

EAST RENFREWSHIRE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

26 September 2024

Report by Chief Auditor

REVIEW OF INTERNAL AUDIT CHARTER

1 PURPOSE OF REPORT

To submit to members for approval the revised internal audit charter. The previous charter was revised and approved by the Audit and Scrutiny Committee in August 2019.

2 BACKGROUND

2.1 The Public Sector Internal Audit Standards (PSIAS) state that:

“the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework.”

Additionally, “the chief audit executive” must periodically review the internal audit charter and present it to senior management and the Audit and Scrutiny Committee for approval.

2.2 There is also a requirement to periodically review the charter to ensure it remains fit for purpose. An external assessment of the Internal Audit Section’s compliance with the PSIAS was carried out and presented to the Audit and Scrutiny Committee in January 2024. The output of this review included a Quality Assurance Improvement Plan (QAIP) which contained a recommendation relating to the Charter. The recommendation suggested that the Charter should be updated to include a Mission statement and provide a definition of the nature of assurance services provided to the Council and to external parties.

2.3 This recommendation has been specifically addressed at paragraphs 1.7, 2.1, 3.3 and 3.5 within the Charter contained in the Appendix.

3 INTERNAL AUDIT CHARTER

3.1 A revised Internal Audit Charter is attached as an appendix to this report.

4 RECOMMENDATION

4.1 The Committee is asked to approve the revised Internal Audit Charter which is contained in the appendix to this report.

4.2 Further information is available from Michelle Blair, Chief Auditor, telephone 0141 577 3067

EAST RENFREWSHIRE COUNCIL

INTERNAL AUDIT CHARTER

1 INTRODUCTION

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) is the standard setter for internal audit, governance, and financial accounting across the public sector.
- 1.2 Recognising the need to promote further improvement in the professionalism, quality, consistency, and effectiveness of internal audit across the public sector, CIPFA worked collaboratively with the Institute of Internal Auditors (the IIA) to develop a set of Public Sector Internal Audit Standards (PSIAS) that are based on the mandatory elements of IIA's International Professional Practices Framework (IPPF), which were originally published in April 2013 and last refreshed in April 2017. Refreshed standards aligned to the 2024 framework are expected to be in place from January 2025.
- 1.3 The PSIAS are applicable across the whole of the public sector and are intended to ensure sound corporate governance and set out roles and responsibilities for both internal audit and management to support the delivery of internal audit services.
- 1.4 The Public Sector Internal Audit Standards (PSIAS) mandate that: *"the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework."*
- 1.5 The Standards also state that *"the chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval."*
- 1.6 This Charter sets out the purpose, scope, authority, and responsibility of the internal audit service in the context of East Renfrewshire Council.
- 1.7 The authority of this charter extends to the Council and all other bodies where internal audit is requested to provide independent assurance such as the Integration Joint Board (IJB).

2 MISSION

- 2.1 The mission of internal audit is *"To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight"*

3 PURPOSE

- 3.1 East Renfrewshire Council has adopted the definition of internal auditing as stated in the Standards. *"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."*
- 3.2 The PSIAS recognise that internal audit's remit extends to the entire control environment of the organisation and is not limited to just financial controls.
- 3.3 Assurance Services are defined in the PSIAS as *"An objective examination of evidence for the purpose of providing an independent assessment on governance, risk*

management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.”

- 3.4 IA assurance is provided by delivering an annual programme of audit work that independently and objectively assesses the design and effectiveness of the controls established to manage the Council’s most significant risks.
- 3.5 The results of these engagements will be used to provide the annual assurance on controls that the Chief Auditor is required to provide to the Council and the IJB.
- 3.6 The existence of internal audit is not a substitute for a comprehensive control environment and it remains the responsibility of management to ensure that effective controls are put in place and complied with. It is management’s responsibility to ensure that activities are conducted in a secure, efficient and well-ordered manner and that finances are safeguarded and used to maximum effect. This includes identifying and managing risks, including fraud.

