

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 30 November 2021

**BY:** Service Manager – Internal Audit

**SUBJECT:** Internal Audit Charter & Internal Audit Flexible Resourcing

---

## **1 PURPOSE**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require an Audit Charter to be in place in each local authority.
- 1.2 The PSIAS require the Internal Audit Charter to be reviewed periodically and presented to Senior Management and to the Audit and Governance Committee for approval.
- 1.3 East Lothian Council's Internal Audit Charter was approved by the Audit and Governance Committee in November 2020. The Charter has been reviewed and updated to reflect minor changes in operating procedures and revised job titles. The updated Internal Audit Charter is being presented to the Audit and Governance Committee for approval.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee approves the updated Internal Audit Charter.
- 2.2 That the Audit and Governance Committee notes the flexible resourcing approach taken by Internal Audit staff to meet the Assurance needs of the Council during 2020/21 and 2021/22.

## **3 BACKGROUND**

- 3.1 The Internal Audit Charter has been drawn up in line with PSIAS requirements and is a formal document that defines the Internal Audit activity's purpose, authority and responsibility. The Internal Audit Charter is attached as Appendix A.
- 3.2 The Internal Audit Charter establishes Internal Audit's position within the organisation, including the nature of the Service Manager – Internal Audit's

functional reporting relationship with the Audit and Governance Committee and defines the scope of Internal Audit's activities.

- 3.3 During the 2020/21 and 2021/22 financial years Internal Audit, in conjunction with the rest of East Lothian Council, have been operating under Business Continuity measures. No changes in the way the team has operated have impacted on Internal Audit independence as a result of these business continuity measures.
- 3.4 Risks to the Council have been changing over this period and as a result the Internal Audit Plan has been revised on a twice yearly basis to ensure that an opinion on the overall adequacy and effectiveness of the Council's framework of risk management, control and governance can continue to be provided.
- 3.5 In order to work effectively and efficiently with management regular discussions are held to ensure that whilst assurance work continues, impacts on business critical processes from this work are minimised. Flexible working in providing advice and assurance exercises have also been implemented to assist in utilising resources efficiently. Full co-operation in all assurance work continues to be provided at all levels of management in accordance with these work processes.

#### **4 POLICY IMPLICATIONS**

- 4.1 None

#### **5 INTEGRATED IMPACT ASSESSMENT**

- 5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

#### **6 RESOURCE IMPLICATIONS**

- 6.1 Financial - None
- 6.2 Personnel - None
- 6.3 Other - None

#### **7 BACKGROUND PAPERS**

- 7.1 None

<b>AUTHOR'S NAME</b>	Duncan Stainbank
<b>DESIGNATION</b>	Service Manager – Internal Audit
<b>CONTACT INFO</b>	dstainbank@eastlothian.gov.uk
<b>DATE</b>	19 November 2021

**EAST LOTHIAN COUNCIL  
INTERNAL AUDIT**



**INTERNAL AUDIT  
CHARTER**

## INTERNAL AUDIT CHARTER

### **1. Introduction**

- 1.1 The work of East Lothian Council's Internal Audit activity is governed by the Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013 and were revised from 1 April 2017. The PSIAS are mandatory for all internal auditors working in the UK public sector.
- 1.2 The Internal Audit Charter is a formal document that defines the Internal Audit activity's purpose, authority and responsibility. The Internal Audit Charter establishes Internal Audit's position within the Council, including the nature of the Service Manager-Internal Audit's functional reporting relationship with the Audit and Governance Committee and defines the scope of Internal Audit's activities.

### **2. Definitions**

- 2.1 The PSIAS comprise a definition of internal auditing, a Code of Ethics for internal auditors working in the public sector and the International Standards for the Professional Practice of Internal Auditing.
- 2.2 The PSIAS require that the Internal Audit Charter defines the terms "Board" and "Senior Management" in relation to the work of Internal Audit. For the purposes of Internal Audit work in East Lothian Council, the Board refers to the Audit and Governance Committee which has responsibility for overseeing the work of Internal Audit. Senior Management is defined as the Council Management Team (Chief Executive, Executive Directors and Heads of Service).
- 2.3 The PSIAS also refer to the 'Chief Audit Executive' which in East Lothian Council is the Service Manager-Internal Audit. The Service Manager-Internal Audit is responsible for the effective review of all aspects of risk management, control and governance processes, throughout the full range of the Council's activities.

### **3. Purpose**

- 3.1 Internal Audit's purpose is to provide an independent, objective assurance and consulting service designed to add value and improve the Council's operations. Internal Audit helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In carrying out its activities Internal Audit aims to contribute to:
  - building strong and effective risk awareness and control consciousness within East Lothian Council;
  - continuously improving the risk management, control and governance processes so they operate at optimum effectiveness and cost efficiency and reflect best practice.

## **4. Scope**

- 4.1 Internal Audit's scope of work extends to the entire control environment of Council Services. Internal Audit determines what areas within its scope should be included within the annual Internal Audit Plan by adopting an independent risk based approach, and through engagement with Senior Management.
- 4.2 Internal Audit provides assurance as to whether the Council's network of risk management, control and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:
- Achievement of the Council's strategic objectives.
  - Compliance with policies, standards, procedures and applicable laws and regulations.
  - Reliability and integrity of financial and operational information.
  - The safeguarding, verifying and accounting for assets.
  - Economic and efficient use of resources.
- 4.3 Internal Audit participates in the National Fraud Initiative (NFI) and is also responsible for carrying out ad-hoc investigations into potential fraud & irregularities or Bribery and corruption concerning the provision of Council services, providing advice as and when required in relation to control and compliance issues.

