

Internal Audit Charter Report by the Chief Internal Auditor

1 Purpose of Report

This report provides the Audit Committee with the updated Internal Audit Charter for approval that defines the terms of reference for the Internal Audit function to carry out its role to enable the Chief Internal Auditor to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council, and for Midlothian Health and Social Care Integration Joint Board.

2 Background

- 2.1** The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is “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.”
- 2.2** The Midlothian Council Internal Audit function follows the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013 (amended 2017), along with the CIPFA Local Government Application Note for the United Kingdom. The PSIAS have been developed by the standard setters (CIPFA for local government) through the Internal Audit Standards Advisory Board (IASAB) and have been based on the Institute of Internal Auditors International Standards of Professional Practice.
- 2.3** In accordance with the PSIAS, the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Internal Auditor at Midlothian Council (Scottish Borders Council’s Chief Officer Audit & Risk shared post) must periodically review the Internal Audit Charter and present it to ‘senior management’ (Corporate Management Team) and the ‘board’ (Audit Committee) for approval.
- 2.4** The Internal Audit Charter as shown in Appendix 1 to this report: establishes the Internal Audit activity’s position within the organisation, including the nature of the Chief Audit Executive’s functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.

- 2.5** Within the PSIAS a Public Sector requirement states the Internal Audit Charter must also:
- define the terms ‘board’ and ‘senior management’ for the purposes of Internal Audit activity;
 - cover the arrangements for appropriate resourcing;
 - define the role of Internal Audit in any fraud-related work; and
 - include arrangements for avoiding conflicts of interest if Internal Audit undertakes non-audit activities.

3 Report Implications

The authority for Internal Audit to operate in Midlothian Council is contained in the Council’s Local Code of Corporate Governance, Standing Orders, and Financial Regulations. This Internal Audit Charter expands upon that framework.

The Terms of Reference i.e. Charter for the Internal Audit function was last presented to the Audit Committee for approval on 13 March 2018. The previous Charter has been updated to align with the updated Internal Audit Strategy, specifically within the section Audit Resources and Work Prioritisation.

The Internal Audit Charter should be considered alongside the Internal Audit Strategy and Plan 2020/21 that sets out the Chief Audit Executive’s strategy for discharging its role and providing the necessary annual assurance opinions. It also sets out the Council’s assurance framework within which Internal Audit operates.

3.1 Resource

Internal Audit must have sufficient staff and other resources to enable it to carry out the objectives of the Charter and to deliver a programme of independent and objective audit assurance work alongside other available sources of assurance to enable the Chief Internal Auditor to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council, and for Midlothian Health and Social Care Integration Joint Board.

3.2 Risk

The PSIAS require Internal Audit to evaluate the effectiveness of the Council’s Risk Management arrangements and contribute to improvements in the process. The work of Internal Audit (including its opinion on the control environment) shall contribute to the Council’s review of its corporate governance arrangements the outcome of which is published in the Annual Governance Statement.

At all times, Management’s responsibilities (led by the Corporate Management Team) include:

- Designing and maintaining proper risk management, governance and internal control processes and systems for which they have responsibility to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and

irregularities. These are not fixed but evolve as the Council changes.

- Checking that these governance arrangements and internal controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions. (The above are known as the first and second lines of defence.)
- Engaging with Internal Audit (the third line of defence) in a positive way to achieve shared goals for robust internal control and governance, best value and improvement, and ensuring that Internal Audit can properly fulfil its role.
- Considering and acting upon Internal Audit findings and recommendations, including implementation of audit recommendations within agreed timescales and updating Pentana performance system, or accepting responsibility for any resultant risk from not doing so.
- Seeking advice and consultancy support from Internal Audit on existing controls and on changes to and transformation of governance, processes and procedures.

3.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

3.4 Key Priorities within the Single Midlothian Plan

This report does not relate directly to the key priorities within the Single Midlothian Plan, though indirectly Internal Audit assists Management to fulfil their responsibilities to achieve agreed objectives.

3.5 Impact on Performance and Outcomes

Applying the framework of the PSIAS will give the Audit Committee assurance that the Internal Audit function is compliant with legislative requirements and current best practice.

3.6 Adopting a Preventative Approach

The PSIAS are applicable from 1 April 2013 (amended 2017) which means the Internal Audit Service has taken steps to be fully compliant.

3.7 Involving Communities and Other Stakeholders

There are no communities or other stakeholder issues with regard to this report. The Council's External Auditors, EY, have been consulted on the Internal Audit Charter.

3.8 Ensuring Equalities

There are no equalities issues with regard to this report. The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those in the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its objective assurance about risk management, internal control and governance

3.9 Supporting Sustainable Development

There are no sustainability issues with regard to this report.

3.10 IT Issues

There are no IT issues with regard to this report.

4 Summary

The Internal Audit Charter has been updated to reflect changes following a self-assessment. Approval of the Internal Audit Charter at Appendix 1 to this report will ensure that Internal Audit is tasked to carry out its role in accordance with best Corporate Governance practice.

5 Recommendations

The Audit Committee is invited to:

- note the changes outlined in this report;
- approve the revised Internal Audit Charter shown at Appendix 1; and
- note that the Internal Audit Charter will be reviewed annually.

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Background Papers:

Public Sector Internal Audit Standards (2017)