

<b>ISLE OF ANGLESEY COUNTY COUNCIL</b>	
<b>Report to:</b>	Governance and Audit Committee
<b>Date:</b>	18 April 2024
<b>Subject:</b>	Internal Audit Charter
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<p><b>Nature and Reason for Reporting:</b> The Governance and Audit Committee's Terms of Reference require the Committee to oversee the Council's internal audit arrangements as part of its legislative duties under the Local Government (Wales) Measure 2011. (3.4.8.10.1)</p> <p>In addition, there is an explicit requirement in the Terms of Reference for the Committee to review and approve the internal audit charter, which defines the internal audit's activity purpose, authority and responsibility. (3.4.8.10.3)</p> <p>The Public Sector Internal Audit Standards also provides for a periodic review of the Internal Audit Charter, with final approval of the Charter residing with the Governance and Audit Committee.</p>	

## 1. Amendments to the Charter

### Use of the term 'Customer'

- 1.1. The Governance and Audit Committee last reviewed and approved the Internal Audit Charter in [December 2022](#).
- 1.2. The Committee, in reviewing the Charter, queried the appropriateness of the term 'customers' and a commitment was made for the Head of Audit and Risk to review the use of the term. The Charter has been amended accordingly (see the section 'Internal Audit's Purpose').

### Definition of the 'Board'

- 1.3. During 2023, in accordance with the [Public Sector Internal Audit Standards](#) (PSIAS), the Chief Audit Executive at Flintshire County Council undertook an external quality assessment of the Internal Audit service at the Council, which must be conducted at least once every five years.

- 1.4. While the assessment [concluded](#) that the Council's Internal Audit service 'Generally Conforms' with the requirements ('Generally Conforms' reflects the highest level of conformance following an external assessment), the assessor took the opportunity to include four best practice suggestions. These are based on guidance provided in the PSIAS and guidance issued by the Institute of Internal Auditors. While these actions may not be prescribed in PSIAS or the Local Government Application Note (LGAN) they represent opportunities for development and the assessor considered implementation would support continuous improvement.
- 1.5. One of the suggestions related to the Charter. The assessor commented that the PSIAS self-assessment template confirms the requirement for the Internal Audit Charter to define the term 'Board', stating "it is expected that the audit committee will fulfil the role of the board in the majority of instances". Whilst the Head of Audit and Risk has a functional reporting line to the Governance and Audit Committee, the current Internal Audit Charter defines the 'Board' as the 'Executive.' The assessor suggested the Internal Audit Charter be updated to reflect the functional reporting line, with the Board defined as the Governance and Audit Committee.
- 1.6. Consequently, the Charter has been amended accordingly (see the section 'Introduction').

### **New Global Internal Audit Standards**

- 1.7. The International Internal Auditing Standards Board (IIASB) issued the new [Global Internal Audit Standards](#) (GIAS) on 9 January 2024 which will become effective following a one-year transition period. The Standards guide the worldwide professional practice of internal auditing.
- 1.8. The Internal Audit Standards Advisory Board (IASAB), which sets the standards for the UK public sector, has begun its review of the impact on the Public Sector Internal Audit Standards and will develop proposals for revised material which will be suitable for the UK public sector context. Any subsequent changes to the UK's PSIAS, and their implementation, will be subject to consultation and appropriate transitional arrangements, with implementation expected from April 2025.
- 1.9. In relation to the Charter, the GIAS introduces a new requirement for the 'board' to establish, approve, and support the mandate of the internal audit function. The chief audit executive must document or reference the mandate in the internal audit charter, which is approved by the board. In anticipation of this change, the Charter has been amended accordingly (see the section 'Internal Audit's Mandate').

## **2. Recommendation**

- 2.1. That the Governance and Audit Committee notes the review and approves the amendments to the Internal Audit Charter, as detailed above.

