

## Internal Audit Charter (V4)



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## VERSION CONTROL

Version	Approved By	Date	Revision
V1	Governance & Scrutiny Committee	7 Nov 2013	Historic charter updated to reflect new PSIAS and rebranded as "Internal Audit Charter" V1 (7 Nov 2013).
V2	Governance & Scrutiny Committee	20 April 2017	G&S Committee approve Charter annually. Minor changes made in 2017 and Charter reissued as V2 (20 April 2017). Page 3, Bullet 1 – added reference to PSIAS updates in 2016 and 2017. Page 3, Bullet 6 – job titles updated; added "and be a critical and relevant friend". Page 4, para. 5 – updated for PSIAS revisions in 2016 and 2017. Page 8, para. 27 – added reference with regard to inappropriate scope or resource limitations, "Since 2015/16, in line with PSIAS requirements...." Page 10, para. 39 – removed outdated reference to "Assurance and Improvement Plan" and updated paragraph. Page 10, para. 49 – job titles updated. Page 11, para. 55 – job titles updated and text changed to reflect that all reports now issued to the Chief Governance Officer, not just those with specific issues relevant to the CGO's services. Page 11, para. 55 – added paragraph regarding readership for partnership client groups. Page 12, para. 60 – follow-up process updated. .
V3 Post external quality assessment (EQA)	Governance & Scrutiny Committee	26 April 2018	Page 3, Executive Summary – added reference to statutory basis for Internal Audit. Page 11, para. 54 – added reference to the key principles which underpin reporting and para. 55 added reference to shorter reporting formats; reporting to ASSJC and Head of Finance & ICT added to report readership for all Council/IJB reports. Page 13, para. 68 – added reference to Internal Audit Charter. Page 14, para. 83 – added entire PSIAS text re QAIP requirements and stated EAC compliance.
V4	Governance & Scrutiny Committee	25 April 2019	Cover page, removed Corporate Fraud Team "gcsx" from email address in line with national changes. Page 3, Page 5 – updated to refer to latest February 2019 version of the CIPFA Application Note. Page 9, para. 33, text changed from: "As stated in the CIPFA Application Note (2013), "No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence-based opinion. Local factors within each organisation will determine this minimum level of coverage".

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## EXECUTIVE SUMMARY

### The Public Sector Internal Audit Standards (PSIAS)

- The PSIAS came into force on 1 April 2013. These are the first internal audit standards to apply across the whole public sector. Updated versions were published in March 2016 and March 2017.
- The PSIAS is supported by the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note (April 2013, updated February 2019).
- The unified standards intend to ensure sound corporate governance and set out roles and responsibilities with regard to the delivery of internal audit services.
- The PSIAS require an Internal Audit Charter to be in place which will be reviewed periodically and presented to the Governance and Scrutiny Committee for approval; in East Ayrshire Council this happens annually. The Internal Audit Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the PSIAS.
- The main objective of Internal Audit is to provide a high quality, independent audit service to the Council which provides annual assurances in relation to internal controls and overall governance arrangements.
- In addition to this primary assurance role, Internal Audit will also:
  - ✓ Support the Chief Executive in the discharge of their duties
  - ✓ Support the Section 95 / Proper Finance Officer in discharge of their duties
  - ✓ Support the Monitoring Officer in discharge of their duties
  - ✓ Provide consultancy services to Council departments
  - ✓ Advise on internal control implications of new systems
  - ✓ Investigate allegations of fraud or irregularity
  - ✓ Provide an effective audit service that is responsive to the needs of departments
  - ✓ Support the Council and senior management during key transformational / change projects
  - ✓ Aim to add value **and be a critical and relevant friend**
- The PSIAS recognises that internal audit's remit extends to the entire control environment of the organisation and not just financial controls.

