

## **Item: 9**

**Orkney and Shetland Valuation Joint Board: 30 June 2022.**

**Internal Audit Charter.**

**Report by Chief Internal Auditor.**

### **1. Purpose of Report**

To consider the Internal Audit Charter for 2022 to 2024.

### **2. Recommendations**

The Board is invited to note:

#### **2.1.**

That, in order to comply with the Public Sector Internal Audit Standards, an Internal Audit Charter, which defines the purpose, authority and responsibility of the Board's internal audit activity, requires to be prepared.

**It is recommended:**

#### **2.2.**

That the Internal Audit Charter for 2022 to 2024, attached as Appendix 1 to this report, be approved.

### **3. Background**

#### **3.1.**

At the Board meeting of 3 March 2022, the appointment of Orkney Islands Council's Chief Internal Auditor of to provide a VJB specific internal audit service was approved.

#### **3.2.**

An internal audit charter describes how internal audit will provide value to the organisation, the nature of the services it will provide, and the specific focus or emphasis required of internal audit to help the organisation achieve its objectives.

## **4. The Internal Audit Charter**

### **4.1.**

The Internal Audit Charter establishes the position of Internal Audit within the OSVJB, including the Chief Internal Auditor's reporting relationship to the Board. The Charter also details the authority of internal audit to access records, personnel and physical properties relevant to the performance of audit engagements and defines the scope of internal audit activity.

### **4.2.**

The Charter conforms with the Public Sector Internal Audit Standards and recognises the mandatory nature of the core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing.

## **5. Financial Implications**

There are no financial implications arising directly from this report.

## **6. Governance Aspects**

The content and implications of this report have been reviewed and, at this stage, it is deemed that the Board **DOES NOT** require external legal advice in consideration of the recommendations of this report.

## **7. Contact Officer**

Andrew Paterson, Chief Internal Auditor, extension 2107, Email [andrew.paterson@orkney.gov.uk](mailto:andrew.paterson@orkney.gov.uk)

## **8. Appendix**

Appendix 1: Internal Audit Charter 2022 to 2024.



# Orkney & Shetland Valuation Joint Board



## Internal Audit Charter 2022 - 2024

Issue date: 01 June 2022

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## Introduction

The Internal Audit Charter formally defines the purpose, authority and responsibility for the Orkney and Shetland Valuation Joint Board (OSVJB) Internal Audit Service.

The Charter acknowledges the mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Public Sector Internal Audit Standards (PSIAS) and the Definition of Internal Auditing.

In terms of the PSIAS, the “Board” shall mean the Board and “Senior Management” shall mean the Assessor and the Board Officers.

The Charter is in accordance with the Public Sector Internal Audit Standards (PSIAS).

## Purpose and Mission

The purpose of OSVJB Internal Audit Service is to provide independent, objective assurance and consulting services designed to add value and improve the OSVJB’s operations.

The Internal Audit Mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit helps the OSVJB accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## Standards for Professional Practice of Internal Auditing

The Internal Audit Service will be governed by adherence to the mandatory elements of the PSIAS, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing. The Chief Internal Auditor (CIA) will report periodically to senior management and the Board regarding Internal Audit’s conformance to the Code of Ethics and the Standards.

## Authority

The CIA will be accountable to the Board and will report administratively to the Assessor.

To establish, maintain, and assure that the Internal Audit Service has sufficient authority to fulfil its duties, the Board will:

- Approve the internal audit charter.
- Approve the risk-based internal audit strategy and plan.
- Receive communications from the CIA on internal audit’s performance relative to its plan and other matters.
- Make appropriate enquiries of management and the CIA to determine whether there is inappropriate scope or resource limitations.

The CIA will have unrestricted access to, and communicate and interact directly with, the Board, including in private meetings without management present.

The CIA will also have unrestricted access and accountability to the Assessor.

