



Comhairle nan Eilean Siar
Internal Audit Charter
March 2024

COMHAIRLE NAN EILEAN SIAR
INTERNAL AUDIT CHARTER

Document Control

Approval Date	tbc
Implementation Date	1/4/2024
Policy number	
Policy Author(s) and Owner	Sandy Gomez
Approval Authority	Audit & Scrutiny Committee
Scheduled Review	Annually
Changes	None

CONTENTS

	Page
<u>INTRODUCTION</u>	4
<u>DEFINITION</u>	4
<u>ROLE</u>	4
<u>AUTHORITY</u>	5
<u>INDEPENDENCE/OBJECTIVITY</u>	5
<u>PROFESSIONALISM</u>	6
<u>QUALITY ASSURANCE AND INMPROVEMENT PROGRAMME</u>	8
<u>RESPONSIBILITIES</u>	9
<u>FRAUD, CORRUPTION & IRREGULARITY</u>	11
<u>RESOURCING & AUDIT OPINION</u>	12

INTRODUCTION

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 Comhairle nan Eilean Siar, the Board is the Audit & Scrutiny Committee.

DEFINITION

"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."

ROLE

As an independent assurance function within the Comhairle, the primary objective of Internal Audit is to review, appraise and report on the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources. In addition, Internal Audit aims to:-

- Support elected Members and officers of the Comhairle in the effective discharge of their responsibilities. In terms of the applicable Standards, the 'Board' shall mean the Audit & Scrutiny Committee and 'Senior Management' shall mean the Comhairle's Management Team;
- Specifically support the Director for Strategic Finance in discharging his duties as proper officer;
- To continue to support and promote the need for sound financial and operational systems and controls;
- Provide a quality advisory and investigative service which contributes to the aim of safeguarding the public pound;
- Maintain a level of independence and integrity which supports the proper delivery of the internal audit function; and
- To promote and encourage good governance throughout the Comhairle.

COMHAIRLE NAN EILEAN SIAR INTERNAL AUDIT CHARTER

The Comhairle adopted a set of agreed priorities with the Scottish Parliament under Local Outcomes and the Local outcome Improvement Plan. Internal Audit takes cognisance of these objectives and themes when planning and performing internal audit work, with each planned review within the Internal Audit strategic plan being overtly linked to the Comhairle's associated objectives. The terms of reference are periodically reviewed by the Chief Internal Auditor on a three year cycle as part of the strategic planning process. Any proposed changes are advised to the relevant Comhairle committee.

Responsibilities of the Board and Statutory Officers to Internal Audit

Whilst the general responsibilities of the Audit & Scrutiny Committee and Statutory Officers are outlined in the constitutional documents, those in particular to Internal Audit will include:

- the Audit Strategy and periodic Audit Plans, forming a view on how well they support the Head of Internal Audit's responsibility to provide an annual opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes.
- the results of Internal Audit work, and management response to issues raised by that work.
- the resourcing of Internal Audit.
- the Terms of Reference (or equivalent) for Internal Audit

The Statutory Officers will support and facilitate the appropriate discharge of Internal Audit sections authority, independence and access to all areas of the Comhairle's business.

AUTHORITY

The authority of Internal Audit is laid out in Financial Regulations 6 to 8. In practice, Internal Audit team members shall have authority, on production of identification, to:-

- Obtain entry at all reasonable times to any Comhairle premises or land;
- Have access to all systems, records, documents and correspondence relating to financial and other transactions of the Comhairle;
- Require and receive such explanations as are necessary concerning any matter under examination; and
- Require any employee of the Comhairle to produce cash, stores or any other Comhairle property under his / her control.

It is recognised that the Internal Audit remit will extend to the entire control environment of the Comhairle in terms of best practice.

INDEPENDENCE/OBJECTIVITY

Internal Audit will be sufficiently independent of the activities it audits to enable audit staff to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations. Internal Audit staff will have no operational responsibilities.