### Statutory Basis for Internal Audit

- There has been a longstanding recognition of the advantage of having a strong internal audit function in Scottish local authorities. This was formally recognised when the Local Authority Accounts (Scotland) Regulations 2014 came into force on 10 October 2014 requiring a local authority to operate a professional and objective internal auditing service.
- The internal audit service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the Public Sector Internal Audit Standards (PSIAS).

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## 1. BACKGROUND

2. Prior to 1 April 2013, Internal Audit operated in accordance with the Code of Practice for Internal Audit in Local Government in the UK which was issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2006.
3. A requirement of the Code of Practice was the preparation of a “terms of reference” document by each Internal Audit section; this set out the purpose, authority and responsibility of Internal Audit.
4. In addition to the “terms of reference” an Internal Audit Strategy setting out how the “terms of reference” would be achieved was submitted each year to the Governance and Scrutiny Committee with the annual audit plan. In addition, East Ayrshire Council had already established an early Internal Audit Charter document.
5. The Public Sector Internal Audit Standards (PSIAS) came into force on **1 April 2013**. These are the first internal audit standards to apply across the whole of the public sector. The standards are issued by the Relevant Internal Audit Standard Setters (RIASS) who are made up of HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and CIPFA in respect of local government across the UK.

### ***PSIAS updates – 2016 and 2017***

In July 2015, two changes were made to the International Professional Practices Framework (IPPF) which the Standards are based on. These were the inclusion of a mandatory Mission Statement and a mandatory set of Core Principles to demonstrate internal audit effectiveness. The Standards were formally **updated in March 2016** to reflect these changes. This updated version of the PSIAS stated that “the concepts enunciated in the original IPPF have been preserved in this version”. The two additional sections added, “Mission of Internal Audit” and “Core Principles for the Professional Practice of Internal Auditing” did not require any changes in our operations. For avoidance of doubt the new sections are stated below in full.

### ***NEW IN 2016 - Section 3: Mission of Internal Audit***

*The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission.*

*“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”.*

### ***NEW IN 2016 - Section 5: Core Principles***

*The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organisation to organisation, but failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit’s mission (see Mission of Internal Audit).*

- *Demonstrates integrity.*
- *Demonstrates competence and due professional care.*
- *Is objective and free from undue influence (independent.)*
- *Aligns with the strategies, objectives, and risks of the organisation.*

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- *Is appropriately positioned and adequately resourced.*
  - *Demonstrates quality and continuous improvement.*
  - *Communicates effectively.*
  - *Provides risk-based assurance.*
  - *Is insightful, proactive, and future-focused.*
  - *Promotes organisational improvement.*

In **March 2017** a further revision was made to the PSIAS to reaffirm the importance of robust, independent and objective internal audit arrangements to provide senior management with the key assurances they need to support them both in managing the organisation and in producing the annual governance statement, again this change did not require any changes in our operations.

The March 2017 update of the PSIAS (Revised Standard 1010) requires that the Internal Audit Charter recognises the Core Principles for Professional Practice of Internal Auditing which is fulfilled here by the paragraph above.

6. The PSIAS requires that an Internal Audit Charter is in place in each local authority. The Charter must be consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards contained in the PSIAS.
7. This Internal Audit Charter has been drawn up in line with the PSIAS requirements and is further informed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Local Government Application Note (April 2013, updated February 2019) published to assist in the implementation of the PSIAS.
8. This Internal Audit Charter replaces all previous Charters, Audit Strategies and Terms of Reference. It is broadly similar to the previous documents, and provides further clarity drawn from the PSIAS on how Internal Audit will operate.
9. This Internal Audit Charter is subject to approval by the Governance and Scrutiny Committee of East Ayrshire Council on an annual basis, in line with PSIAS requirements.

