

Report

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Report to:	Risk and Audit Scrutiny Forum
Date of Meeting:	18 June 2013
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Internal Audit Charter
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Present a draft Audit Charter to the Risk and Audit Scrutiny Forum

2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):-

- (1) that the draft Audit Charter is noted

3. Background

- 3.1. In November 2012, an action plan was presented to the Risk and Audit Scrutiny Forum detailing actions that were required to be delivered to address gaps in compliance with CIPFA's Internal Audit Code of Practice for Local Authorities and CIPFA's best practice guidance in relation to audit committees. This action plan also addressed findings from a review by the Council's External Auditor (PriceWaterhouseCoopers) in 2011/2012 when they reviewed the Service against the Code of Practice and the Council's Internal Audit Manual.
- 3.2. Seventeen actions were included within this action plan, two of which related to the preparation of formal terms of reference for Internal Audit and an Audit Charter by 31 March 2013. Much of the required content of these two documents was already incorporated within the existing Internal Audit Manual but neither were stand-alone documents as required by the Code and best practice.
- 3.3. A new Code of Practice, known as the Public Sector Internal Audit Standards, became effective from 1 April 2013. The proposed content of an audit charter is changing as a result of these new Audit Standards. One key change required by the new Audit Standards is the amalgamation of the terms of reference and audit charter into a single document and this is reflected in the Audit Charter that is attached at Appendix 1.
- 3.4. Internal Audit will require to be compliant with these new Audit Standards for 2013/2014. An annual self-assessment will be completed in March 2014 although an interim exercise will be undertaken during the financial year to identify action that needs to be taken in advance to ensure an acceptable level of compliance with the new Audit Standards for the full financial year.

4. Internal Audit Charter (including Terms of Reference)

- 4.1. A draft Audit Charter has been prepared and is attached at Appendix 1. This incorporates all of the elements of a charter required by the old Code expanded to

include further content that will be required under the new Audit Standards in relation to defining the Council's 'board' (the Risk and Audit Scrutiny Forum) and 'senior management' (the Corporate Management Team), detailing resourcing arrangements, explaining Internal Audit's role in fraud work and clarifying arrangements to avoid conflicts of interest over non-audit work.

4.2. Further guidance has recently been issued on the application of the new Audit Standards and this will be reviewed as part of the interim exercise to assess compliance. The review will identify any areas of the Audit Charter that require to be refined and although no material changes to the draft Charter are anticipated, if amendments are required, these will be presented to the Forum.

4.3. The Forum is asked to note the content of the attached Audit Charter.

5. Financial implications

5.1. There are no financial implications.

6. Other implications

6.1. There are no implications for risk or sustainability in terms of the information contained in this report.

7. Equality impact assessments and consultation arrangements

7.1. There is no requirement to carry out an impact assessment in terms of the information contained within this report.

7.2. There is no requirement for consultation in terms of the information contained in this report.

Paul Manning

Executive Director (Finance and Corporate Resources)

22 May 2013

Link(s) to Council Values/Objectives

♦ Objective – Governance and Accountability

Previous References

♦ Compliance with CIPFA Code of Practice and best practice guidance for audit committees – RASF 13 November 2012

List of Background Papers

- ◆ CIPFA Code of Practice for Internal Audit for Local Authorities
- ◆ Audit Committee Principles in Local Authorities in Scotland – CIPFA (guidance note)
- ◆ Public Sector Internal Audit Standards (effective 1 April 2013)

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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South Lanarkshire Council Internal Audit Charter

Purpose

Internal Audit is an in-house, independent assurance function that provides an objective opinion and consultative guidance to South Lanarkshire Council and external clients on how well risks are controlled within their operations.

Internal Audit provides managers and elected members with assurance on how well processes and procedures in place are controlling the associated risks and recommends actions for improvements to ensure controls are effectively managed.

This complies with the definition of Internal Audit included within the Public Sector Internal Audit Standards:

“Internal Audit 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.”

Compliance with the Public Sector Internal Audit Standards is mandatory from 1 April 2013.

The Internal Audit service reports to the Executive Committee through the Risk and Audit Scrutiny Forum (RASf). This Forum serves as the Audit Committee for SLC with powers and responsibilities as set out in the document entitled “terms of reference for the Council, Committees and Associated Forums” The Forum is made up of nine members of the Council. Membership changes with each new Council to ensure political balance and the Forum is chaired by a member of the opposition party.

