

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	22 June 2017
TITLE OF REPORT	Internal Audit Charter
REPORT NUMBER	IA/17/009
DIRECTOR	N/A
AUTHOR	David Hughes

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to seek agreement to amending the Internal Audit Charter from 28 April 2016.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee approve the attached Internal Audit Charter for implementation from 23 June 2017.

3. BACKGROUND / MAIN ISSUES

- 3.1 The Public Sector Internal Audit Standards (PSIAS) 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 the Council, the Audit, Risk and Scrutiny Committee) approves the Internal Audit Charter.

- 3.2 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."

- 3.3 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.

- 3.4 There is a requirement that the Internal Audit Charter be reviewed annually. The current Internal Audit Charter was approved by the Audit, Risk and Scrutiny Committee on 28 April 2016. The Charter was reviewed by the Chief Internal Auditor and considered to still be appropriate, the only significant changes required relating to the reporting of Internal Audit outputs which relate to Adult Social Care where the report will also be presented to the Aberdeen City Integration Joint Board Audit and Performance Systems Committee, and Internal Audit's reporting line within the Council. In view of the Local Government elections in May 2017, it is appropriate that the new Audit, Risk and Scrutiny Committee approve the Charter for continued use.
- 3.5 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:
- 3.5.1 Relationships between the chief audit executive (Chief Internal Auditor), chief financial officer, chief executive, the audit committee and other key officers are defined.
- 3.5.2 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.
- 3.5.3 The nature of assurance services provided to the organisation must be defined.
- 3.5.4 The mandatory nature of the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* must be recognised in the internal audit charter.
- 3.6 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.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. IMPACT SECTION

- 6.1 **Economy** – The proposals in this report have no direct impact on the local economy.
- 6.2 **People** – There will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. An equality impact assessment is not required because the reason for this report is for Committee to approve an Internal Audit Charter. The proposals in this report will have no impact on improving the staff experience.
- 6.3 **Place** – The proposals in this report have no direct impact on the environment or how people friendly the place is.
- 6.4 **Technology** – The proposals in this report do not further advance technology for the improvement of public services and / or the City as a whole.

7. APPENDICES

- 7.1 Appendix A – Aberdeen City Council Internal Audit Charter.

8. REPORT AUTHOR DETAILS

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Appendix A

ABERDEEN CITY 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 Aberdeen City Council, the Board is the Audit, Risk and Scrutiny Committee.

ROLE

Internal Audit's primary role is to provide independent and objective assurance on the Council's 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 the control environment. Reports are produced relating to each audit assignment and these are provided to the Audit, Risk and Scrutiny Committee, except where they relate to the Pension Fund, in which case the report is provided to the Pensions Committee. Along with other evidence, these reports are used in forming annual opinions on the adequacy of 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 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 the Director of Corporate Governance, Chief Executive, or Audit, Risk and Scrutiny Committee.

ORGANISATION

The Chief Internal Auditor will report functionally to the Audit, Risk and Scrutiny Committee and administratively (i.e. day to day operations) to the Head of Legal and Democratic Services.

In this context functional reporting means the Audit, Risk and Scrutiny 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 in Aberdeenshire Council.

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, Risk and Scrutiny 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 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 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 consult with senior management in developing an Internal Audit plan for submission to the Council's Corporate Management Team (in terms of PSIAS "senior management") and Audit, Risk and Scrutiny 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 Corporate Management Team and Audit, Risk and Scrutiny Committee. Any significant deviation from the Internal Audit plan will be communicated to the Council's Corporate Management Team and Audit, Risk and Scrutiny 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, Risk and Scrutiny Committee and, where they relate to Health and Social Care Integration (Adult Social Care), the Aberdeen City Integration Joint Board Audit and Performance Systems Committee. Reports relating to the Pension Fund will be reported to the Pensions Committee. Where reports relate to

consultancy requested by management for operational purposes, the results will be reported to the Audit, Risk and Scrutiny Committee 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, Risk and Scrutiny Committee / Pensions Committee.

PERIODIC ASSESSMENT

The Chief Internal Auditor will periodically report to the Council's Corporate Management Team and Audit, Risk and Scrutiny 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 Corporate Management Team and Audit, Risk and Scrutiny Committee.

In addition, the Chief Internal Auditor will communicate to the Council's Corporate Management Team and Audit, Risk and Scrutiny 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, Risk and Scrutiny Committee on ...