

EAST RENFREWSHIRE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

21 August 2014

Report by Chief Auditor

INTERNAL AUDIT CHARTER

1 PURPOSE OF REPORT

- 1.1 To submit to members for approval the internal audit charter which is a requirement of the new Public Sector Internal Audit Standards (the Standards). The charter replaces the internal audit terms of reference previously approved by the audit committee in April 2010.

2 BACKGROUND

- 2.1 The new Public Sector Internal Audit Standards came into effect on 1 April 2013. Standard 1000 of this document states that:

“the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, Code of Ethics and the Standards.”

Additionally, “the chief audit executive” must periodically review the internal audit charter and present it to senior management and the board for approval.

- 2.2 The internal audit charter is a formal document that defines the council’s internal audit activities in the context of purpose, authority and responsibility and covers such areas as organisational position, access to records, personnel and physical properties relevant to the performance of engagements and defines the scope of internal audit activities.
- 2.3 The contents of the current terms of reference contain principles and practices which are still appropriate and relevant but the Standards requires the charter to include additional items such as:
- definitions of the terms ‘board’ and senior management’ in the context of internal audit activity
 - cover the arrangements for appropriate resourcing,
 - define the role of internal audit in any fraud related work and
 - include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit duties.

3 INTERNAL AUDIT CHARTER

- 3.1 A proposed Internal Audit Charter is attached as an appendix to this report.

4 RECOMMENDATION

- 4.1 The Committee is asked to approve the Internal Audit Charter which is contained in the appendix to this report.
- 4.2 Further information is available from Michelle Blair, Chief Auditor, telephone 0141 577 3067.

EAST RENFREWSHIRE COUNCIL INTERNAL AUDIT CHARTER

1 INTRODUCTION

- 1.1 The Public Sector Internal Audit Standards (the Standards) effective from April 2013 state that: *“the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.”* For internal auditors in the public sector, compliance with the Standards is mandatory.
- 1.2 The Standards also state that *“the chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.”*
- 1.3 This internal audit charter sets out the purpose, authority and responsibility of the internal audit activity in the context of East Renfrewshire Council.
- 1.4 Internal auditing is defined in the Standards as a department, division, or team that provides independent, objective assurance and consulting services designed to add value and improve an organisation’s operations and helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluation and improve the effectiveness of governance, risk management and control processes.
- 1.5 In addition, each organisation is required to define at a local level its interpretation of the generic terms which form part of the governance arrangements. These terms are listed below together with the interpretation to be used for East Renfrewshire Council.

Term used in the Standards	East Renfrewshire Council interpretation
Chief audit executive	Chief Auditor
Board	Audit and Scrutiny Committee
Senior Management	Corporate Management Team

2 FUNCTION

- 2.1 Internal audit is an autonomous, objective assurance and consulting function based within the Chief Executive’s Office. The Chief Auditor is responsible for the effective review of all aspects of risk management and control throughout the council’s activities and for providing an annual assessment on the controls in place to the Audit and Scrutiny Committee.
- 2.2 The existence of internal audit is not a substitute for a comprehensive control environment and it remains the responsibility of management to ensure that effective controls are put in place and complied with.

3 CORPORATE STRATEGY

- 3.1 The Council’s long term visions and objectives are set out in the Corporate Statement and Single Outcome Agreement (SOA). The Outcome Delivery Plan (ODP) plays an important role in translating these visions and objectives into specific outcomes for council departments to implement. Internal Audit’s main role in helping deliver the corporate objectives contained within the Corporate Statement and SOA is to assist in identifying processes which could be done more efficiently.
- 3.2 Internal audit aims to assist the council discharge its corporate governance requirements and will objectively examine, evaluate and report on the adequacy of the

whole system of controls established by management and ultimately will provide an annual assurance statement on the adequacy of the council's key systems and controls through a programme of independent reviews.

