
Report to: Audit Committee

Date of Meeting: 03 December 2020

Subject: Internal Audit Charter

Report by: Internal Audit Manager

1.0 Purpose

- 1.1. This report seeks Audit Committee's approval of an updated Internal Audit Charter. The Charter sets out the role, authority, and responsibility of the Internal Audit team.

2.0 Recommendations

- 2.1. The Committee is asked to consider and approve the Internal Audit Charter attached at Appendix 1.

3.0 Considerations

- 3.1 The Public Sector Internal Audit Standards 2017 (the Standards) were developed jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA). The objectives of the Standards are to:
- define the nature of Internal Auditing within the UK public sector;
 - set basic principles for carrying out Internal Audit in the UK public sector;
 - establish a framework for providing Internal Audit services, which add value to the organisation, leading to improved organisational processes and operations; and
 - establish the basis for the evaluation of Internal Audit performance and to drive improvement planning.
- 3.2 The Standards require that all public sector Internal Audit providers establish an Internal Audit Charter. The Charter must set out the role, authority, and responsibility of the Internal Audit team, and must be approved by 'the board' (in this case Clackmannanshire Council's Audit Committee).
- 3.3 The Internal Audit Charter been reviewed, and an updated version is attached at Appendix 1. This reflects the joint working arrangement with Falkirk Council, and consolidates each Council's Charter into one document.

4.0 Sustainability Implications

4.1. None Noted.

5.0 Resource Implications

5.1. *Financial Details*

5.2. The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes ☐

5.3. Finance have been consulted and have agreed the financial implications as set out in the report. Yes ☐

5.4. *Staffing*

6.0 Exempt Reports

6.1. Is this report exempt? Yes ☐ (please detail the reasons for exemption below) No ☐

7.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities** (Please double click on the check box ☒)

Clackmannanshire will be attractive to businesses & people and ensure fair opportunities for all ☐

Our families; children and young people will have the best possible start in life ☐

Women and girls will be confident and aspirational, and achieve their full potential ☐

Our communities will be resilient and empowered so that they can thrive and flourish ☐

(2) **Council Policies** (Please detail)

8.0 Equalities Impact

8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?
Yes ☐ No ☐

9.0 Legality

- 9.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes ☐

10.0 Appendices

- 10.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

- **Appendix 1:** Clackmannanshire and Falkirk Councils – Internal Audit Charter.

11.0 Background Papers

- 11.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes ☐ (please list the documents below) No ☐

Author(s)

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Approved by

NAME	DESIGNATION	SIGNATURE
Stuart Crickmar	Strategic Director Partnership and Performance	

Clackmannanshire and Falkirk Councils – Internal Audit

Internal Audit Charter

IA

Distribution:

Audit Committees

Corporate Management Team / Senior Leadership Group

Internal Audit Teams

1. INTERNAL AUDIT CHARTER

- 1.1 This Internal Audit Charter sets out the role, authority, and responsibility of Falkirk and Clackmannanshire Councils' (the Councils') Internal Audit Sections, in accordance with the UK Public Sector Internal Audit Standards 2017 (PSIAS).
- 1.2 It is a requirement of PSIAS that the Charter is approved by the 'Board'. Within the Councils, the Audit Committee is deemed to be the Board.

2. ROLE OF INTERNAL AUDIT

- 2.1 Internal Audit is an independent and objective assurance and consulting activity that aims to add value to, and improve the operations of, the Councils.
- 2.2 The main objective of Internal Audit is to provide a high quality, independent, and innovative assurance service. This culminates in an Annual Assurance Report providing an opinion on the adequacy of each Council's arrangements for risk management, governance, and control.
- 2.3 In addition to this assurance role, Internal Audit:
- present periodic Progress Reports to Audit Committee;
 - provide ad hoc consultancy and advice to Services / Directorates;
 - monitor and report on the implementation of Internal Audit recommendations; and
 - help promote a zero tolerance fraud and corruption culture.
- 2.4 The Internal Audit Manager acts as Key Contact for the bi-annual National Fraud Initiative exercise at

both Councils and, at Falkirk Council, as the Single Point of Contact (SPOC) with Police Scotland in relation to Serious Organised Crime.

