



CORPORATE RESOURCES INTERNAL AUDIT SECTION

Cardiff Council

INTERNAL AUDIT CHARTER 2018/19

Mission Statement

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

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 **Head of Finance (Deputy Section 151 Officer)**. ~~The Head of Finance, as Audit Manager, also has responsibility for other finance functions, namely:~~

- (a) Accountancy
- (b) Information Governance
- (c) Business Support
- (d) Revenues

~~and is treated as the audit client for audits in these areas. Each audit is reviewed and managed by the Group Auditor and reported to the Corporate Director, Resources.~~

8. The Audit Committee will approve all reports regarding the performance evaluation of the Internal Audit function.
9. 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 of no more than 10 planned audit days without seeking approval from the Audit Committee.
10. The resources allocated to the Internal Audit activity are outlined in Appendix B in conjunction with the reporting arrangements.

Independence and Objectivity

11. 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.
12. 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.
13. 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.
14. Auditors will complete, on an annual basis, a Declaration of Business Interests form and submit it to the Audit Manager for review and authorisation. Any declarations will be used to ensure that there are no conflicts of interest in the audits allocated and to demonstrate transparency. The Group Auditor will not allocate audits to officers where potential conflicts have been identified.
15. The Audit Manager will confirm to the Audit Committee at least annually the organisational independence of the internal audit activity.

Responsibility

16. 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

17. Internal Audit is responsible for evaluating all processes of the Council including governance processes and risk management processes. It also assists the Audit Committee in evaluating the quality of performance of external auditors and maintains proper degree of coordination with internal audit.
18. 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.
19. 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 required
20. The Audit Committee has a Terms of Reference which defines the area in which it operates and this is set out in Appendix C. The Terms of Reference are reviewed on a periodical basis.

Internal Audit Plan

21. 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.
22. 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.

Reporting and Monitoring

23. 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.
24. 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.
25. 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

26. 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.
27. 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

28. 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.
29. 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.
30. 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 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~~ **1** 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** – 10.4 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~~ **1.5** 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. The Public Sector Internal Audit Standards are followed in all aspects of work undertaken.
5. For the purpose of the Public Sector Internal Audit Standards, 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 ~~three~~ **two** qualified Accountants, ~~one~~ **Chartered Internal Auditor**, and most other auditors are qualified Accounting Technicians, with four 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 Review 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.

AUDIT COMMITTEE

TERMS OF REFERENCE

Governance, Risk & Control

- To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
- To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account the internal audit opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control.
- To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- To consider the Council's framework of assurance and ensure that it adequately addresses the risk and priorities of the Council.
- To monitor the effective development and operation of risk management in the Council.
- To monitor progress in addressing risk-related issues reported to the committee.
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- To monitor the Counter-fraud strategy, actions and resources.

Internal Audit

- To approve the Internal Audit Charter.
- To approve the risk-based internal audit plan, containing internal audit's resource requirements, the approach to using other sources of assurances and any work required to place reliance upon those other sources.
- To approve significant changes to the risk-based internal audit plan, including audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- To approve significant interim changes to the risk based internal audit plan and resource requirements.
- To make appropriate enquiries of both management and the audit manager to determine if there are any inappropriate scope or resource limitations.
- To consider reports from the Audit Manager on Internal Audit's performance during the year. These will include:

- Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
- Regular reports on the results of the Quality Assurance and Improvement Programme
- Reports on instances where the internal audit function does not conform to the PSIAS and Local Government Application Note considering whether the non- conformance is significant enough that it must be included in the Annual Governance Statement.
- The opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and internal control together with a summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.
- To consider summaries of specific internal audit reports as required.
- To receive reports outlining the action taken where the Audit Manager has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
- To contribute to the Quality Assurance and Improvement Programme and in particular the external quality assessment of internal audit that takes place at least once every five years.
- To consider a report on the effectiveness of internal audit to support the Annual governance Statement, where required to do so by the Accounts and Audit Regulations.
- To support the development of effective communication with the audit manager.

External Audit

- To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- To consider specific reports as agreed with the external auditors.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To commission work from internal and external audit.
- To advise and recommend on the effectiveness of relationships between external and internal audit and other inspector agencies or relevant bodies.

Financial Reporting

- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- To seek assurances that the Council has complied with the Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursuing optimum performance consistent with those risks.

Accountability Arrangements

- To report to Council on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of the governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
- To report to Council on an annual basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- To raise the profile of probity generally within the Council and to report on matters of concern to the individual Cabinet Member, relevant Scrutiny Committee, Cabinet or to Council as necessary and appropriate.
- To work in synergy with the five Scrutiny Committees of the Council and liaise with other Council Committees as and when appropriate to avoid duplication in work programmes.

Training & Development

- To attend relevant training session in accordance with the Member Development Programme including specialist training tailored for Members of the Audit Committee e.g. treasury management.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

A Quality Assurance and Improvement Programme (standard 1300) is designed to enable an evaluation of the Internal Audit section'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.

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 reviews include assessment against a skills and competency framework.
6. Periodic self-assessments are undertaken to evaluate conformance with the Code of Ethics and the Standards.
7. Benchmarking exercises are undertaken in order to assess our performance against other comparable organisations and report on significant variances; action plans are developed and implemented where appropriate.
8. Relevant Codes of Practice and Standards are adhered to.
9. There is compliance with Professional Accountancy / Audit and the Council's Codes of Conduct.
10. Annual report and regular periodic reports are presented to the Section 151 Officer and to Audit Committee.
11. The Chief Audit Executive has regular contact with external scrutiny functions such as Wales Audit Office.
12. There is a commitment to undergoing an external inspection on conformance to PSIAS every five years.