



# CORPORATE RESOURCES INTERNAL AUDIT SECTION

## City of Cardiff Council INTERNAL AUDIT CHARTER 2017-18

### ***Mission Statement***

*To enhance and protect organisational value, through the provision of risk based and objective assurance and advice*

#### **Open**

We are open and honest about the difficult choices we face, and allow people to have their say on what's important to them and their communities

#### **Fair**

We champion fairness, recognising that with less resource we need to prioritise services for those who need them most

#### **Together**

We work with our communities and partners across the city to deliver the best outcomes for the people of Cardiff



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# INTERNAL AUDIT CHARTER

## Definition, Objective and Scope of Internal Audit

1. Internal Audit is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the organisation of Cardiff Council
2. It assists Cardiff Council in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control and governance processes.

## Role and Professionalism

3. The internal audit activity is established by the Audit Committee. The internal audit activity's responsibilities are defined by the Audit Committee as part of their oversight role.
4. A professional, independent and objective Internal Audit service is one of the key elements of good governance in Local Government. Cardiff Council's Internal Audit Section seeks to be compliant with the Public Sector Internal Audit Standards which form a foundation for an effective Internal Audit service and encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF). Through compliance with these standards, all members of the section adhere to the Code of Ethics stipulated within the Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.
5. The Code of Ethics is set out in further detail in Appendix A and works in alignment with the Council's code of professional conduct. The internal audit activity will adhere to Cardiff Council's relevant policies and procedures and the internal audit activity's protocol.

## Authority

6. The internal audit activity with strict accountability for confidentiality and safeguarding records and information, is authorised full, free and unrestricted access to any and all of the organisation's records, physical properties and personnel pertinent to carrying out an engagement. All employees are required to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Audit Committee.

## **Organisation**

7. The Audit Manager will report functionally to the Audit Committee and administratively to the Section 151 Officer. The Audit Committee will approve all reports regarding the performance evaluation of the Internal Audit function.
8. The Audit Committee will approve the internal audit charter, the risk based internal audit plan and receive communications from the Audit Manager on the internal audit activity's performance relative to its plan and other matters. The Audit Manager is delegated the authority to make in-year changes to the internal audit plan and approve audit engagements.
9. The resources allocated to the Internal audit activity are outlined in Appendix B in conjunction with the reporting arrangements

## **Independence and Objectivity**

10. The internal audit activity will remain free from interference by any element in the organisation including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of a necessary, independent and objective mental attitude.
11. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair internal auditor's judgement.
12. Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.
13. The Audit Manager will confirm to the Audit Committee at least annually the organisational independence of the internal audit activity.

## **Responsibility**

14. The scope of internal auditing encompasses but is not limited to the examination and evaluation of the adequacy and effectiveness of the organisations governance risk management and internal control processes in relation to the organisations defined goals and objectives. Internal control objectives 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

15. Internal Audit is responsible for evaluating all processes of the entity including governance processes and risk management processes. It also assists the Audit Committee in maintaining an appropriate degree of coordination with internal audit.
16. Internal audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the Council. It may also evaluate specific operations at the request of Audit Committee or management as appropriate.
17. Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and Senior Management including fraud risks, governance issues and other matters needed or requested
18. The Audit Committee has a Terms of Reference which defines the area in which it operates. The Terms of Reference are reviewed on a periodical basis.

### **Internal Audit Plan**

19. At least annually, the Audit Manager will submit to the Audit Committee an internal audit plan for review and approval including risk assessment criteria. The internal audit plan will include timing as well as budget and resource requirements for the next financial year. The Audit Manager will communicate the impact of resource limitations and significant interim changes to senior management and the Audit Committee.
20. The internal audit plan will be developed based on a prioritisation of all auditable areas using a risk based methodology including input of senior management and audit committee. Prior to submission to the Audit Committee for approval, the plan may be discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.
21. The Audit Manager will develop an Audit Strategy which clearly articulates the key priorities of the function going forward and this is set out in Appendix C.

