

CEREDIGION COUNTY COUNCIL

Report to:	Governance and Audit Committee
Date of meeting:	19 January 2022
Title:	Internal Audit Charter 2022/2023
Purpose of the report:	To provide Members of the Committee with an update to the Internal Audit Charter
Cabinet Portfolio and Cabinet Member:	Cllr Ray Quant MBE, Deputy Leader of the Council and Cabinet Member for Legal and Governance, People and Organisation, and Democratic Services

The Public Sector Internal Audit Standards (PSIAS) attribute standard 1000 requires that all internal audit activities maintain an 'internal audit charter'. The charter is a formal document that defines the internal audit activity's purpose, authority and responsibility, and establishes internal audits' position within the organisation.

CSC's Internal Audit Charter was originally approved in March 2013 in conjunction with the introduction of the PSIAS. It has been regularly reviewed by the CMIA, and updated when required. All updated versions have been approved by the Governance and Audit Committee.

The main updates to the attached version are:

- Point 4.7 – to take account of counter fraud arrangements that support the National Fraud Initiative (NFI) exercise;
- Point 5.2 – to provide assurance that the introduction of a Governance Officer post in the structure does not affect the CMIA and IA service's independence and objectivity;
- Points 6.1 to 6.3 – to take account of the change in CMIA on 1/1/2022.

It also reflects the change in the Committee's name to Governance and Audit Committee, the date the Council's Strategy to Counter Fraud, Bribery and Corruption (to include Anti-Money Laundering) was updated and approved (point 4.5) and makes reference to the continuing effect of the pandemic on IA 2021/22 work (points 2.3, 2.7 & 5.1).

Recommendation(s):	To APPROVE the Report
Reasons for decision:	To ensure compliance with PSIAS
Appendices:	Internal Audit Charter 2022/23

Head of Service: Elin Prysor
Corporate Lead Officer Legal & Governance Services /
Monitoring Officer

Reporting Officer: Alex Jenkins
Corporate Manager – Internal Audit

Date: 2 December 2021

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LEGAL AND GOVERNANCE
SERVICES



SIARTER ARCHWILIO MEWNOL INTERNAL AUDIT CHARTER

Report Prepared by: Amanda Roberts,
Corporate Manager - Internal Audit

Date of Issue: 2 December 2021

Presented to Governance and Audit Committee:
19 January 2022

Mission and Core Principles

The Public Sector Internal Audit Standards' mission for an internal audit service is:

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

The core principles that underpin delivery of the mission require the internal audit service to:

- **Demonstrate integrity,**
- **Demonstrate competency and due professional care,**
- **Be objective and free from undue influence (independent),**
- **Align with strategies, objectives and risks of the organisation,**
- **Be appropriately positioned and adequately resourced,**
- **Demonstrate quality and continuous improvement,**
- **Communicate effectively,**
- **Provide risk-based assurance,**
- **Be insightful, proactive and future-focused,**
- **Promote organisational improvement.**

PURPOSE

- 1.1 Internal auditing is an independent and objective assurance and consulting activity that adds value by seeking to improve the operations of Cyngor Sir Ceredigion County Council (CSC).
- 1.2 It assists CSC in accomplishing its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of CSC's risk management, control and governance processes.
- 1.3 The Welsh Government adopted the Public Sector Internal Audit Standards (PSIAS) from 1 April 2013 and they apply to all internal audit service providers in the public sector. They govern the framework within which CSC's Internal Audit Section (IA) operates.
- 1.4 The PSIAS are based on the mandatory elements of the Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF). They are aimed at all appropriate officers and stakeholders.
- 1.5 Amendments were made to the PSIAS with effect from 1 April 2016 and 2017. CSC's IA Charter takes account of these amendments.

Definition of Internal Audit

According to the PSIAS:

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.

