

**To: Audit, Scrutiny and Petitions Board**

**On: 19 September 2016**

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**Report by: Chief Auditor**

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**Heading: Internal Audit Charter**

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**1. Summary**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013. In April 2016, the standards were revised to include the Mission of Internal Audit and the Core Principles for the Professional Practice of Internal Auditing.
  - 1.2 This report presents the new Internal Audit Charter (Appendix 1) that has been developed to ensure compliance with the revised Public Sector Internal Audit Standards (PSIAS). This replaced the current Internal Audit Charter.
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**2. Recommendations**

- 2.1 Members are asked to approve the Internal Audit Charter.
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**3. Background**

- 3.1 The Internal Audit Charter is considered for a review on an annual basis.

- 3.2 The Charter is now being revised to take account of the revisions made to the PSIAS, to include the Mission of Internal Audit and the Core Principles for the Professional Practice of Internal Auditing.
- 3.3 The Mission of Internal Audit is defined in the PSIAS (2016) as “To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”
- 3.4 The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organisation to organisation, but failure to achieve any of the principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit’s mission. The Core Principles are defined as:
- Demonstrates integrity.
  - Demonstrates competence and due professional care.
  - Is objective and free from undue influence (independent).
  - Aligns with the strategies, objectives, and risks of the organisation.
  - Is appropriately positioned and adequately resourced.
  - Demonstrates quality and continuous improvement.
  - Communicates effectively.
  - Provides risk-based assurance.
  - Is insightful, proactive, and future-focused.
  - Promotes organisational improvement.
- 3.5 The current review identified that it would be beneficial to include a section detailing the arrangements for internal audit in the Council’s associate/other bodies, which are delivered under a service level agreement, and defining the terms ‘Board’ and ‘Senior Management’ for those bodies are required by the PSIAS.
- 3.6 The appointment of the Chief Auditor as the Chief Internal Auditor for the Renfrewshire Health and Social Care Integration Joint Board and recognition that Internal Audit may undertake work for other organisations on a commercial basis, where this is in the interests of the Council is also reflected.

- 3.7 The revised Internal Audit Charter does not represent material change from the previous Charter in respect of the purpose or principal activities of Internal Audit.
- 3.8 Furthermore, there is no change to the role of Internal Audit or how Internal Audit will discharge its role.

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## Implications of the Report

1. **Financial** - None
2. **HR & Organisational Development** - None
3. **Community Planning – Safer and Stronger** - effective internal audit is an important element of good corporate governance.
4. **Legal** - None
5. **Property/Assets** - None
6. **Information Technology** - None
7. **Equality & Human Rights**
  - (a) The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.
8. **Health & Safety** – None
9. **Procurement** - None
10. **Risk** - Conformance with the PSIAS mitigates the risk of the Internal Audit Service being ineffective.
11. **Privacy Impact** – None



# INTERNAL AUDIT CHARTER



## **INTRODUCTION:**

Internal Audit is an independent and objective assurance and consulting activity designed to add value and improve the operations of Renfrewshire Council. It assists Renfrewshire Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control, and governance processes.

## **MISSION:**

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

## **DEFINITION OF ROLES:**

The Public Sector Internal Audit Standards require that the Internal Audit Charter defines the terms 'board', 'senior management' and 'Chief Audit Executive' in relation to the work of Internal Audit. For the purposes of the Internal Audit work function at Renfrewshire Council:

- the 'board' refers to the Audit, Scrutiny and Petitions Board which has delegated responsibility for overseeing the work of Internal Audit;
- 'senior management' is defined as the Council's Corporate Management Team which oversees the work of Internal Audit in its capacity as the Audit Panel; and
- 'Chief Audit Executive' refers to the Chief Auditor.

## **PROFESSIONALISM:**

Renfrewshire Council's Internal Audit service will comply with the PSIAS which encompasses the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), including the *Definition of Internal Auditing*, the *Core Principles for the Professional Practice of Internal Audit*, the *Code of Ethics*, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes the principles of the fundamental requirements for the professional practice of internal auditing in the public sector and for evaluating the effectiveness of the internal audit activity's performance.

The internal audit service will adhere to Renfrewshire Council's relevant policies and procedures and the internal audit manual which sets out the internal audit activity's standard operating procedures.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies.

#### **AUTHORITY:**

The authority of Internal Audit is set out in the Council's Financial Regulations and Codes. Internal Audit will safeguard all information obtained in the carrying out of its duties and will only use it for the purposes of an audit, investigation, or consultancy work. Internal Audit has authorised full, free, and unrestricted access to any and all of Renfrewshire Council's records, physical properties, and personnel pertinent to carrying out any engagement. Internal Audit will make no disclosure of any information held unless this is *authorised* or there is a legal or professional requirement to do so. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Board.

