

## **CEREDIGION COUNTY COUNCIL**

<b>Report to:</b>	<b>Governance and Audit Committee</b>
<b>Date of meeting:</b>	<b>17 January 2023</b>
<b>Title:</b>	<b>Internal Audit Charter 2023/2024</b>
<b>Purpose of the report:</b>	<b>To provide Members of the Committee with an update to the Internal Audit Charter</b>

The Public Sector Internal Audit Standards (PSIAS) attribute standard 1000 requires that all internal audit (IA) 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 2023/24 IA Charter has been reviewed and updated by the CMIA. The Charter has been re-structured and updated as per recommendations from the IA service's External Quality Assessment to include:

- The Charter now includes an introduction to explain the purpose of an Audit Charter;
- Internal Audit's main objectives and how they are accomplished;
- The Governance & Audit Committee's responsibilities to Internal Audit;
- The Chief Finance Officer's responsibilities to Internal Audit; and
- The IA Service's resourcing and current staffing structure.

<b>Recommendation(s):</b>	<b>To APPROVE the Report</b>
<b>Reasons for decision:</b>	<b>To ensure compliance with PSIAS</b>
<b>Appendices:</b>	<b>Internal Audit Charter 2023/2024</b>
<b>Head of Service:</b>	Elin Prysor Corporate Lead Officer Legal & Governance Services / Monitoring Officer
<b>Reporting Officer:</b>	Alex Jenkins Corporate Manager – Internal Audit
<b>Date:</b>	2 December 2022

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LEGAL AND GOVERNANCE  
SERVICES



## SIARTER ARCHWILIO MEWNOL INTERNAL AUDIT CHARTER

Report Prepared by: Alex Jenkins,  
Corporate Manager - Internal Audit

Date of Issue: 2 December 2022

Presented to Governance and Audit Committee:  
17 January 2023

**INTRODUCTION**

- 1.1 The Public Sector Internal Audit Standards 2017 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, and define the nature and set out basic principles for internal auditing in the UK Public Sector.
- 1.2 The Welsh Government adopted the PSIAS from 1 April 2013 and they apply to all internal audit service providers in the public sector. They govern the framework within which Cyngor Sir Ceredigion County Council’s (The Council) Internal Audit Section (IA) operates.
- 1.3 The Corporate Manager – Internal Audit (CMIA) is required to define the purpose, authority and responsibility of the internal audit activity in an annual Charter and present to the Governance & Audit Committee for approval.
- 1.4 The Council’s Internal Audit service has adopted the PSIAS’s Mission Statement and Core Principles.
- 1.5 For the purposes of the IA Charter, the following definitions shall apply regarding responsibilities in relation to internal audit:

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

**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.

## DEFINITION

**According to the PSIAS the definition of Internal Audit is:**

**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.**

## PURPOSE

2.1 Internal audit is an assurance and consulting function that provides an independent and objective opinion to the Council by evaluating the effectiveness of the control environment, risk management and governance processes in place to achieve its objectives.

2.2 Internal Audit's main objectives are to:

- Provide independent assurance and advice to management and the Governance & Audit committee on risk management, governance and internal controls.
- Provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources.
- Assist in ensuring the objectives of the Council are being met.
- 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 and to investigate allegations of fraud, bribery, corruption and other irregularities.

2.3 Internal Audit assists the Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of the Council's risk management, control and governance processes.

Internal controls considered by internal audit include:

- Consistency of operations or programmes with established objectives and goals and effective performance
- Effectiveness and efficiency of operations and employment of resources
- Compliance with significant policies, plans, procedures, laws and regulations
- Reliability and integrity of management and financial information processes including the means to identify, measure, classify and report such information
- Safeguarding of assets.

