

## **INTERNAL AUDIT CHARTER**

### **INTRODUCTION**

The Public Sector Internal Audit Standards (PSIAS) requires that 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 *International Standards for the Professional Practice of Internal Auditing* (Standards) detailed in the PSIAS.

Midlothian Council has adopted from the PSIAS<sup>1</sup>: the definition of Internal Auditing “*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*”, the Mission Statement of Internal Audit “*To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight*” and the Core Principles.

### **OBJECTIVES OF INTERNAL AUDIT**

Internal Audit’s responsibility is to report to Midlothian Council on its assessment of the adequacy of the entire control environment, through the Corporate Management Team (‘senior management’) and the Audit Committee (the ‘board’ for the purposes of Internal Audit activity).

Internal Audit adds value to the organisation (and its stakeholders) by enhancing governance, risk management and control processes and objectively providing relevant assurance.

As part of Midlothian Council’s system of corporate governance, Internal Audit’s purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:

- In support of the Council’s vision, values and priorities.
- As a contribution to the Council’s corporate management of risk, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council’s objectives.
- As an aid to ensuring that the Council and its elected members, employees and contracted third parties are operating within the law and relevant regulations, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
- As a contribution towards ensuring that financial statements and other published performance information are accurate and reliable.

Midlothian Council’s Internal Audit function provides assurance services to the Midlothian Health and Social Care Integration Joint Board (MIJB) and will apply the same standards as defined in this Charter to any work undertaken for MIJB, with separate Internal Audit plans and reports presented to its ‘senior management’ (MIJB Chief Officer and MIJB Chief Finance Officer) and to the ‘board’ (MIJB Audit and Risk Committee).

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<sup>1</sup> Public Sector Internal Audit Standards (PSIAS) (2017)

## **POSITION OF INTERNAL AUDIT WITHIN MIDLOTHIAN COUNCIL**

In terms of the PSIAS, the status of Internal Audit should enable it to function effectively, with recognition of the independence of Internal Audit fundamental to its effectiveness. The Chief Audit Executive (CAE) should have “sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management of the organisation.”<sup>2</sup>

The CAE within Midlothian Council (the shared Chief Internal Auditor) has full access to those charged with governance, specifically the Elected Members and the Corporate Management Team. The latter includes the Council’s statutory officers: head of paid service (Chief Executive), s95 finance officer (Chief Officer Corporate Solutions), monitoring officer (Legal Services Manager) and chief social work officer (Head of Adult Health and Social Care). The CAE has free and unfettered access to the Chair of each organisation’s ‘board’ to discuss any matters the members or auditors believe should be raised privately.

In terms of accountability and independence to ensure conformance with PSIAS, the CAE reports functionally to the Midlothian Council Audit Committee. In this context functional reporting<sup>3</sup> means the Audit Committee will:

- Approve the Internal Audit Charter.
- Approve the risk-based Internal Audit Annual Plan.
- Ratify the Internal Audit budget and resource plan to ensure that Internal Audit is adequately resourced to meet assurance and other key responsibilities.
- Receive communications from the CAE on the Internal Audit activity’s performance relative to its plan and other matters.
- Ratify all decisions regarding the appointment or removal of the CAE.
- Provide feedback to contribute to the performance appraisal of the CAE.
- Make appropriate enquiries of Management and the CAE to determine whether there are inappropriate scope or resource limitations.

The CAE is line managed by the Chief Executive but retains responsibility for all operational audit activity and reports in their own name and retains final right of edit over all Internal Audit reports.

The reporting line is managed in a manner which: ensures the CAE is accorded open and direct communication with Management; and ensures the CAE and the Internal Audit function have an adequate and timely flow of information concerning the activities, plans and initiatives of the Council and IJB.

## **RIGHTS OF ACCESS**

The CAE and any member of the Internal Audit function authorised by them, relevant to the delivery of audit engagements for each of the organisations, has authority to:

- Have access at any reasonable times to all computer systems and records (paper/digital).
- Require and receive explanations concerning any matter under examination from personnel relevant to their roles including Elected Members / Board Members.
- Enter at all reasonable times and without notice any properties, provided that where such properties are leased to a third party the terms of the lease are observed.
- Require personnel to produce cash, stores, or other assets under their control.

Internal Audit safeguards all information obtained in the carrying out of its duties, only uses it for defined purposes and makes no disclosure of any information held, unless this is authorised or there is a legal or professional requirement to do so.