COMHAIRLE NAN EILEAN SIAR INTERNAL AUDIT CHARTER

Internal Audit shall report directly to the Director for Strategic Finance who has statutory responsibility as proper officer under Section 95 of the Local Government (Scotland) Act 1973 for promoting an effective system of internal financial control and proper financial administration of the Comhairle's affairs. In the absence of the Director for Strategic Finance will report to the Chief Executive.

Internal Audit will have direct access to the Chief Executive who carries the responsibility for the proper management of the Comhairle and for promoting the principles of good governance are reflected in sound management arrangements.

Internal Audit shall also have direct access to the Comhairle's Monitoring Officer and Audit Scotland where matters arise relating to the conduct of the Chief Executive in areas of his/her responsibility, legality and standards.

Where it is considered necessary to the proper discharge of Internal Audit functions, Internal Audit staff will have direct and unrestricted access to elected Members of the Comhairle and in particular those who serve on the Audit and Scrutiny Committee or other committees/sub committees charged with governance. For the purposes of the Public Sector Internal Audit Standards (PSIAS) the board will be to mean the Comhairle's Audit and Scrutiny Committee.

In relation to objectivity, local government auditors must abide by the Public Sector Internal Audit Standards, in particular, 1130 which states that situations where it only appears that impairment to objectivity or independence has occurred, appropriate parties have to be notified. Auditors must also consider the following:

- Not accepting any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or third parties (other than as may be allowed by the organisation's own policies).
- Not using information obtained during the course of the audit for personal gain.
- Disclosing all material facts known to them which, if not disclosed, could distort their reports of unlawful practices, subject to any confidentiality agreements, and
- Ensuring compliance with the Bribery Act 2010.

Auditors must only access records, personnel and properties as is required to allow proper discharge of their duties and not for personal gain.

Auditors must not undertake work in areas where they have had operational influence for a period of two years.

Auditors will not undertake non-audit activities as it may create a conflict of interest.

PROFESSIONALISM

Internal Audit will conduct work with due professional care.

Due professional care is the care and skill that prudent and competent Internal Audit staff will apply in performing their duties. These include:-

- Working with competence and diligence;
- Use of internal audit skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect; and
- Working in compliance with auditing standards approved by the Auditing Practices Board, as interpreted in the Public Sector Internal Audit Standards and associated Local Government Application Note.

Due professional care will be appropriate to the objectives, complexity, nature and materiality of the internal audit work being performed.

Skills and competencies based on qualification, experience and post will be defined under 'The Excellent Internal Auditor, a good practice guide to skills and competencies which will be used in addition to the Comhairle's Staff Development and Appraisal (SDA) procedure.

All professionally qualified staff are required as per the relevant professional institute to maintain their Continued Professional Development (CPD). Appropriate records are required to be kept as outlined by the relevant professional body.

The Mission of Internal Audit sits around the whole of the International Professional Practices framework (IPPF), both the mandatory elements and the recommended guidance, which we treat as mandatory in nature. In terms of mission and in order to enhance and protect organisational value, the approach is by providing risk-based and objective assurance, advice and insight in terms of output.

The Core Principles contained within the IPPF, 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.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

The Quality Assurance and Improvement Programme (QAIP) has been designed by the Institute of Internal Audit to assist in improving the performance of internal audit. The QAIP requires regular assessment both internal and external in relation to the conformance of the IPPF framework, PSIAS and Local Government Application Note.

Internally – The Comhairle’s Internal Audit function monitors performance as part of each audit allocation to determine or identify, where, applicable areas of development, learning and training. In addition, an annual self-assessment is undertaken against all of the applicable standards which are available to the Comhairle’s External Auditors.

Client questionnaires are issued after all planned reviews and these are used to gain understanding of how the review went and areas of improvement that can be made, where applicable, in future reviews.

A suite of performance indicators are monitored quarterly and form part of the Annual Report and Assurance Statement to the Comhairle.