An Annual Statement of Assurance is provided to this Forum and elected members by the Audit Manager, to report on the effectiveness of the control environment and governance arrangements in place. Assurance is based on the professional practices outlined within Internal Audit’s Audit Manual.

Audit services are recognised in SLC’s Financial Regulations, Standing Orders and Scheme of Delegation (all of which are available on the intranet) as well as in the Anti-Fraud and Corruption Strategy.

For internal audit work delivered to external bodies, authority is provided by the Convention of Scottish Local Authorities (CoSLA) and the Accounts Commission’s ‘Code of Guidance on Following the Public Pound’ as well as Service Level Statements agreed with clients.

As well as professional standards Internal Audit will be bound by SLC local standards including the Employee Code of Conduct and the Code of Corporate Governance.

Relationship with the Risk and Audit Scrutiny Forum

The Head of Internal Audit and the Audit Manager should seek to maintain sound working relationships with appropriate elected members and ensure that good channels of communication are maintained. Within South Lanarkshire Council, the Audit Manager is considered to be the Chief Internal Auditor. The Chair of the RASf and the Audit Manager may, from time to time, meet on a one to one basis. Lines of communication between the Chairs of Committees and the Audit Manager will be open at all times. Internal Audit report all findings from concluded investigations via progress reports to the Risk and Audit Scrutiny Forum.

All elected members are free to raise concerns directly with the Audit Manager and input to the audit plan but these will be assessed in terms of risk prior to any audit work being undertaken.

Enquiries from elected members will follow the Council's protocols and guidance.

Objective

Internal Audit's objectives are to:

- improve internal control through provision of advice and guidance on preventative measures and good governance
- safeguard public expenditure and ensure control over Council capital, revenue and project expenditure and minimise loss through a programme of routine and contract audits
- promote compliance with all corporate standards and frameworks, ensure that management information is produced accurately and safeguard the Council's computer and on-line transactions with particular emphasis on security, efficiency and sustainable service delivery
- deliver objective assurance over controls within operational and financial systems and governance arrangements
- contribute to efficiency by identifying opportunities and leading the management of the fraud risk
- promote risk awareness and plan risk based audit work within available resources
- meet agreed targets directing all efforts towards sound performance in all areas

In delivering the above objectives, Council values and Performance and Development requirements will be adhered to.

Role and Scope of Work

To provide the assurance of controls in place within processes and procedures, Internal Audit work will:

- independently review and appraise all systems of financial and operational control in terms of their adequacy and application;
- ascertain the extent of compliance with financial and operational procedures, policies, regulations and legislation and their impact on operations;
- advise on control implications for new and modified IT systems;
- provide advice and guidance and contribute to working groups and ad-hoc strategic exercises;
- provide consultancy services on a secondment or group representation basis, provided this does not compromise independence and that a sufficient period elapses before auditors formally review those services where consultancy has been provided (usually one year);
- perform periodic governance checks;
- provide written assurance in selected areas as well as an overall opinion at least once per annum;
- recommend improvements in control, performance and productivity in achieving corporate objectives;
- follow-up the extent to which earlier recommendations have been implemented;
- work in partnership with the external auditors;
- detect, prevent and investigate fraud and crime.

Internal Audit undertakes investigative work in respect of potential fraud, irregularity and serious breaches of governance. It also monitors devolved responsibility for investigation by Resources. An exception to this is Housing and Council Tax Benefit fraud and irregularity, which is investigated by a dedicated fraud team within the Benefits service. An overview of this process is, however, reported on periodically by Internal Audit.

Internal audit testing may go beyond the records and adopt a more direct approach, including interviews, fact finding and on site surveys.

The existence of Internal Audit does not diminish the responsibility of management to exercise sound systems of internal control. It is clearly and solely a management responsibility to ensure that activities are conducted in a secure, efficient and well-ordered manner and that finances are safeguarded and used to maximum effect. This includes identifying and managing risks including fraud.

Internal Audit charges a fee for work performed for external clients, subject to agreed Service Level Statements. In addition, Internal Audit will undertake work relating to external bodies funded by the Council or partners, as authorised by the Following the Public Pound guidance.

Internal Audit may work jointly with neighbouring authorities, Scottish Government departments and external auditors on a variety of projects, aimed at improving the control and/or efficiency environment of public sector bodies.

Independence

Internal Audit is located within Audit and Improvement Services, under the direction of the Proper Officer, the Executive Director of Finance and Corporate Resources.