AUTHORITY AND RIGHT OF ACCESS

- 3.1 The Accounts and Audit (Wales) Regulations 2014 require every Council to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes'.
- 3.2 Section 151 of the Local Government Act 1972 requires every authority to 'make arrangements for the administration of its financial affairs' and to ensure that one of the officers has responsibility for the administration of those affairs.
- 3.3 The Chief Finance (Section 151) Officer's responsibilities to the Internal Audit function are set out in point 1.8.2 of the Council's Constitution.
- 3.4 The CMIA reports functionally to the Board (Governance and Audit Committee).
- 3.5 The CMIA reports organisationally to the Corporate Lead Officer – Legal and Governance / Monitoring Officer.
- 3.6 Where it is considered necessary for the proper discharge of duties, the CMIA has right of direct access to the Chief Executive, Monitoring Officer, Chief Finance Officer, any other key officers and any elected Member, to include the Chair of Governance and Audit Committee.
- 3.7 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.

- 3.8 In strict emergency / crisis management situations only, audit personnel may be called upon to carry out non-audit work on a temporary basis. If a request is made the decision to allocate resources will be the CMIA's, who will agree clear terms of reference. The Governance and Audit Committee Chair or Vice Chair, the Monitoring Officer and the Chief Finance Officer/Section 151 Officer will be advised.



## CODE OF ETHICS

- 4.1 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.
- 4.2 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.
- 4.3 IA staff sign an annual affirmation to confirm their knowledge of, and compliance with, these requirements.

## INDEPENDENCE AND OBJECTIVITY

- 5.1 The CMIA and their 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.
- 5.2 A Governance Officer was added to the Structure during 2020/21, but the CMIA only directs the work with regards to audit e.g. 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, 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.

## ACCOUNTABILITY / RESPONSIBILITY

- 6.1 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'.
- 6.2 Internal Audit is responsible for evaluating all the Council's processes including governance processes and risk management processes. It also assists the Governance & Audit Committee in evaluating the quality of performance of external auditors and promoting good co-ordination between internal and external audit.
- 6.3 Internal audit also contributes to the achievement of the Council's objectives by providing an advice and consulting activity related to governance, risk management and control on the implementation or development of new or existing systems and procedures. It may also evaluate specific operations at the request of Governance and Audit Committee or management as appropriate. Advice is given without prejudice to the right of the IA section to review and make further actions at a later date.
- 6.4 The CMIA is required to create an annual IA Charter, which will be presented to the Governance and Audit Committee for approval and/or input (but not direction).
- 6.5 The IA Audit Strategy & Plan will include resource requirements for the next financial year. The CMIA will communicate the impact of resource limitations and significant interim changes to senior management and the Governance and Audit Committee.
- 6.6 A written report will normally be prepared by IA and issued by the 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.
- 6.7 Internal Audit is fully committed to the Authority's Welsh Language Policy. Where a service wishes to have a review conducted through the medium of Welsh, Internal Audit will endeavour to utilise Welsh speaking staff and produce all correspondence, reports and action plans in the medium of Welsh.
- 6.8 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.
- 6.9 Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Governance and Audit Committee and senior management including fraud risks, governance issues and other matters needed or required.

6.10 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.

6.11 The Governance and Audit Committee's Terms of Reference\* set out its responsibility 'to provide an independent and high-level focus on the Council's audit, assurance and reporting arrangements that underpin good governance and financial standards'.

6.12 The Governance and Audit Committee must 'ensure the Council's systems of governance and internal control are effective, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption, and to ensure that the Council's internal audit services operates in accordance with agreed procedures'

6.13 The Governance & Audit Committee's Terms of Reference\* state their responsibilities to Internal Audit as:

- To approve the Internal Audit Charter, the risk-based Internal Audit Plan and significant interim changes to the Internal Audit Plan and resource requirements.
- Consider the CMIA's annual report.
- Consider proposals made in relation to the appointment of any external providers of internal audit services.
- Make appropriate enquiries of both management and the CMIA to determine if there are any inappropriate scope or resource limitations.
- Consider reports from the CMIA on Internal Audit's performance, including: Progress Reports, Management Action reports, Quality Assurance and Improvement Programme results and instances of non-conformance to PSIAS.
- Support effective communication with the head of audit.
- To commission work from Internal Audit.

