

# Internal Audit Charter

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# Internal Audit Charter

## 1. Introduction

The Internal Audit Charter is a formal document, required by the Public Sector Internal Auditing Standards (PSIAS), 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 Governance & Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.

This Charter has been written in accordance with Standard 100 of the Public Sector Internal Audit Standards (PSIAS).

Throughout the Public Sector Internal Audit Standards, which Internal Audit Services are mandated to comply with, reference is made to the "Board", "Chief Audit Executive" and "Senior Management" and in respect of Caerphilly County Borough Council and this Charter specifically, these terms are taken to mean as follows:

"The Board" - the Council's Governance and Audit Committee,

"Chief Audit Executive" – the Council's Head of Financial Services & Section 151 Officer,

"Senior Management Team" – the Council's Corporate Management Team.

## 2. Mission, Definition Scope and Authority of Internal Audit

### Mission

The Public Sector Internal Auditing Standards set out the mission of Internal Audit as being *"to enhance and protect organisational value by providing risk based and objective assurance, advice and insight."*

### Definition

Internal Audit is defined within the Standards as:

*"an independent, objective assurance and advisory service 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."*

### Scope of Work

The scope of work of Internal Audit allows for the unrestricted coverage of the Authority's activities in order to review, report and provide the appropriate assurance based on its review to the Governance & Audit Committee. This is in order for the Committee 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.

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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 legislation. The requirement for an Internal Audit function for Local Authorities is implied by Section 151 of the Local Government Act 1972 which requires that Authorities shall "*make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs*". The Accounts and Audit (Wales) Regulations 2014 requires that "*a local government body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control*".

The scope of Internal Audit allows for a free and unfettered ability to plan and undertake audit assignments deemed necessary to fulfil its purpose, and to have a right of direct access to the Chair of the Governance & 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, although this may be restricted to named Senior Audit staff where information is sensitive or confidential, with the prior agreement of the S151 officer.

Have full and free access to the Governance & Audit Committee, the Chief Executive, all officers including Directors, the Leader of the Council, and Council Members.

Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and

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Obtain the necessary assistance of personnel in service areas of the Council where they perform audits, as well as other specialised services from within or outside the Council.

## 3 Objectives

Internal Audit's main objectives are to:

- Provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources.
- Provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- Assist in ensuring the objectives of the Council are being met.
- Provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.
- Provide advice and support to management to enable an effective control environment to be maintained.
- Promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud.
- Investigate allegations of fraud, bribery, corruption and other irregularities,
- Liaise with the police where criminal activities are suspected.

## 4 Roles and Responsibilities

### Role of Internal Audit

The role of Internal Audit is to;

- Review and assess the soundness, adequacy and reliability of financial and non-financial systems and operations.
- Review and assess the effectiveness of internal controls.
- Review and assess the appropriateness of actions proposed by management to rectify identified risks or to improve the internal control environment.
- Assess whether the Council's assets and interests are adequately protected, and risks are effectively managed.
- Assess the adequacy of compliance with legislation, Council policies and procedures.
- Review and assess the effectiveness of the Council's governance and risk management frameworks.
- Check for compliance with legislation, policies, and procedures.
- Promote and assist with the effective use of resources.
- Perform or support independent investigations into allegations of fraud or irregularities in accordance with the Council's policies and procedures.
- Perform any other specific reviews at the request of S151 officer.

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## Responsibilities of Internal Audit

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

### **Plan**

Internal Audit is committed to providing a plan of cyclical audits over a period of time. Major (fundamental or inherent high risk) systems being subject to more frequent coverage.

Internal Audit will prepare a flexible annual audit plan detailing the specific audits to be undertaken by using a risk-based methodology, including any risks and concerns identified by management. That plan will be submitted to the Governance & Audit Committee for review and approval.

Internal Audit will agree significant changes to the plan with the Section 151 Officer and the Governance & Audit Committee.

Internal Audit will advise Departments and locations of the planned reviews to be undertaken and will attempt to schedule such reviews to the mutual convenience of all parties.

### **Act**

Internal Audit will also assess third party assurance sources and conduct audits in accordance with the approved plan, and relevant professional standards and policies.

Internal Audit will evaluate and assess areas of significant change.

Internal Audit will assist, as needed, in the investigation of significant suspected fraudulent activities within the organisation.

### **Report**

Internal Audit will report all audit assignments to the management of the service area or establishment under review. Draft reports will be sent to Service Managers for verification of factual accuracy and for the recording of any comments and agreed actions in relation to any recommendations made. Final reports once agreed will then be issued to Heads of Service, Head Teachers, Chairs of Governing Bodies and under specific circumstances to Directors.

Audit reports will include an opinion of the system or compliance with controls based on the evidence found during the audit.

Internal Audit will agree a reporting protocol with the Governance & Audit Committee and associated escalation procedures. The reporting protocol should also include agreements regarding timescales for following up audit reports and tracking recommendations made.

Internal Audit will issue periodic reports to the Governance & Audit Committee summarising results of Internal Audit activities.

