

Internal Audit Charter

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is invited to:

- a) Note the changes outlined in this report;
- b) Approve the revised Internal Audit Charter shown at Appendix 1; and
- c) Note that the Internal Audit Charter will be reviewed annually.

2 Purpose of Report/Executive Summary

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 Audit Executive 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.

In accordance with the Public Sector Internal Audit Standards (PSIAS) (2017), 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 Internal Audit Charter has been updated in response to enhancements highlighted during the annual self-assessment against the PSIAS, and is shown in Appendix 1.

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3 Background

- 3.1** 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.”
- 3.2** 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.
- 3.3** 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 Audit Executive 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.
- 3.4** 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.

4 Internal Audit Charter

- 4.1** 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.
- 4.2** 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.
- 4.3** The Internal Audit Charter, which was previously approved by the Audit Committee on 10 March 2020, has been updated in response to enhancements highlighted during the annual self-assessment against the PSIAS. The following explicit references have been added to ensure full conformance with PSIAS:

- The Mission Statement of Internal Audit and the Core Principles within the section 'Introduction';
- The Council's statutory officers within the section 'Position of Internal Audit within Midlothian Council';
- Explicit references on Internal Audit compliance with the Seven Principles of Public Life, the professional qualifications and competences of the Chief Audit Executive, the aims of the Internal Audit Strategy, and the risk-based Internal Audit planning process within the section 'Audit Resources and Work Prioritisation';
- Explicit references to ensure Internal Audit independence and objectivity is not impaired within the section 'Non-Audit Activities'

4.4 The Internal Audit Charter should be considered alongside the Internal Audit Strategy and Plan 2021/22 that sets out the Chief Audit Executive's strategy for discharging its role and providing the necessary annual assurance opinions. The Strategy also sets out the Council's assurance framework within which Internal Audit operates.

5 Report Implications (Resource, Digital, Risk and Equalities)

5.1 Resource

The Local Authority Accounts (Scotland) Regulations 2014 that came into force on 10 October 2014 require a local authority to operate a professional and objective internal auditing service.

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 Audit Executive to prepare annual opinions on the adequacy of the overall control environment for Midlothian Council and the MIJB.

5.2 Digital

There are no digital implications arising from this report.

5.3 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.)
- Engaging with Internal Audit (the third line) 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.

5.4 Ensuring Equalities

This report does not relate to a new or revised policy, service or budget change, which affects people (the public or staff), so an Integrated Impact Assessment (IIA) is not an applicable consideration.

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those within the Internal Audit function with the Code of Ethics set out in the PSIAS. This is of particular importance and relevance for the profession of Internal Audit founded as it is on trust placed in its independent and objective assurance about risk management, internal control and governance.

5.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan to which Midlothian Council and its Community Planning Partners have made a commitment (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change), good governance is important to enable Midlothian Council to deliver its key priorities in support of achieving the Council's objectives.

A.2 Key Drivers for Change

Key drivers addressed in this report:

- ☒ Holistic Working
- ☒ Hub and Spoke
- ☒ Modern
- ☒ Sustainable
- ☒ Transformational
- ☒ Preventative
- ☒ Asset-based
- ☒ Continuous Improvement
- ☒ One size fits one
- ☐ None of the above

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's Internal Audit service provision to assist the Council in achieving its objectives.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- ☒ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☒ Efficient and Modern
- ☒ Innovative and Ambitious

A.4 Delivering Best Value

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."

Internal Audit is a key element of good governance which is important to enable Midlothian Council to achieve its objectives.

Recommendations made by Internal Audit underpin the Council's own continuous improvement arrangements to enhance its effectiveness, thus supporting the delivery of the Council's best value duties.

A.5 Involving Communities and Other Stakeholders

The Chief Audit Executive is accountable to the Audit Committee which, in fulfilling its governance role, acts as a bridge between the Council and other stakeholders.

This report has been presented to the Corporate Management Team on 24 February 2021 to outline the key role of Internal Audit.

A.6 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.

A.7 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.

A.8 Supporting Sustainable Development

This report does not relate directly to supporting sustainable development. Internal Audit is a key element of good governance which is important to enable Midlothian Council to achieve its objectives including sustainable outcomes.