly to the Chief Executive in accordance with the Council's Financial Regulations.
13. The Audit and Risk Manager has free and unrestricted access to the Convenor of the Audit and Scrutiny Panel and the Council's appointed external auditor.

Independence and objectivity

14. 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 and provides for segregation from operational management and/or operational responsibilities.
15. Internal Audit should have no direct operational responsibility or authority over any of the activities audited and would not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair Internal Audit's ability to be objective. But where the Audit and Risk Manager has roles or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.
16. The Audit and Risk Manager has line management responsibility for the Council's Corporate Risk Management Team. To safeguard and limit any impairments of objectivity or independence, the Audit and Risk Manager will take no part in the planning, design, conduct or reporting of any Internal Audit work examining the Council's risk management arrangements. All such work will be led by the Principal Auditor who will be expected to manage the entire audit process including the preparation of any draft audit reports issued to management and the finalisation of any such audit reports following discussion with management.
17. Internal Audit will remain free from interference by any element of the Council, including matters of audit selection, scope, procedures, frequency, timing or report content to enable the maintenance of a necessary independent and objective approach.
18. Internal Audit staff must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal Audit must make a balanced assessment of all the relevant circumstances and not be unduly influenced by its own interests or by others in forming their judgements.
19. The Audit and Risk Manager will report to the Audit and Scrutiny Panel, at least annually, on the organisational independence of the internal audit function.

Appendix 1 (continued)

Internal Audit Charter (draft for CMT and A&SP approval)

Independence and objectivity (continued)

20. Internal Audit will not normally undertake additional consulting-type services that have not already been included in the audit plan. Where significant work of this type is to be undertaken, approval will normally be sought from the Audit and Scrutiny Panel (or the Convener where no meeting of the Panel is scheduled) before the engagement is accepted. Where consulting-type services and/or non-audit activities are undertaken, the Audit and Risk Manager will ensure that appropriate arrangements are put in place to avoid any actual or perceived conflicts of interest.

Responsibility

21. Internal Audit's primary objectives are to:
- provide a high quality and effective audit service which complies with professional best practice and that meets the needs of the Council; and
 - assist the Audit and Scrutiny Panel to effectively discharge its role and responsibilities in relation to its audit committee role.
22. The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council's risk management, control and governance processes. This includes:
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify and report such information;
 - Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on the Council;
 - Evaluating the Council's arrangements for safeguarding its assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption;
 - Evaluating the effectiveness and efficiency with which Council resources are employed;
 - Monitoring and evaluating corporate governance processes;
 - Monitoring and evaluating the Council's risk management arrangements;
 - Evaluating operations and programmes to ascertain whether results and outcomes are consistent with established objectives and goals and whether operations or programmes are being carried out as planned;
 - Liaising effectively with the Council's external auditors to ensure appropriate co-ordination of work so that assurance from both internal and external sources is provided cost effectively; and
 - Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters required or requested by the Audit and Scrutiny Panel.

Appendix 1 (continued)

Internal Audit Charter (draft for CMT and A&SP approval)

Internal Audit Plan

23. At least annually, the Audit and Risk Manager will submit to senior management and the Audit and Scrutiny Panel an internal audit plan for review and approval. The internal audit plan will consist of a work programme and resource requirements for the year. The Audit and Risk Manager will, if necessary, communicate the impact of any resource limitations to the Audit and Scrutiny Panel.
24. The internal audit plan will be developed using a risk-based methodology, including input from senior management, designed to make best use of the Internal Audit resources. Although the Audit and Risk Manager will consult with relevant stakeholders prior to presenting the plan for approval by the Audit and Scrutiny Panel, responsibility for the preparation and execution of the audit plan and subsequent Internal Audit activities rests solely with the Audit and Risk Manager.

Reporting and monitoring

25. Internal Audit reporting arrangements are designed to be open and transparent and to enable the Audit and Scrutiny Panel to effectively discharge its role. A detailed reporting protocol in respect of Internal Audit work can be found at Appendix A
26. A written report will be prepared and issued by the Audit and Risk Manager following the conclusion of each substantive core internal audit assignment and will be distributed to relevant Chief Officers. The findings from Internal Audit outputs will also be periodically reported to the Corporate Management Team and the Audit and Scrutiny Panel.
27. While committed to openness and transparency, different considerations sometimes need to be applied when considering how to report the results of Internal Audit investigative work in relation to suspected fraud, corruption, thefts and other irregularities and this is reflected in the reporting protocol at Appendix A, which is designed to reflect the balance to enable the Panel to be suitably informed to effectively discharge its role with potential sensitivities around data protection issues, the risk that disclosure could sometimes potentially prejudice existing controls and security arrangements and the need to avoid prejudicing any ongoing Police involvement and/or disciplinary processes. There is also a recognition of the need to reflect materiality in reporting the results of such work by considering the nature and significance of the issues reviewed.
28. Each internal audit report will normally be expected to include management's response and corrective action taken or to be taken in response to the specific findings and recommendations. Management responses should include the name of the responsible officer, a timetable for anticipated completion of action to be taken and an explanation where any corrective action will not be implemented.
29. Internal Audit will also undertake and report on appropriate follow-up work designed to provide the Audit and Scrutiny Panel with assurance on whether management has implemented planned actions designed to address previous significant audit findings.
30. The Audit and Risk Manager will periodically report to senior management and the Audit and Scrutiny Panel on the internal audit function's purpose, authority and responsibility as well as performance relative to its plan.

