



*CAERPHILLY COUNTY  
BOROUGH COUNCIL*



*INTERNAL AUDIT SERVICES*

*AUDIT CHARTER*

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The Internal Audit Charter is a formal document that defines the Internal Audit Services activities, purpose, authority and responsibility. The Internal Audit Charter establishes Internal Audit's position within the organisation, including the nature of the Internal Audit Manager's functional reporting relationship with the Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities. Final approval of the Internal Audit Charter resides with the Audit Committee.

### **Mission**

Internal Audit Services main purpose is to provide independent, objective assurance and advisory services designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The function provides independent and objective evaluation of, and opinion on, the overall adequacy and effectiveness of the framework of governance, risk management and control in the Authority in an economical, efficient and timely manner. This includes identification of risks and assessment of their management, and implementation of changes to strengthen the governance framework. The Internal Audit Manager's opinion is a key element of the framework of assurance that the Director of Corporate Services needs to inform the completion of the Annual Governance Statement.

### **Scope of work**

The scope of work of Internal Audit Services is to determine whether the Council's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed;
- Interaction with the various governance groups occurs as needed;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved;

- Quality and continuous improvement are fostered in the Council's control process;
- Significant legislative or regulatory issues impacting the Council are recognised and addressed appropriately; and
- Opportunities for improving management control, profitability and the Council's image may be identified during audits. They will be communicated to the appropriate level of management.

The scope of internal audit work may include audit activity both within the Council and on functions that the Council has delegated or contracted out, where the Council remains accountable for the expenditure involved.

Where other internal or external assurance providers may have undertaken relevant assurance and audit work, Internal Audit Services will seek to rely on the work of these other assurance providers where professional standards would make it appropriate to do so.

### **Authority of Internal Audit**

Internal Audit Services derives its authority from those authorising this Charter to provide a free and unfettered ability to plan and undertake audit assignments deemed necessary to fulfil its purpose, and have a right of direct access to the Chair of the Audit Committee in doing so.

To enable the service to discharge its duties fully, the Internal Audit Manager and his Internal Audit staff are authorised to:

- Have unrestricted access to all functions, records, property, and personnel;
- Have full and free access to the Audit Committee;
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and
- Obtain the necessary assistance of personnel in units of the Council where they perform audits, as well as other specialised services from within or outside the Council.

### **Responsibility**

The Internal Audit Manager and staff of the Internal Audit function have a responsibility to:

#### *Plan*

- Develop a flexible annual strategy and audit plan using a risk-based methodology, including any risks and concerns identified by management, and submit that strategy and plan to the Audit Committee for review and approval;
- Agree significant changes to the plan with the Director of Corporate Services and the Audit Committee;

#### *Act*

- Implement the annual strategy by assessing third party assurance sources and conducting audits in accordance with the approved plan, and relevant professional standards and policies;
- Evaluate and assess areas of significant change;
- Assist, as needed, in the investigation of significant suspected fraudulent activities within the organisation;

*Report*

- Agree a reporting protocol with the Audit Committee and associated escalation procedures. The reporting protocol should also include agreements on, and the timescales for, following up audit reports and tracking issues raised and their clearance;
- Issue periodic reports to the Audit Committee summarising results of Internal Audit activities;
- Consider the scope of work of other assurance providers for the purpose of providing optimal assurance coverage;

*Communicate*

- Communicate regularly with Internal Audit stakeholders and customers to ensure that changes in the business, its activities and the control environment are factored into the Internal Audit strategy and plan where appropriate;
- During audits, raise significant issues for the attention of line management as soon as identified, and discuss all draft reports with the auditee before finalisation to confirm facts and incorporate management responses;

**Reporting lines**

Day to day management of the Internal Audit team will be undertaken by the Internal Audit Manager. The Internal Audit Manager reports to the Council's Audit Committee for organisational purposes but will report significant audit findings and audit progress directly to the Director of Corporate Services as appropriate. The Internal Audit Manager will keep the Director of Corporate Services and the Audit Committee informed of progress and developments on a regular basis. The Internal Audit Manager has a direct right of access to the Director of Corporate Services as and when required.

Should the Internal Audit Manager not be satisfied with management's response to a given audit report then this will be highlighted to the Audit Committee and significant weaknesses escalated to the Director of Corporate Services if they remain unresolved.

**Independence and objectivity**

To provide for the independence of Internal Audit, its personnel report to the Internal Audit Manager, who reports functionally to the Audit Committee and administratively to the Director of Corporate Services in a manner outlined in the section below on 'Accountability'.

**Accountability**

The Internal Audit Manager, in the discharge of his duties, shall be accountable to the Audit Committee and the Director of Corporate Services for:

- Providing, at least annually, an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control;
- Reporting significant issues related to the processes for controlling the activities of the Council and its affiliates, including recommendations and status of implementation of improvements;

- Periodically providing information on the status and results of the annual audit plan and the sufficiency of the Internal Audit function's resources;
- Co-ordination with other significant assurance functions.