Externally – The Comhairle’s Internal Audit section, like all public sector internal audit providers are required to have a five year independent external quality assurance assessment. This is undertaken by another local authority and a comprehensive report outlining the compliance or otherwise in relation to all of the relevant professional and international standards is reported to the Comhairle’s Audit and Scrutiny Committee, together with areas of development and/or improvement required.

In addition, the Comhairle’s appointed External Auditors are required to undertake an assessment of Internal Audit in terms of the fundamental compliance with the standards, review files and seek assurances and evidence as to the effectiveness of the service.

Both Internal and External processes and findings are reported to Committee and contained within the relevant Annual Report and Assurance Statement.

RESPONSIBILITIES

Scope

To enable Internal Audit to meet its objectives, it will undertake the following activities:-

- Review of controls within and surrounding existing systems and systems under development;
- Checking compliance with Comhairle Financial Regulations, Standing Orders etc;
- Transactions testing to confirm accuracy of processing;
- Computer audit;
- Contract audit;
- Investigation of suspected fraud, corruption and irregularities;
- Value for Money and Best Value studies;
- Governance reviews;
- Risk management arrangements reviews;
- Audit of statutory performance indicators; and
- Provision of advice to Members and staff of the Comhairle and to partner organisations.

Responsibilities & Assurance in relation to internal control – Scope and Limitations

Internal Audit cannot be a substitute for effective internal controls. It is the responsibility of the Comhairle's management to maintain adequate and effective financial, risk management and performance systems and to arrange for a system of internal controls and corporate governance. Internal Audit is responsible for evaluating these systems and associated internal controls. Internal Audit responsibilities and assurances are primarily for those charged with governance within the Comhairle only. The Comhairle's Internal Audit does not provide any external consultancy services, specifically, those which are defined as providing professional guidance, assurance or advice to out-side bodies or functions for a fee.

Reporting procedures

Internal Audit reports will be distributed as follows:-

- Responsible directors and responding officers in client departments will receive a copy of the Internal Audit report at the conclusion of the Internal Audit assignment;
- The Chief Executive, the Director for Strategic Finance, and the Comhairle's external auditor will receive copies of all internal audit reports, as will members of the Audit & Scrutiny Committee, unless it is considered appropriate for them to receive summaries thereof; and
- The Comhairle's Monitoring Officer will receive copies of internal audit reports where these contain issues of a legal nature.

COMHAIRLE NAN EILEAN SIAR INTERNAL AUDIT CHARTER

Operational reports will be issued in draft within two weeks of the completion of internal audit fieldwork, and management will be allowed a further two weeks to consider the draft reports and provide their responses to recommendations made therein. The final report will be issued within a further week of receipt of management responses.

The three year Strategic Audit Plan will be submitted to the Audit & Scrutiny Committee at the beginning of the first financial year to which it relates. The plan will be compiled following consultation with the Chief Executive, the Director for Strategic Finance and service directors.

The Annual Internal Audit Plan, which flows from the Strategic Audit Plan, will be submitted to the Audit & Scrutiny Committee at the beginning of the financial year. The purpose is to advise Members of the programme of audit work for the forthcoming financial year.

The annual audit report and quarterly progress reports showing the activity of Internal Audit and progress achieved against plan will be submitted to Audit & Scrutiny Committee Members. The annual report will include Internal Audit performance indicators and an opinion on the overall adequacy and effectiveness of the organisation's internal control environment. In the event of a serious or urgent matter requiring to be reported, the Chief Internal Auditor will make the necessary arrangements through the Chief Executive's department, where that is appropriate.

Relationships

Principles of good relationships

The Chief Internal Auditor should seek to co-ordinate internal audit plans and activities, as far as practicable, with line managers, other internal auditors, external audit, inspection bodies and other review bodies to achieve the most effective overall audit coverage and minimise duplication of effort.

Relationships with other internal auditors

Where Internal Audit need to work with the internal auditors of another organisation, a practice which will become increasingly likely with the advent of Joint Future, the roles and responsibilities of each party should be defined and agreed. A service level agreement (SLA) has been agreed between Highland Council for audit systems access and Glasgow City Council for computer audit services. All work undertaken on behalf of the Comhairle will be done so in compliance with professional standards currently in place.