3. PROFESSIONALISM

- 3.1 Internal Audit aims to work in compliance with PSIAS. These Standards set out the requirements for the professional practice of Internal Auditing, and are based on the Chartered Institute of Internal Auditors' (CIIA) mandatory guidance. They also set out requirements in relation to evaluating the Internal Audit Section's performance.
- 3.2 Internal Audit will adhere to each Council's policies, procedures, and guidance, and will operate in line with its own Internal Audit Manual.
- 3.3 All Internal Audit staff participate in the Continuous Professional Development (CPD) requirements of the relevant Chartered Institute, and in their Council's professional development scheme.
- 3.4 Internal Audit staff are also required to adhere to the CIIA Code of Ethics, and their Council's own codes of conduct.
- 3.5 Networking and sharing of good practice is achieved through the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) and its Computer Audit Sub-Group (CASG). Both of these Groups meet periodically throughout the year to discuss emerging issues, risks, and to progress specific initiatives.

4. AUTHORITY AND SCOPE

4.1 The scope of Internal Audit allows for unrestricted coverage of each Council's activities. To allow the team to provide a truly independent service, all Internal Audit staff have authority to:

- enter any Council premises or land;
- access any records, documents, or correspondence (held in any format) relating to any matter which may have assurance or risk implications for each Council;
- require explanations relating to any matter under review from any employee, including Chief Officers and elected Members; and
- require any employee (or agent) of each Council to produce cash, stores, assets, records, or any other property under their control or to which they have access.

4.2 This access is on demand, and need not be subject to prior notice.

4.3 In addition, the Internal Audit Manager will have unrestricted access to:

- the Chief Executive;
- the Convener / Chair and Members of each Audit Committee;
- Chief Officers; and
- all Council employees.

4.4 The Internal Audit Manager has the right to report directly to full Council in any instance where he / she deems it inappropriate to report to the Chief Finance Officer, Director of Corporate and Housing

Services / Strategic Director of Partnerships and Performance / Service Manager: Legal and Democracy, Chief Executive, or Audit Committee.

4.5 Right of access to Arms Length External Organisations (ALEOs) and to any bodies funded by each Council, should be set out in the relevant Service Level Agreement, conditions of funding, or contractual arrangement.

5. ORGANISATION

5.1 The Internal Audit Manager reports functionally to both Councils' Audit Committee. Operationally, he / she reports to the Chief Finance Officer (CFO) at Falkirk Council, and Service Manager: Legal and Democracy at Clackmannanshire Council. The CFO / Service Manager: Legal and Democracy attend meetings of the Corporate Management Team / Extended Senior Leadership Group.

5.2 Each Council's Audit Committee meets four times per year, with the role and remit formalised in Standing Orders. Pre-agenda meetings are held ahead of each Committee meeting to discuss matters relating to the agenda. The Internal Audit Manager may attend pre-agenda meetings, and attends all Audit Committee meetings.

5.3 In relation to Internal Audit, it is each Audit Committee's role to:

- approve the Internal Audit Charter;
- approve the annual risk based Internal Audit Plan;
- consider reports on Internal Audit activity, including an Annual Assurance Report;

- seek assurances from Chief Officers that appropriate action has been taken to address Internal Audit recommendations; and
- make enquiries of management and the Internal Audit Manager to identify any inappropriate scope or resource limitations.

5.4 The Internal Audit Manager, Senior Internal Auditors, and Internal Auditors are required to hold a relevant professional qualification and to be suitably experienced.

6. INDEPENDENCE AND OBJECTIVITY

6.1 Internal Audit staff must always act independently and objectively. Internal Audit is not an extension of, or substitute for, the functions of line management, and must remain free from any undue influence or other pressure affecting its work.

6.2 Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. They will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment. They may, however, be consulted on the implementation of new systems or processes to ensure that, as far as possible, sound and proportionate arrangements for risk management, governance, and control are built in.

6.3 At Falkirk Council, the Risk Co-ordinator and Corporate Fraud Team Leader report operationally to the Internal Audit Manager. Alternative arrangements will be established to provide assurance on the adequacy of risk management and counter fraud policies and practice. This may take the form of peer review by another Council's Internal Audit team.