The Internal Audit Service, with strict accountability for confidentiality and safeguarding records and information, is authorised to:

- have unrestricted access to all records, documents and correspondence, including electronic records, pertinent to any engagement.
- have unrestricted access to personnel pertinent to any engagement.
- require and receive such explanations as are necessary concerning any matter under examination.

## Independence and Objectivity

The CIA will ensure that the Internal Audit Service remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the CIA determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

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

Where the CIA has roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.

The CIA will confirm to the Board, at least annually, the organisational independence of the Internal Audit Service.

The CIA will disclose to the Board any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

## Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Board, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the OSVJB.

Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the OSVJB's strategic objectives are appropriately identified and managed.
- The actions of the OSVJB's employees, and contractors are in compliance with policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programmes are consistent with established goals and objectives.
- Operations or programmes are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the OSVJB.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The CIA will report periodically to senior management and the Board regarding:

- The internal audit service's purpose, authority, and responsibility.
- The internal audit service's plan and performance relative to its plan.
- The internal audit service's conformance with The Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring attention or requested by the Board.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the Board.

The CIA also, where possible, considers relying upon the work of other internal and external assurance and consulting service providers. The internal audit service may perform consultancy and advisory services, the nature and scope of which will be agreed with the client, provided the internal audit service does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

## Responsibility

The CIA has the responsibility to:

- Submit, at least annually, to senior management and the Board a risk-based internal audit plan for review and approval.

- Communicate to senior management and the Board the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in the OSVJB's business, risks, operations, programmes, systems, and controls.
- Communicate to senior management and the Board any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programmes and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Board any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit service collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Internal Audit Charter.
- Ensure trends and emerging issues that could impact the OSVJB are considered and communicated to senior management and the Board as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit service.
- Ensure adherence to the OSVJB's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Board.
- Ensure conformance of the internal audit service with the Standards.

## Fraud

Every member of the OSVJB and its representatives have a duty to report any suspicion of fraud, bribery or irregularity to the Board Treasurer and the Chief Internal Auditor. When a matter arises where it is suspected that an irregularity exists, the Board Treasurer in conjunction with the Chief Internal Auditor and the Assessor, will take such steps as may be considered necessary by way of investigation, and report.

## Staffing and Training

Internal audit will be staffed with persons of appropriate qualification and experience. In compliance with the PSIAS, the CIA must hold a professional qualification, CMIIA (Chartered Member of the Institute of Internal Auditors), CCAB (Consultative Committee of Accountancy Bodies qualified accountant) or equivalent.

The CIA will ensure that 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 PSIAS.

All professionally qualified staff are required as per the relevant professional institute to maintain their Continued Professional Development (CPD). The training needs of individual staff will be reviewed annually with them, and all training will be recorded and assessed in a personal training record.

## **External Audit**

The statutory role of external audit is to provide assurance on the OSVJB's financial statements, and also to review matters such as propriety, performance and the use of resources in accordance with the principles of Best Value and value for money.

The external auditors review the OSVJB's corporate governance arrangements including its systems of internal control. Internal audit forms an integral part of the internal control framework, and therefore external audit review the internal audit arrangements regularly to ensure it is of sufficient quality and volume and complies with best practice.

The CIA and external audit representatives liaise each year on audit planning to ensure that effective and efficient use is made of the combined audit resource and to avoid any duplication of work. The CIA may raise concerns directly with the external auditor.

The external auditors are provided with copies of all internal audit reports, and the working papers are available to them for examination.

## **Quality Assurance and Improvement**

The internal audit service will maintain a quality assurance and improvement programme that covers all aspects of internal audit activity. The programme will include an evaluation of the internal audit service's conformance with the PSIAS and an evaluation of whether internal auditors apply the Code of Ethics. The programme will also assess the efficiency and effectiveness of the internal audit service and identify opportunities for improvement.

The CIA will communicate to senior management and the Board on the quality assurance and improvement programme, including results of internal assessments (both ongoing and periodic) and the external assessments conducted at least once every five years by a qualified, independent assessor or assessment team.