



INTERNAL AUDIT CHARTER

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1. INTRODUCTION

1.1 This Charter identifies the role and objectives, authority, scope, responsibility, resources and reporting function of Internal Audit. The main determinant of the effectiveness of the Internal Audit function within the Council is that it is seen to be independent. To ensure this, Internal Audit will operate within a framework that allows:

- Unrestricted access to senior management and elected members;
- Reporting in its own name; and
- Segregation from line operations.

1.2 In terms of the Public Sector Internal Audit Standards (PSIAS) effective from 1 April 2013, *“the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter”*.

1.3 The authority for Internal Audit to operate in West Dunbartonshire Council is contained in the Council’s Financial Regulations. This Internal Audit Charter expands upon that framework by defining the detailed arrangements and sets out the Audit and Risk Manager’s (hereinafter in this document referred to as the Chief Internal Auditor) strategy for discharging his role and providing the necessary annual assurance opinions.

1.4 The PSIAS defines Internal Auditing as follows:

“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. ROLE AND OBJECTIVES OF INTERNAL AUDIT

- 2.1** As an independent appraisal function within the Council, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources and the management of risk. In addition, the other objectives of the function are to:
- Support the Head of Finance and Resources to discharge his duties as Proper Officer (Section 95, Local Government Scotland Act 1973);
 - Contribute to and support the Finance and Resources Service's objective of ensuring the provision of, and promoting the need for, sound financial systems;
 - Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets; and
 - Conduct special assignment and investigations into any matter or activity affecting the probity, interest and operating efficiency of the Council.
- 2.2** Internal Audit will have regard to the possibility of malpractice, fraud and other illegal acts, and will seek to identify serious defects in the internal control system which may permit such irregularities. The Council's Business Irregularity Procedures will be used to deal with any irregularities identified.

3. AUTHORITY OF INTERNAL AUDIT

- 3.1** All Internal Audit activity is carried out in accordance with the Council's Financial Regulations to the effect that a continuous internal audit, under the independent control and direction of the Head of Finance and Resources, shall be undertaken (per Financial Regulations, paragraph I1).
- 3.2** In accordance with paragraph I2 of the Financial Regulations, the Head of Finance and Resources (Section 95 Officer) or his authorised representatives shall have authority to:
- (i) Enter at all reasonable times any Council premises or land;
 - (ii) Have access to all records, documents and correspondence relating to financial and other transactions of the Council;
 - (iii) Require and receive such explanations as are necessary concerning any matter under examination;
 - (iv) Require any employee of the Council to produce cash, stores, or any other Council property under his/her control.

- 3.3** Internal Audit staff will as necessary 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 devices being used for Council business purposes.

4. POSITION OF INTERNAL AUDIT WITHIN THE ORGANISATION

- 4.1** Internal Audit is an independent review activity. It is not an extension of, or a substitute for, the functions of line management and must remain free from any undue influence or other pressure affecting its actions and reporting.

- 4.2** In accordance with paragraphs A5, A6 and A7 of the Financial Regulations, at all times, management's responsibilities include:

- Maintaining proper internal controls in all processes for which they have responsibility to ensure probity in systems and operations;
- The prevention, detection and resolution of fraud and irregularities;
- Co-operating fully with Internal Audit and ensuring that Internal Audit can properly fulfill their role; and
- Considering and acting upon Internal Audit findings and recommendations or accepting responsibility for any resultant risk from not doing so.

- 4.3** 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 Internal Auditor should have sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management of the organisation.

- 4.4** Within West Dunbartonshire Council, the Chief Internal Auditor reports on an administrative basis to the Head of Finance and Resources who is the Council's nominated Section 95 Officer. However the Chief Internal Auditor also has unrestricted access to those charged with governance, specifically: Elected Members; the Chief Executive; Executive Directors; and to the Head of Legal, Democratic and Regulatory Services who is the Council's Monitoring Officer.

The Chief Internal Auditor has direct access to the Chair of the Audit and Performance Review Committee to discuss any matters the committee or auditors believe should be raised privately. One of the functions of the Audit and Performance Review Committee is to ensure that no unjustified restrictions and limitations are made to the scope and activities of Internal Audit. Additionally, unrestricted access to all Officers of the Council is afforded to all members of the Internal Audit service.

