

REPORT TO THE AUDIT COMMITTEE – 13 DECEMBER 2018

INTERNAL AUDIT CHARTER

1. Recommendations

1.1 The Committee is requested to approve the attached Internal Audit Charter.

2. Discussion

2.1 In June 2016, the Relevant Internal Audit Standard Setters issued a revised set of Public Sector Internal Audit Standards (PSIAS). These included additional requirements and interpretations for the UK public sector and are mandatory. One of the requirements of the Standards is that Internal Audit sections have an Internal Audit Charter which includes specific requirements contained within the Standards. The Standards require that the organisation's Board (for the Council, the Audit Committee) approves the Internal Audit Charter.

2.2 The current Internal Audit Charter was approved by the Audit Committee on 21 June 2017. There is a requirement that the Charter be reviewed every twelve months to ensure that it is still appropriate. Such a review was completed by the Chief internal Auditor, and the Charter was considered to still be relevant. However, following the External Quality Assessment of Internal Audit arrangements in the Council, reported to the Audit Committee in September 2018, some amendments to terminology were deemed necessary. The attached Charter contains these amendments.

2.3 The Standards define the Charter as follows:

“The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.”

2.4 In relation to the public sector, it must:

- define the terms 'board' and 'senior management' for the purposes 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 activities.

2.5 The Internal Audit Charter, which is attached as an appendix to this report, is based on the requirements of the PSIAS the main requirements of which are:

- 2.5.1 Relationships between the chief audit executive (Chief Internal Auditor), chief financial officer, chief executive, the audit committee and other key officers are defined.
- 2.5.2 The purpose, authority and responsibility of Internal Audit must be formally defined in the Charter which must be consistent with the Definition of Internal Audit, the Code of Ethics and the Standards.
- 2.5.3 The nature of assurance services provided to the organisation must be defined.
- 2.5.4 The mandatory nature of the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* must be recognised in the internal audit charter.
- 2.6 Other important considerations include establishing Internal Audit's independence and ensuring that it is free from interference in determining the scope of internal auditing, performing work and communicating results. This includes the reporting of any impairment to that independence (either in fact or appearance), scope limitations, and restrictions on access to records, etc to appropriate parties.
- 2.7 The changes made to the Charter relate to the fact that Internal Audit reports are now only reported to the Audit Committee, rather than all Policy Committees and then the Audit Committee, and, where they relate to Health and Social Care Integration, the Aberdeenshire Integration Joint Board Audit Committee.
- 2.8 The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report. Any comments made have been incorporated within the report and they are satisfied that the report complies with the Scheme of Governance and relevant legislation.

3. Scheme of Governance

- 3.1 The Committee is able to discuss this item in terms of Sections G.1.1.d and G.1.4 of the List of Committee Powers in Part 2A of the Scheme of Governance as the Committee is responsible for Internal Audit matters and ensuring that Internal Audit has appropriate standing within the Council.

4. Equalities, Staffing and Financial Implications

- 4.1 An equality impact assessment is not required because the reason for this report is for Committee to approve an Internal Audit Charter and there will be no differential impact, as a result of this report, on people with protected characteristics.
- 4.2 There are no staffing or financial implications arising directly from this report.

CHIEF INTERNAL AUDITOR

Report prepared by David Hughes, Chief Internal Auditor.
27 November 2018.

Appendix A

ABERDEENSHIRE COUNCIL INTERNAL AUDIT CHARTER

INTRODUCTION

The Public Sector Internal Audit Standards (PSIAS) require that an Internal Audit Charter be in place to detail the purpose, authority and responsibility of Internal Audit. The Charter should also establish Internal Audit's position within the organisation, including the Chief Internal Auditor's functional reporting relationship with the "Board", authorise Internal Audit's access to records, personnel and physical properties relevant to the performance of its activity, and define the scope of such activity.

It is a requirement of PSIAS that the Charter be approved by the "Board". Within Aberdeenshire Council, the Board is the Audit Committee.

DEFINITION OF INTERNAL AUDITING

PSIAS defines Internal Auditing as follows:

"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."

ROLE

Internal Audit's primary role is to provide independent and objective assurance on the Council's **risk management, control, and governance processes** ~~entire control environment (including risk management)~~. This involves a continuous rolling review and appraisal of the internal controls of the Council involving the examination and evaluation of the adequacy of **systems of risk management, control, and governance, making recommendations for improvement where appropriate** ~~the control environment~~. Reports are produced relating to each audit assignment and summaries of these are provided to the Audit Committee. Along with other evidence, these reports are used in forming **an annual opinions** on the adequacy of **risk management, control, and governance processes** ~~the control environment~~.

Internal Audit is also responsible for carrying out ad-hoc investigations into potential irregularities involving cash, stores, equipment or other property of the Council, and for providing advice as and when required in relation to control and compliance issues.

PROFESSIONALISM

Internal Audit will govern itself by adherence to the requirements of the Public Sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

AUTHORITY

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, has authority, through the Council's Financial Regulations, to:

- (a) Enter at all reasonable times any Council premises or land.
- (b) Have access to all records, documents and correspondence relating to any financial and other transactions of the Council.
- (c) Require and receive such explanations as are necessary concerning any matter under examination.
- (d) Require any employee of the Council to produce cash, stores, equipment or any other Council property under his or her control.

The Chief Internal Auditor has free and unfettered access to the Council's Chief Executive, and Chair of the Board. The Chief Internal Auditor has the right to report direct to Council in any instance where he or she deems it inappropriate to report direct to the Director of Business Services, Chief Executive, or the Audit Committee.

ORGANISATION

The Chief Internal Auditor will report functionally to the Audit Committee and administratively (i.e. day to day operations) to the Director of Business Services, who is a member of the Council's Strategic Leadership Team.