Appendix 1 (continued)

Internal Audit Charter (draft for CMT and A&SP approval)

Reporting and monitoring (continued)

31. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the Audit and Scrutiny Panel.
32. In addition, the Audit and Risk Manager will inform senior management and the Audit and Scrutiny Panel on the internal audit function's quality assurance and continuous improvement programme, including results of ongoing internal self-assessments and external assessments conducted at least every five years.

The role of internal audit in respect of fraud-related work

33. The Council has a zero-tolerance attitude and will not accept any level of fraud, bribery or corruption. The Council's Corporate Anti-Fraud Policy and Fraud Response Plan sets out clear procedures for the reporting and investigation of actual or suspected fraud.
34. Managers, staff and elected members must always be alert to the risk of fraud, theft, bribery and corruption. In the first instance staff should report fraud/suspicion of fraud to their Line Manager or Head of Service, who should inform the Council's Internal Audit Section.
35. Any instances of fraud/suspected fraud will be investigated thoroughly and dealt with appropriately. Vigorous and prompt investigation will be undertaken by Internal Audit where actual or suspected fraud is discovered or reported.

Approved by the Audit and Scrutiny Panel

Date:

Approved by the Chief Executive

Date: 17 August 2021

**Approved by the Head of Financial Solutions
(Section 95 Officer)**

Date: 17 August 2021

Approved by the Audit and Risk Manager

Date: 10 August 2021

Appendix 2 Internal Audit Reporting Protocol

- 1.1 This protocol explains how the work of Internal Audit will be reported to management and to the Audit and Scrutiny Panel (acting as the Council's audit committee).
- 1.2 The Public Sector Internal Audit Standards (PSIAS) contain several expectations and requirements in relation to Internal Audit reporting. Internal auditors must communicate the results of engagements and the communications should include the engagement's scope, objectives and results. The PSIAS makes it clear that communications must be accurate, objective, concise and constructive, complete and timely and that the results must be communicated to appropriate parties, (who are to be determined by the chief audit executive), who can ensure the results are given due consideration.
- 1.3 Currently all Internal Audit reports are issued to relevant senior management as soon as possible after reports are finalised and this practice will continue. A summary of the key findings and recommendations of all Internal Audit reports is also prepared by the Audit and Risk Manager and submitted periodically to the Council's Corporate Management Team and this practice will continue.
- 1.4 Taking the PSIAS requirements into account, Internal Audit will adopt the following principles when reporting the results of its work to the Audit and Scrutiny Panel (which acts as the Council's audit committee).

Internal Audit reporting to the Audit and Scrutiny Panel: key principles

1. Internal Audit is committed to openness and transparency and the need for timely reporting of the results of Internal Audit's work to enable the Audit and Scrutiny Panel ('the Panel') to effectively discharge its role.
2. Decisions about what and how to report in relation to the results of Internal Audit work will be made by the Audit and Risk Manager in line with the core principles contained within the PSAIS including those relating to independence and objectivity. The Audit and Risk Manager will, where appropriate, seek advice from the Council's Monitoring Officer and the Chief Executive.
3. There is a presumption that key findings in relation to all Internal Audit outputs will be reported to the Panel at the earliest opportunity after reports are finalised.
4. There is a presumption that full copies of all planned Internal Audit outputs and all unplanned outputs with significant audit findings will be made publicly available and reported to the Panel at the earliest opportunity after reports are finalised unless there are good reasons not to. This includes reports relating to investigations and any ad hoc or other unplanned outputs.
5. Where full copies of Internal Audit reports are not made publicly available in line with these principles, the Audit and Risk Manager will clearly explain the rationale for this to the Panel. Where this occurs, consideration will also be given to ensuring the maximum possible timely disclosure subject to the circumstances of each case. Options which will be considered include redacting parts of the audit report where necessary and/or taking individual reports in private as an excluded agenda item.

Appendix 2 Internal Audit Reporting Protocol

- 1.5 The following tables outline the detailed approach that will normally be adopted by the Audit and Risk Manager when determining how to report the results of different types of Internal Audit's work.

Assignments included in the approved Internal Audit Plan

Reporting to the Audit and Scrutiny Panel

A summary of the audit grading, key findings and recommendations of all such reports issued since the last update will be incorporated into regular progress reports on Internal Audit matters prepared by the Audit and Risk Manager which are submitted to each normal business meeting of the Panel.

Full copies of all such reports will be made publicly available and reported to the Panel subject to any redactions considered necessary by the Audit and Risk Manager following consultation with the Council's Monitoring Officer. It is expected that any such redactions will be kept to the minimum considered essential and the rationale for any such redactions will be clearly communicated to the Panel.

Assignments not included in the approved Internal Audit Annual Plan including investigations and other ad hoc and/or unplanned work

Significant findings in relation to all Internal Audit outputs relating to assignments not included in the approved Internal Audit Annual Plan issued since the last update will be incorporated into regular progress reports on Internal Audit matters prepared by the Audit and Risk Manager which are submitted to each normal business meeting of the Panel unless there are good reasons not to.

Significant findings are defined as those where reports have identified losses greater than £5000 and/or reports have identified significant weaknesses in internal controls and/or governance arrangements.

Other reports will be referenced at the discretion of the Audit and Risk Manager dependent on his assessment of the significance and relevance of the issues raised to the effective discharge of the Panel's remit.

Full copies of all such reports with significant findings will normally be made publicly available and reported to the Panel at the next meeting unless the Audit and Risk Manager following consultation with the Council's Monitoring Officer determines that there are good reasons not to. Where full copies of reports are not made available consideration will be given as to how best to permit timely disclosure to the Panel. Options which will be considered at this stage include redacting any relevant parts of the audit report where necessary and/or taking individual reports in private as an excluded agenda item.