## **5. Authority**

- 5.1 The PSIAS require that the Internal Audit Charter establishes Internal Audit's rights of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as is considered necessary to fulfil its responsibilities. Internal Audit's rights of access to records, information and explanations are set out in Section 7, paragraphs 2(a) and 2(b) of The Local Authority Accounts (Scotland) Regulations 2014.

## **6. Responsibility**

- 6.1 Internal Audit is accountable for developing and delivering a programme of assurance aimed at validating the effective management of key business risks.
- 6.2 The annual Internal Audit Plan takes cognisance of the areas of greatest risk within the Council. The planning approach includes consideration of any risks or concerns identified by management.
- 6.3 The annual Internal Audit Plan is approved by the Audit and Governance Committee. The Audit Plan is reviewed to identify any amendments needed to reflect changing priorities and emerging risks.

- 6.4 Internal Audit is accountable for reporting its findings, conclusions and recommendations to the Audit and Governance Committee and to Senior Management. In addition, Internal Audit is responsible for ensuring timely follow-up on management actions.
- 6.5 Internal Audit assists as needed in the investigation of significant suspected fraudulent activities within the Council and notifies management and the Audit and Governance Committee of the results of any investigations.

## **7. Independence**

- 7.1 Internal Audit must be independent from management at all times in order to be effective in executing its work freely and objectively. In this regard:
- Internal Auditors will have no responsibility or authority over any operating activities reviewed;
  - Internal Audit is prohibited from performing management activities, including performing operational duties;
  - Internal Audit is authorised to allocate resources, set frequencies, select areas, determine audit scopes and apply tools and techniques, and to obtain the necessary assistance and specialised services within or outside the Council to accomplish its objectives;
  - Internal Audit has the right to be informed by management, on a timely basis, of any significant control failures identified by management.

## **8. Accountability**

- 8.1 Day to day management of the Internal Audit team will be performed by the Service Manager-Internal Audit. The Service Manager Internal-Audit reports administratively to the Executive Director of Resources and has unrestricted access to the Chief Executive, the Monitoring Officer and the Chair of the Audit and Governance Committee.
- 8.2 The Service Manager-Internal Audit shall be accountable to the Audit and Governance Committee for:
- providing at least annually an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the Council's framework of risk management, control and governance;
  - reporting significant issues relating to the processes for controlling the activities of the Council, including recommendations and status of implementation of improvements;
  - periodically providing information on the status and results of the annual audit plan and the sufficiency of the Internal Audit function's resources; and
  - co-ordination with other significant assurance functions.

## **9. Management Responsibilities**

- 9.1 An Internal Audit function can only be effective if it receives the full cooperation of management. By approving this Internal Audit Charter, the Audit and Governance Committee and the Chief Executive are mandating management to cooperate with Internal Audit in the delivery of the service by:
- providing Internal Audit with full support and cooperation, including complete access to all records, assets, personnel and premises relevant to the performance of their responsibilities at all levels of operations, without unreasonable delay, subject to all relevant legal obligations and restrictions;
  - responding to draft Internal Audit reports including provision of management responses to recommendations;
  - implementing agreed management actions in accordance with the agreed timescales and updating Internal Audit with progress made on management actions;
  - informing Internal Audit of proposed changes and developments in processes and systems and of newly identified risks.
- 9.2 Management is responsible for the effective identification of risk and the maintenance of adequate systems of controls. Management is responsible for corrective actions on reported weaknesses.
- 9.3 Managing the risk of fraud and corruption is the responsibility of management. Internal Audit will assist management in the effective discharge of this responsibility.
- 9.4 In accordance with the Council's Strategy for the Prevention and Detection of Fraud and Corruption, management will notify Internal Audit of all suspected or detected fraud, corruption or impropriety, to inform the annual audit opinion and the risk-based plan.

## **10. Advisory Work**

- 10.1 The Public Sector Internal Audit Standards (PSIAS) recognise that Internal Audit effort may sometimes be more usefully focused towards providing advice rather than assurance over core controls. Where appropriate, Internal Audit will act in a consultancy capacity by providing guidance and advice for strengthening the control environment within the Council, providing:
- the objectives of the consulting engagement address governance, risk management and control processes to the extent agreed upon with the Council;
  - the request has been approved by the Council Management Team;
  - Internal Audit is considered to have the right skills, experience and available resources;
  - Internal Audit's involvement will not constitute a conflict of interest in respect of maintaining an independent stance, and Internal Audit will not assume a management role in providing this advice.
- 10.2 When performing consulting services, Internal Audit staff must maintain objectivity and not take on management responsibility.

- 10.3 The Service Manager-Internal Audit is responsible for ensuring that all requests for consulting engagements are reviewed in accordance with the above criteria and for making the final decision.

## **11. Quality Assurance**

- 11.1 Public Sector Internal Audit Standards (PSIAS) require that the Audit function is subject to a Quality Assurance and Improvement Programme (QAIP) that must include both internal and external assessments.

### Internal assessments

- 11.2 On an annual basis, an internal review is undertaken to ensure that the Internal Audit function is fully compliant with the PSIAS. All Internal Audit engagements are subject to a thorough review of quality to ensure that the work meets the standards expected from all Internal Audit staff. For example the internal file quality reviews undertaken by the Service Manager Internal Audit cover the following:

- All work undertaken is in accordance with PSIAS.
- The work is planned and undertaken in accordance with risks associated with areas under review.
- Sampling is undertaken in accordance with an Internal Audit methodology.
- The conclusions are fully supported by the detailed work undertaken and appropriate audit evidence is held on file to support the conclusions reached.

### External assessments

- 11.3 An external quality assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Council. The Service Manager Internal Audit will discuss options for the external assessment with the Executive Director of Resources and with the Audit and Governance Committee.

## **12. Approval**

- 12.1 Final approval of the Internal Audit Charter resides with the Audit and Governance Committee.

**Updated: November 2021**