4 DEFINITIONS

- 4.1 The PSIAS require that all public sector internal audit charters define at a local level its interpretation of the generic terms which form part of the governance arrangements. These terms are listed below together with the interpretation to be used for East Renfrewshire Council.

Term used in the Standards	East Renfrewshire Council interpretation
Chief audit executive	Chief Auditor
Board	Audit and Scrutiny Committee
Senior Management	Corporate Management Team

5 CORPORATE STRATEGY

- 5.1 ‘A Place to Grow’ is the Council’s new community plan. New council plans will flow from this which will play an important role in translating this vision into specific outcomes for council departments to work towards for East Renfrewshire’s people and places. Internal Audit’s main role in helping deliver the vision will be to support the achievement of effective and efficient processes and provide assurance, advice and insight to underpin improvement across the Council.
- 5.2 In doing so, internal audit aims to assist the council discharge its corporate governance requirements and will objectively examine, evaluate and report on the adequacy of the whole system of controls established by management.

5 INDEPENDENCE AND OBJECTIVITY

- 5.1 Internal audit’s role is to provide an independent appraisal function to elected members and all levels of management. Internal audit reviews will be governed by the policies, procedures and regulations established by the council. The stakeholders include not only management and elected members but also the external auditors, the audit and scrutiny committee, external inspection agencies, partnership organisations and the general public.
- 5.2 Internal audit is independent of the activities which it audits to ensure the unbiased judgements essential to its proper conduct and impartial advice to management. Internal auditors will have no operational responsibilities and will not undertake non-audit duties. The Chief Auditor reports directly to the Chief Executive who carries

the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

- 5.3 In line with best practice, the Chief Auditor has direct unrestricted access and is able to communicate freely with all members of the corporate management team, elected members and external audit.
- 5.4 The Chief Executive is the line manager of the Chief Auditor and accordingly carries out the performance appraisals. The Chair of the Audit and Scrutiny Committee is invited to provide feedback for input into this process.
- 5.5 Auditors will not be assigned to review or be involved in any activity where they previously had operational or other involvement, usually within a period of one year.

6 AUTHORITY

- 6.1 The role of internal audit is to understand the key risks faced by the council and to examine and evaluate the adequacy and effectiveness of the system of risk management and internal control as operated by the council and to contribute to process improvement and organisational development as part of this work. In order to properly carry out these duties, internal audit has unrestricted access to all activities undertaken in the council and will have authority, on production of identification to:
- enter all Council premises or land at reasonable times;
 - have access to all records and systems;
 - require and receive any explanations necessary concerning any matter under investigation;
 - require any employee of the council to produce cash, stores or other property under that employee's control; and
 - make appropriate recommendations.
- 6.2 Internal audit's rights of access as detailed above are codified in the council's Financial Regulations. The authority of internal audit will extend to partnership organisations where appropriate and as required. Specifically, partnership organisations will include the East Renfrewshire Culture and Leisure Trust and the Integration Joint Board.

7 SCOPE

- 7.3 To enable internal audit to meet its objectives in providing assurance over controls in place across the organisation, the scope of work will encompass the following activities:
- review of controls within existing systems and systems under development;
 - review, appraise and report on compliance with the council's policies, procedures and regulations such as Financial Regulations and Standing Orders relating to Contracts;
 - follow up to ensure that action has been taken to remedy weaknesses previously identified by internal audit; and
 - consultancy work and provision of advice to departments and establishments.
- 7.4 Internal audit will determine its own priorities of which work to carry out based on its risk assessment of controls, consultation with management and taking account of the council's corporate risk management process and audit resource available as appropriate.
- 7.5 Internal audit will aim to co-ordinate its assurance activity with other internal and external providers of assurance services to ensure sufficient and proper coverage over the control environment and minimise duplication of effort.

8 PROFESSIONALISM

- 8.1 Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined, must make balanced assessments of all the relevant circumstances, and not be unduly influenced by their own or others interests in forming judgments. To achieve this, internal audit will ensure that it conducts its work with due professional care and in line with the requirements of the PSIAS or other relevant professional standards.
- 8.2 Internal audit must also comply with the Code of Ethics which sets out the expectations governing the behaviour of individuals and organisations in the conduct of internal auditing, in line with the four principles: Integrity, Objectivity, Confidentiality and Competency.
- 8.3 Additionally, internal audit will comply with all relevant Council policies and procedures.

