

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Audit, Risk and Scrutiny Committee
<b>DATE</b>	26 June 2018
<b>REPORT TITLE</b>	Internal Audit Charter
<b>REPORT NUMBER</b>	IA/18/010
<b>DIRECTOR</b>	N/A
<b>REPORT AUTHOR</b>	David Hughes
<b>TERMS OF REFERENCE</b>	2.2

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### 1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to seek Committee approval for the Council's Internal Audit Charter.

### 2. RECOMMENDATIONS

- 2.1 It is recommended that the Committee approve the attached Internal Audit Charter.

### 3. BACKGROUND / MAIN ISSUES

- 3.1 The Public Sector Internal Audit Standards (PSIAS) require that Councils 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 27 June 2017. The Charter has been reviewed by the Chief Internal Auditor and considered to still be appropriate, the only changes being required relating to changes in reporting arrangements between the Pensions Committee and the Audit, Risk and Scrutiny Committee, and the titles of Chief Officers referred to in the Council's Financial Regulations.
- 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. MANAGEMENT OF RISK**

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations are made to address the identified risks and Internal Audit follows up progress with

implementing those that are agreed with management. Where planned progress is not maintained, there is a risk that sufficient work will not have been completed by the end of the financial year for Internal Audit to complete its annual opinion on the Council's control environment.

**7. OUTCOMES**

7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.

7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

**8. IMPACT ASSESSMENTS**

<b>Assessment</b>	<b>Outcome</b>
<b>Equality &amp; Human Rights Impact Assessment</b>	An assessment is not required because the reason for this report is for Committee to approve the Internal Audit Charter. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
<b>Privacy Impact Assessment</b>	Not required
<b>Duty of Due Regard / Fairer Scotland Duty</b>	Not applicable

**9. APPENDICES**

9.1 Appendix A – Aberdeen City Council Internal Audit Charter.

**10. 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 (framework of governance, risk management and internal control systems). 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. Where reports relate to the North East Scotland Pension Fund and Aberdeen City Integration Joint Board, these are considered after the Pensions Committee and Audit and Performance Systems Committee, respectively, has considered them. 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 Chief Officer – 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 Chief Officer - Governance.

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 (Chief Officer – 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 Chief Officer – Finance and the Chief Officer – Governance be advised of any suspected irregularity affecting the finances, property, services or policy of the Council and that they may 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. Where such reports relate to the NESPF, they will initially be considered by the Pensions Committee. Where such reports relate to the Aberdeen City Integration Joint Board, they will initially be considered

by the Audit and Performance Systems 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 / Audit and Performance Systems Committee as appropriate.

### **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 ...