

REPORT TO: SCRUTINY COMMITTEE - 12 FEBRUARY 2014

REPORT ON: INTERNAL AUDIT CHARTER

REPORT BY: CHIEF INTERNAL AUDITOR

REPORT NO: 75-2014

1.0 PURPOSE OF REPORT

To submit to Members of the Scrutiny Committee the revised Internal Audit Charter which has been updated to reflect the requirements of the new Public Sector Internal Audit Standards.

2.0 RECOMMENDATIONS

Members are asked to approve the revised Internal Audit Charter attached at Appendix A.

3.0 FINANCIAL IMPLICATIONS

None

4.0 MAIN TEXT

4.1 At the June Scrutiny Committee, Report No 282-2013 provided Members with an overview of the new Public Sector Internal Audit Standards and the key implications for the Council's Internal Audit Service. The report also advised Members that to ensure compliance with the Standards a review of existing working practices and documentation of the Council's Internal Audit Service would require to be undertaken and update reports submitted to Committee as appropriate.

4.2 Standard 1000 of the Public Sector Internal Audit Standards entitled Purpose, Authority and Responsibility states "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, Code of Ethics and the Standard*". In addition, the Standards require that "the chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval".

4.3 The Internal Audit Charter is a formal document that defines the Council's internal audit's activities in the context of purpose, authority and responsibility and covers such areas as its position within the organisation, authority to access records, personnel and physical properties relevant to the performance of engagements and defines the scope of internal audit activities.

4.4 The previous Internal Audit Charter submitted to the Council's former Audit and Risk Management Sub-Committee in 2002 contains principles and practices which are still broadly pertinent. Notwithstanding this the publication of the new Standards provides an opportune point at which to update the Charter and submit it to Members of the Scrutiny Committee for approval. A copy of the proposed Internal Audit Charter for Dundee City Council is attached at Appendix A. Going forward the Charter will be reviewed annually to ensure that it remains relevant to the needs of the organisation and material amendments will be formally presented to the Strategic Management Team and the Scrutiny Committee.

5.0 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty and Equality Impact Assessment and Risk Management. There are no major issues.

6.0 CONSULTATION

The Chief Executive, Director of Corporate Services and Head of Democratic and Legal Services have been consulted on the content of this report.

7.0 BACKGROUND PAPERS

None

Sallie Dailly, Chief Internal Auditor

DATE: 28 January 2014

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DUNDEE CITY COUNCIL

INTERNAL AUDIT CHARTER

INTRODUCTION

1. The Public Sector Internal Audit Standards (the Standards), published in April 2013, state that *“the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter”* and *“the chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval”*. This Internal Audit Charter (the Charter) sets out the purpose, authority and responsibility of the internal audit activity within in the context of Dundee City Council.
2. The definition of internal auditing contained within the Standards states it 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. In addition, under the Standards each UK public sector organisation is required to interpret, at a local level, specific terms which form part of the governance arrangements. These terms are listed below along with the interpretation to be used for Dundee City Council.

Public Sector Internal Audit Standards	Dundee City Council
<i>“chief audit executive”</i>	Chief internal Auditor
<i>“board”</i>	Scrutiny Committee
<i>“senior management”</i>	Strategic Management Team

ROLE

4. Internal audit forms a fundamental element of Dundee City Council’s governance and assurance framework. Through provision of a high quality, independent, objective assurance and consulting activity, guided by a philosophy of adding value, the service aims to bring a systematic and disciplined approach to evaluating and improving the effectiveness of organisation’s business processes.
5. The existence of internal audit does not however diminish the responsibility of management to ensure that resources are properly applied in a manner and on the activities intended and the internal control arrangements are sufficient to address the risks facing their services.

PROFESSIONALISM

6. The internal audit activity governs itself by adherence to the Standards along with the Local Government Application Note to the Standards published by the Chartered Institute of Public Finance and Accountancy. This mandatory guidance encompasses the principles which are fundamental to the professional practice of internal auditing and evaluating the effectiveness of the activity's performance.
7. The internal audit activity also adheres to the relevant policies and operating procedures laid down by the Council. This includes such guidance specifically developed in respect of the internal audit service.