4.5 Within the PSIAS and the associated Local Government Application Note (LGAN), widespread use is made of the term “board”. For the purposes of overseeing the activities of the Council’s internal audit function, the “board” is defined as the Audit and Performance Review Committee. In terms of accountability and independence, the Chief Internal Auditor reports functionally to the Audit and Performance Review Committee. In this context functional reporting means the Audit and Performance Review Committee will be asked to:

- Approve the preparation of the Internal Audit Charter;
- Approve the preparation of the Annual Audit Plan;
- Receive regular reports from the Chief Internal Auditor on Internal Audit activity, including action plans on work carried out; and
- Make appropriate enquiries of management to ensure that Internal Audit is adequately resourced to meet assurance and other key responsibilities.

4.6 The Internal Audit Section uses a risk based methodology to determine the key elements of the annual audit plan. Within the PSIAS and the associated LGAN, widespread use is made of the term “senior management”. For the purposes of overseeing the activities of the Council’s internal audit function, “senior management” is defined as the Council’s Corporate Management Team (CMT), (i.e. the Chief Executive and the four Executive Directors – this may also include all Heads of Service for certain issues). On an annual basis, each member of the CMT individually provides the Chief Internal Auditor with an assurance statement in relation to the adequacy and effectiveness of his / her department’s internal financial control system. In recognition of the responsibility of the Chief Executive and Executive Directors (the CMT) to provide an assurance statement, the annual audit plan is prepared in consultation with the CMT.

4.7 In addition to managing the work of the Internal Audit function, the Chief Internal Auditor also has management responsibility for:

- Health & Safety;
- Risk Management;
- Insurance;
- Business Continuity;
- Civil Contingencies; and
- ICT Security.

In order to ensure the independence and objectivity of Internal Audit is maintained and demonstrated, any internal audit work on these areas will be carried out by Internal Audit staff with the Chief Internal Auditor as the client and therefore with no involvement in determining the scope of such

work or in the delivery and reporting of the internal audit review and the report will be submitted in the name of the Section Head (Internal Audit).

- 4.8** A structure chart showing access available for Internal Audit to those charged with governance is included at Appendix 1.

5. SCOPE OF INTERNAL AUDIT

- 5.1** The scope of Internal Audit allows for unrestricted coverage of the authority's activities and unrestricted access to all records and assets deemed necessary in the course of the audit.
- 5.2** The overall remit of Internal Audit covers the activities of:
- West Dunbartonshire Council;
 - WD Leisure (West Dunbartonshire's Leisure Trust);
 - Dunbartonshire and Argyll & Bute Valuation Joint Board;
 - Argyll, Bute and Dunbartonshire Criminal Justice Social Work Partnership; and
 - Such other related bodies as the Head of Finance and Resources may from time to time determine as being appropriate.
- 5.3** Internal Audit will seek to foster good working relationships with Elected Members, Council management, External Audit and other agencies as appropriate.
- 5.4** In liaising with External Audit the main objectives will be to:
- Minimise the incidence of duplication of effort;
 - Ensure appropriate sharing of information; and
 - Ensure co-ordination of the overall audit effort.

6. INTERNAL AUDIT RESPONSIBILITY

- 6.1** The main areas of Internal Audit responsibility within the Council are to:
1. Review, appraise and report on:
 - The extent to which the assets and interests are accounted for and safeguarded from loss;
 - The soundness, adequacy and application of internal controls;
 - The suitability and reliability of financial and other management data, including aspects of performance measurement.
 2. Investigate all frauds and irregularities;
 3. Advise on internal control implications of new systems; and
 4. Conduct VFM studies.

- 6.2** The Chief Internal Auditor will prepare and maintain an annual audit plan in consultation with departmental senior management and with reference to the Council's risk register. The annual audit plan will be ratified by the Head of Finance and Resources and presented to the Audit and Performance Review Committee for approval.
- 6.3** The Chief Internal Auditor will establish a framework to assess the Council's system of internal control. An annual assurance statement will be provided to the Head of Finance and Resources and Elected Members
- 6.4** Internal Audit will fulfill its responsibilities in accordance with:
- Relevant codes of ethics standards and guidelines issued by the professional institutes;
 - Relevant corporate governance documents, standards, policies and procedures; and
 - Its own Audit Manual and other internal standards, which will be adhered to by its entire staff including any contracted external specialists where appropriate.
- 6.5** Internal Audit adheres to the Public Sector Internal Audit Standards issued by the Internal Audit Standards Advisory Board in 2013 which as from 1 April 2013 have superseded the previously issued CIPFA Code of Practice for Internal Audit in Local Government (2006) and will sit alongside the CIPFA Role of the Head of Internal Audit document.