Relationships with external auditors

The aim of the relationship with External Audit is to achieve mutual recognition and respect and to avoid duplication of work. External Audit will seek to place reliance on Internal Audit work, and to achieve this there is a need for regular meetings between representatives of the two parties to consult on audit plans, discuss matters of mutual interest, discuss common understanding of audit techniques and methods, and to seek opportunities for co-operation in the conduct of audit work.

External Audit will be provided with copies of all internal audit plans and finalised reports, and have right of access, on request, to all internal audit files.

Annual fraud and irregularity returns which require to be submitted to the external auditors at the end of each financial year will be completed by the Internal Audit team.

Internal Audit will aim to submit these returns to external audit by 30 April each year. The fraud returns which relate to Housing and Council Tax Benefit will not be the responsibility of Internal Audit. Instead external audit will liaise directly with the relevant sections for the provision of that information.

Relationships with other review bodies

The aim of such communication is to avoid duplication of work but also to assess what work has been undertaken and what has not, this will allow the Internal Auditor to determine what work needs to be undertaken. In terms of applicable standards for relying on work of other auditors/assessors (Standard 2050) the standard requires the approach taken to be set out and that the assurance framework must be taken into account in the plan. This will entail mapping of assurances provided by others and determination of whether reliance can be placed on their work or that the work will need to be undertaken by the auditor themselves.

FRAUD, CORRUPTION & IRREGULARITY

Managing the risk of fraud, corruption and irregularity is the responsibility of management. Internal Audit will assist management in effective discharge of this responsibility.

Internal Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud, corruption and irregularity will be detected. Internal Audit does not have responsibility for the prevention and detection of fraud, corruption or irregularity. Internal Audit staff will, however, be alert, in all their work, to risks and exposures that could result in fraud, corruption or irregularity.

Where instances of potential fraud or irregularity are drawn to the attention of Internal Audit, investigations will be undertaken, where appropriate, in accordance with the defined Internal Audit Fraud, Corruption and Irregularity Response Arrangements.

RESOURCING & AUDIT OPINION

The Chief Internal Auditor will undertake a risk based approach to assessing the organisations internal audit needs and applying staff resources available to determine the level of coverage that can be undertaken. The key focus will be on high, medium/high, and medium risk. The Chief Internal Auditor will inform the Comhairle's Audit and Scrutiny Committee if he/she believes that resource levels will impact on the provision of the annual audit opinion. The Internal Audit Strategic Plan will detail the process undertaken in more specific terms as required by the Public Sector Internal Audit Standards. Specific details of resource reconciliations can be seen within the Strategic Audit Plan. The Chief Internal Auditor will review annually the documented risk assessment undertaken and consult with all Directors to identify any material change to risk which may require additional or reprioritised internal audit input.

The Chief Internal Auditor must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. In addition, the Audit and Scrutiny Committee should ensure that the Internal Audit function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors.

The Comhairle's Internal Audit section is allocated resources on an annual basis as part of the budget setting process based on a finite resource.

This obligation will be discharged by the Chief Internal Auditor having discussions with the Director for Strategic Finance, Chair and Vice-Chair of the Comhairle's Audit and Scrutiny Committee in relation to annual resourcing in order to meet professional and organisational expectations. The Chief Internal Auditor must not be in a position where he/she is expected to provide an opinion to those charged with governance where there has been insufficient coverage or resource input. The Chief Internal Auditor can refuse to provide an opinion of the control environment operating within the Comhairle where he/she believes that there has been insufficient resources, audit coverage and assessment of controls in order to provide a professional opinion.

The minimum level of coverage has been set by the Comhairle's Audit and Scrutiny Committee as 80% of the original approved plan. This is the coverage required by the Committee and Chief Internal Auditor to gain the necessary assurance in relation to controls, risk and governance.