## 10. **PSIAS REQUIREMENTS**

11. The PSIAS requires the Internal Audit Charter to reflect the following points; where additional clarification of these points is required it is set out in the individual paragraphs cross-referenced below:
  - a. Recognises the mandatory nature of the PSIAS (and specifically the Definition of Internal Auditing, Code of Ethics and the Standards themselves) [refer to paragraphs 19-20 and 61-68]
  - b. Defines the terms chief audit executive, board and senior management for the purposes of internal audit activity. Definitions for East Ayrshire are noted below in respect of key duties outlined in the PSIAS. It is not appropriate to list a definition for every occurrence of the term board or senior management within the PSIAS. Following guidance in the CIPFA Application Note, the authority will decide for each occurrence which committee/group/individual best fits the role in that situation, bearing in mind the need to preserve the independence and objectivity of the internal audit function [refer to paragraphs 12-18]
  - c. Sets out the responsibility of the board and also of the statutory officers with regard to internal audit (such as the proper finance officer for the purposes of Section 95 of the Local Government Scotland Act (1973) as defined in the Council's Financial Regulations, the Monitoring Officer and the Chief Executive as the head of paid service)
  - d. Establishes the responsibilities and objectives of internal audit [refer to paragraphs 21-25]

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- e. Defines the scope of internal audit activities [refer to paragraph 26-27]
  - f. Defines the nature of consulting services [refer to paragraph 28-31]
  - g. Covers the arrangements for appropriate resourcing [refer to paragraphs 32-41]
  - h. Establishes the organisational independence of internal audit [refer to paragraphs 42-47]
  - i. Establishes the accountability, reporting lines and relationships between the chief audit executive (CAE) and:
    - The board
    - Those to whom the CAE must report functionally
    - Those to whom the CAE may report administratively [refer to paragraph 45]
  - j. Includes arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities [refer to paragraph 47]
  - k. Sets out the arrangements that exist within the organisation's anti-fraud and anti-corruption policies, requiring the CAE to be notified of all suspected or detected fraud, corruption or impropriety, to inform his or her annual internal audit opinion and the risk-based plan [refer to paragraphs 69-73]
  - l. Defines the role of internal audit in any fraud-related work [refer to paragraphs 69-73]
  - m. Recognises that internal audit's remit extends to the entire control environment of the organisation and not just financial controls
  - n. Establishes internal audit's right of access to all records, assets, personnel and premises, including those of partner organisations where appropriate, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities [refer to paragraphs 74-77]

## 12. **DEFINITION OF THE CHIEF AUDIT EXECUTIVE (CAE)**

13. Within East Ayrshire Council the role of the chief audit executive (CAE) is undertaken by the Chief Auditor.

## 14. **DEFINITION OF THE BOARD**

15. The PSIAS lays out the role of a board in relation to specific standards. In a local authority the role of the board may be satisfied by an audit committee. In East Ayrshire the Governance and Scrutiny Committee fulfils the role of an audit committee and for the purposes of the key duties laid out in the PSIAS is the "board".

16. The key duties of the board are as follows:

- approve the internal audit charter (Standard 1000)
- approve the risk based internal audit plan including the approval of the internal audit budget and resource plan (Standard 1110)
- receiving communications from the Chief Auditor on internal audit performance relative to its plan and other matters (Standard 2020)
- receive an annual confirmation from the Chief Auditor with regard to the organisational independence of the internal audit activity (Standard 1110)

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- receive the results of the quality assurance and improvement programme from the Chief Auditor (Standard 1320)
  - make appropriate enquiries of the management and the Chief Auditor to determine whether there are inappropriate scope or resource limitations.

## 17. DEFINITION OF SENIOR MANAGEMENT

18. The PSIAS anticipates the role of senior management to include the following key duties:

- input to the risk based internal audit plan (Standard 2010)
- receive periodic reports from the Chief Auditor on internal audit activity (Standard 2060); that includes follow-up reports (Standard 2500)
- receive the results of the quality assurance and improvement programme from the Chief Auditor (Standard 1320).