9 INTERNAL AUDIT PLAN

- 9.1 The annual and strategic plans will be prepared by the Chief Auditor and will take into account the council's corporate strategic risk register. Key stakeholders such as members of the corporate management team, elected members and the council's external auditors will also be consulted to ensure that current and developing risks are appropriately considered and included in the strategic audit plan. The plan will be developed based on a risk based prioritisation of topics included within the audit universe, taking cognisance of any feedback received from key stakeholders. The Internal Audit Plan will be submitted to the Audit and Scrutiny Committee for approval.
- 9.2 The Chief Auditor will provide an assessment of budgeted audit resources to the Audit and Scrutiny Committee as part of the planning process. A contingency allowance for unplanned work will be included in the annual and strategic plan and will be used to respond to any specific issues brought to the attention of the chief auditor during the year.
- 9.3 The nature of evolving risks makes it likely that the audit assignments included in the annual plan may be subject to change. Consequently, any proposed changes to the approved plan (due to emerging risks, suspected fraudulent activity or other factors that result in changes to planned audit or consulting activities) will be submitted for approval to the Audit and Scrutiny Committee.

10 CONSULTANCY WORK

- 10.1 This is defined in the PSIAS as "*advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility*".
- 10.2 When invited by senior management, internal audit may provide advice and consultancy services on areas such as:
- cost effective controls for new systems and activities; and
 - opportunities to reduce costs through greater economy and efficiency within systems or processes.

- 10.3 The role of internal audit in a consultancy assignment is to provide advice and support to senior management who retain ultimate responsibility for the decisions taken within the area under review.
- 10.4 Prior acceptance of any consultancy work will be dependent on available resources, the nature of the assignment and the potential impact on future independent assurances. Approval will be sought from the Audit and Scrutiny Committee for any significant consulting services to be carried out. Within East Renfrewshire Council, significant is defined as any single assignment equivalent to 5% or more of annual planned audit days.

11 RESPONSIBILITIES

11.1 Chief Auditor

The Chief Auditor is responsible for:

- developing a strategic and annual audit plan based on an assessment of the significant risks to which the council is exposed;
- submitting the strategic and annual plan to the Audit and Scrutiny Committee for review and approval annually;
- implementing the agreed annual audit plan and bringing to the attention of the Audit and Scrutiny Committee any planned audits which will not be completed within the year and seeking their approval for deferring or deleting the audit from the plan;
- maintaining a professional audit team who have sufficient knowledge, skills and experience to carry out the annual audit plan;
- ensuring compliance with the Code of Ethics and the Standards disseminated by the Professional Accountancy Bodies;
- ensuring compliance with the Public Sector Internal Audit Standards; and
- ensuring that additional work specifically requested by the Audit and Scrutiny Committee under its remit is carried out as appropriate.

11.2 The Chief Auditor will:

- attend Audit and Scrutiny Committee meetings;
- ensure assignments are planned to minimise the possibility of conflict of interest;
- arrange the timing of assignments to minimise disruption to client staff and management where possible;
- ensure staff are allocated assignments in accordance with their skills and experience; and
- ensure staff understand the objectives of their assignments and their responsibilities to promote effective control at reasonable cost.

11.3 Internal Audit Staff

Internal Audit staff are responsible for:

- disclosing potential conflicts of interest to the Chief Auditor;
- preparing adequate working papers to support audit findings, conclusions and recommendations;

- carrying out their work with due professional care and in line with the Public Sector Internal Audit Standards and any other relevant professional standards; and
- treating as confidential the information they receive in carrying out their duties.

11.4 **Audit and Scrutiny Committee**

The key duties of the Audit and Scrutiny Committee are detailed in the Council's Scheme of Administration.

