

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	26 February 2015
DIRECTOR	N/A
TITLE OF REPORT	Internal Audit Charter
REPORT NUMBER	N/A
CHECKLIST COMPLETED	Yes

1. PURPOSE OF REPORT

The purpose of this report is to seek agreement to amending the Internal Audit Charter from 1 April 2015.

2. RECOMMENDATION

It is recommended that the Committee approve the attached Internal Audit Charter for implementation from 1 April 2015.

3. FINANCIAL IMPLICATIONS

There are no financial implications arising as a result of this report.

4. OTHER IMPLICATIONS

Approval of this report will result in a change to the Council's Internal Audit Charter.

5. BACKGROUND/MAIN ISSUES

- 5.1 In April 2013, new Public Sector Internal Audit Standards (PSIAS) were introduced for application in the United Kingdom. These replaced the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom and are supported by a Local Government Application Note to provide guidance in relation to that sector.
- 5.2 The Standards are mandatory and require 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 Aberdeen City Council, the

Audit, Risk and Scrutiny Committee) approves the Internal Audit Charter.

- 5.3 On 24 February 2014, the Audit and Risk Committee agreed an updated Internal Audit Charter for Aberdeen City Council based on proposals from PWC who have been providing Internal Audit Services to the Council. Whilst the Charter is still appropriate, the proposal for a shared Internal Audit Service between Aberdeenshire and Aberdeen City Councils was based on ensuring that, as far as practically possible, Internal Audit operates in the same way in both Councils.
- 5.4 The proposal considered by the Audit and Risk Committee on 23 September 2014 included the Aberdeenshire Internal Audit Charter along with a proposal that the Charter be submitted to this meeting for approval. The revised Charter will be considered by Aberdeenshire Council's Scrutiny and Audit Committee on 1 April 2015.
- 5.5 The Internal Audit Charter, which is attached as an appendix to this report, is based on the requirements of the PSIAS and has been updated to refer to the arrangements in both Councils.

6. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01224) 664184

Appendix A

ABERDEENSHIRE AND ABERDEEN CITY COUNCILS 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 Scrutiny and Audit Committee is deemed to be the Board. Within Aberdeen City Council, the Audit, Risk and Scrutiny Committee is deemed to be the Board. Both Committees are herein after referred to as "the Board".

ROLE

Internal Audit's primary role is to provide independent and objective assurance on the Council's entire control environment. This involves a continuous rolling review and appraisal of the internal controls of the Council involving the examination and evaluation of the adequacy of the control environment. Reports are produced relating to each audit assignment and summaries of these are provided, as they relate to each Council, to the relevant Policy Committee and the Scrutiny and Audit Committee in Aberdeenshire, and the Audit, Risk and Scrutiny Committee in Aberdeen City Council. Along with other evidence, these reports are used in forming annual opinions on the adequacy of the Councils' control environments.

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 Councils' 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 Councils' Chief Executives, and Chair / Convener 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 Aberdeenshire Council's Director of Business Services, Chief Executive, or Policy & Resources Committee, or Aberdeen City Council's Director of Corporate Governance, Chief Executive, or Audit, Risk and Scrutiny Committee.

ORGANISATION

The Chief Internal Auditor will report functionally to the Board and administratively (i.e. day to day operations) to the Director of Business Services / Director of Corporate Governance, who is a member of the Councils' Strategic Leadership Teams.

In this context functional reporting means the Board will (in respect of each Council):

- (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 Chief Executives of each Council will be asked to contribute to this and will review the outcome. The Chair / Convener of the Board 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. This will not prevent Internal Audit from consulting on its work programme or on the outcome of audit assignments.

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 Board, 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 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.

Aberdeenshire 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. Aberdeen City Council's Financial Regulations require that the Head of Finance and Head of ICT and Transformation be advised of any suspected irregularity affecting the finances, property, services or policy of the Council and that the Head of ICT and Transformation investigate such matters as appropriate.

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 submit to the Councils' Management Teams (in terms of PSIAS "senior management") and Boards an Internal Audit plan for review and comment. 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 Councils' Management Teams and Boards. Any significant deviation from the Internal Audit plan will be communicated to the Councils' Management Teams and Boards 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 relevant Policy Committee (in Aberdeenshire) and the Board.

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 Policy Committees (in Aberdeenshire) and the Board.

PERIODIC ASSESSMENT

The Chief Internal Auditor will periodically report to the Councils' Management Teams and Boards 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 Councils' Management Teams and Boards.

In addition, the Chief Internal Auditor will communicate to the Councils' Management Teams and Boards on 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 Board on ...