4 INDEPENDENCE

- 4.1 Internal audit's role is to provide an independent appraisal function to elected members and all levels of management. Internal audit reviews will be governed by the policies, procedures and regulations established by the council. The stakeholders include not only management and elected members but also the external auditors, the audit and scrutiny committee, external inspection agencies and the general public.
- 4.2 Internal audit is independent of the activities which it audits to ensure the unbiased judgements essential to its proper conduct and impartial advice to management. Internal auditors will have no operational responsibilities and will not undertake non-audit duties. The Chief Auditor shall report directly to the Chief Executive who carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements. In line with best practice, the Chief Auditor has direct unrestricted access and is able to communicate freely with all members of the corporate management team, elected members and external audit.

5 ROLE AND SCOPE

- 5.1 The role of internal audit is to understand the key risks faced by the council and to examine and evaluate the adequacy and effectiveness of the system of risk management and internal control as operated by the council. In order to properly carry out these duties, internal audit has unrestricted access to all activities undertaken in the council and will have authority, on production of identification to:
- enter at any time any council offices, establishments or land;
 - have access to **all** records, computer files, documents and correspondence relating to any financial and other transactions of the council;
 - have access to all IT hardware and software for systems being run on behalf of the council by third party service providers;
 - require and receive such explanations as are necessary concerning any matter under examination;
 - require any employee of the council to produce cash, materials or any other property under his/her control;
 - make recommendations to changes in procedures as appropriate.

Internal audit's rights of access as detailed above are codified in the council's Financial Regulations.

- 5.2 To enable internal audit to meet its objectives, the scope of work will encompass the following activities:
- review of controls within existing systems and systems under developments,
 - review, appraise and report on compliance with the council's policies, procedures and regulations such as Financial Regulations and Standing Orders relating to Contracts;
 - regularity audits to ensure accuracy of processing transactions;
 - computer audit;

- contract audit;
 - investigation of suspected frauds and irregularities;
 - follow up to ensure that action has been taken to remedy weaknesses previously identified by internal audit;
 - consultancy work and provision of advice to departments and establishments
- 5.3 Internal audit will determine its own priorities of which work to carry out based on its risk assessment of controls, consultation with management and taking account of the council's corporate risk management process as appropriate.

6 REPORTING

6.1 Reporting to Audit and Scrutiny Committee

Internal audit reports regularly on the results of its work to the Audit and Scrutiny Committee. The Chief Auditor is accountable to the Audit and Scrutiny Committee for:

- seeking approval annually of a Strategic and Annual Plan;
- providing quarterly progress reports of its work against the Annual Plan;
- providing an annual assessment on the adequacy of controls;
- providing an annual report summarising the work carried out during the year and the main findings;
- advising the Audit and Scrutiny Committee of whether audit resources are sufficient and appropriate to achieve the audit plan.

6.2 Reporting to Management

Audit findings, conclusions and recommendations arising from each audit will be communicated promptly to the appropriate director(s) and the Chief Executive. Where possible and appropriate, the key personnel involved during the audit will be given an opportunity to comment on the accuracy of the conclusions and recommendations arising from the audit prior to the issue of the report to management. Audit reports will be submitted in final format to departmental directors. Sufficient time to respond to the report will be specified in the covering memo and the departmental response should include an action plan to address the recommendations in the report.

If a satisfactory response is not received within the specified timescale, a reminder will be sent to the relevant director. If there is still no response then the matter will be reported to the Audit and Scrutiny Committee and the director will be asked to attend the Audit and Scrutiny Committee and explain the reasons for not responding. Additionally, the Chief Auditor will bring to the attention of the Audit and Scrutiny Committee any response which is considered to be unsatisfactory or incomplete.