## 19. DEFINITION OF INTERNAL AUDITING

20. East Ayrshire Council has adopted the PSIAS definition of 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”.***

## 21. RESPONSIBILITIES AND OBJECTIVES OF INTERNAL AUDIT

22. Internal Audit is an independent appraisal function established within the authority to examine and evaluate activities with a view to achieving the following main objectives:

- assist officers and members of the authority in the effective discharge of their responsibilities including the Chief Executive and the Section 95 Officer responsible for ensuring the proper administration of the authority’s financial affairs;
- examine, evaluate and report on the adequacy of internal controls as a contribution to the efficient, effective and economic use of resources;
- ensure that the authority’s assets and interests are accounted for and safeguarded from losses;
- maintain a level of independence and integrity to permit the proper performance of the audit function;
- preparing an annual evidence based opinion on the adequacy of the Council’s internal control systems.

23. It is the responsibility of the Chief Auditor to provide an independent and objective opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control. The Chief Auditor’s annual report is presented to those charged with governance and should be used to support the Council’s Annual Governance Statement.

24. Internal Audit employees will ensure that they conduct work with due professional care and in line with the requirements of the PSIAS and any other relevant professional standards.

25. Internal auditors will treat as confidential the information they receive in carrying out their duties. There must not be any unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of an audit will not be used to effect personal gain.



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## 26. SCOPE OF INTERNAL AUDIT ACTIVITIES

27. To enable Internal Audit to meet its objectives, it will undertake work within a scope of activities including:

- review of controls within existing systems and systems under development
- compliance with Council policy and procedures including Financial Regulations
- transactions testing to ensure accuracy of processing
- contract audit
- computer audit
- anti-fraud
- investigation of suspected fraud and irregularities
- value for money studies
- following the public pound
- performance indicators
- self-evaluation
- provision of advice to departments and establishments including consulting services

Since 2015/16, in line with PSIAS requirements, Committee has sought reassurance from management and the Chief Auditor as to whether there were any inappropriate scope or resource limitations.

## 28. DEFINITION OF CONSULTING SERVICES

29. The PSIAS defines consulting services as follows:

*“Advisory and client related service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation’s governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training”.*

30. East Ayrshire Council’s Audit Plan will clearly show items which fall within the definition of consulting services.

31. The PSIAS requires that approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement (Standard 1130). Within East Ayrshire Council the board has defined significant as any single assignment equivalent to 5% of annual planned days; these significant additional items will be brought to the Governance and Scrutiny Committee for approval.

## 32. ARRANGEMENTS FOR APPROPRIATE RESOURCING

33. As stated in the CIPFA Application Note (February 2019), “Neither the PSIAS nor this application note set out a formula to determine an appropriate level of internal audit coverage. However, as a guide, the minimum level of coverage is that required to support an annual evidence-based opinion. Local factors within each organisation will determine this minimum level of coverage (for example, the level of assurance provided by other providers)”.

34. In terms of determining whether adequate resources are allocated to the internal audit function Audit Scotland have advised that they expect a risk based plan to be prepared with high risk items accommodated; that is the established approach in East Ayrshire and will continue to be the case.

35. The annual audit plan lays out the planned audit resources for the year with the objective of giving an evidence-based opinion. Major financial systems are scheduled to be audited on a regular basis with

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at least one system audited annually. The scope of audit activity is scheduled over a multi-annual cycle to ensure coverage by department and type of audit (e.g. contract audit)

36. In the event that the risk assessment, carried out to prepare the annual plan, identifies a need for more audit work than there are resources available, the Chief Auditor will identify the shortfall and advise the Chief Executive followed by Executive Management Team (EMT) and Committee as required to assess the associated risks or to recommend additional resources are identified.
37. Within the audit plan there will be provision for both assurance work and consulting activities.
38. The audit plan will also include contingencies to address unplanned work. These resources will be directed towards responding to specific control issues highlighted by senior management during the year including fact-finding/investigations.
39. Internal audit work is prioritised according to risk, through the judgement of the Chief Auditor, informed by the Council's risk registers and in consultation with senior management and external audit. Consideration is also given to relevant reports issued by Audit Scotland / external audit including the Local Scrutiny Plan.
40. Internal audit activity is subject to annual review by external audit; any relevant recommendations with regard to resourcing would be reported to Committee by the Chief Auditor with proposed actions.
41. Should circumstances arise, during the year, that resources fall or appear to be falling below the minimum level required to provide an annual evidence based opinion the Chief Auditor will advise senior management and Committee

