



**SHETLAND ISLANDS COUNCIL  
CORPORATE SERVICES  
AUDIT, RISK & IMPROVEMENT**

**INTERNAL AUDIT CHARTER**

Approved by Standing Committee : 28/03/2002 (Min Ref 11/02) &

Approved by Council 3/4/2002 (Min Ref 52/02)

Latest Review : May 2016

Next Review Date : April 2017

**1. Introduction**

- 1.1 Shetland Islands Council Internal Audit Service is required to observe the requirements of the Public Sector Internal Audit Standards (PSIAS) from 1<sup>st</sup> April 2013.
- 1.2 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.
- 1.3 The Executive Manager – Audit, Risk & Improvement has managerial responsibility for the Council wide functions of Risk Management and Performance & Improvement. In order to ensure that Internal Audit independence and objectivity is maintained any work in these areas will be carried out by other Internal Audit staff with the Executive Manager as the client. The Executive Manager will have no involvement in the delivery or reporting of the audit review and the report will be published by one of the Internal Auditors.
- 1.4 In accordance with PSIAS; Internal Audit staff will demonstrate integrity, objectivity, confidentiality and competency in all aspects of their work.
- 1.5 Internal Audit aims to support Members and Officers of the Shetland Islands Council in the effective discharge of their responsibilities. In terms of the applicable standards (PSIAS), the "Board" shall mean the Audit Committee and "Senior Management" shall mean The Corporate Management Team.

**2. Values**

- 2.1 In everything it does Internal Audit will be open, fair, courteous, consistent and accountable.

- 2.2 Internal Audit is committed to quality in the provision of all services and facilities. It will regularly check performance and seek opportunities for improvement and value for money and strive to deliver the best practicable standard of service.
- 2.3 Internal Audit values its staff and their professionalism, knowledge, skills and judgement and is committed to developing and motivating them.

### **3. Management and Internal Audit**

- 3.1 It is the responsibility of Management to establish an operating environment which is controlled, efficient and effective. Internal Audit is one element of control within the operating environment. Management must report all suspicions of impropriety to the Executive Manager - Audit, Risk & Improvement.
- 3.2 The operating environment also depends upon the system of internal control, the objectives of which are to ensure that:
  - (a) operations are conducted in an efficient and well ordered manner to fulfil defined objectives;
  - (b) Council assets are safeguarded; and
  - (c) reliable information is available on which sound decisions can be made by those authorised to do so.
- 3.3 Internal Audit does not relieve management of its responsibility for maintaining effective control, corporate governance and Risk Management. It is, however, that element of the control environment specifically established to effectively appraise the effectiveness of control. It can then reassure management when control is adequate and identify and report inadequate control to enable the appropriate action to be taken to strengthen it before any serious breakdown occurs.
- 3.4 The Local Authority Accounts (Scotland) Regulations 2014 make it a statutory requirement for a local authority to operate a professional objective internal auditing service. Section 95 of the Local Government (Scotland) Act 1973 specifies that all Scottish Councils are required to have in place arrangements for ensuring propriety, regularity and best value in their stewardship of public funds. Internal Audit contributes to these requirements. The format of Internal Audit depends upon how councillors perceive the role and the resources they are prepared to invest in it.

### **4. Organisational status and relationships**

- 4.1 Internal Audit is responsible to the Director – Corporate Services. This reporting line enables it to examine all functions objectively without being constrained by direct line management. Internal Audit reports are cleared with the accountable level of management, prior to formal issue, without reference to the Director, thus achieving reasonable independence.
- 4.2 The Executive Manager must establish and maintain good working relationships and channels of communication with Elected Members. This is maintained by providing, as a minimum, six-monthly reports to the Audit Committee (“the Board”) and attendance at other Audit Committee meetings as a lead officer. In the intervening period, should communication be required between Members and Internal Audit, this will be mutually arranged.
- 4.3 Internal Audit’s effectiveness is critically dependent on maintaining credibility with all employees. This in turn depends upon building and maintaining a reputation for contributing constructively and adopting an objective professional approach. Internal Audit and line management share a common aim to achieve an effective internal control, risk management and corporate governance environment. Internal Audit endeavours to establish a partnership with the auditee for a joint operation to improve conditions.
- 4.4 Whereas the aim of Internal Audit is to assist management, the external auditors fulfil a statutory duty for which they are responsible to the Accounts Commission.
- 4.5 The objectives differ, but in practice much of the evidence each collects, as the basis for audit judgements, may be common to both purposes. Effective liaison between Internal Audit and the external auditors is necessary to avoid duplication of work and clashing timetables. Internal Audit consults regularly with the external auditors in the process of planning audit assignments and coverage. Internal Audit plans are sent to the external auditors. Copies of all Internal Audit reports issued, and working papers, are made available to them for examination.