11.5 **Corporate Management Team**

The key duties of the Chief Executive, Chief Financial Officer and all directors are detailed in the Council's Financial Regulations.

11.6 In respect of internal audit recommendations, it is management's responsibility to agree to either:

- accept and fully implement all internal audit recommendations or
- agree to address the risks by adopting an alternative approach to that recommended by internal audit or
- accept the risk associated with not implementing audit recommendations with supporting rationale.

12 **FOLLOW UP**

12.1 Internal Audit will follow up and report progress with implementation of agreed management actions to support closure of findings raised on a regular basis and seek to confirm that they have been undertaken within agreed timescales.

12.2 The follow up process involves review of evidence provided by management to support implementation of agreed management actions, and proportionate re-performance testing to confirm that they have been effectively implemented and sustained.

13 **REPORTING**

13.1 **Reporting to Audit and Scrutiny Committee**

Internal audit reports regularly on the results of its work to the Audit and Scrutiny Committee. The Chief Auditor is accountable to the Audit and Scrutiny Committee for:

- seeking approval annually of a Strategic and Annual Plan;
- providing quarterly progress reports of its work against the Annual Plan;
- providing an annual assessment on the adequacy of controls;
- providing an annual report summarising the work carried out during the year and containing an assurance statement on controls; and
- advising the Audit and Scrutiny Committee of whether audit resources are sufficient and appropriate to achieve the audit plan.

13.2 **Reporting to Management**

Audit findings, conclusions and recommendations arising from each audit will be communicated promptly to the relevant director(s) and the Chief Executive where appropriate. Where possible and appropriate, the key personnel involved during the audit will be given an opportunity to comment on the accuracy of the conclusions and recommendations arising from the audit prior to the issue of the report to management.

13.3 Audit reports will be submitted in final format to departmental directors. Sufficient time to respond to the report will be specified in the covering memo.

- 13.4 If a satisfactory response is not received within the specified timescale, reminders will be sent to the relevant director. If there is still no response then the matter will be brought to the attention of the Chief Executive and thereafter reported to the next Audit and Scrutiny Committee if still outstanding. The director may be required to attend the Audit and Scrutiny Committee and explain the reasons for not responding. Additionally, the Chief Auditor will bring to the attention of the Audit and Scrutiny Committee any response which is considered to be unsatisfactory or incomplete.

14 INTERNAL AUDIT ANNUAL REPORT AND OPINION

- 14.1 The PSIAS specify that the Chief Auditor must deliver an annual report and opinion that can be used by the organisation to inform its annual governance statement. This opinion is based on the outcomes of the audits included in the annual plan, progress with implementation of agreed management actions, the result of any other audit activities that have identified control gaps that are exposing the Council to risk, and the professional judgement of the Chief Auditor.
- 14.2 PSIAS specify that the internal audit annual opinion must:
- conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control; and
 - include a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

15 FRAUD AND CORRUPTION

- 15.1 Management is responsible for the prevention and detection of fraud or corruption. Internal audit will assist management in the discharge of this responsibility.
- 15.2 Audit procedures alone cannot guarantee that all fraud or corruption will be detected. Internal audit will however exercise an appropriate level of professional skepticism during audit field work and be alert to risks and exposures that could allow fraud or corruption to occur.
- 15.3 Discovery of any fraud or irregularity that affects the Council's affairs should be reported in accordance with the guidance specified within the Fraud, Bribery and Theft Investigation Procedures.
- 15.4 The investigation of any suspected fraud or bribery is normally carried out by the council's internal audit section who will follow the guidance contained within the Fraud, Bribery and Theft Investigation Procedures when conducting any investigation.

16 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

- 16.1 Internal audit is required to maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity. The Chief Auditor is responsible for periodically providing a self-assessment of the internal audit activity's conformance with the Standards. Additionally, an external assessment needs to be conducted at least every 5 years by a suitably qualified external assessor.
- 16.2 The chief auditor will communicate the findings of each internal and external assessment to the Audit and Scrutiny Committee as appropriate together with a plan for any improvement action that is considered necessary.