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**Report to: Audit and Scrutiny Committee**

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**Date of Meeting: 24 October 2024**

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**Subject: Internal Audit Charter**

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**Report by: Internal Audit Manager**

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## **1.0 Purpose**

- 1.1 This report seeks Audit and Scrutiny Committee's approval of an updated Internal Audit Charter. The Charter sets out the role, authority, and responsibility of the Internal Audit team.

## **2.0 Recommendations**

- 2.1 The Committee is asked to consider and approve the Internal Audit Charter attached at Appendix 1.

## **3.0 Considerations**

- 3.1 The Public Sector Internal Audit Standards 2017 (the Standards) were developed jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA). The objectives of the Standards are to:
- define the nature of Internal Auditing within the UK public sector;
  - set basic principles for carrying out Internal Audit in the UK public sector;
  - establish a framework for providing Internal Audit services, which add value to the organisation, leading to improved organisational processes and operations; and
  - establish the basis for the evaluation of Internal Audit performance and to drive improvement planning.
- 3.2 The Standards require that all public sector Internal Audit providers establish an Internal Audit Charter. The Charter is a high level document that sets out guiding principles; it must set out the role, authority, and responsibility of the Internal Audit team, and must be approved by 'the Board' (in this case Clackmannanshire Council's Audit and Scrutiny Committee).
- 3.3 The Standards are currently undergoing a review, with new standards anticipated in April 2025. CIPFA has considered how these standards will apply in UK local government, and have concluded that there needs to be a specific Code of Practice for the Governance of Internal Audit in UK Local

Government. This Code will highlight the importance of internal audit to the success of local government, and will be adopted to align with the Standards.

3.4 The previous Internal Audit Charter was approved by Audit and Scrutiny Committee on 25 August 2022. This reflected the joint working arrangement with Falkirk Council, and was a consolidated Charter for both Councils. This has been reviewed and an updated version is attached at Appendix 1.

3.5 A small number of minor typographical errors have been corrected, as well as some amendments made. These amendments are summarised in the table below:

Page	Paragraph	Summary of Change
Front		Date updated.
Contents		New page Contents table. Also added a date of issue.
1.	1.1 to 1.3	Hyperlinks to Local Authority Accounts (Scotland) Regulations 2014 and Public Sector Internal Audit Standards added.
	1.2	Clarified that the Charter should be periodically reviewed and presented to senior management and the Board for approval. Added the definition of senior management.
	1.3	Added a paragraph on the purpose of the Internal Audit Charter and function of Internal Audit.
	2.4	The Senior Internal Auditor was included as a key contact.
2.	3.4	Updated paragraph to say various sub-groups rather than name only some of them.
	4.1	Quoted the Standards regarding the scope of Internal Audit.
	4.4	Updated the paragraph to include the Clackmannanshire Council Senior Manager Legal and Governance and Monitoring Officer.
	5.1	Updated the paragraph to include the Clackmannanshire Council Strategic Director of Partnership and Performance.
3.	5.3	Addition of 'but not direct' and 'monitor performance' to this paragraph in compliance with the Standards.
	6.1	Addition of a scope sentence quoted form the Standards.
	6.2	The Internal Audit Manager defines the role on Internal Audit in any fraud-related work added to the paragraph as per the Standards.
	6.3	Updated the paragraph to take into account the structure at Falkirk Council.
	6.4	Clarified the fraud reporting structure.
4.	6.7	Clarified the potential conflicts of interest declaration process.
	Various footnotes	Three footnotes included to clarify deviations from our processes.
5.	9.2	Sentence added: This also assists in safeguarding the independence and objectivity of the internal audit function. Updated the paragraph to include the Clackmannanshire Council Strategic Director of Partnership and Performance.

3.5 The Internal Audit Charter will continue to be kept under review, with any changes presented to Audit and Scrutiny Committee on a two yearly basis (or sooner if any changes require it, such as those mentioned at paragraph 3.3).

#### 4.0 Sustainability Implications

4.1 None Noted.

#### 5.0 Resource Implications

##### 5.1 Financial Details

5.2 The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes

5.3 Finance have been consulted and have agreed the financial implications as set out in the report. Yes

##### 5.4 Staffing

#### 6.0 Exempt Reports

6.1 Is this report exempt? Yes  (please detail the reasons for exemption below) No

#### 7.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities** (Please double click on the check box )

Clackmannanshire will be attractive to businesses & people and ensure fair opportunities for all

Our families; children and young people will have the best possible start in life

Women and girls will be confident and aspirational, and achieve their full potential

Our communities will be resilient and empowered so that they can thrive and flourish

(2) **Council Policies**

Complies with relevant Council Policies

#### 8.0 Equalities Impact

8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations? Yes  No

#### 9.0 Legality

9.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

## 10.0 Appendices

10.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

- **Appendix 1:** Clackmannanshire and Falkirk Councils – Internal Audit Charter.

