



Scottish Government
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Directorate for Internal Audit and Assurance

Internal Audit Charter

2022-23

Directorate for Internal Audit and Assurance

Issue Date: 7-03-2022

Contents

1. Purpose and Mission.....	3
2. Standards for the Professional Practice of Internal Audit.....	3
3. Authority.....	4
4. Independence and Objectivity.....	5
5. Scope of internal audit activities.....	7
6. Responsibility.....	9
7. Quality assurance and improvement programme.....	10
8. Signatures.....	11

1. Purpose and Mission

- 1.1.** The Scottish Government's (SG) Internal Audit Division forms part of the Directorate for Internal Audit and Assurance (DIAA), comprising of Internal Audit (IA), Digital Assurance Office (DAO), Portfolio, Programme and Project Assurance (PPPA), the Data Protection Officer (DAO) and the Head of Counter Fraud Profession (HoCFP). The work of IA remains segregated from the wider Directorate with resources, budget and operational control being ring fenced.
- 1.2.** The purpose of IA is to provide independent, objective assurance and consulting services designed to add value and improve clients' operations. IA clients consist of the SG and a range of public sector bodies including Executive Agencies and Non-Ministerial Bodies. In line with the Scottish Government's organisational vision "In the Service of Scotland", the mission of IA is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. IA helps its clients accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

2. Standards for the Professional Practice of Internal Audit

- 2.1.** IA will govern itself by adherence to the Public Sector Internal Audit Standards (PSIAS), which includes the mandatory Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. As Civil Servants, internal auditors are also governed by the Seven Principles of Public Life (Nolan Principles).
- 2.2.** IA also works to the International Professional Practices Framework (IPPF). This is a framework of principles and standards, which support IA in delivering the purpose and mission. The IPPF provides a number of core principles that articulate internal audit effectiveness. This is further supported by a Code of Ethics, which all internal auditors are required to work within.

2.3. The Director of Internal Audit and Assurance will report periodically to senior management and relevant Audit and Assurance Committees, including the Scottish Government Audit and Assurance Committee (SGAAC) regarding conformance to the PSIAS. The Chair of SGAAC will also contribute to the Director of Internal Audit and Assurance's annual appraisal report.

3. Authority

3.1. The Director of Internal Audit and Assurance will report functionally to the Principal Accountable Officer of the Scottish Government, and Accountable Officers of the other relevant public bodies, and administratively (i.e. day-to-day operations) to the Director General Scottish Exchequer.

3.2. To establish, maintain, and ensure that IA has sufficient authority to fulfil its duties, SGAAC will approve the Internal Audit Charter on behalf of all clients and approve decisions regarding the appointment and removal of the Director of Internal Audit and Assurance. The Accountable Officers of individual clients, with appropriate challenge and support from their Audit and Assurance Committees, will:

- a.** Approve the risk-based internal audit plan for their organisation.
- b.** Approve the associated internal audit budget and resource plan.
- c.** Receive communications from the Director of Internal Audit and Assurance on Internal Audit's performance relative to its plan and other matters.
- d.** Make appropriate inquiries of management and the Director of Internal Audit and Assurance to determine whether there is inappropriate scope or resource limitations.

3.3. The Director of Internal Audit and Assurance will have unrestricted access to, and communicate and interact directly with the Accountable Officers and Audit and Assurance Committees of their clients (including the Permanent Secretary and SGAAC), including in private meetings without management present.

3.4. The SGAAC and client Audit and Assurance Committees authorise IA to:

- a. have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- b. allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- c. obtain assistance from the necessary personnel, as well as other specialised services from within or outside IA, in order to complete the engagement.

4. Independence and Objectivity

- 4.1.** The Director of Internal Audit and Assurance will ensure that IA 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 Director of Internal Audit and Assurance determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.
- 4.2.** Where the Director of Internal Audit and Assurance has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards have been established to limit impairments to independence or objectivity. In regards to the wider assurance work of the Directorate, safeguards are in place to ensure that the technical oversight of other functions does not impair the impartiality or independence of the Internal Audit team. These include:
- a. The ring fencing of internal audit resources (budgets and staff).
 - b. The retention of the Internal Audit practices for planning through to reporting as set out within the audit manual.
 - c. The Director of Internal Audit and Assurance will not direct or control the development of the work plans for the Assurance teams.
 - d. The Director of Internal Audit and Assurance will seek periodic agreement with SGAAC that the structure and safeguards are effective.

- e. An independent line of review via the co sourcing partner on the work and procedures for the assurance functions.

4.3. 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.

4.4. 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 judgment, including:

- a. Assessing specific operations for which they had responsibility within the previous year.
- b. Performing any operational duties for SG or clients.
- c. Initiating or approving transactions external to IA.
- d. Directing the activities of any SG or client employee not employed by IA, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

4.5. Management have responsibility for the prevention and detection of fraud. Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. IA are members of the SG Integrity Group.