## 42. **ORGANISATIONAL INDEPENDENCE OF INTERNAL AUDIT**

43. The PSIAS requires that reporting and management arrangements must be put in place that preserve the Chief Auditor's independence and objectivity, in particular with regard to the principle that the Chief Auditor must be independent of the audited activities.
44. PSIAS Standard 1110 requires the Chief Auditor to report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities and reporting to the board is the generally accepted method of helping to ensure that organisational independence is attained. The Chief Auditor reports directly to the Governance and Scrutiny Committee within East Ayrshire Council.
45. CIPFA and the Chartered Institute of Internal Auditors (CIIA) expect that the Chief Auditor should report to at least corporate management team level. Within East Ayrshire Council the Chief Auditor reports directly to the Chief Executive. In addition the Chief Auditor has unrestricted access to the Section 95 Officer / Proper Finance Officer and his/her deputy and the Monitoring Officer including where matters arise relating to the conduct of the Chief Executive in areas of Chief Executive responsibility.
46. The PSIAS also requires that the Chief Executive (or equivalent) should be involved in the performance appraisal of the Chief Auditor and that the Chair of the Audit Committee should also provide feedback into that process.
47. The internal audit team will ensure that independence and objectivity are maintained in line with the PSIAS including where non-audit work is undertaken. To manage potential conflicts of interest, internal auditors will have no operational responsibilities and a Declaration of Interest form will be completed for all assignments.

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## 48. **PLANNING**

49. The Annual Audit Plan will be submitted to the Governance and Scrutiny Committee at the beginning of the financial year for approval. The plan will be compiled following consultation with the Chief Executive, Depute Chief Executive (Economy and Skills) & Chief Finance Officer who acts as the Council's Proper Finance Officer, the Depute Chief Executive (Safer Communities), the Director of Health and Social Care, the Head of Finance & ICT and the Chief Governance Officer who acts as the Council's Monitoring Officer.
50. The Annual Audit Plan will be a risk-based audit plan designed to implement the objectives of internal audit, taking account of the organisation's risk management process. Any difference between the plan and resources available will be identified and reported to senior management and Committee as required.
51. The risk-based plan will outline the assignments to be carried out and the broad resources and skills required to deliver the plan. It will provide sufficient information for senior management and Committee to understand the areas to be covered and to be satisfied that sufficient resources and skills are available to deliver the plan.
52. The audit plan will be kept under review to identify any amendment needed to reflect changing priorities and emerging risks. It will be flexible, containing an element of contingency to accommodate assignments which could not have been reasonably foreseen.
53. Internal Audit will consult with the Council's external auditor and with other relevant inspection and review bodies, as required, in order to co-ordinate effort and avoid duplication.

## 54. **REPORTING**

55. During 2017/18 the first External Quality Assessment (EQA) was carried out by an independent assessment team from outside the Council. The EQA action plan recognised that current reporting arrangements are designed to deliver proportionate and appropriate reporting to all of our stakeholders - the public, partners, elected Members, senior management and external audit. The Chief Auditor committed, in conjunction with the Chair of the Governance and Scrutiny Committee, to keeping the level of the reporting to Committee under review, to ensure it continues to meet the needs of all parties.