ACCOUNTABILITY / RESPONSIBILITY

- 2.1 It is management's responsibility to establish and maintain appropriate arrangements for risk management, controls and governance. IA's role is to provide independent, objective and reasonable assurance to management and Members that these arrangements are in place and are operating effectively; however, it should be recognised that no assurance can be absolute.
- 2.2 IA will evaluate the quality of risk management processes, systems of internal control and governance processes across all parts of the Council, taking account of other relevant internal and external assurance providers.
- 2.3 A written report will normally be prepared by IA, and issued by the Corporate Manager – Internal Audit (CMIA) at the conclusion of each audit and distributed as appropriate. The report will include management's response, corrective action taken and to be taken, and target dates for future actions required. IA will undertake a follow-up audit of all fundamental and significant weaknesses, which will be reported. Due to the pandemic, these actions were not always possible during 2020/21-2021/22.
- 2.4 The annual internal audit opinion on assurance is based upon IA's findings from all the audit reviews undertaken during each year. This opinion supports the Annual Governance Statement.
- 2.5 IA also contributes to the achievement of the Council's objectives by providing an advice and consulting activity. Audit advice and recommendations provided upon the implementation or development of new or existing systems and procedures, or requested by officers, are given without prejudice to the right of the IA section to review and make further recommendations at a later date.
- 2.6 The CMIA is responsible for effectively managing the internal audit activity in accordance with the PSIAS' 'Mission', 'Core Principles', 'Definition of Internal Audit', the 'Code of Ethics' and 'Standards'.

2.7 The IA Charter will continue to be reviewed annually by the CMIA and updated when necessary. It is supported by an annual risk-based Audit Strategy and Plan, which will be presented to the Governance and Audit Committee for approval and/or input (but not direction), as necessary. Due to the pandemic, it has been necessary for IA to take a different approach to its work during 2020/21 and 2021/22. Council meetings were deferred for a short period and the 2020/21 audit plan was therefore presented to Governance and Audit Committee at a later date than usual.

2.8 In addition, for the purposes of the IA Charter, the following definitions shall apply regarding responsibilities in relation to internal audit:

The Board	Governance group charged with providing assurance on risk, governance and controls.	Governance and Audit Committee
Senior Management	Senior officers responsible for governance.	Leadership Group / Gold Command

2.9 The CMIA's responsibilities to the Governance and Audit Committee include:

- Presenting the Internal Audit Charter for approval,
- Presenting the risk-based Internal Audit Plan and Strategy for approval,
- Presenting the internal audit resource plan as part of the Audit Plan,
- Presenting regular Progress Reports on IA's audit activity and performance throughout the year (which will also highlight any staffing or budgetary resource constraints which the CMIA deems as being of concern to IA's service provision),
- Reporting a summary of all fundamental and significant weaknesses found during audit reviews, and the recommended corrective actions to be taken by services,
- Reporting any instances where management refuse to implement the recommended corrective action, especially those in high risk areas,
- Providing an Annual Report with the annual audit opinion for approval,
- Providing an annual Counter Fraud Report outlining the proactive and reactive work undertaken by IA in this area of work, and
- Reporting the results of IA's Quality Assurance and Improvement Program (QAIP) to include both internal and external assessments.

CODE OF ETHICS

- 3.1 IA operates in accordance with the PSIAS Code of Ethics by having regard to the principles and rules that encompass integrity, objectivity, confidentiality and competency.
- 3.2 Internal auditors are also expected to adhere to the requirements of any other professional body they are a member of; as well as the Council's Code of Conduct for Employees which is underpinned by the 'Seven Principles of Public Life' (also known as the Nolan Principles), ie selflessness, integrity, objectivity, accountability, openness, honesty and leadership.
- 3.3 IA staff sign an annual affirmation (please see Appendix I) to confirm their knowledge of, and compliance with, these requirements.

AUTHORITY AND RIGHT OF ACCESS

- 4.1 The CMIA reports functionally to the Board (Governance and Audit Committee), and organisationally to the Corporate Lead Officer – Legal and Governance / Monitoring Officer.
- 4.2 Where it is considered necessary for the proper discharge of duties, the CMIA has right of direct access to the Chief Executive, Monitoring Officer, Head of Finance (s151 Officer), any other key officers and any elected Member, to include the Chair of Governance and Audit Committee.
- 4.3 Internal auditors also have the right of access to:
 - Enter any Council premises or land at any reasonable time,
 - Access all assets, records, documents, correspondence and control systems relating to any financial and other transactions of the Council,
 - Require and receive any such information and explanations considered necessary concerning any matter under consideration / examination,
 - Require any employee of the Council to account for cash, stores or any other Council property under his/her control, and
 - Have access to records belonging to third parties, such as contractors or partnership agencies, according to the relevant contractual terms.