AUTHORITY

8. The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Scrutiny Committee.

ORGANISATION

9. The Chief Internal Auditor reports functionally to the Scrutiny Committee and administratively directly to the Director of Corporate Services who is a member of the Council's Executive Management Team and the Strategic Management Team and is also the Council's Section 95 Officer. In addition, the Chief Internal Auditor has direct access and freedom to report to the Chief Executive, Strategic Management Team and the Convener of the Scrutiny Committee as considered appropriate.

INDEPENDENCE AND OBJECTIVITY

10. Internal audit is independent of the activities which it audits. This is essential to ensure unbiased judgments and impartial advice to management. To achieve this requirement internal audit operates within a framework that allows no direct operational responsibility or authority over the activities audited, unrestricted access to senior management and reporting to the Scrutiny Committee in the name of the Chief Internal Auditor.
11. The Chief Internal Auditor will confirm to the Scrutiny Committee, at least annually, the organisational independence of the internal audit activity.
12. Each member of the internal audit team must exhibit the highest level of professional integrity and objectivity in gathering, evaluating, forming opinions and communicating information about the activity or process being examined. This will include making a balanced assessment of all relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

RESPONSIBILITY

13. The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council's governance, risk management, and internal control processes in the context of the Council's defined goals and objectives. Internal audit is responsible for and may potentially evaluate any of the entity's processes also referred to as the audit universe. The internal control objectives considered by internal audit in discharging its remit include the following:
 - Consistency of operations with established goals and objectives.
 - Effectiveness and efficiency of operations and deployment of resources.
 - Compliance with significant policies, plans, procedures, laws, and regulations.
 - Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
 - Safeguarding of assets.
14. Based on its activity, internal audit is responsible for reporting significant risk exposures identified, including governance and control issues and fraud risks to the Scrutiny Committee and to senior management.
15. Whilst internal audit may be used to support consulting and advisory services related to governance, risk management and control this will not be at the detriment of the provision of core assurance services.

INTERNAL AUDIT PLAN

16. The Chief Internal Auditor will annually submit to the Scrutiny Committee an internal audit plan for review and approval which includes risk assessment criteria. The Chief Internal Auditor will as part of this submission communicate the impact of any resource limitations and significant interim changes impacting on the organisation. Any significant deviation from the approved internal audit plan will be communicated to the Scrutiny Committee at an appropriate juncture.

17. The internal audit plan will be developed utilising a risk-based methodology based on the audit universe and will take into account the requirement placed upon the Chief Internal Auditor to deliver an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's control environment. In compiling the plan, input from senior management and any other relevant parties will be sought and prior to submission to the Scrutiny Committee, for approval, the plan will be submitted to the Strategic Management Team for comment.

REPORTING AND MONITORING

18. Following the conclusion of each internal audit assignment a written report will be prepared. The final report will include for each of the specific findings and recommendations the action taken or to be taken, the anticipated timeframe for completion and the responsible officer. Explanations should be given by the client for any recommendations where corrective action will not be taken forward. The final reports will be distributed to the client and other relevant parties and the executive summaries submitted to the Scrutiny Committee.
19. The internal audit activity is also responsible for providing assurance that recommendations arising from audit reports, as agreed with management, have been implemented. Such work will be formally reported to the Scrutiny Committee.

PERIODIC ASSESSMENT

20. Internal Audit is required to maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The Chief Internal Auditor is responsible for periodically providing a self-assessment on the internal audit activity as regards its conformance with the purpose, authority and responsibility covered in this Charter and performance relative to the internal audit plan. In addition, external assessments will be conducted at least every five years by a suitably qualified external inspector.
21. The Chief Internal Auditor will communicate the results of the quality assurance and improvement programme for both internal and external assessments to the Scrutiny Committee and the Strategic Management Team as appropriate.