Standard distribution for Internal audit assignment reports prepared for the Council will be as follows:

- Client departments will receive a copy of the Internal Audit report at the conclusion of the audit assignment, and draft reports for clearance prior to that with significant issues found during the audit reported immediately to relevant officers.
- The Chief Executive, the Depute Chief Executive (Economy & Skills) & Chief Financial Officer who acts as the Council's Section 95 Proper Finance Officer, the Head of Finance & ICT who acts as the Depute Section 95 Officer for the Council and Section 95 Officer for the East Ayrshire Integration Joint Board (IJB) and the Chief Governance Officer who acts as the Council's Monitoring Officer. The Council's External Auditor will also receive copies of all Internal Audit reports and has access to all internal audit working papers.
- The Councillors' Noticeboard on the Council's intranet will be populated with all Internal Audit reports usually after all client responses are agreed. There may be circumstances, relating to other processes including disciplinary and criminal proceedings which will lead to a delay in reports being placed on the Noticeboard.

The readership for partnership client groups including the Ayrshire Roads Alliance (ARA), the East Ayrshire Integration Joint Board (IJB) and the East Ayrshire Leisure Trust (EALT) will reflect relevant governance arrangements and will be confirmed on each report. All ARA reports will include the standard Council readership and South Ayrshire Council senior management. IJB reports will be

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shared with the Council and the NHS. The Council's funding agreement with the EALT allows where issues arise that are deemed to be of interest to the Council, these will be reported to the Chief Executive and where appropriate to Elected Members. ARA reports will be shared with the Ayrshire Shared Services Joint Committee (ASSJC) as appropriate.

In order to ensure a proportionate and appropriate approach to reporting the Chief Auditor may decide that internal audit reporting will take a shorter format (e.g. a Briefing Note) as opposed to a larger report format.

As required the Chief Auditor will use her discretion with regard to report distribution.

56. From time to time internal audit work is carried out which contributes to a larger piece of work led by management. That work will be reported to Committee but will not result in a separate audit report.
57. Audit Reports showing the activity of the Internal Audit Section, progress achieved against plan and a summary of significant audit findings will be presented to the Governance and Scrutiny Committee at regular intervals through mid-year and annual progress reports with any significant items arising out with that reporting cycle brought to the attention of the Chief Executive and Committee as required.
58. In line with the PSIAS the Internal Audit Annual Report prepared for the Council will incorporate the annual opinion which will inform the Annual Governance Statement, a summary of the audit work that supports the opinion and a statement on conformance with the PSIAS and the results of the Quality Assessment and Improvement Programme (QAIP).

## 59. FOLLOW UP

60. The PSIAS also requires the Chief Auditor to establish a follow-up process to monitor and ensure management actions have been effectively implemented. This is an established process within East Ayrshire and can utilise both self-assessment by the client and on-the-spot testing based on risk. Currently all follow-ups are evidence based through testing carried out by Internal Audit.

## 61. CODE OF ETHICS

62. A Code of Ethics is necessary for the profession of internal auditing as trust is placed on its objective assurance about risk management, control and governance.
63. The PSIAS sets out a Code of Ethics around four principles which Internal Audit will adhere to. The four principles are **Integrity, Objectivity, Confidentiality and Competency**.
64. In order to demonstrate **Integrity** internal auditors:
- shall perform their work with honesty, diligence and responsibility
  - shall observe the law and make disclosures expected by the law and the profession
  - shall not knowingly be a party to an illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation
  - shall respect and contribute to the legitimate and ethical objectives of the organisation.
65. In order to demonstrate **Objectivity** internal auditors:
- shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation
  - shall not accept anything that may impair or be presumed to impair their professional judgement
  - shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