# Internal Audit Charter

April 2024



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Head of Audit and Risk



# Contents

Introduction _____	1
Internal audit’s purpose _____	2
Internal audit’s mandate _____	2
Authority _____	3
Role _____	4
Responsibilities _____	4
Scope _____	6
Internal audit’s role in fraud-related work _____	7
Organisational position and reporting relationships _____	7
Safeguards to limit impairments of independence or objectivity _____	8
Internal audit resources _____	8
Communication _____	9

# Introduction

1. The [Public Sector Internal Audit Standards](#) (PSIAS) were published in 2013 (last updated in 2017) and define the nature and set out basic principles for internal auditing in the UK public sector. The PSIAS provide a definition, mission and core principles for internal audit and the activity and standards that must be met.
2. To supplement the PSIAS and provide specific guidance surrounding its application within a local government setting, the Chartered Institute of Public Finance and Accountancy (CIPFA) compiled a [Local Government Application Note](#) which was last updated in 2019 and sets out requirements for local government internal audit to support application of the PSIAS.
3. The Standards require the chief audit executive to define the purpose, authority and responsibility of the internal audit activity in an internal audit charter. It must also provide information on accountability and relationships as they impact on internal audit.

4. The PSIAS use generic terms that, in the Isle of Anglesey County Council’s case, are defined as:

<b>Public Sector Internal Audit Standards</b>	<b>Isle of Anglesey County Council</b>
Chief audit executive	Head of Audit and Risk
Chief financial officer	Director of Function (Resources) and Section 151 Officer
Senior management	Leadership Team
The board	Governance and Audit Committee

5. The Standards require the chief audit executive to review the Internal Audit Charter periodically but final approval rests with the Governance and Audit Committee.

## Internal audit's purpose

6. A professional, independent and objective internal audit function is one of the key elements of an organisation's governance framework, as recognised throughout the UK public sector.
7. The PSIAS define internal audit as:

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**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.**

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8. Our role is unique; it provides effective challenge and acts as a catalyst for positive change and continual improvement in governance in all its aspects. Our role is particularly important when the Council is facing uncertain and challenging times.
9. To provide optimum benefit to the organisation, we work in partnership with management to assist the Council in achieving its strategic objectives.
10. Our mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

## Internal audit's mandate

11. The internal audit mandate comprises the function's:
  - authority,
  - role,
  - responsibilities,
  - scope.
12. While the board has the ultimate responsibility to approve the internal audit mandate, the internal audit function receives the majority of its mandate from legislation in the public sector (see [Authority](#)).
13. Senior management also has a key role in providing input to the board and the chief audit executive. Senior management's perspective is valuable and helps support the internal audit function's positioning and authority in the Council.
14. The mandate empowers the internal audit function to provide the board and senior management with objective assurance, advice, insight, and foresight and carries out the mandate by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes.

## Authority

15. Internal audit is a statutory requirement for local authorities and obtains its authority and obligations from two pieces of legislation, professional guidance and organisational regulations:
- Part 3, Regulation 7 of the Accounts and Audit (Wales) Regulations 2014 states that *“a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”*.
  - 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. CIPFA has defined ‘proper administration’ in that it should include ‘compliance with the statutory requirements for accounting and internal audit’.
16. In addition, the CIPFA statement on the Role of the Chief Financial Officer (CFO) in Local Government states that the CFO must:
- ensure an effective internal audit function is resourced and maintained
  - ensure that the authority has put in place effective arrangements for internal audit of the control environment
  - support the authority’s internal audit arrangements
  - ensure that the audit committee receives the necessary advice and information, so that both functions can operate effectively.
17. The Council’s Financial Procedure Rules also provide for the maintenance of a continuous internal audit under independent supervision, overseen by the Council’s Governance and Audit Committee, and subject to professional audit standards (4.8.5.3.1).

18. The internal audit function’s authority is also supported by its direct reporting relationship to the Governance and Audit Committee. Such authority allows for free and unrestricted access to the Committee, as well as all activities across the Council.