\* Part 3.3 of the Council's Constitution.



APPROPRIATE RESOURCING

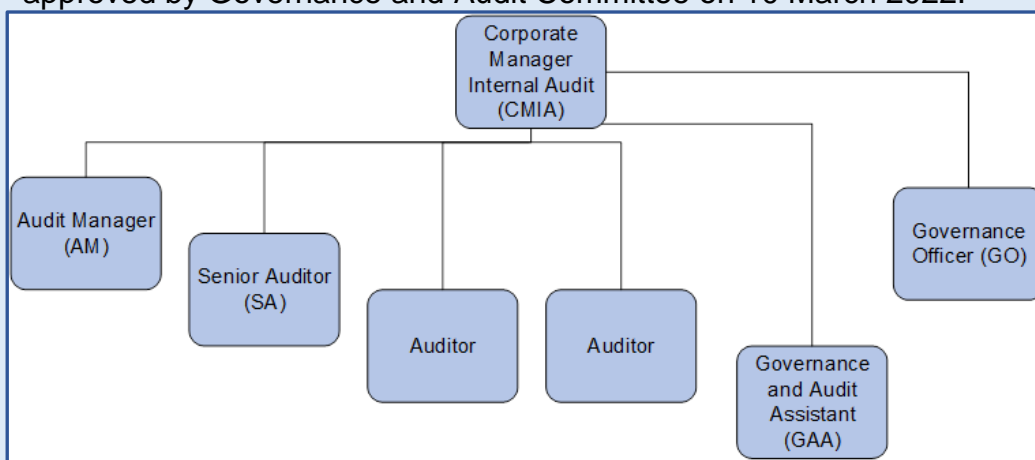
7.1 The CMIA is studying for an IIA qualification, has attended the Council’s Management Programme of training, and is an Accredited Counter Fraud Technician. They have a wide-ranging internal audit experience and comply with their respective continuous professional development (CPD) requirements, as well as the Council’s corporate performance appraisal system.

7.2 The Audit Manager (AM) is also studying to become a member of the IIA (Institute of Internal Audit).

7.3 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.

7.4 All staff are directly managed by the CMIA. The current staffing structure was approved by Governance and Audit Committee on 10 March 2022.



7.5 All staff have a responsibility to undertake the Council’s performance appraisal system to record the development of their own skills and experience.

7.6 The internal audit budget is reported to the Governance and Audit Committee and Council for approval annually as part of the overall Council budget.

7.7 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. The CMIA meets with the Chair and Deputy Chair of the Governance & Audit Committee prior to each meeting.

COUNTER FRAUD

- 8.1 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.
- 8.2 The Council's Strategy to Counter Fraud, Bribery and Corruption (to include Anti-Money Laundering) requires managers to inform the CMIA of all suspected or detected fraud, corruption or impropriety. The Corporate Lead Officer concerned may notify the Section 151 Officer, Monitoring Officer or CMIA, who will consult with the Chief Executive, if necessary.
- 8.3 When notified of suspected fraud, corruption or impropriety, the CMIA will take appropriate actions in line with the Council's Strategy to Counter Fraud, Bribery and Corruption for the matter to be properly investigated and take appropriate actions they consider necessary to assist with the investigation of suspected fraud or corruption.
- 8.4 Management should send the outcome of all investigation activities to the CMIA for inclusion in the Internal Audit Annual Counter Fraud, Bribery and Corruption Report.
- 8.5 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.
- 8.6 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 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; and
  - Key financial control audits & audits covering ethics.
- 8.7 IA will report on all counter fraud work undertaken annually to the Board.

A E Jenkins

Corporate Manager - Internal Audit

2 December 2022