7 RESPONSIBILITY

7.1 Chief Auditor

The Chief Auditor is responsible for:

- developing a strategic and annual audit plan based on an assessment of the significant risks to which the council is exposed;
- submitting the strategic and annual plan to the Audit and Scrutiny Committee for review and approval annually;

- implementing the agreed annual audit plan and bringing to the attention of the Audit and Scrutiny Committee any planned audits which will not be completed within the year and seeking their approval for deferring or deleting the audit from the plan;
- maintaining a professional audit team who have sufficient knowledge, skills and experience to carry out the annual audit plan;
- ensuring compliance with the Code of Ethics and the Standards promulgated by the Professional Accountancy Bodies;
- ensuring compliance with the Public Sector Internal Audit Standards;
- ensuring that additional work specifically requested by the Audit and Scrutiny Committee under its remit is carried out.

The Chief Auditor will:

- attend Audit and Scrutiny Committee meetings;
- ensure assignments are planned to minimise the possibility of conflict of interest;
- arrange the timing of assignments to minimise disruption to client staff and management where possible;
- ensure staff are allocated assignments in accordance with their skills and experience;
- ensure staff understand the objectives of their assignments and their responsibilities to promote effective control at reasonable cost.

7.2 Internal Audit Staff

Internal Audit staff are responsible for:

- disclosing potential conflicts of interest to the Chief Auditor;
- preparing adequate working papers to support audit findings, conclusions and recommendations;
- carrying out their work in a professional and diligent manner.

7.3 External Audit

External Audit review the Internal Audit arrangements within the Council and report annually on the adequacy and standards of Internal Audit to the Chief Executive.

External Audit will be informed of planned and actual Internal Audit activities and there will be close co-operation in order to maximise resources and avoid duplication of effort.

8 PERIODIC ASSESSMENT

- 8.1 Internal audit is required to maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The Chief Auditor is responsible for periodically providing a self-assessment of the internal audit activity's conformance with the Standards. Additionally, an external assessment needs to be conducted at least every 5 years by a suitably qualified external assessor.
- 8.2 The chief auditor will communicate the findings of each internal and external assessment to the Audit and Scrutiny Committee as appropriate together with a plan for any improvement action that is considered necessary.

9 AUDIT RESOURCES AND PRIORITISATION OF WORK

- 9.1 The annual and strategic plans will be prepared by the chief auditor and will take into account the council's corporate strategic risk register. Members of the corporate management team, elected members and the council's external auditors will also be consulted to ensure that current and developing risks are appropriately considered and included in the strategic audit plan.
- 9.2 The chief auditor will provide an assessment of audit resources to the Audit and Scrutiny Committee as part of the planning process. A contingency allowance for unplanned work will be included in the annual and strategic plan and will be used to respond to any specific issues brought to the attention of the chief auditor during the year.

10 FRAUD RELATED WORK

- 10.1 In accordance with the council's anti-fraud and bribery strategy, the investigation of any suspected fraud or bribery is normally carried out by the council's internal audit section. Responsibility for the prevention and detection of fraud however lies with senior management across the council and not with internal audit. The guidance contained within the anti-fraud and bribery strategy will be followed by internal audit staff when conducting any investigation. Action taken by internal audit will include reporting the findings to the relevant director for any recommended action to be taken and reporting any suspected criminal activity to the police where necessary. Senior management will be responsible for implementing the recommendations of internal audit, including carrying out any disciplinary action required.

11 CONSULTANCY WORK

- 11.1 The definition of consultancy work is advisory and related client service activities, the nature and scope of which are agreed with the client, which are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility.
- 11.2 When invited by senior management, internal audit may provide advice and consultancy services on areas such as:
- cost effective controls for new systems and activities
 - opportunities to reduce costs through greater economy and efficiency within systems or processes
- 11.3 The role of internal audit in a consultancy assignment is to provide advice and support to senior management who retain ultimate responsibility for the decisions taken within the area under review.
- 11.4 Prior acceptance of any consultancy work will be dependent on available resources, the nature of the assignment and the potential impact on future independent assurances. Approval will be sought from the Audit and Scrutiny Committee for any significant consulting services to be carried out.

Chief Auditor

7 August 2014