6.4 It is Service / Directorate management's (not Internal Audit's) responsibility, to:

- maintain a robust framework of internal control within their area of responsibility;
- put in place arrangements to prevent and detect fraud or corruption;
- implement Internal Audit findings and recommendations, or accept the risk of not doing so; and
- inform Internal Audit of any material proposed changes to systems or processes.

6.5 Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being reviewed. They must make a balanced assessment of all the relevant circumstances, and not be unduly influenced in forming judgments.

6.6 The Internal Audit Manager will report to each Audit Committee in his / her own name, and will confirm, in an Annual Assurance Report, the organisational independence of the Internal Audit team.

7. RESPONSIBILITY: ASSURANCE WORK

7.1 The scope of Internal Auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of risk management, governance, and control arrangements.

7.2 Internal Audit must complete sufficient work to allow an Annual Assurance Report to be presented to each Audit Committee. This report provides an annual, overall, opinion on the adequacy of arrangements for risk management, governance,

and control, and informs each Council's Annual Governance Statement.

7.3 The Annual Assurance Report will be based on the outcomes of the risk based assignments set out in each Council's Annual Internal Audit Plan.

7.4 As required by PSIAS, the Annual Internal Audit Plan is developed taking account of key financial and other risks. This is done by:

- reviewing high and medium risks;
- consulting with senior managers; and
- considering previous Internal Audit reports and other independent review activities.

7.5 For each individual assignment, Internal Audit will develop a Terms of Reference and agree this with the relevant managers. Assignments are carried out using a risk based approach, taking account of the objectives of the activity being reviewed, risks to that activity, and the adequacy of existing risk management, governance, and control arrangements.

7.6 Internal Audit will develop and document work programs for each assignment, setting out the approach to be taken for identifying, analysing, evaluating, and documenting information. A detailed file will be kept as a record of work undertaken. This will be done in line with the standards set out in the Internal Audit Manual.

7.7 Matters arising from each assignment will be reported to management in the form of a draft report. Each report will be reviewed by the Internal Audit Manager prior to issue, and will include a statement on the level of assurance that can be provided, as well as an action plan setting out any recommendations. The overall assurance will be provided in line with the definitions set out below.

Level of Assurance	Definition
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There may be some scope for improvement as current arrangements may undermine the achievement of objectives or leave them vulnerable to error or abuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.

7.8 The report and completed Action Plan will form the final record of each audit.

7.9 Periodic reports will be provided to each Audit Committee detailing progress in completing the Annual Internal Audit Plan and highlighting any key matters arising. These progress reports will also provide information on any consultancy work undertaken by Internal Audit.

7.10 The progress reports to each Audit Committee may also provide information in relation to Internal Audit recommendations that remain outstanding.

7.11 All Internal Audit recommendations are logged on each Council's Pentana system, with responsibility for monitoring implementation allocated to the relevant manager. This allows managers to close recommendations as they are implemented, and allows Internal Audit to monitor real time progress on an ongoing basis.

8. RESPONSIBILITY: CONSULTANCY WORK

8.1 Internal Audit includes an allocation of 'days' in each Council's Annual Internal Audit Plan for consultancy work. This time will be used to allow Internal Audit to, for example:

- be involved in corporate projects and working groups;
- provide advice on written procedures and controls; and
- deliver short term assignments requested by Services.

8.2 Approval will be sought from each Audit Committee if there is to be a significant variation in consultancy work above the allocation within the Internal Audit Plan.

8.3 As per each Council's Financial Regulations, Chief Officers are responsible for identifying and managing the risk of fraud. Any potential irregularities are considered and investigated within the context of each Council's counter fraud arrangements.

9. QUALITY ASSURANCE

9.1 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of the team's activity (and its compliance with PSIAS). This consists of an annual self assessment, ongoing performance monitoring, and a periodic external assessment.

9.2 The Internal Audit Manager is responsible for undertaking an annual self assessment and for reporting the results of this self assessment to each

Council's Audit Committee (within the Internal Audit Annual Assurance Report).

9.3 External assessments will be conducted at least once every five years by a suitably qualified, independent, assessor. The Internal Audit Manager will discuss and agree options for these assessments with the Chief Finance Officer / Service Manager: Legal and Democracy. One option is participation in the External Quality Assessment peer review process established by the Scottish Local Authorities Chief Internal Auditors' Group.