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66. In order to demonstrate **Confidentiality** internal auditors:
- shall be prudent in the use and protection of information acquired in the course of their duties
  - shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.
67. In order to demonstrate **Competency** internal auditors:
- shall engage only in those services for which they have the necessary knowledge, skills and experience
  - shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing
  - shall continually improve their proficiency and effectiveness and quality of their services.
68. Internal auditors will also have regard to:
- the Council's policies and procedures including Financial Regulations
  - the Internal Audit Charter and the Internal Audit Manual
  - the Committee on Standards of Public Life's "Seven Principles of Public Life"
  - the relevant requirements of their professional body.
69. **FRAUD AND CORRUPTION**
70. Managing the risk of fraud and corruption is the responsibility of management; Internal Audit will assist management in the effective discharge of this responsibility.
71. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption.
72. Any evidence or reasonable suspicion of an irregularity relating to funds, stores, property or records of the Council shall be reported immediately to the Chief Auditor in accordance with the Council's Defalcation/Corrupt Practices Procedure. It is the responsibility of senior management to promote awareness of and adherence to the Council's Defalcation/Corrupt Practices Procedures.
73. It is important that the Chief Auditor is notified of all suspected or detected fraud, corruption or impropriety, to inform the annual audit opinion and the risk-based plan.
74. **AUTHORITY OF INTERNAL AUDIT**
75. The authority of Internal Audit is contained within the Council's Financial Regulations.
76. The Chief Auditor or his/her authorised representatives shall have authority, on production of identification, to:
- obtain entry at all reasonable times to any Council premises or land
  - have access to all systems, records, documents and correspondence relating to any financial and other transactions of the Council
  - have access to all IT hardware running systems on behalf of East Ayrshire Council including hardware owned by third party service providers
  - require and receive such explanations as are necessary concerning any matter under examination
  - require any employee of the Council to produce cash, stores, or any other Council property or records under his/her control
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77. Based on the principles contained within Following the Public Pound, the authority of Internal Audit will extend to partnership arrangements as required and will be reflected in relevant partnership agreements.
78. **QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)**
79. The PSIAS requires that a quality assurance framework be established, which will include both internal and external assessment of the work of Internal Audit.
80. The Chief Auditor is responsible for providing periodically an internal quality assessment (IQA) on the internal audit activity as regards its consistency with the requirements of the PSIAS. This will be carried out through annual self-assessment using the checklist in the CIPFA Application Note. Results of these IQAs will be communicated to senior management and the Governance and Scrutiny Committee through the annual report.
81. External quality assessments (EQAs) will be conducted at least once every five years and may be a full external assessment or a self-assessment with independent validation in line with the PSIAS. These reviews will be commissioned in line with the PSIAS and the approach will be agreed by the Governance and Scrutiny Committee with outputs reported to Committee by the Chief Auditor.
82. The Chief Auditor will continue to report the results of external audit reviews of internal audit to Committee.
83. Following completion of the first EQA during 2017/18 the Chief Auditor agreed an action to lay out all elements of the entire PSIAS QAIP requirements in the Audit Charter and that is satisfied through the presentation of the table below.

QAIP PSIAS requirements	East Ayrshire Council compliance
<p><b>PSIAS standard 1300 Quality Assurance and Improvement Programme (QAIP):</b> the chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.</p> <p><i>Interpretation:</i> A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the <i>Standards</i> and an evaluation of whether internal auditors apply the <i>Code of Ethics</i>. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The chief audit executive should encourage board oversight in the quality assurance and improvement programme.</p>	<p>For our annual IQA we utilise the CIPFA PSIAS checklist incorporating over 300 questions to test compliance with the Standards.</p> <p>See Charter paras. 61-68 for the four principles of the Code of Ethics. Our compliance to these principles is tested through the annual IQA.</p> <p>Board oversight is achieved through inclusion of the IQA in our Annual Report to the Governance &amp; Scrutiny Committee; agreement by Committee to the EQA methodology and subsequent reporting of that EQA to Committee.</p>
<p><b>Standard 1310 Requirements of the Quality Assurance and Improvement Programme:</b> the quality assurance and improvement programme must include both internal and external assessments.</p>	<p>Compliance laid out above (Std 1300).</p>
<p><b>Standard 1311 Internal Assessments:</b> Internal assessments must include:</p>	<p>The team structure is built around senior posts with post holders suitably qualified and experienced to deliver work to a professional</p>