### **Management responsibilities**

Internal Audit Services can only be effective if it receives the full co-operation of management. By approving this Internal Audit Charter the Director of Corporate Services and the Audit Committee are mandating management to co-operate with Internal Audit in the delivery of the service by:

- Agreeing Terms of Reference, to include agreements on duration, scope, reporting and response;
- Sponsoring each audit at Head of Service level;
- Providing Internal Audit Services with full support and co-operation, including complete access to all records, data, property and personnel relevant to the performance of their responsibilities at all levels of operations, without unreasonable delay;
- Responding to the draft internal report, including provision of management responses to recommendations, within the timescale requested by the audit team;
- Implementing agreed management actions in accordance with the agreed timescales;
- Updating Internal Audit Services with progress made on management actions, informing Internal Audit Services of proposed changes and developments in process and systems, newly identified significant risks and cases of a criminal nature.

Instances of late responses to reports and agreed actions not being implemented will be escalated, when appropriate, to the Director of Corporate Services and the Audit Committee.

Whilst the annual internal audit report is a key element of the assurance framework required to inform the Annual Governance Statement, there are also a number of other sources from which those charged with governance should gain assurance. The level of assurance required from Internal Audit Services will be agreed with the Audit Committee at the beginning of the year and presented in the annual Internal Audit plan (and subsequent agreed amendments). As such, the annual Internal Audit opinion does not supplant responsibility of those charged with governance from forming their own overall opinion on internal controls, governance arrangements, and risk management activities.

### **Advisory work**

Public Sector Internal Audit Standards ("PSIAS") allow that Internal Audit effort may sometimes be more usefully focused towards providing advice rather than assurance over core controls. Where appropriate, Internal Audit will act in a consultancy capacity by providing guidance and advice for strengthening the control environment within the Authority, providing:

- The objectives of the Consulting engagement address governance, risk management and control processes to the extent agreed upon with the Authority;

- The request has been approved at Director level;
- Internal Audit Services is considered to have the right skills, experience, and available resource;
- Internal Audit's involvement will not constitute a conflict of interest in respect of maintaining an independent stance, and Internal Audit will not assume a management role in providing this advice.

When performing consulting services, the auditor must maintain objectivity and not take on management responsibility.

The Internal Audit Manager is responsible for ensuring that all requests are reviewed in accordance with the above criteria and for making the final decision. The role which Internal Audit Services will assume on any particular advisory assignment will be agreed with the sponsor, will be documented within the assignment plan, and reported to the Audit Committee.

## Relationships

The Internal Audit Manager and Internal Audit staff are involved in a wide range of relationships and the quality of those relationships impact on the quality of the audit function and the effective delivery of that function.

### **Relationships With Management**

The Internal Audit Manager and Internal Audit staff will maintain effective relationships with managers of the Council. Regular meetings will be held with key stakeholders and management will be consulted with in the audit planning process. Timing of audit work will be in conjunction with management.

### **Relationships With External Auditors**

Internal Audit Services and the Welsh Audit Office have an established working relationship where internal and external audit can rely on each other's work, subject to the limits determined by their responsibilities, enabling them to evaluate, review and only re-perform where necessary. Regular meetings will be held and plans and reports shared.

### **Relationships With Regulators And Inspectors**

The Internal Audit Manager and his staff will take account of the results and reports from any inspections when planning and undertaking Internal Audit work. Where appropriate the Internal Audit Manager will establish a dialogue with representatives of the appropriate inspection agencies.

### **Relationships With Elected Members**

The Internal Audit Manager will establish a working relationship with members, in particular with members of the Audit Committee. The Internal Audit Manager has the opportunity to meet with the Chair of the Audit Committee if desired.

## Standards of Internal Audit Practice

This charter recognises the mandatory nature of the IIA definition of Internal Auditing and code of ethics, and the Public Sector Internal Audit Standards (PSIAS).

The Internal Audit team comply with the standards that came into effect on 1 April 2013.

## Quality assurance

Public Sector Internal Audit Standards require that the Audit Function is subject to a quality assurance and improvement programme that must include both internal and external assessments.

### Internal assessments

All of Internal Audit Services engagements are subjected to a thorough internal peer review of quality by to ensure that its work meets the standards expected from its staff. For example, the internal file quality reviews undertaken cover the following:

- All work undertaken is in accordance with PSIAS.
- The work is planned and undertaken in accordance with risks associated with areas under review.
- Sampling is undertaken in accordance with the agreed methodology.
- The conclusions are fully supported by our detailed work undertaken.

### External assessments

An external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Internal Audit Manager will discuss options for the assessment with the Director of Corporate Services and the Audit Committee.