#### **ORGANISATION:**

The Chief Auditor will report functionally to the Board and administratively (i.e. day to day operations) to the Director of Finance and Resources. The Chief Auditor will communicate and interact directly with the Board, including in Board meetings and between Board meetings as appropriate. The Chief Auditor may report direct to the Chief Executive, Board members or the Council regarding any matters of concern that could place the Council in a position where the risks it faces are unacceptable or the independence of Internal Audit is under threat.

#### **INDEPENDENCE AND OBJECTIVITY:**

Internal Audit is an independent review activity. In conducting its activities, Internal Audit activity will remain free from any undue influence or other pressure affecting its actions and reporting. This includes matters of audit selection, scope, procedures, frequency, timing, or report content.

Internal Audit is not a substitute for effective control exercised by management as part of their responsibilities. It is the responsibility of the Council's managers to ensure that the management of the areas under their control is adequate and effective and that their services have a sound system of internal control which facilitates the effective exercise of the organisation's functions and which includes arrangements for the management of risk.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Where the Chief Auditor has responsibility for operational activities the periodic review of these activities will be conducted by parties independent of the Internal Audit function.

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.

The Chief Auditor will confirm to the board, at least annually, the organisational independence of the internal audit activity.

**RESPONSIBILITY:**

The Council's Internal Audit Service adds value to the Council by providing objective and relevant assurance, and contributing to the effectiveness and efficiency of governance, risk management and control processes.

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:

- Independent review and appraisal of the control environment throughout the organisation.
- Providing assurance to management and the Board that the established systems ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or projects to ascertain whether results are consistent with established objectives and goals and whether the operations or projects are being carried out as planned.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Supporting the Council to improve its internal control, governance and risk management processes.
- Evaluating the extent to which risks have been identified and managed to achieve the Council's objectives.
- Working in partnership with external auditors and other review bodies to coordinate activities with internal audit to avoid duplication and seek to rely on the work of these other assurance providers where professional standards and the nature and quality of the work they have undertaken would make it appropriate to do so.
- Undertaking consulting and advisory services related to governance, risk management and control as appropriate for the organisation.

- Supporting the Chief Executive (Head of Paid Services), the Director of Finance and Resources (Chief Financial Officer) and the Head of Corporate Governance (Monitoring Officer) in the discharge of their statutory duties;
- Encouraging a culture of personal and corporate responsibility and accountability through the promotion of anti-fraud and corruption and ethical values.
- Having the right of access to examine the accounts and other financial records and data of external organisations as set out in the conditions of funding or other agreement.
- Investigating any suspicion of fraud, irregularity or corrupt practice in accordance with the Council's Defalcation procedures.

#### **INTERNAL AUDIT PLAN:**

The authority for the production and execution of the audit plan rests with the Chief Auditor. The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Board. At least annually, the Chief Auditor will submit to senior management and the Board an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as resource requirements for the next financial year.

The Chief Auditor will communicate the impact of any resource limitations and any significant deviation from the approved internal audit plan will be communicated to senior management and the Board through periodic performance reports.

#### **REPORTING AND MONITORING:**

A written report will be prepared and issued by the Chief Auditor or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to senior management and the Board.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within 3 weeks) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations.

#### **PERIODIC ASSESSMENT:**

The Chief Auditor will at least annually, report to senior management and the Board on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Annual reporting will also provide an annual audit opinion on the overall adequacy and effectiveness of the Council's internal control environment, and include details of any significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board.



In addition, the Chief Auditor will communicate to senior management and the Board on the internal audit activity's quality assurance and improvement programme, including results of internal assessments and external assessments conducted at least every five years.

#### **PROVISION OF SERVICES TO ASSOCIATE/OTHER BODIES:**

The Chief Auditor provides internal audit services to various associate bodies and the principles of this Audit Charter apply to those associate bodies by means of a service level agreement between the Council and the body:

<b>Associate Body</b>	<b>Defined 'Board'</b>	<b>Defined "Senior Management"</b>
Renfrewshire Valuation Joint Board	Joint Board	Assessor and Electoral Registration Officer
Clyde Muirshiel Park Authority	Joint Committee	Park Manager
Renfrewshire Leisure Ltd	Board of Directors	Chief Executive
Scotland Excel	Joint Committee	Director
Glasgow and Clyde Valley Strategic Development Planning Authority	Joint Committee	Strategic Development Plan Manager
North Strathclyde Community Justice Authority	North Strathclyde Community Justice Authority	Chief Officer

The Chief Auditor is the appointed internal auditor for the Renfrewshire Health and Social Care Integration Joint Board. Services are provided under the Internal Audit Charter for that Board.

The Chief Auditor may provide internal audit services to other organisations, on a commercial basis, if this is in the interests of Renfrewshire Council.

#### **APPROVAL**

The Internal Audit Charter will be approved by the Board and shall be subject to regular review by the Chief Auditor in consultation with senior management.

Effective date 19 September 2016