<ul style="list-style-type: none"> <li>• Ongoing monitoring of the performance of the internal audit activity.</li> <li>• Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.</li> </ul> <p><b>Interpretation:</b> Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the <i>Code of Ethics</i> and the <i>Standards</i>.</p> <p>Periodic assessments are conducted to evaluate conformance with the <i>Code of Ethics</i> and the <i>Standards</i>.</p> <p>Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.</p>	<p>standard set by East Ayrshire Council and the relevant accounting body of which they are a member.</p> <p>PSIAS standards including the Code of Ethics are cascaded through the Internal Audit Charter, to the operational Audit Manual and into working paper procedures. The annual IQA process is rotated within the team as a professional development tool.</p> <p>Ongoing monitoring is reflected in the routine arrangements laid out in the Audit Manual including the requirement for each assignment to have a Review Auditor who will check working papers to ensure a quality and evidence based approach for each assignment. Each assignment is subject to challenge by the client service prior to completion. The Chief Auditor will produce work which is not necessarily subject to review within the team but is subject to challenge by senior management.</p>
<p><b>QAIP PSIAS requirements</b></p>	<p><b>East Ayrshire Council compliance</b></p>
	<p>Annual team away days supported by Organisational Development are used to reinforce understanding of key PSIAS principles as part of professional development.</p> <p>We also participate in training initiatives organised locally and nationally through internal audit networks.</p>
<p><b>Standard 1312 External Assessments:</b> external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:</p> <ul style="list-style-type: none"> <li>• The form of external assessments.</li> <li>• The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.</li> </ul> <p><b>Interpretation:</b> External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the <i>Code of Ethics</i> and the <i>Standards</i>; the external assessment may also include operational or strategic comments.</p> <p>A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated</p>	<p>Following approval by Governance &amp; Scrutiny Committee of the methodology on 20 April 2017 the first PSIAS EQA was carried out during 2017/18 in compliance with Standard 1312 with the Chief Executive as sponsor. The resulting EQA report which confirmed that the East Ayrshire Council internal audit team was PSIAS compliant was considered by the Governance &amp; Scrutiny Committee on 26 April 2018.</p>

<p>through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.</p> <p>An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.</p> <p><b>Public sector requirement</b></p> <p>The chief audit executive must agree the scope of external assessments with an appropriate sponsor, e.g. the accounting/accountable officer or chair of the audit committee as well as with the external assessor or assessment team.</p>	
<p><b>QAIP PSIAS requirements</b></p>	<p><b>East Ayrshire Council compliance</b></p>
<p><b>PSIAS standard 1320 Reporting on the Quality Assurance and Improvement Programme (QAIP):</b> the chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board. Disclosure should include:</p> <ul style="list-style-type: none"> <li>• The scope and frequency of both the internal and external quality assessments.</li> <li>• The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.</li> <li>• Conclusions of assessors.</li> <li>• Corrective action plans.</li> </ul> <p><b>Interpretation:</b></p> <p>The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the <i>Code of Ethics</i> and the <i>Standards</i>, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.</p> <p><b>Public sector requirement</b></p> <p>The results of the quality and assurance programme and progress</p>	<p>The Internal Quality Assessment (IQA) will be carried out annually and the external quality assessment (EQA) every five years in line with PSIAS obligations.</p> <p>It was advised to Committee on 20 April 2017 that the first EQA tender would meet the PSIAS obligations with regard to qualifications, independence and conflict of interest.</p> <p>The EQA report was reported to Committee in full on 26 April 2018 with the assessors present.</p> <p>An annual IQA Action Plan is presented to Committee with the annual report. An additional EQA Action plan was presented in 2017/18 with the EQA report.</p> <p>Going forward the EQA actions will be added to the IQA Action Plan to create a combined Action Plan which will be reported with the annual report.</p>



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against any improvement plans must be reported in the annual report.	
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84. **CO-OPERATION**

85. Managers and staff should co-operate with Internal Audit with responses made to requests and reports made within an agreed timescale with escalation of failure to respond as appropriate and proportionate to the assignment.

**Eilidh Mackay**  
**Chief Auditor**  
**April 2019**