7. AUDIT RESOURCES

- 7.1** The staffing structure of the Internal Audit Section will comprise a mix of qualified and technician posts with a mix of professional specialists to reflect the varied functions of the Section.
- 7.2** As far as is practicable, Internal Audit staff will not participate in the day-to-day operation of any systems of internal financial control. However, there are occasions when internal audit staff may have to contribute to a Departmental or Corporate initiative. In these circumstances audit personnel may be called upon to carry out non-audit work on a short life basis only.
- 7.3** Members of the Internal Audit Section may be expected to contribute to the general management and conduct of Council business through membership of working groups and participation in ad hoc exercises.
- 7.4** The Chief Internal Auditor may request from the CMT that appropriate specialists should be made available to Internal Audit to assist in any audit work which requires specialist knowledge and expertise.

- 7.5 The Chief Internal Auditor will carry out an annual review of the development and training needs of all audit personnel and will arrange appropriate training, as allocated budgets will permit.

8. AUDIT REPORTING

- 8.1 Internal Audit has a protocol for reporting findings. This protocol covers both formal written reports and verbal communications, as appropriate.
- 8.2 Audit reports will explain the scope and objectives of the audit and give an assessment of the risks identified. The report will present findings and conclusions in an objective manner and make appropriate recommendations.
- 8.3 Internal Audit will provide departmental management with a draft report to provide an opportunity to agree the factual accuracy of the content before the final report is issued with an action plan.
- 8.4 In accordance with the reporting protocol, departmental management will be required to provide a formal response to the action plan contained in the final audit report.
- 8.5 Findings and recommendations are categorised and have expected implementation timescales for completion as follows:

Category	Expected implementation timescale
<u>High Risk:</u> Material observations requiring immediate action. These require to be added to the department's risk register	Generally, implementation of recommendations should start immediately and be fully completed within three months of action plan being agreed
<u>Medium risk:</u> Significant observations requiring reasonably urgent action.	Generally, complete implementation of recommendations within six months of action plan being agreed
<u>Low risk:</u> Minor observations which require action to improve the efficiency, effectiveness	Generally, complete implementation of

and economy of operations or which otherwise require to be brought to the attention of senior management.	recommendations within twelve months of action plan being agreed
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- 8.6** Internal Audit will provide the Audit and Performance Review Committee with regular reports on the implementation by departmental management of agreed action plans for both Internal Audit and External Audit reports. In addition, Internal Audit will also undertake appropriate follow-up on assignment findings and recommendations derived from its own work.
- 8.7** The Audit and Risk Manager will periodically report to the CMT and the Audit and Performance Review Committee on the Internal Audit function's purpose, authority and responsibility as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by the CMT and the Audit and Performance Review Committee.
- 8.8** In addition, the Audit Manager will inform the CMT and the Audit and Performance Review Committee on the internal audit function's quality assurance and continuous improvement programme, including results of ongoing internal self-assessments and external assessments conducted at least every five years.

9. CONSULTANCY WORK

- 9.1** Internal Audit, using its systematic and disciplined approach, plays an important role for the Council within its business transformation programme and performance improvement framework through the provision of advice and consultancy services to:
- advise on cost effective controls for new systems and activities to balance risk and control;
 - highlight opportunities to reduce costs through greater economy and efficiency within systems and activities as part of strategic and service reviews;
 - provide quality assurance on projects involving major change and systems development; and
 - provide an independent and objective assessment of the evidence on progress with implementing action plans to demonstrate continuous improvement.
- 9.2** Increasingly departmental management have engaged Internal Audit at an early stage in new developments and business transformation programmes and projects to conduct consultancy work. Acceptance of

the assignment will be dependant on available resources, the nature of the assignment and any potential impact on assurances.

- 9.3** The role of Internal Audit in a consultancy assignment is to provide advice, facilitation and support to departmental management who retain the responsibility for the ultimate decisions taken within the area under review.

10. STANDARDS

- 10.1** Internal Audit standards will be consistent with the Public Sector Internal Audit Standards (PSIAS).

11. FINANCIAL ADVICE

- 11.1** Internal Audit is often asked to provide financial advice. Wherever possible assistance will be provided to clients, however the Chief Internal Auditor is alert to the potential for conflicts of interest to arise and considers each request on its merit.

September 2013