



# INTERNAL AUDIT CHARTER



RHOI POBL GWYNEDD YN GANOLOG I BOPETH RYDYM YN EI WNEUD  
PUTTING **THE PEOPLE OF GWYNEDD** AT THE CENTRE OF EVERYTHING WE DO

## **INTERNAL AUDIT CHARTER**

### **1. PURPOSE**

1.1 The purpose of the Internal Audit Service is:

***To give confidence to the citizen and the Council on the Council's control environment and governance arrangements through independent and objective reporting to the Head of Finance and the Audit and Governance Committee***

### **2. THE ROLE OF INTERNAL AUDIT IN LOCAL GOVERNMENT**

2.1 There is a statutory requirement for an Internal Audit service in Local Authorities. This is implied in Section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs".

2.2 The Account and Audit Regulations (Wales) 2014 state:

- (1) A relevant body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.
- (2) Any officer or member of that body must, if the body requires—
  - (a) make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and
  - (b) supply the body with such information and explanation as that body considers necessary for that purpose..
- (3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.
- (4) The finding of the review referred to in paragraph (3) must be considered as part of the consideration of the system of internal control referred to in regulation 5(3), by the committee or body referred to in that paragraph.

### **3. THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS**

3.1 The Public Sector Internal Audit Standards (PSIAS) are relevant to every internal audit service provider for the public sector, whether internal, shared service or external. These are defined as “proper internal audit practices”.

3.2 The Standards define Internal Audit as follows:

**“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.”**

3.3 Whilst Internal Audit is primarily concerned with financial propriety, the remit of Internal Audit’s work extends to the entire control environment of the Council, and is not confined to purely financial risk.

### **4. RESPONSIBILITIES AND OBJECTIVES**

4.1 In Gwynedd Council, the Head of Finance is the officer who has the responsibility for "the proper administration of the Council's financial affairs" in accordance with section 151 of the Local Government Act 1972. Consequently, Internal Audit is located within Finance.

4.2 The Standards contain terminology that need to be defined clearly within the local Charter, namely the “Board”, the “Audit Committee”, the “Chief Audit Executive” and “Senior Management”.

#### **“Board” and “Audit Committee”**

The Standards define the Board as ***“the highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. ‘Board’ may refer to an audit committee to which the governing body has delegated certain functions”***. They define “Audit Committee” as ***“The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting”***. In accordance with the Council’s Scheme of Delegation, consideration of and responding to reports by the Internal Audit Service is a function that has been delegated to the Audit and Governance Committee.

For the purpose of this Internal Audit Charter, therefore, the Audit and Governance Committee undertakes the role of both the “Board” and “Audit Committee” within Gwynedd Council in order to fulfil the requirements of the Standards.

**“Chief Audit Executive”**

The Audit Manager is the “*Chief Audit Executive*” in accordance with the terminology in the Standards.

**“Senior Management”**

Where the Standards refer to “*Senior Management*”, in the context of communicating the results of internal audit work and discussing the work plan, the Audit Manager is accountable to the Senior Manager – Revenues and Risk who in turn is accountable to the Head of Finance, but has the freedom to report directly to the Chief Executive, the relevant Corporate Director, the Monitoring Officer or the Audit and Governance Committee if he/she is of the opinion that this is necessary, and in practical terms it is the Audit Manager who releases all reports to Internal Audit’s customers.

- 4.3 In order to ensure that the Council provides services of the highest possible quality within the resources available and in accordance with the needs of the people of Gwynedd, the appropriate use of the available resources is essential in order to ensure that the quality of service is of a high standard. The aims of Internal Audit is to provide assurance to the Head of Finance and the Audit and Governance Committee, and consequently to the residents of Gwynedd, that those resources which are available are managed and used appropriately, with transparency.
- 4.4 It shall do this by providing an independent and objective opinion to the Council on the control environment by auditing all financial systems and internal control procedures within the Authority, performing a combination of risk-based, system-based, regularity, computer and contract audits on a wide range of the Council's sections, in accordance with a strategy and audit plan based on an assessment of the Council's audit needs.
- 4.5 The Audit Manager shall ensure that internal audit is provided in accordance with the Public Sector Internal Audit Standards as far as practicable. To this end, the Audit Manager prepares an annual audit plan derived from an objective review of the risks that may affect the provision of the Council's services, and consultation with Heads of Departments and Senior Officers. It is agreed with the Senior Manager – Revenues and Risk and the Head of Finance before it is presented to the Audit and Governance Committee to be adopted.