## 11.0 Background Papers


11.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes  (please list the documents below) No

### Author(s)

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### Approved by

NAME	DESIGNATION	SIGNATURE
Chris Alliston	Strategic Director Partnership and Performance	

# Falkirk and Clackmannanshire Councils – Internal Audit

## Internal Audit Charter 2024 to 2026



### **Distribution:**

Audit Committees  
Corporate Management Team / Senior Leadership Group  
Internal Audit Teams

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## DATE OF ISSUE

01 October 2024

## 1. INTERNAL AUDIT CHARTER

- 1.1 The [Local Authority Accounts \(Scotland\) Regulations 2014](#) introduced a requirement for all Scottish Local Authorities to operate a professional and objective internal auditing service, which must be delivered in accordance with recognised standards. This Internal Audit Charter sets out the role, authority, and responsibility of Falkirk and Clackmannanshire Councils' (the Councils') Internal Audit Sections, in accordance with the UK Public Sector Internal Audit Standards, which came into effect in April 2013 and were updated in March 2017 (PSIAS; [the Standards](#)).
- 1.2 It is a requirement of PSIAS that the Charter is periodically reviewed and presented to senior management and the 'Board' for approval. Final approval of the Charter resides with the Board. Within the Councils, senior management is defined as the Chief Executive and Directors, and the Audit Committee<sup>1</sup> is deemed to be the Board.
- 1.3 The Internal Audit Charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. It establishes Internal Audit's position within the Councils; authorises access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

## 2. ROLE OF INTERNAL AUDIT

- 2.1 Internal Audit is an independent and objective assurance and consulting activity that aims to add value to, and improve the operations of, the Councils.
- 2.2 The main objective of Internal Audit is to provide a high quality, independent, and innovative assurance service. This culminates in an Annual Assurance Report providing an opinion on the adequacy of each Council's

arrangements for risk management, governance, and control.

- 2.3 In addition to this assurance role, Internal Audit:
- presents periodic Progress Reports to Audit Committee;
  - provides ad hoc consultancy and advice to Services / Directorates;
  - monitors and reports on the implementation of Internal Audit recommendations; and
  - helps promote a zero tolerance fraud and corruption culture.
- 2.4 The Internal Audit Manager and Senior Internal Auditor act as Key Contacts for the bi-annual National Fraud Initiative exercise at both Councils and, at Falkirk Council, as the Single Point of Contact (SPOC) with Police Scotland in relation to Serious Organised Crime.

## 3. PROFESSIONALISM

- 3.1 Internal Audit aims to work in compliance with PSIAS. These Standards set out the requirements for the professional practice of Internal Auditing, and are based on the Chartered Institute of Internal Auditors' (CIIA) mandatory guidance. They also set out requirements in relation to evaluating the Internal Audit Section's performance.
- 3.2 Internal Audit will adhere to each Council's policies, procedures, and guidance, and will operate in line with its own Internal Audit Manual.
- 3.3 All Internal Audit staff participate in the Continuous Professional Development (CPD) requirements of the relevant Chartered Institute<sup>2</sup>, and in their Council's

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<sup>1</sup> Known as Audit Committee at Falkirk Council and Audit and Scrutiny Committee at Clackmannanshire Council. For the purposes of this document both are named Audit Committee.

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<sup>2</sup> Internal Audit staff membership includes ACCA, CIIA, CIPFA, and ICAS.

professional development scheme. Internal Audit staff are also required to adhere to the CIIA Code of Ethics, and their Council's own codes of conduct.

3.4 Networking and sharing of good practice is achieved through the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) and its various Sub-Groups. These Groups meet periodically throughout the year to discuss emerging issues, risks, and to progress specific initiatives.

## 4. AUTHORITY AND SCOPE

4.1 The scope of Internal Audit allows for unrestricted coverage of each Council's activities. The Standards state that internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. To allow the team to provide a truly independent service, all Internal Audit staff have authority to:

- enter any Council premises or land;
- access all records, documents, or correspondence (held in any format) relating to any matter which may have assurance or risk implications for either Council (including any matter under investigation);
- require explanations relating to any matter under review from any employee, including Chief Officers and elected Members; and
- require any employee (or agent) of each Council to produce cash, stores, assets, records, or any other Council property under their control or to which they have access.