This forms part of the Council's Financial Regulations and Accompanying Financial Procedures contained in the Council's Constitution.

- 4.4 Managing the risk of fraud and corruption is the responsibility of management. IA procedures alone, even when performed with due professional care, cannot guarantee that fraud or any misappropriation will be detected. However, IA fully considers the risk of fraud when undertaking its activities.
- 4.5 If any matter arises which involves, or is thought to involve, irregularities concerning cash, stores or other property of the Authority, individuals must report their concerns or suspicions in accordance with the Council's Strategy to Counter Fraud, Bribery and Corruption (to include Anti-Money Laundering) as updated and approved by Council 17/6/21. The Corporate Lead Officer concerned may notify the Section 151 Officer, Monitoring Officer or Corporate Manager - Internal Audit, who will consult with the Chief Executive, if necessary, and take such steps as they consider necessary to assist with the investigation of suspected fraud or corruption.
- 4.6 IA currently co-ordinates the Council's participation in the mandatory National Fraud Initiative (NFI) in which data from the Council's main systems are matched internally and with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.
- 4.7 The Council is committed to the NFI exercise, as a fraud deterrent as well as detection. Further actions and activities in place to support awareness of emerging fraud risks include:
- Monitoring and response to fraud alerts (NAFN, wider networks, peers, etc);
 - Membership and active participation in professional networks and groups (Tisonline, KHub, etc);
 - Council has a Strategy to Counter Fraud, Corruption and Bribery (to include Anti-Money Laundering);
 - Internal audit (IA) offer advice to services on implementation of new systems and processes to ensure effective internal controls maintained;
 - Nominated Council Officers undertake various fraud training to maintain knowledge and expertise;
 - Covid-19 grant payments audited prior to payment (as easier to stop a payment than recover it); and
 - Key financial control audits added to audit plan, to check controls, governance & risks whilst staff working from home.
- 4.8 IA will report on all counter fraud work undertaken annually to the Board.

INDEPENDENCE AND OBJECTIVITY

- 5.1 The CMIA and her staff have no responsibility for any operational or non-audit functions, to ensure impartial and effective professional judgements and decisions are made at all times. The CMIA decided it was necessary to undertake other duties during 2020/21 and 2021/22 mainly due to the pandemic, such as the Business Rates Grants, but all efforts were made not to impair on IA's independence or objectivity, by complying with the IASAB guidance issued to support such decisions.
- 5.2 A Governance Officer was added to the Structure during 2020/21, but the CMIA only directs the work with regards to audit eg assurance mapping. All other governance work is directed by the Monitoring Officer.
- 5.3 Individual auditors are required to demonstrate an impartial approach to work to ensure that any audit decision or opinion provided will be unbiased and objective, and based on the proven facts available. All information provided is considered on its own merits as it is not possible to advocate a one-size-fits-all approach in such a diverse environment.
- 5.4 Staff are required to declare any interest that may impact upon their objectivity in an annual written statement to the CMIA (please see Appendix I), as well as in accordance with the Council's corporate policy on the declaration and registration of hospitality and interests. The CMIA is therefore able to plan the allocation of work to avoid the risk of any conflict of interest.
- 5.5 Objectivity may be impaired when staff review an activity in which they have previously had operational responsibility. Hence, internal auditors appointed from within the Council are not permitted to perform an audit which is in any way related to their previous post, for at least 1 year after appointment.
- 5.6 Long term responsibility for the audit of a particular section / service can also affect objectivity; therefore the assignment of routine audit work (eg central services' key controls) where practicable, is subject to annual rotation.
- 5.7 The CMIA will confirm in the Annual Report to Governance and Audit Committee that the internal audit service is organisationally independent. If there has been any impairment of independence or objectivity, this will be disclosed.