4.6 In addition to Gwynedd Council, Internal Audit has an external client. Any increase in the commitment for this work will be agreed with the Senior Manager – Revenues and Risk and the Head of Finance beforehand, and the Audit and Governance Committee will be informed.

4.7 The responsibilities of Gwynedd Council’s external auditors, is to give an independent opinion on the Council’s financial statements and a conclusion on its arrangements for securing economy, efficiency and effectiveness in its use of resources. Internal Audit shall co-operate with the external auditors as required.

## 5. INDEPENDENCE AND RIGHTS OF ACCESS

5.1 The Public Sector Internal Audit Standards emphasise the independence of Internal Audit in terms of reporting processes and freedom.

5.2 Every internal auditor shall be required to sign a Declaration of Auditor Independence annually.

5.3 The Council's Financial Procedure Rules include provision for an Internal Audit service within the authority:

### 16.12 INTERNAL AUDIT

#### PURPOSE:

*The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972. Accordingly, internal audit is an independent and objective appraisal function established by the authority for reviewing the system of internal control.*

16.12.1 A continuous internal audit, under the independent control and direction of the Head of Finance, shall be arranged to carry out an examination of accounting, financial and other operations of the Council in accordance with the Accounts and Audit Regulations.

16.12.2 The Internal Audit function shall be conducted, as far as is practicable, in accordance with the Public Sector Internal Audit Standards. The Audit Manager is the designated “Chief Audit Executive” pursuant to the Standards.

16.12.3 An Internal Audit Charter shall be prepared which will be approved and reviewed by the Audit and Governance Committee.

- 16.12.4 The Audit Manager will usually report directly to the Senior Manager – Revenues and Risk who is accountable to the Head of Finance. However, he/she may also report to or turn to the Chief Executive, the relevant Corporate Director, the Monitoring Officer and the Chairman of the Audit and Governance Committee if, in specific circumstances he/she considers it necessary.
- 16.12.5 The Head of Finance, Senior Manager – Revenues and Risk and the Audit Manager, or their authorised representative shall have authority to :-
- (a) enter at all reasonable times on any Council premises, land or contract sites;
  - (b) have access to all records, documents and correspondence relating to any financial and other transaction of the Council;
  - (c) require and receive such explanations as are in his/her opinion necessary concerning any matter under examination;
  - (d) require any employee of the Council to produce cash, stores or any other Council property under his control.
- 16.12.6 The Head of Finance shall agree the medium-term and annual audit plans prepared by the Audit Manager which takes account of the characteristics and relative risks of the activities involved. The plans shall be approved by the Audit and Governance Committee.
- 16.12.7 All relevant managers shall consider and respond promptly to audit reports findings. Chief Officers shall ensure that any agreed actions to mitigate risks identified during the audit are carried out in a timely and efficient fashion in accordance with the agreed action plan.
- 16.12.8 The Audit Manager shall report regularly to the Audit and Governance Committee:
- (a) On the results of Internal Audit work in the preceding period.
  - (b) On any substantial control weaknesses discovered or audited.
  - (c) On any agreed actions that were not implemented within the agreed timetable, where a failure to act on those action would prolong a substantial control weakness.
  - (d) Progress on completion of the Internal Audit Plan for the current year.

## **6. RELATIONSHIP WITH THOSE CHARGED WITH GOVERNANCE**

- 6.1 The Council has resolved that “those charged with governance” within Gwynedd Council shall be the Audit and Governance Committee.
- 6.2 The Chair of the Audit and Governance Committee is usually the main points of contact between the Audit Manager and elected members. The Audit Manager shall ensure that good working relationships and channels of communication are maintained with the Chair of the Audit and Governance Committee.
- 6.3 The Audit Manager will prepare a report for every meeting of the Audit and Governance Committee outlining the work completed in the period leading up to that meeting.
- 6.4 The Audit Manager shall also provide the Audit and Governance Committee with regular reports on progress against the annual internal audit plan.

