

COMMITTEE	GOVERNANCE AND COMMITTEE
DATE	30 JUNE 2022
TITLE	INTERNAL AUDIT CHARTER
PURPOSE	TO PRESENT THE INTERNAL AUDIT CHARTER TO THE COMMITTEE
AUTHOR	LUNED FÔN JONES, AUDIT MANAGER
ACTION	TO APPROVE THE CHARTER

1. INTRODUCTION

1.1 The *Public Sector Internal Audit Standards* (“PSIAS”) came into force on 1 April 2013 and were amended in April 2017. One of the requirements of the Standards is the need to set out an Internal Audit Charter. The Standards, and a supporting Local Government Application Note (2019) published by CIFPA, detail the necessary contents of an Internal Audit Charter for a Local Government Body.

1.2 According to the Standards and the Local Government Application Note, the necessary contents of an Internal Audit Charter for a Local Government Body are as follows:

- A formal definition of the purpose, authority and the responsibility of the internal audit activity, that is consistent with the Public Sector Internal Audit Standards (PSIAS).
- A definition of the terms ‘board’ and ‘senior management’, for the purposes of the internal audit activity (Note that it is expected that the audit committee will fulfil the role of the board in the majority of instances).
- Sets out the internal audit activity’s position within the organisation.
- Establish the Chief Audit Executive’s (CAE’s) functional reporting relationship with the board.
- Establish the accountability, reporting line and relationship between the CAE and those to whom the CAE may report administratively.
- Establish the responsibility of the board and also the role of the statutory officers (such as the Chief Finance Officer, the monitoring officer and the head of paid service) with regards to internal audit.
- Establish internal audit’s right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

- A definition of the scope of internal audit activities.
- A recognition that internal audit's remit extends to the entire control environment of the organization.
- Establish the organisational independence of internal audit.
- The arrangements for appropriate resourcing.
- A definition of the role of internal audit in any fraud-related work.
- Set out the existing arrangements within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety.
- The arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.
- A definition of the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation.
- A definition of the nature of consulting services.
- A recognition of the mandatory nature of the PSIAS.

2. RECOMMENDATION

- 2.1 The Governance and Audit Committee is asked to receive and approve the contents of the Internal Audit Charter, to approve it, and support Internal Audit in its undertakings.



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 Governance and Audit 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 Accounts 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 Governance and Audit Committee.

For the purpose of this Internal Audit Charter, therefore, the Governance and Audit 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 Head of Finance, but has the freedom to report directly to the Chief Executive, the relevant Corporate Director, the Monitoring Officer or the Governance and Audit 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 Governance and Audit 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 Head of Finance before it is presented to the Governance and Audit Committee to be adopted.

4.6 In addition to Gwynedd Council, Internal Audit has external clients. Any increase in the commitment for this work will be agreed with the Head of Finance beforehand, and the Governance and Audit 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, CODE OF ETHICS 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 which incorporates the duty to adhere to the four principles incorporated within the PSIAS Code of Ethics:

- Integrity
- Objectivity
- Confidentiality
- Competency

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 Governance and Audit Committee.
- 16.12.4 The Audit Manager will usually report directly 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 Governance and Audit Committee if, in specific circumstances he/she considers it necessary.
- 16.12.5 **The Head of Finance, Assistant Head – 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 Governance and Audit 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 Governance and Audit 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. CORE PRINCIPLES

6.1 For the internal audit function to be considered effective, the following core principles require that the internal auditor /internal audit activity:

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive and future-focused
- Promotes organisational improvement

7. RELATIONSHIP WITH THOSE CHARGED WITH GOVERNANCE

7.1 The Council has resolved that “those charged with governance” within Gwynedd Council shall be the Governance and Committee.

7.2 The Chair of the Governance and Audit 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 Governance and Audit Committee.

7.3 The Audit Manager will prepare a report for every meeting of the Governance and Audit Committee outlining the work completed in the period leading up to that meeting.

7.4 The Audit Manager shall also provide the Governance and Audit Committee with regular reports on progress against the annual internal audit plan.