APPROPRIATE RESOURCING

- 6.1 A new CMIA will be in place from 1 January 2022, who has considerable experience in IA, has a 6-week window to 'shadow' the existing CMIA, and is supported by a knowledgeable & skilled Audit Manager.
- 6.2 The CMIA to 31/12/21 is professionally qualified (CPFA), has a management qualification (ILM) and a CIPFA Certificate in Investigative Practice (CCIP). The CMIA from 1/1/22 is studying for an IIA qualification, is attending the Council's Management Programme of training to include the Aspiring Manager course, and is an accredited Fraud Technician. Both have a wide ranging internal audit experience, and comply with their respective continuous professional development (CPD) requirements, as well as the Council's corporate performance appraisal system.
- 6.3 The Audit Manager (AM) is also studying to become a member of the IIA (Institute of Internal Audit). In addition, IA staff have commenced training in order to undertake the Council's IT audits.
- 6.4 The CMIA is responsible for:
- Recruiting appropriate staff, in accordance with the Council's HR policies and processes, who have the required knowledge, qualifications, competencies, skills, experience and personal attributes required to deliver the audit plan;
 - Engaging the use of specialist providers where appropriate;
 - Periodically assessing individual auditors against the predetermined skills and competencies; and
 - Providing any identified training or development needs on an on-going basis.
- 6.5 All staff are directly managed by the CMIA (please see Appendix II for the staffing structure with effect from 1 November 2020).
- 6.6 All staff have a responsibility to undertake the Council's performance appraisal system to record the development of their own skills and experience.
- 6.7 The internal audit budget is reported to the Governance and Audit Committee and Council for approval annually as part of the overall Council budget.

6.8 The CMIA will raise concerns with the Governance and Audit Committee if there are any significant matters arising which jeopardise the delivery of the audit plan, especially if this affects the provision of the annual assurance, due to limitations in resources. During the initial period following lockdown in March 2020, whilst there were no scheduled meetings of the Governance and Audit Committee, the CMIA met the Chair and Vice-Chair regularly to appraise them of IA's work progress. These meetings are now regularly undertaken prior to each Governance and Audit Committee.

M A Roberts

Corporate Manager - Internal Audit

2 December 2021

Internal Audit – Declaration of Interest and Code of Ethics Affirmation

The PSIAS requires internal auditors to have an impartial, unbiased attitude to avoid any conflict of interest:

“Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity and the profession. A conflict of interest could impair an individual’s ability to perform his or her duties and responsibilities objectively.”

It is therefore important that all members of the Council’s Internal Audit Section (IA) declare any interest that may impact upon their objectivity, to ensure the Corporate Manager - Internal Audit (CMIA) can allocate the work assignments accordingly and appropriately.

NB This declaration differs from that required of staff in accordance with the Council’s ‘Code of Conduct for Employees’ to complete a "Declaration and Registration of Hospitality and Interests" which is available on Cardinet.

A number of incidents can lead to an interest / conflict of interest. Please find below a list of examples, which is **indicative, but not exhaustive**:

- Operational duties performed for other sections within the Council in the past year,
- Audit consultation requested from Council services during system / policy / procedure development,
- Close relative working within a Council service,
- Children attending a Council run school,
- Self / close family member being a School Governor,
- Family member receiving services from one of the Council’s Care Services,
- Self / family member / close friend running a business from which the Council procures goods / services,
- Advice offered to member of staff whilst acting in role of union official,
- Past incident which could allow prejudice or bias to override objectivity,
- Information obtained during course of duties could be used for personal benefit or gain,
- Information obtained during course of duties could be used for inappropriate benefit or gain eg on behalf of a club.

Internal auditors are also requested to sign the affirmation at the bottom of their statement, confirming that they are aware of the PSIAS Ethics requirements, have read and understood them, and agree to comply with them.

Written declarations are requested annually, and will be filed by the CMIA. Any interests arising during a financial year should be declared in the periodic IA Section meetings.

Internal Audit

Declaration of Interest Form 20 / .

I, (Name)

As a member of Cyngor Sir Ceredigion County Council's Internal Audit Section, confirm that I have read the attached guidance note, and am aware of the PSIAS' requirements as far as they are explained in the notes.