## **5. Staffing and Training**

- 5.1 Internal Audit shall be staffed with persons of appropriate qualifications and experience. Audit staff should have considerable experience in a finance-related post. Staffing levels should be sufficient to enable delivery of the audit plan.
- 5.2 The Executive Manager, in conjunction with the Director Corporate Services, will ensure that formal and effective training takes place to enable all staff within Internal Audit to carry out their work in accordance with the required standards laid down in the Audit Manual.

- 5.3 Training requirements for Internal Audit personnel will be linked wherever possible to their particular function.
- 5.4 The Executive Manager will ensure that each employee is correctly qualified and trained.
- 5.5 Where a particular expertise is required by any member of staff, the Executive Manager will consider the use of: -
- in-house training course
  - external training course
  - arrange for the member of staff to work alongside someone with the required expertise.
- 5.6 The training needs of all staff will be reviewed annually and discussed with them but provision will be subject to resource availability.
- 5.7 All training undertaken by Internal Audit staff will be recorded on their personal training record.
- 5.8 It is the responsibility of the Executive Manager to identify the training needs of staff and to ensure that all training programmes are completed as directed.

## **6. Objectives**

- 6.1 Internal Audit is required to reassure Council Members as follows:
1. That there is adequate monitoring of the internal control environment throughout Council operations so that serious breakdowns are avoided.
  2. That the Council's system of internal control, corporate governance and risk management are both sound and effective so that its assets are safeguarded and its performance reporting can be accepted with confidence.
- 6.2 Internal Audit meets these requirements through adopting the following procedures:
1. Establishing and maintaining standards for the practice of effective internal auditing throughout the Council.
  2. Testing the Council's control systems for adequate effectiveness and compliance.
  3. Liaison with the external auditors to avoid duplication or gaps in cover.
  4. Facilitating dissemination throughout the Council of the lessons learned through Internal Audit findings.

5. Reporting to Senior Management on the adequacy of internal control, corporate governance and risk management throughout the Council.
6. Reporting an annual opinion to Committee on the adequacy of internal control, corporate governance and risk management throughout the Council and on the internal audit work planned for each ensuing year.

## **7. Responsibilities**

7.1 Internal Audit is authorised to examine all activities throughout the Council for the purpose of evaluating internal control, with specific responsibilities:

1. Performing audit assignments at appropriate intervals to reassure management that controls are adequate, efficient and operating as designed.
2. To identify and report to management any weakness in control and any unsound procedures.
3. To offer feasible recommendations for improving performance and preventing future shortcomings.
4. Investigating fraud, conflict of interest and other irregularities.

7.2 Internal Audit is concerned to preserve their independence from the operations they examine. They are not empowered to make changes in systems, methods or staffing, and may not undertake to do so. Their role is to act as agents for change by making recommendations to management from an impartial viewpoint. The auditee is responsible for managing risks identified.

7.3 In accordance with the Council's Strategy for the Prevention and Detection of Fraud & Corruption (the Council's Anti-Fraud Policy) all suspicions of impropriety must be reported to the Executive Manager - Finance and the Executive Manager - Audit, Risk & Improvement and will be investigated. The Executive Manager - Audit, Risk & Improvement will ensure that matters are reported to the Police if there are reasonable grounds for believing that a criminal offence has been committed. He / She will also advise the Council's Monitoring Officer where deemed appropriate.