7.5 In order to facilitate the work of the Governance and Audit Committee, the Auditor Manager will:

- Attend audit committee meeting and contribute to the agenda
- Participate in the audit committee’s review of its own remit and effectiveness
- Seek to ensure that the audit committee receives and understands documents that describe how internal audit will fulfil its objectives (e.g. the risk-based plan, annual work programmes, progress reports)

- Determine whether anything arising from the work of the Governance and Audit Committee required changes to be made to the audit plan and whether matters arising from the work of internal audit need to be addressed by the Governance and Audit Committee

8. REPORTING

- 8.1 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.
- 8.2 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.
- 8.3 Where appropriate, each report will be placed in one of four assurance levels based on an evaluation of the internal control environment and the number of risks identified together with their risk score.

The current risk score will be categorised in one of four risk categories:

RISK LEVEL	SCORE
VERY HIGH	20 – 25
HIGH	12 – 16
MODERATE	6 - 10
LOW	1 - 5

- 8.4 The general assurance levels of audits are as shown in the table below:

ASSURANCE LEVEL	DEFINITION
HIGH	Certainty of propriety can be stated as internal controls can be relied upon to achieve objectives.
SATISFACTORY	Controls are in place to achieve their objectives but there are aspects that need tightening to further mitigate the risks.
LIMITED	Although controls are in place, compliance with the controls needs to be improved and/or introduce new controls to reduce the risks to which the service is exposed.
NO ASSURANCE	Controls in place are considered to be inadequate, with objectives failing to be achieved.

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

- 8.5 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.
- 8.6 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 Governance and Audit Committee.

9. ANNUAL AUDIT OPINION

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

10. NON-ASSURANCE WORK

- 10.1 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.
 - Gwynedd Council’s anti-fraud, anti-bribery and anti-corruption strategy states that members and the general public are encouraged to report concerns of fraudulent or corrupt behaviour by contacting the **Assistant Head - Revenues & Risk** or the Audit Manager.
 - Provide consulting services on specific projects (if capacity allows). An audit assurance level will not be provided on such projects.

11. INTERNAL AUDIT RESOURCE REQUIREMENTS

- 11.1 Internal Audit comprises of the Audit Manager and two Audit Leaders, and five Senior Auditors. 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 and also to the Governance and Audit Committee.
- 11.2 The Audit Leaders are responsible for supervising and reviewing work and for allocating the audit plan as projects for individual auditors.
- 11.3 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 Head of Finance to discuss performance and agree on Internal Audit's strategic direction.
- 11.4 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.

12. TRAINING

- 12.1 Members of the Internal Audit Service are actively encouraged to attend various seminars and courses to gain specialist knowledge in key areas including fraud, corruption and irregularities, IT, project management based on the PRINCE2 methodology, procurement and contracts. The training will be delivered either in-house or by attending external courses arranged by providers such as CIPFA.
- 12.2 Gwynedd Council's Internal Audit Service aims to continue to develop and reinforce the mix of skills and experience within the Service. The Internal Audit Service will continue with its objective of ensuring that a minimum of two auditors (not including the Audit Manager) will be qualified with a CCAB body or the IIA, in addition to ensuring that at least one auditor will be receiving training for a Professional qualification at any one time.
- 12.3 To comply with the CIPFA and ACCA qualification, Internal Auditors holding this qualification are required to undertake a minimum hours of continued professional development each year.

13. PERFORMANCE INDICATORS

- 13.1 The key performance indicator for Internal Audit will be reported at each Governance and Audit Committee and performance will be reported in the Head of Audit Annual Report.
- 13.2 The Internal Audit Service participates in the Wales Chief Auditors Group benchmarking exercise.

14. QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

- 14.1 The Public Sector Internal Audit Standards and CIPFA's Local Government Application Note requires the Audit Manager (the "chief audit executive" in the Standards' terminology) to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.
- 14.2 A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The Audit Manager shall encourage oversight by the Governance and Audit Committee ("the board" in the Standards' terminology) in the quality assurance and improvement programme.
- 14.3 The quality assurance and improvement programme will include both internal and external assessments.
- 14.4 An external assessment must be carried out at least once every five years by an independent, qualified reviewer from outside the organisation, either by conducting a full external assessment or a self-assessment validated by an external assessor.
- 14.5 The quality assurance and improvement programme and the results of both internal and external assessments will be presented to the Governance and Audit Committee by the Audit Manager.

15. RELEVANT DOCUMENTATION

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

- The Governance and 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.