
MIDLOTHIAN COUNCIL – 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 the definition of Internal Auditing as given in the PSIAS:

*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.*¹

PURPOSE

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 reporting to 'senior management' (MIJB Chief Officer and MIJB Chief Financial Officer) and to the 'board' (MIJB Audit and Risk Committee).

¹ Public Sector Internal Audit Standards (PSIAS) (2017)

POSITION OF INTERNAL AUDIT WITHIN MIDLOTHIAN COUNCIL AND REPORTING LINES

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.”²

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 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 Audit Committee. In this context functional reporting³ 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 will be managed in a manner which: ensures the CAE is accorded open and direct communication with Management; 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

Those in Internal Audit function, for the purpose of its audit work, have full, free and unrestricted access at any reasonable time to all the records and other documentation (electronic and manual), personnel, Elected Members / Board Members, premises, assets, and operations of the Council and the IJB. It also has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. All employees, including senior management, are required to assist the Internal Audit activity in fulfilling its roles and responsibilities.

Internal Audit has permission to be provided with a separate log-in to any computer system within the Council and have full access to any system, personal computer or other device in the ownership of the Council. Internal Audit can require any employee of the Council to produce cash, stores, or any other Council property under the employee's control.

² Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017)

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

Internal Audit will safeguard all information obtained in the carrying out of its duties and will only use it for the purposes of an assurance audit, investigation, or audit consultancy work. 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.

SCOPE OF INTERNAL AUDIT ACTIVITY

Internal Audit services are provided to the Council and the IJB. For each Organisation Internal Audit shall review, appraise, make appropriate recommendations for improvement, and report upon:

- the Organisation's governance arrangements and processes;
- the design, implementation and effectiveness of the Organisation's ethics-related objectives, programmes and activities;
- the information technology governance of the Organisation in support of the Organisation's strategies and objectives;
- the systems and processes in place to ensure effective organisational 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 the Organisation manages fraud risk;
- 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 by the Organisation 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 the Organisation's 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 Organisation activities, systems, processes, controls, policies, and protocols;
- all Organisation records, personnel and properties; and
- all services and other activities for which the Organisation is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

AUDIT RESOURCES AND WORK PRIORITISATION

Work is directed according to the assessed level of risk, and the judgement of the Chief Audit Executive, with direction from the Organisation's 'board' (Midlothian Council Audit Committee; MIJB Audit and Risk Committee). The risk-based Internal Audit Annual Plan agreed by the 'board' will be the main determinant of the relative priority to be placed on each Internal Audit assignment. The risk-based plan will explain how Internal Audit's resource requirements have been assessed. The Chief Audit Executive will determine the actual deployment of available resources based on the risk assessment described above.

This plan also requires to be sufficiently flexible to reflect the changing risks and priorities of each Organisation. The plan will have within it the provision of resources to address unplanned work. Contingency work will be directed towards responding to specific control issues highlighted by Managers during the year and covering other unforeseen variations in the level of resources

available to Internal Audit, such as staff vacancies. Internal Audit might undertake non-assurance, Consultancy work at the request of 'senior management' or the 'board'. Provided that the independence of the service is not compromised, the request does not impact on core assurance work, sufficient resource and skills are available, and there is the potential to improve management of risks, add value and improve the Organisation's operations, then these requests will be considered for acceptance by the Chief Audit Executive.

The Chief Audit Executive will ensure that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. 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.

In the event that the risk assessment identifies a need for a greater degree of Internal Audit work than there are resources available, the Chief Audit Executive will identify the shortfall in the Internal Audit Annual Plan and initially advise the Chief Executive. Where the Chief Audit Executive believes that the level of agreed resources will impact adversely on the provision of the annual Internal Audit opinion, the consequences will be brought to the attention of the Audit Committee. It shall be for the Audit Committee and the Chief Executive 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 the Chief Executive to identify additional resources.

NON-AUDIT ACTIVITIES

The Internal Audit service will preserve its independence and objectivity by ensuring that all staff are free from any conflicts of interest and undertaking of non-audit duties does not impair independence and objectivity e.g. will refrain from auditing within a year specific operations for which they were previously responsible; will make it clear what duties are being fulfilled on Consultancy engagements.

APPROVAL

The Internal Audit Charter was reported to and approved by the Midlothian Audit Committee at its meeting on *13 March 2018* and shall be subject to regular review by the Chief Executive, the Chief Audit Executive and the Audit Committee.