## **Reporting and Monitoring**

22. A written report will be prepared and issued by the Audit Manager following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will be communicated to the Audit Committee.
23. The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area will include a timetable for anticipate completion of action to be taken and an explanation for any corrective action that will not be implemented.
24. The internal audit activity will be responsible for appropriate follow up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

## **Periodic Assessment**

25. The Audit Manager is responsible also for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority and responsibility) and performance relative to its plan.
26. In addition, the Audit Manager will communicate to senior management and the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

## **Quality Assurance and Improvement Programme - QAIP**

27. The internal audit activity will maintain a Quality assurance and Improvement Programme that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Public Sector Internal Audit standards, encompassing all mandatory elements of the IPPF, including an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency of the internal audit activity and identifies opportunities for improvement.
28. The Audit Manager will communicate to senior management and Audit Committee on the internal audit activity's quality assurance and improvement programme, including results of ongoing internal and external assessments conducted at least every five years.
29. Action taken to ensure that the Quality Assurance and Improvement Programme is effective is set out in Appendix D.

## **CODE OF ETHICS**

### **Public Sector Requirement**

Internal Auditors in UK public sector organisations must conform to the Code of Ethics as set out below. If individual Internal Auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation. The Code of Ethics promotes an ethical, professional culture. It does not supersede or replace Internal Auditors' own professional bodies Code of Ethics or those of employing Organisations.

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of Internal Auditing. A code of ethics is necessary and appropriate for the profession of Internal Auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's Code of Ethics extends beyond the definition of Internal Auditing to include two essential components:

- 1. Principles that are relevant to the profession and practice of Internal Auditing;

and

- 2. Rules of Conduct that describe behaviour norms expected of Internal Auditors.

These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of Internal Auditors.

The Code of Ethics provides guidance to Internal Auditors serving others. 'Internal Auditors' refers to Institute members and those who provide Internal Auditing services within the definition of Internal Auditing.

### **Applicability and Enforcement**

This Code of Ethics applies to both individuals and entities that provide Internal Auditing services. For Institute members, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

### **Public Sector Interpretation**

The 'Institute' here refers to the Institute of Internal Auditors. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this Code of Ethics.

## **1. Integrity**

### *Principle*

The integrity of Internal Auditors establishes trust and thus provides the basis for reliance on their judgement.

### **Rules of Conduct**

Internal Auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of Internal Auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

## **2. Objectivity**

### *Principle*

Internal Auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal Auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests, or by others, in forming judgements.

### **Rules of Conduct**

Internal Auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

### **3. Confidentiality**

#### *Principle*

Internal Auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

#### **Rules of Conduct**

Internal Auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

### **4. Competency**

#### *Principle*

Internal Auditors apply the knowledge, skills and experience needed in the performance of Internal Auditing services.

#### **Rules of Conduct**

Internal Auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform Internal Auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency, effectiveness and quality of their services.

**AUDIT ACTIVITY RESOURCES AND REPORTING LINES**

**Resources**

1. **Audit Manager** – 0.15 FTE - responsible for leading and managing the audit and investigation teams in delivering their roles, as set out within the Public Sector Internal Audit Standards (PSIAS), and other professional Codes of Practice. This role is performed by the Head of Finance (Deputy S151 Officer).
2. **Audit Team** – 11 FTE - who undertake system based audits, financial audits, provide advice and guidance to clients on a wide range of matters and undertake work around efficiency and value for money.
3. **Investigation Team** – 2.3 FTE - dedicated to the prevention, detection and investigation of suspected fraud or financial impropriety.
4. All audit staff are required to maintain the highest standards of professional practice, and comply with professional Code of Practices. Public Sector Internal Audit Standard is followed in all aspects of work undertaken.
5. For the purpose of the Public Sector Internal Audit Standard, the Audit Committee acts as the “Board” and the Corporate Director of Resources & Section 151 Officer is the Senior Manager overseeing the Internal Audit Function. The Audit Manager is the Chief Audit Executive.
6. Where the Head of Finance has operational responsibilities for activities, then the audit activity in this area conducted will be reviewed and authorised by a senior group auditor and assured by the Section 151 Officer.
7. All auditors and investigators are suitably qualified and collectively offer a wide range of skills, experience and knowledge. In the Audit team, there are a further 3 qualified Accountants, and most other auditors are qualified Accounting Technicians with 4 studying for the Certified Internal Audit qualification. The Investigation team is led by a Group Auditor who has the CIPFA Certificate in Investigative Practice and investigators are Professional trained investigators (PINS).
8. Ongoing development and training of auditors is fundamental to the delivery of an effective and professional Audit service. The Council’s Personal Performance and Development Scheme is fully adopted within Audit where all members of the team assess themselves against the skills required for their respective roles. This assists in the identification of team and individual development and training opportunities within a robust performance management framework.