4.2 This access is on demand, and need not be subject to prior notice.

4.3 In addition, the Internal Audit Manager will have unrestricted access to:

- the Chief Executive;
- the Convener / Chair and Members of each Audit Committee;
- Chief Officers; and
- all Council employees.

4.4 The Internal Audit Manager has the right to report directly to full Council in any instance where they deem it inappropriate to report to the Chief Executive; Chief Finance Officer; Director of Transformation, Communities, and Corporate Services / Chief Governance Officer at Falkirk Council; the Strategic Director of Partnership and Performance / Senior Manager Legal and Governance and Monitoring Officer at Clackmannanshire Council; or Audit Committee.

4.5 Right of access to Arms Length External Organisations (ALEOs) and to any bodies funded by each Council, should be set out in the relevant Service Level Agreement, conditions of funding, or contractual arrangement.

## 5. ORGANISATION

5.1 The Internal Audit Manager reports functionally to both Councils' Audit Committee. Operationally, they report to the Chief Finance Officer at Falkirk Council, and the Strategic Director of Partnership and Performance at Clackmannanshire Council. The Chief Finance Officer / the Strategic Director of Partnership and Performance attend meetings of the Corporate Management Team / Extended Senior Leadership Group.

5.2 Each Council's Audit Committee meets at least four times per year, with the role and remit formalised in Standing Orders. Pre-agenda meetings are held ahead of each Committee meeting to discuss matters relating to the agenda. The Internal Audit Manager may attend pre-agenda meetings, and attends all Audit Committee meetings.



5.3 In relation to Internal Audit, it is each Audit Committee's role to:

- approve (but not direct) the Internal Audit Charter;
- approve (but not direct) the annual risk based Internal Audit Plan;
- consider reports on Internal Audit activity, including an Annual Assurance Report;
- monitor performance and seek assurances from Chief Officers that appropriate action has been taken to address Internal Audit recommendations; and
- make enquiries of management and the Internal Audit Manager to identify any inappropriate scope or resource limitations.

5.4 The Internal Audit Manager, Senior Internal Auditor, and Internal Auditors are required to hold a relevant professional qualification<sup>2</sup>. They should have experience of working in a team delivering an internal audit service where possible, and a working knowledge of internal audit principles and practices.

## 6. INDEPENDENCE AND OBJECTIVITY

6.1 Internal Audit staff must always act independently and objectively. Internal Audit is not an extension of, or substitute for, the functions of line management, and must remain free from any undue influence or other pressure affecting its work. The Standards state that internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

6.2 Internal Audit staff will have no direct operational responsibility or authority over any of the activities audited. They will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their

judgment. They may, however, be consulted on the implementation of new systems or processes to ensure that, as far as possible, sound and proportionate arrangements for risk management, governance, and control are built in. The Internal Audit Manager defines the role of Internal Audit in any fraud-related work.

6.3 At Falkirk Council, the Corporate Fraud Team report operationally to the Internal Audit Manager, as does the Corporate Risk Co-ordinator. These roles are not part of the Internal Audit service provided at Clackmannanshire Council. Assurance on the adequacy of risk management and counter fraud policies (including the arrangements for anti-corruption and bribery in the Anti-Fraud and Corruption Strategy) and practice at Falkirk Council are presented to Audit Committee. This may also take the form of peer review by another Council's Internal Audit team.

6.4 As stated in the Standards, Internal Auditors at both Councils have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the Council. Internal Auditors are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. If Internal Audit discovers suspicion or evidence of fraud, corruption, or irregularity this will immediately be reported to the relevant Chief Officer in the Council responsible for fraud, corruption, and irregularity.

6.5 It is Service / Directorate management's (not Internal Audit's) responsibility, to:

- maintain a robust framework of internal control within their area of responsibility;
- put in place arrangements to prevent and detect fraud, corruption, or irregularity;
- implement Internal Audit findings and recommendations, or accept the risk of not doing so; and

<sup>2</sup> Internal Audit staff membership includes ACCA, CIIA, CIPFA, and ICAS.

- inform Internal Audit of any material proposed changes to systems or processes.
- 6.6 Internal Audit staff must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being reviewed. They must make a balanced assessment of all the relevant circumstances, and not be unduly influenced in forming judgments.
- 6.7 Each Council's Employee Code of Conduct sets out the required standards of conduct for all employees and includes provisions for the declaration of interests, gifts, and hospitality. In addition, Internal Audit staff are required to disclose any potential conflicts of interest which may affect their audit work, for example previous employment with the Council, relatives employed with the Council, etc. Each member of Internal Audit and the Corporate Fraud Team completes a 'Confirmation of Independence Form' and updates it, at a minimum, on an annual basis.
- 6.8 The Internal Audit Manager will report to each Audit Committee in their own name, and will confirm, in an Annual Assurance Report, the organisational independence of the Internal Audit team.