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<sup>2</sup> Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017)

<sup>3</sup> Chartered Institute of Internal Auditors (CIIA) – International Standards for Professional Practice of Internal Auditing

## **SCOPE OF INTERNAL AUDIT ACTIVITY**

For each organisation Internal Audit shall systematically review, appraise, make appropriate recommendations for improvement, and report upon:

- the governance arrangements and processes;
- the design, implementation and effectiveness of ethics-related objectives, programmes and activities;
- the information technology governance in support of strategies and objectives;
- the systems and processes in place to ensure effective performance management and accountability;
- the effectiveness and appropriateness of controls and other arrangements put in place to manage risk;
- the potential for the occurrence of fraud and how fraud risk is managed;
- the completeness, reliability, integrity and timeliness of information, both financial and operational;
- the systems and processes established to ensure compliance with policies, plans, procedures, laws, and regulations, whether established internally or externally, and that employees' actions are in compliance;
- the action(s) taken to address significant legislative or regulatory issues;
- the effectiveness of arrangements for safeguarding assets and interests;
- the economy, efficiency and effectiveness with which resources are deployed;
- the effectiveness and efficiency of operations and programmes; and
- the extent to which operations are being carried out as planned and strategic objectives and goals are met.

Internal Audit's work covers:

- all activities, systems, processes, controls, policies, and protocols that are currently existing or under development;
- all records, personnel and properties; and
- all services and other activities for which each organisation is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

## **AUDIT RESOURCES AND WORK PRIORITISATION**

The CAE ensures that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Appropriate refers to the mix of qualifications, knowledge, skills and other competencies needed to perform the plan such as compliance with the Code of Ethics set out in the PSIAS and with the Nolan principles established in the Seven Principles of Public Life. This is of particular importance and relevance for the profession of Internal Audit, founded as it is on the trust placed in its objective assurance about risk management, internal control and governance. The CAE holds a professional qualification (BA (Hons) ACMA CGMA) and is suitably experienced. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

The Internal Audit Strategy, as approved by the Midlothian Council Audit Committee, outlines the strategic direction for how Internal Audit will achieve its objectives in conformance with PSIAS. It guides the Internal Audit function in delivering high quality internal audit services to Midlothian Council and the MIJB.

The Midlothian Council Internal Audit Annual Plan, as approved by the Audit Committee, is the main determinant of the relative priority to be placed on each part of the work of Internal Audit, with an Internal Audit Annual Plan specific to the MIJB being approved and monitored by its 'senior management' and 'board' (MIJB Audit and Risk Committee). The Internal Audit planning

process, to determine the priorities of the Internal Audit activity consistent with the organisation's goals, includes consideration of the organisation's priorities, policies, strategies, plans, objectives, risks and mitigating controls, and the internal and external assurances provided. The CAE determines the actual deployment of available resources covering the range and breadth of audit areas which are integral to the assurance process across the activities of Midlothian Council and MIJB in order to provide the statutory annual Internal Audit opinion to each organisation's 'senior management' and 'board'. This plan also requires to be sufficiently flexible to reflect the changing risks and priorities of each organisation.

The Plan has within it the provision of resources as Contingency to respond to specific control issues highlighted during the year and covering other unforeseen variations in the level of resources available to Internal Audit, such as staff vacancies.

The Plan has within it the provision of resources for Internal Audit 'critical friend' Consultancy that are valued by Management to support them in delivering innovation, change and transformation. Requests are considered and approved by the CAE subject to any consultancy activity being deliverable within the boundaries of the role of Internal Audit and the resources available.

In the event that there is a need for a greater audit work to provide the statutory audit opinions than there are resources available, the CAE will identify the shortfall in the Plan and initially advise the Chief Executive followed by the Audit Committee. It will be for the Audit Committee to decide whether to accept the risks associated with the non-delivery of such audit work or to recommend to the Council that it requires Management to identify additional resources.

## **NON-AUDIT ACTIVITIES**

The Internal Audit service preserves its independence and objectivity by: ensuring that staff are free from any conflicts of interest when undertaking assurance audits by following the requirements of relevant professional bodies and HR policies; and providing clarity on duties undertaken during audit consultancy engagements to ensure these do not impact on assurance audits and do not impair its independence and objectivity.

## **APPROVAL**

The Internal Audit Charter was reported to and approved by the Midlothian Council Audit Committee at its meeting on *09 March 2021* and shall be subject to regular review by the CAE and the Audit Committee.