I set out below any issue(s) that could lead to a conflict of interest within my work as an auditor of the Council, which could impact upon my objectivity, to ensure the CMIA does not allocate any assignments to me within this work area:

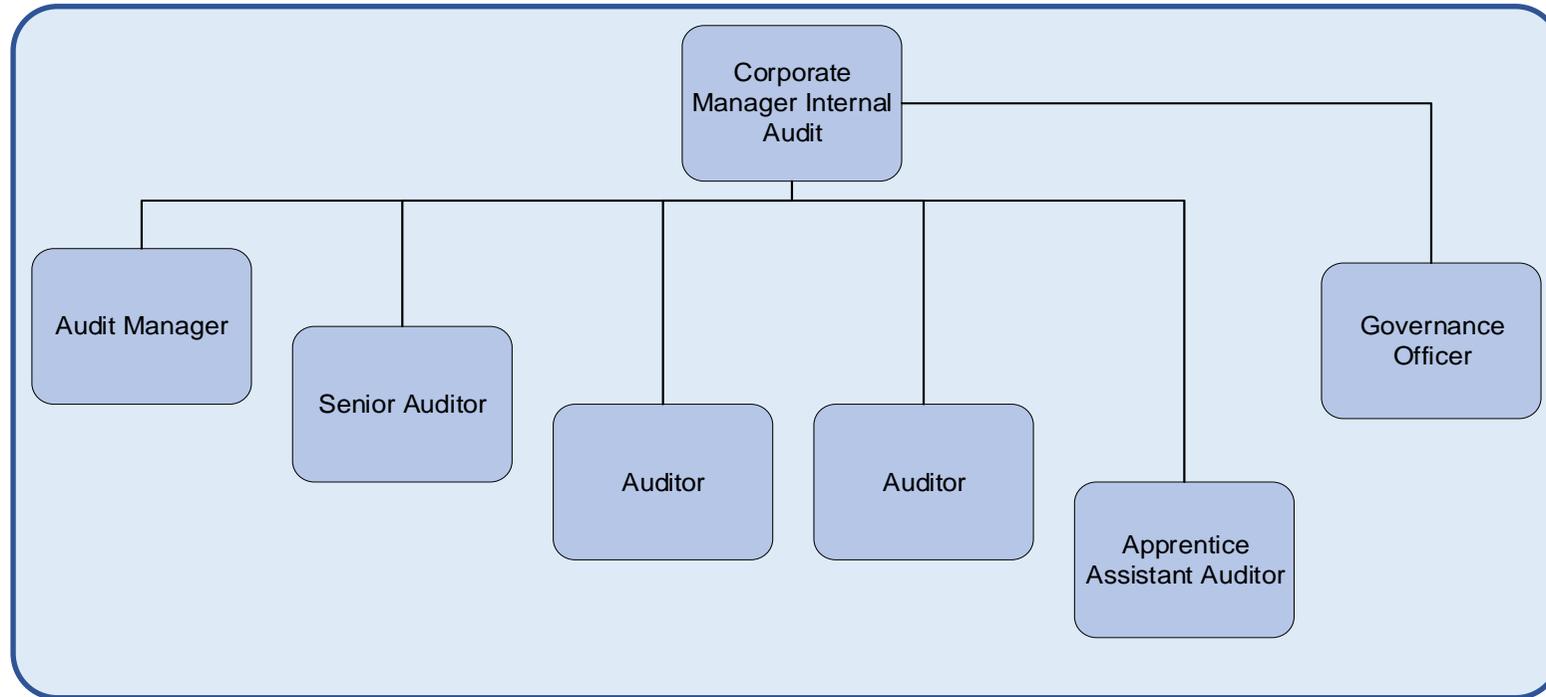
Service Concerned	Employee Concerned	Issue / Incident

Code of Ethics Affirmation 20 / .

I also confirm that I have read the PSIAS Ethics requirements, have understood them, and agree to comply with them.

Signature: _____ Date: _____

Internal Audit Section Structure wef 1 November 2020



NOTE

Prior to recruitment, all IA staff must demonstrate good communication, numerical and analytical skills; possess an IIA Certificate/AAT (or equivalent qualification / demonstrable experience); have up to date knowledge of Microsoft software packages, especially Word and Excel; have an awareness of Data Protection requirements; and are committed to attain the Council's aims and objectives.