Internal Audit will consider the scope of work of other assurance providers for the purpose of providing optimal assurance coverage.

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## **Communicate**

Internal Audit will 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, Internal Audit will 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.

## **5 Provision of Internal Audit, Management Responsibilities and Reporting Lines**

The Internal Audit Function is provided in house and comprises 9 members of staff, Internal Audit manager (Chief Internal Auditor), 1 Principal Auditor, 2 Service Auditors, 4 Senior Audit Assistants and 1 Audit Assistant.

Day to day management of the Internal Audit team is undertaken by the Internal Audit Manager. The team consists of a number of professionally qualified and part qualified staff (ACA, ACCA, AAT) and it operates as a separate unit within the Corporate Finance Service area.

The Internal Audit Manager has a direct right of access to the Chief Executive Officer as and when required.

The Internal Audit Manager reports to the Council's Governance & Audit Committee for organisational purposes but will report significant audit findings and audit progress directly to the Section 151 Officer as appropriate. The Internal Audit Manager will keep the Section 151 Officer and the Governance & Audit Committee informed of progress and developments on a regular basis.

The Internal Audit Manager has a direct right of access to the Section 151 Officer 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 Governance & Audit Committee and significant weaknesses escalated to the Section 151 Officer if they remain unresolved.

## **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 Section 151 Officer and the Governance & 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.

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Responding to the draft internal audit 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 Section 151 Officer 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. Additionally the annual Internal Audit opinion does not discharge the responsibility of those charged with governance from forming their own overall opinion on internal controls, governance arrangements, and risk management activities.

## **6 Independence and Objectivity**

PSIAS Standards state that the Chief Audit Executive must report to a level within the organisation that allows the Internal Audit Activity to fulfil its responsibilities.

To provide for the independence of Internal Audit, its personnel report to the Internal Audit Manager, who reports functionally to the Governance & Audit Committee and administratively to the Section 151 Officer in a manner outlined in the section below on “accountability”.

Impairment to organisational independence and individual objectivity is managed in line with the auditing standards and is not considered an ongoing or common problem. Annual declarations are made by all audit staff confirming that they understand the independent role of Internal Audit and sets out any issues that may need to be considered by the Internal Audit Management as a potential conflict of interest.

Non-Audit activities are not routinely undertaken, and all potential additional duties or roles are considered by the Internal Audit Manager and the Section 151 Officer prior to their implementation. Additionally, upon allocation of audit tasks consideration is given to the suitability of audit staff to the task. Those who have previously worked in the specific area to be audited or have a live declaration of interest relating to the area to be audited will if appropriate, be removed from undertaking the task.

## **7 Accountability**

The Internal Audit Manager, in the discharge of their duties, shall be accountable to the Governance & Audit Committee and the Section 151 Officer 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.

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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.

## 8 Advisory Work

The Public Sector Internal Audit Standards 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 by the Section 151 Officer.

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 and documented within the assignment plan.

## 9 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 Council's external auditors 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



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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 and the Chair of the Governance and Audit Committee will meet regularly with a view to discussing emerging issues or concerns as well as development opportunities with regard to the ongoing relationship between the Governance and Audit Committee and Internal Audit Services.

## **10 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.

The Internal Audit team will comply with the standards that came into effect on 1 April 2013 along with any subsequent additions or revisions.

## **11 Quality Assurance**

The 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 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 an agreed methodology.

The conclusions are fully supported by the 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 Section 151 Officer and the Audit Committee.

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## **12 Code of Ethics**

The Standards also set out a mandatory code of ethics by which Internal Auditors must abide in order to promote an ethical culture in the internal auditing profession.

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 Section 151 Officer needs to inform the completion of the Annual Governance Statement.

## **13 Fraud and Irregularity**

The Council's Financial Regulations requires the relevant Head of Service to report any suspected or actual irregularity to the Section 151 Officer to ensure that satisfactory enquiries are undertaken in all such instances and that appropriate steps are taken to resolve and deal with any resultant findings. Whilst the initial responsibility for such enquiries rests with the Director concerned, the Section 151 Officer may require that the Internal Audit Manager manages and reports on any matter for investigation.

All audit staff undertake their duties in the knowledge that they may come across or identify potential fraud or financial irregularity. Within the operational procedures for audit staff a formal notification / escalation process is set out which dovetails into the procedures required within the Authority's Financial Regulations. Internal Auditors may also under the Direction of the Internal Audit Manager assist with an investigation into a potential irregularity in order to support a formal investigation process.

Internal Audit staff also co-ordinate and support the work undertaken by the Authority in respect of the National Fraud Initiative including providing the Governance and Audit Committee with update reports following the conclusion of each exercise.

## **14 Welsh Language**

Internal Audit is fully committed to the Council's Welsh Language Policy. Where a Department or Establishment wishes to have a review conducted through the medium of Welsh, Internal Audit will endeavour to utilise Welsh speaking staff wherever possible. Internal Audit standard forms will be available bilingually.

## **15 Review**

The Internal Audit Charter will be reviewed periodically with any resulting updates or amendments approved by the Council's Governance & Audit Committee.