## **7. REPORTING**

- 7.1 The Audit Manager will ensure procedures for work supervision and file review by the relevant Team Leaders, and will collect data and prepare reports on the Service’s performance for the Head of Finance pursuant to the Council’s performance management framework.
- 7.2 A formal report will be written for most audit assignments, except for some small audits where significant weaknesses were not discovered and where a full audit report was not deemed necessary. In these cases, memoranda will be sent to the relevant officers.
- 7.3 Where appropriate, each report will be placed in one of 4 category opinions, dependent upon the audit opinion on the adequacy of internal controls, the effectiveness of the operation of the internal controls and the result of any failure to put effective controls in place. These categories are:

Opinion “A”            Assurance of financial propriety can be expressed as the controls in place can be relied upon and have been adhered to.

Opinion “B”            Controls are in place, and partial assurance of financial propriety can be expressed as there are aspects where some procedures can be strengthened.

- Opinion “C” Assurance of financial propriety cannot be expressed as the controls in place cannot be relied upon, but losses/fraud due to these weaknesses were not discovered.
- Opinion “CH” Assurance of financial propriety cannot be expressed as acceptable internal controls are not in place; losses / fraud resulting from these weaknesses were discovered.

The use of opinion categories is likely to be less appropriate for reports that have been prepared following a special investigation, or for work containing “consultancy” aspects.

- 7.4 Following completion of audit work, a draft report of the findings as well as any areas of risks identified is prepared for the relevant managers so that they have an opportunity to consider the findings and possible solutions to mitigate risks and correct any factual errors. A period of 2-3 weeks is given to managers to respond to the draft, but a longer period will be considered if a request for an extension is received. If a response is not received by the stipulated date, the report is assumed to be acceptable and a final report will be issued. If comments are received, these will be considered (and the draft report may or may not be modified) before the final report is issued. If there is no agreement to mitigate risk(s), that will be addressed in the final report.
- 7.5 After an appropriate period, Internal Audit will conduct follow-up testing to ensure that what was agreed is operational. The results of follow-up work will be reported to Chief Officers and the Audit and Governance Committee.

## **8. ANNUAL AUDIT OPINION**

- 8.1 The Audit Manager shall prepare an Annual Report to the first meeting of the Audit and Governance Committee after the end of the financial year, in accordance with the Standards.



## **9. NON-ASSURANCE WORK**

9.1 In addition to the assurance work described, Internal Audit shall also:

- Provide financial advice to Council services, in particular on Financial Procedure Rules, Contract Standing Orders and Procurement, Financial Codes of Practice and the Council's Anti-fraud, Anti-corruption and Anti-bribery Strategy.
- Assist service managers to prevent fraud and to investigate fraud on behalf of the Head of Finance, and offering advice and guidance on control improvements to avoid similar occurrences in future.

## **10. INTERNAL AUDIT RESOURCE REQUIREMENTS**

10.1 Internal Audit comprises of the Audit and two Audit Leaders. If the Audit Manager is of the opinion that he/she does not have sufficient resources to allow him/her to give an opinion on the control environment in accordance with the requirements of the Standards, he/she shall report this to the Head of Finance.

10.2 The Audit Leaders are responsible for supervising and reviewing work and for allocating the audit plan as projects for individual auditors.

10.3 A Management Team (comprising the Audit Manager and the Audit Leaders) will meet regularly to monitor performance and share information. The Audit Manager will meet with the Senior Manager – Revenues and Risk to discuss performance and agree on Internal Audit's strategic direction.

10.4 From time to time, to reflect audit needs, and in the context of the resources available and the Council's Financial Procedure Rules, the Internal Audit service shall acquire external expertise to assist with audit work and in order to maintain the skill levels of permanent staff. This has been particularly true for the area of computer audit work, but other types of audit are not excluded from such arrangements.

## **11. RELEVANT DOCUMENTATION**

11.1 In addition to this report, the following documents are also of importance to the Internal Audit Service:

- The Audit Committee's Terms of Reference
- Financial Procedure Rules
- Financial Codes of Practice
- Contract Procedure Rules
- The Council's Anti-Fraud, Anti-Corruption and Anti-Bribery Strategy
- The Council's Whistleblowing Policy.

Internal Audit shall review and suggest changes to these documents as necessary.