7.4 Internal Audit Staff are all aware of the need to avoid conflicts of interest or even the perception of such. Where any doubt arises discussion will be held with the Executive Manager and / or the Director Corporate Services.

## **8. Services**

Internal Audit is in two parts:

### **8.1 Internal Audit assignments**

8.1.1 Internal Audit assignments are in-depth examinations of all the key control systems throughout the Council. All assignments are normally performed on a service, corporate or specific issue basis and are timed in accordance with an audit plan.

8.1.2 The audit evaluates whether the environment of control developed by management is adequate and whether the detailed control systems give reasonable assurance that control objectives will be attained. Any significant control weaknesses are reported and management must then respond with a plan of action to address issues identified.

### **8.2 Investigation work**

8.2.1 An investigation is a complete review of a particular activity, practice or incident at the specific request of Human Resources or the Chief Executive in conjunction with the relevant service directors.

## **9. The Audit Plan**

9.1 All internal audit assignments are performed in accordance with an annual audit plan. The plan is a prioritised schedule of assignments to be performed during the course of the financial year within the framework of the Audit Universe. The plan is developed and maintained by the Executive Manager and requires the approval of the Corporate Management Team (CMT) and the Council.

## **10. Working practices**

10.1 For operations where the management or the circumstances have changed significantly since the last Internal Audit visit and for all operations not previously visited, Internal Audit initially approaches accountable management to explain the concept of internal auditing, Internal Audit's approach to audit assignments and to talk over possible areas where it could assist the management task.

- 10.2 Accountable managers are to allow Internal Audit unrestricted access to Council premises to interview staff, observe operations and examine records to enable them to fulfil their responsibilities. In addition, Internal Audit shall receive such explanations as are necessary concerning any matter under examination and require any employee of the Council to produce cash, stores or any other Council property under their control.
- 10.3 Internal Audit has an obligation to respect the confidentiality of information to which they are privileged to have access in the course of their work.
- 10.4 Internal Audit will discuss their findings and the conclusions they draw from them with the accountable management during the course of the audit assignment. A course of action to achieve operational improvements or to rectify control weaknesses may then be resolved jointly, to form the basis of the Internal Audit recommendations. This practice helps to ensure that the recommended course of action is feasible.
- 10.5 In addition, each audit assignment will address best value issues. Improving value for money in local government, by achieving optimum service standards, can partially be achieved through the use of Internal Audit resources. Where considered necessary, such suggested improvements will be communicated by means of audit findings or reportable observations.

## **11. Reporting**

- 11.1 All material findings made during the course of an assignment will be documented by Internal Audit in the form of an audit comment. These will be addressed to the individual responsible for the area being audited and, if not the same person, to the person who is capable of rectifying the problem. A written response agreeing to the factual content of the comment is required and is recorded on the Covalent system.
- 11.2 A formal draft report will be issued within 2 weeks from completion of each audit assignment. On completion of the assignment and before the final report is issued, every effort will be made to ensure that its factual content is accurate, presented in appropriate context, and with proper emphasis.
- 11.3 Internal Audit reports are acknowledged to be confidential documents and are addressed to the Team Leader or Executive Manager, where appropriate, of the operation examined or to the Service Director. Copies of the report will be made available to the manager's immediate line manager and / or Director, the Director Corporate Services, the Executive Manager Finance and the Chief Executive. In addition, copies will be sent to other officers who, by virtue of their position in the Council, have a need to know (e.g. Executive Manager – Governance & Law) and will be made available to the external auditors. An action plan

incorporating agreed responses and timescales will form an appendix to the report.

- 11.4 Corporate Reviews presented to CMT will be discussed in draft form at CMT prior to including a CMT agreed course of action within the final report.
- 11.5 Reports are posted on to Internal Audit's website following review by the Team Leader - Administration for Freedom of Information and Data Protection issues.
- 11.6 A synopsis of all assignments performed will be provided, in summary form on, at least, a six-monthly basis to the Audit Committee.