4.6. Internal auditors are also required to highlight where they have a role or an issue that may impact upon the independence of the internal audit team. Internal auditors will:

- a. Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- b. Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.

- c. Make balanced assessments of all available and relevant facts and circumstances.
- d. Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

4.7. The Director of Internal Audit and Assurance will confirm to the Audit and Assurance Committees, at least annually, the organisational independence of IA.

4.8. The Director of Internal Audit and Assurance will disclose to the relevant Audit and Assurance Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

5. Scope of internal audit activities

5.1. 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 Audit and Assurance Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for its client. Internal audit assessments include evaluating whether:

- a. Risks relating to the achievement of its client's strategic objectives are appropriately identified and managed.
- b. The actions of its client's officers, directors, employees, and contractors are in compliance with the client's policies, procedures, and applicable laws, regulations, and governance standards.
- c. The results of operations or programmes are consistent with established goals and objectives.
- d. Operations or programmes are being carried out effectively and efficiently.
- e. Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the client.
- f. Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.

- g.** Resources and assets are acquired economically, used efficiently, and protected adequately.

5.2. The Director of Internal Audit and Assurance will report periodically to senior management and the relevant Audit and Assurance Committee regarding:

- a.** IA's purpose, authority, and responsibility.
- b.** IA's plan and performance relative to its plan.
- c.** IA's conformance with The Institute of Internal Auditors' Code of Ethics and Standards, and action plans to address any significant conformance issues.
- d.** Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- e.** Results of audit engagements or other activities.
- f.** Resource requirements.
- g.** Any response to risk by management that may be unacceptable to the client.

5.3. The Director of Internal Audit and Assurance also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. IA may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided IA does not assume management responsibility.

5.4. Alongside providing assurance to the Accountable Officer and Audit and Assurance Committee of non-core clients, internal audit assurance will also be provided on those corporate systems that the client utilises through the core Scottish Government. The cost of the assurance over the corporate systems is covered in whole, by the Scottish Government.

5.5. 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.

6. Responsibility

6.1. The Director of Internal Audit and Assurance has the responsibility to:

- a.** Submit, at least annually, to senior management and the relevant Audit and Assurance Committee a risk-based internal audit plan for review and approval.
- b.** Communicate to senior management and the Audit and Assurance Committee the impact of resource limitations on the internal audit plan.
- c.** Review and adjust the internal audit plan, as necessary, in response to changes in the client's business, risks, operations, programmes, systems, and controls.
- d.** Communicate to senior management and Audit and Assurance Committees any significant interim changes to the internal audit plan.
- e.** 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.
- f.** Follow up on engagement findings and corrective actions, and report periodically to senior management and Audit and Assurance Committees any corrective actions not effectively implemented.
- g.** Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- h.** Ensure IA collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- i.** Ensure trends and emerging issues that could impact clients are considered and communicated to senior management and Audit and Assurance Committees as appropriate.
- j.** Ensure emerging trends and successful practices in internal auditing are considered.

- k.** Establish and ensure adherence to policies and procedures designed to guide IA.
- l.** Ensure adherence to clients' 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 relevant Audit and Assurance Committee.
- m.** Ensure conformance of IA with the PSIAS, with the following qualification that if IA is prohibited by law or regulation from conformance with certain parts of the PSIAS, the Director of Internal Audit and Assurance will ensure appropriate disclosures and will ensure conformance with all other parts of the PSIAS.

6.2. In order to deliver an effective audit service, there is a need to ensure that IA is appropriately staffed in terms of numbers, grades, qualifications, training and experience. IA's recruitment processes aim to ensure that new staff possess the appropriate personal skills and attributes and relevant qualifications (or the perceived ability to undertake professional training). Staff are also required, after qualification, to undertake continuing professional development, normally as part of the SG's staff development arrangements.

6.3. Where appropriate, and as required, the Director of Internal Audit and Assurance may, within budget and subject to concurrent SG resourcing policies arrange to obtain specialist resources to supplement the range of skills available within IA, e.g. IT skills. IA will consult with managers and the relevant Audit and Assurance Committee about any such resources that it considers will be required. The Director may also, subject to the above conditions, arrange for the employment of temporary contract staff to cover resource shortfalls or specialised requirements as appropriate, within the function's budget.

7. Quality assurance and improvement programme

7.1. IA will maintain a quality assurance and improvement programme that covers all aspects of IA. The programme will include an evaluation of IA's conformance with

the PSIAS. The programme will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.

7.2. The Director of Internal Audit and Assurance will communicate to senior management and Audit and Assurance Committees on the IA quality assurance and improvement programme, including results of internal assessments (both on-going and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside SG.

8. Signatures

Director of Internal Audit and Assurance | Date:

SHARON FAIRWEATHER

SGAAC Chair | Date:

RONNIE HINDS

Scottish Government Audit and Assurance Committee Chair

Principal Accountable Officer | Date:

JOHN PAUL MARKS

Permanent Secretary to the Scottish Government