In this context functional reporting means the Audit Committee will:

- (a) Approve the Internal Audit Charter.
- (b) Be consulted on and approve the annual Internal Audit Plan.
- (c) Receive reports from the Chief Internal Auditor on the results of Internal Audit activity or other matters the Chief Internal Auditor determines necessary.
- (d) Make enquiries of management to ensure that Internal Audit is adequately resourced to meet assurance and other key responsibilities.
- (e) Make enquiries of management to ensure that Internal Audit is operating in an independent manner and that it is receiving the necessary co-operation from Council management in undertaking its duties.

The Chief Internal Auditor's annual review will be undertaken by the Director of Business Services. ~~The Director of Corporate Governance in Aberdeen City Council will be asked to contribute to this and will review the outcome.~~ The Chief Executive and Chair of the Audit Committee ~~and Convener of Aberdeen City Council's Audit, Risk and Scrutiny Committee~~ will be asked to provide input to the review.

INDEPENDENCE AND OBJECTIVITY

In order to satisfy the requirements of the Public Sector Internal Audit Standards, Internal Audit must be independent and objective.

Internal Audit will remain free from interference by any element in the organisation in the matter of audit selection (including scope, procedures, frequency and timing), and content of

reports thereon to permit maintenance of a necessary independent and objective mental attitude. Notwithstanding this, Internal Audit will consult with management regarding the scope, timing and outcome of each assignment.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair an internal auditor's judgment. However, Internal Audit may be consulted on the implementation of new systems to ensure that, as far as possible, all considerations are taken into account during their implementation. Such involvement shall not preclude Internal Audit from reviewing that area and reporting thereon.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

Internal Audit staff will complete an annual declaration confirming compliance with rules on independence, any conflicts of interest, and the offer and / or acceptance of inducements. Where Internal Audit staff have had operational responsibility for any activity whilst working in a previous or seconded role, they will not be involved in the audit of that area for at least one year following the end of any such responsibility.

The Chief Internal Auditor will confirm to the Audit Committee, at least annually, the organisational independence of the Internal Audit function.

RESPONSIBILITY

It shall be the responsibility of Internal Audit to complete sufficient assurance work to support the annual opinion detailed in **the annual Internal Audit Statement relating to Aberdeenshire Council's Internal Control System ~~its Internal Financial Control Statement~~**. All work shall be undertaken in accordance with the requirements of the Public Sector Internal Audit Standards. All Internal Audit staff will complete an annual declaration confirming that they have read and understood these requirements.

It shall be the responsibility of Council management to ensure that adequate and appropriate systems of internal control are in operation which help ensure that the Council's objectives are fulfilled in a manner which complies with the Council's policies and procedures and in accordance with the law. Council management will ensure that access is provided to records, personnel and assets of the Council as required by Internal Audit, and that responses are provided to Internal Audit as required by the Council's Financial Regulations.

The CIPFA *Statement on the Role of the Chief Financial Officer in Local Government* states that the chief financial officer (Head of Finance) must:

- (a) ensure an effective internal audit function is resourced and maintained
- (b) ensure that the authority has put in place effective arrangements for internal audit of the control environment
- (c) support the authority's internal audit arrangements, and
- (d) ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively.

The Council's Financial Regulations require that whenever any matter arises which involves, or is thought to involve, irregularities concerning cash, stores, equipment or other property of the Council or any suspected irregularity in the exercise of the functions of the authority, the Director concerned shall immediately notify the Chief Executive, the Head of Finance, Head of Human Resources and Organisational Development and the Chief Internal Auditor, as appropriate, who shall take such steps as may be considered necessary by way of investigation and report. Similar arrangements are detailed in Aberdeenshire Council's Disclosure of Information (Whistleblowing) Policy and Strategy for the Prevention and Detection of Fraud, Bribery and Corruption.

Internal Audit will consider the outcome of such investigations in its future work programme and in forming its opinion on the control environment of the Council.

INTERNAL AUDIT PLAN

On an annual basis, the Chief Internal Auditor will consult with senior management in developing an Internal Audit plan for submission to the Council's Strategic Leadership Team (in terms of PSIAS "senior management") and the Audit Committee for review, comment and approval by the latter. The Internal Audit plan will consist of a work schedule as well as budget and resource requirements for the period covered by the plan.

The Internal Audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input from the Council's Strategic Leadership Team and the Audit Committee. Any significant deviation from the Internal Audit plan will be communicated to the Council's Strategic Leadership Team and the Audit Committee through periodic activity reports.

REPORTING AND MONITORING

A written report will be prepared and issued by the Chief Internal Auditor or designee following the conclusion of each audit and this shall be distributed as appropriate. Internal Audit results will be reported to the Audit Committee and, where they relate to Health and Social Care Integration, the Aberdeenshire Integration Joint Board Audit Committee. Where reports relate to consultancy requested by management for operational purposes, the results will be reported to the aforementioned Committees where they relate to governance or control issues.

The Internal Audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

Internal Audit will monitor action taken by management to implement agreed recommendations and will provide this information to the Audit Committee.

PERIODIC ASSESSMENT

The Chief Internal Auditor will periodically report to the Council's Strategic Leadership Team and the Audit Committee on Internal Audit's purpose, authority, and responsibility, as well as

performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Council's Strategic Leadership Team and the Audit Committee.

In addition, the Chief Internal Auditor will communicate to the Council's Strategic Leadership Team and the Audit Committee regarding Internal Audit's quality assurance and improvement program, including results of ongoing internal assessments and external assessments which must be conducted at least every five years.

Approved by the Audit Committee on ...