## 7. RESPONSIBILITY: ASSURANCE WORK

- 7.1 The scope of Internal Auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of risk management, governance, and control arrangements.
- 7.2 Internal Audit must complete sufficient work to allow an Annual Assurance Report to be presented to each Audit Committee. This report provides an annual, overall, opinion on the adequacy of arrangements for risk management, governance, and control, and informs each Council's Annual Governance Statement.

- 7.3 The Annual Assurance Report will be based on the outcomes of the risk based assignments set out in each Council's Annual Internal Audit Plan.
- 7.4 As required by PSIAS, the Annual Internal Audit Plan is developed taking account of key financial and other risks. This is done by:
- reviewing high and medium risks;
  - consulting with senior managers; and
  - considering previous Internal Audit reports and other independent review activities.
- 7.5 For each individual audit review, Internal Audit will develop a Terms of Reference<sup>3</sup> and agree this with the relevant managers. Assignments are carried out using a risk based approach, taking account of the objectives of the activity being reviewed, risks to that activity, and the adequacy of existing risk management, governance, and control arrangements.
- 7.6 Internal Audit will develop and document work programs for each audit, setting out the approach to be taken for identifying, analysing, evaluating, and documenting information. A detailed electronic file will be kept as a record of work undertaken. This will be done in line with the standards set out in the Internal Audit Manual.
- 7.7 Matters arising from each audit will be reported to management in the form of a draft report<sup>4</sup>. Each report will be reviewed by the Internal Audit Manager prior to issue, and will include a statement on the level of assurance<sup>5</sup> that can be provided, as well as an action plan setting out any recommendations. The report and completed Action Plan will form the final record of each audit.

<sup>3</sup> Unless it is a transactional based piece of audit work which doesn't require remit items.

<sup>4</sup> This may take the form of a report, position statement, or memo.

<sup>5</sup> A level of assurance is not always provided depending on the type of review undertaken, for example consultancy work, follow-up work, or position statements may not warrant an opinion.

7.8 The overall assurance will be provided in line with the definitions set out:

Level of Assurance	Definition
<b>Substantial assurance</b>	Largely satisfactory risk, control, and governance systems are in place. There may be some scope for improvement as current arrangements may undermine the achievement of objectives or leave them vulnerable to error or abuse.
<b>Limited assurance</b>	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or abuse.
<b>No assurance</b>	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or abuse is unacceptable. Significant improvements are required.

7.9 Periodic reports will be provided to each Council's Audit Committee detailing progress in completing the Annual Internal Audit Plan and highlighting any key matters arising. These progress reports will also provide information on any consultancy work undertaken by Internal Audit. The progress reports to each Audit Committee may also provide information in relation to Internal Audit recommendations that remain outstanding.

7.10 All Internal Audit recommendations are logged on each Council's Pentana system, with responsibility for monitoring implementation allocated to the relevant manager. This allows managers to close recommendations as they are implemented, and allows Internal Audit to monitor real time progress on an ongoing basis.

## 8. RESPONSIBILITY: CONSULTANCY WORK

8.1 Internal Audit includes an allocation of 'days' in each Council's Annual Internal Audit Plan for consultancy work. This time will be used to allow Internal Audit to, for example:

- be involved in corporate projects and working groups;
- provide advice on written procedures and controls; and
- deliver short term assignments requested by Services.

8.2 Approval will be sought from each Audit Committee if there is to be a significant variation in consultancy work above the allocation within the Internal Audit Plan.

8.3 As per each Council's Financial Regulations, Chief Officers are responsible for identifying and managing the risk of fraud. Any potential irregularities are considered and investigated within the context of each Council's counter fraud arrangements.

## 9. QUALITY ASSURANCE

9.1 Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of the team's activity (and its compliance with PSIAS). This consists of an annual self assessment, ongoing performance monitoring, and a periodic external assessment. The Internal Audit Manager is responsible for undertaking an annual self assessment and for reporting the results of this self assessment to each Council's Audit Committee (within the Internal Audit Annual Assurance Report).

9.2 External assessments will be conducted at least once every five years by a suitably qualified, independent assessor. This also assists in safeguarding the independence and objectivity of the internal audit function. The Internal Audit Manager will discuss and agree options for these assessments with the Chief Finance Officer / Strategic Director of Partnership and Performance. One option is participation in the External Quality Assessment peer review process established by the Scottish Local Authorities Chief Internal Auditors' Group.

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