The establishment structure will comprise qualified and technician posts with a mix of professional specialisms. Structural reviews may take place from time to time and regular resource monitoring is reported to the Risk and Audit Scrutiny Forum. Any reduction in resources which might jeopardise the delivery of assurance will be immediately reported to the Director of Finance and Corporate Resources in the first instance.

As far as is practicable, Internal Audit should not participate in the day-to-day operation of any internal systems of financial or operational control.

Plans will be formed to reflect organisational audit needs but within available resources.

Upon request from the Executive Director of Finance and Corporate Resources, appropriate specialists from other departments should be made available to take part in any audit requiring specialist knowledge.

Within SLC, the Employee Code of Conduct provides guidance on the type and nature of interests that should be declared (including paid employment outside the Council and personal interests in contracts). Auditors must declare their interests in accordance with the Code of Conduct and with regard to the audit principle of independence, and notify the Audit Manager of any conflicts of interest which may arise. This formal declaration is renewed on an annual basis as part of the performance development review process but can be revisited should any conflicts arise.

Auditors will not be assigned to review or be involved in any activity where they have previously had operational or other involvement, usually within a period of one year. This includes instances where Internal Audit employees have been consulted during system, policy or procedural developments.

Access

Internal Auditors have authorisation from the Council to examine all council records, IT systems, cash, stores and other property, to obtain explanations and to enter Council property or land.

Access is unrestricted and shall be granted on demand and not necessarily be subject to prior notice.

Reporting

All planned audit assignments will formally be reported and every assignment will be closed after review by audit management. All Internal Audit reports will be submitted to the Head of Audit and Improvement Service, and to recipients within the Resource being audited, including the Executive Director, Head of Service, Head of Support Services and the auditee. Circulation to the Chair of the Resource Committee is the responsibility of the Executive Director. Copies of reports relating to planned assignments will also be forwarded to external auditors.

Best practice dictates that the Head of Internal Audit must report to those charged with governance. In SLC this means that the Audit Manager reports to the Corporate Management Team (CMT), which is made up of Executive Directors covering all Council Resources. The CMT endorses, as a minimum the Internal Audit Plan and the Internal Audit Annual Report, which provides the opinion on the Council's internal control environment for both financial and operational matters and its overall governance arrangements.

Internal Audit also reports plans, annual assurance and all findings to the RASF who will in turn recommend further reporting to the Executive Committee. For external clients, reports and opinions will also be offered to audit committees, where these exist, or to client Boards and senior management teams.

Escalation

The Audit Manager has direct access to the Executive Director Finance and Corporate Resources (Proper Officer), reports through the Head of Audit and Improvement as the line manager and may meet with these officers on a regular one to one basis.

These relationships will be the escalation route for issues arising within Internal Audit. In addition, general management duties will be delegated from the Executive Director of Finance and Corporate to the Audit Manager either directly or through the Head of Service and will cover audit matters as well as general management duties, including participation in the Audit and Improvement Service Management Team.

The Audit Manager will plan for regular formal consultations with Heads of Service and Executive Directors, especially when preparing the formal audit plan. Feedback on performance and value of work undertaken will be sought. Heads of Service will be copied on every report affecting their area of responsibility. Effective relationships will be maintained by both parties and confidentiality of information will be protected, unless this would prevent the delivery of audit assurance. Timing of work is subject to consultation but this will not preclude unannounced visits when necessary or requested by Executive Officers or Members.

Managers are expected to provide requested information within a reasonable timescale and earlier than the equivalent timescale for Freedom of Information (FOI) Requests. Managers are expected to respond to assignment feedback requests, usually within seven days and to draft reports within 14 days.

Auditors will use escalation processes so that slippage can be dealt with swiftly within the constraints of local service delivery.

Responsibilities

In delivering assurance, Internal Audit adopts a predominantly systems-based approach to audit. In discharge of this duty, the Audit Manager will:

- prepare an annual plan for formal agreement
- deliver a range of audit assignments, resulting in reports for management. Occasionally, letters or memos, rather than full reports will be issued. This usually occurs where few concerns are raised during the audit or where work is of a rolling nature, for example spot cash counts
- make recommendations for improvements
- provide Committee reports and other briefings to provide advice or raise awareness of performance or risk issues
- ensure a system of close supervision of audit work, and maintain a review of audit files through the supervisory structure
- maintain a skill level within the section specifically for the investigation of fraud
- provide an annual opinion within a full annual audit assurance statement, for agreement with the Chief Executive and Executive Director of Finance and Corporate Resources and onward presentation to the Executive Committee.