**INTERNAL AUDIT STRATEGY****Internal Audit**

1. To deliver a high level, professional audit service, that conforms fully with the Public Sector Internal Audit Standards (PSIAS).
2. To prepare an Audit Plan, maximising available resources, targeting high risk audits and effectively monitoring priorities against the Plan, which will provide assurance to the Section 151 Officer and Audit Committee.
3. To maintain a strong audit profile through working closely with the Chief Executive, Audit Committee Chair and members, the Section 151 Officer and the Head of Finance, who champion the role of the Audit teams and the 'Relationship Manager' role, working closely with Directors to maintain our awareness of changes in the Authority's risk profile, and to sustain audit knowledge to ensure effective controls are maintained, at a time of strategic and operational change in directorates.
4. To be customer focussed and to be identified as a value added service and first point of contact when systems are being reviewed or internal control / process advice is sought.
5. To review processes in order to ensure that Internal Audit work effectively with Directorates to ensure that accountability and responsibility for implementing audit recommendations are done promptly and accurately.
6. To deliver an effective audit service through continual review of 'lean' working practices, with best use of new technology. This will include appropriate use of 'Control Risk Self Assessments' and provide a more focussed approach on follow up audits.
7. To ensure that we continually review the way we work and how we perform and continually to seek feedback on our performance.
8. To build on the consultative / training services delivered to directorates, in order to build further on the internal control culture of the Council.

**Investigations**

9. To deliver a professional investigation service, with a reduction in resources at a time when demand for our expertise is increasing. In doing so, to remain compliant with appropriate Codes of Practice and professional standards.

10. To provide training, mentoring and education to directorates, trade unions and employees in order to reduce the likelihood of fraud being committed, to promote the work of Internal Audit and the Investigation team and to encourage referrals when there is a suspicion of Fraud, Bribery, Corruption or financial irregularity. This is to be key in delivering the new Disciplinary Policy mandatory training requirements.
11. To contribute to the review of policies and procedures in order to ensure the consistent approach to investigations and sanctions.
12. To deliver an effective investigation service through continual review of lean working practices, with best use made of new technology.

### **All Teams**

13. To promote talent management and staff development as key elements of the success of the business and by continued support of the Council's personal development scheme. To support opportunities for staff to train and develop so that they remain competent, efficient and effective in undertaking the tasks expected of them. Through training, look to address any lack of skills in specific areas e.g. ICT audit.
14. To encourage, mentor and support those recently enrolled to study CIA and ICT specific qualifications to achieve a rich balance of highly qualified team members across the Section.
15. With the pace and degree of change and the fundamental role finance plays in all aspects of Council business the team will need to continue to support the Corporate Director of Resources & Section 151 Officer, Head of Finance and Audit Committee with their roles in terms of audit and investigation matters.

**QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

1. Every audit assignment has to undergo a Quality assurance review.
2. At the conclusion of each audit, a Post Audit assessment form is completed by both the auditor and the reviewer.
3. A quality assurance questionnaire is issued to the client at the end of each audit.
4. Each Directorate has a relationship manager with regular meetings to discuss outcomes of audits, audit plan and feedback.
5. Annual personal performance development reviews which include assessment against skills and competency framework.
6. Periodic self-assessments.
7. Engage in benchmarking exercises in order to assess our performance against other comparable organisations and report on significant variances and develop and implement action plan where appropriate.
8. Commitment to undergoing an external inspection on conformance to PSIAS every five years.
9. Adherence to relevant Codes of Practice and Standards.
10. Compliance with Professional Accountancy / Audit and the Council's Codes of Conduct.
11. Annual report and quarterly reporting to the Section 151 Officer and to Audit Committee.
12. Regular contact with external scrutiny functions such as Wales Audit Office.