## Access rights

19. The Council’s Financial Procedure Rules (4.8.5.3.2) provide for internal audit’s rights of access, providing the function with authority to:
- enter at all reasonable times Council premises, land or contract sites.
  - have access to all records, documents or correspondence relating to any financial and other transactions of the Council.
  - require and receive such explanations as are necessary from employees of the Council.
  - require employees of the Council to produce cash, stores or any other property of the Council under their control for examination.

## Role

20. The provision of assurance services is the primary role for internal audit in the UK public sector, and in the Council.
21. Through the Head of Audit and Risk's annual internal audit opinion and other reports, which are based on an objective assessment of the framework of governance, risk management and control, we give assurance to elected and lay members and management, highlighting areas for improvement.

## Responsibilities

### Responsibilities of the internal audit function

22. To be a valuable asset to the Council by supporting senior management in meeting their corporate responsibilities.
23. To contribute to assurances to those charged with governance in relation to the robustness and reliability of internal controls, risk and governance to support the Annual Governance Statement.
24. To support the statutory Section 151 Officer in discharging their duties.
25. To periodically review, appraise and report on the extent to which the assets and interests of the Council are accounted for and safeguarded from loss and the suitability and reliability of financial and other management data and information.
26. To support the requirement to seek efficiency including the arrangements for achieving value for money and effective change management.
27. To provide soundly based assurances to management on the adequacy and effectiveness of their internal control, risk and governance arrangements.
28. To disseminate examples of best practice in the application of an effective control, risk and governance framework and provide an advisory service intended to add value and improve governance, risk management and control processes.
29. To assess the adequacy and effectiveness of the Council's contracts, procurement, commissioning and associated governance arrangements.
30. To assess the adequacy and effectiveness of the Council's corporate risk management process and the level of embeddedness in business as usual, whilst ensuring that Internal Audit does not adopt management responsibilities for managing risks.



31. To evaluate the risk of fraud and the way it is managed by the Council. In addition, to reduce the incidence of fraud and irregularity by publicising the findings of fraud investigations to act as a deterrent and provide a quality fraud and irregularity prevention, detection and investigation service.
32. To provide advice and an objective and supportive consulting service in respect of the development of new programmes and processes and / or significant changes to existing programmes and processes including the design of appropriate controls.
33. To prepare timely, concise and informative reports to management to facilitate the improvement of the control environment.
34. To assist the Governance and Audit Committee to discharge its responsibilities; monitoring the implementation of agreed management actions; disseminating across the entity better practice and lessons learnt arising from its audit activities and having oversight of the audit function.

### **Responsibilities of internal auditors**

35. In undertaking their work, auditors will be required:
  - to comply with the PSIAS, including its Code of Ethics.
  - to sign an annual declaration stating that they will respect the confidentiality of information accessed during their work, declare any interests they may have in any services under review, and have read the PSIAS, Code of Ethics and Council's Code of Conduct for Officers.
  - to work with others to promote and demonstrate the benefits of good governance throughout the Council.
  - to demonstrate and promote the highest standards and ethics across the Council based on integrity, objectivity, competence and confidentiality.

- to exercise sound judgement in identifying weaknesses in the Council's control environment and provide a balanced view on how significant these are.
- to be committed to continuous improvement.
- to report on what is found, without fear or favour.
- to give clear, professional and objective advice.
- to engage only in those services for which they have the necessary knowledge, skills and experience.
- to hold an appropriate qualification and have an active programme for personal professional development.

### **Responsibilities of the Head of Audit and Risk**

36. In addition to the responsibilities of internal auditors:

- to be a senior manager with regular and open engagement across the Council particularly with senior management and the Governance and Audit Committee.
- to be suitably qualified and experienced.
- to give assurance on the control environment, including risk and information management and internal controls across the Council.
- to produce an evidence-based annual internal audit opinion on the Council's control environment, reflecting the work done during the year and summarising the main outcomes and conclusions, highlighting any specific concerns.
- to liaise closely with the Council's external regulators to share knowledge and use audit resources most effectively.
- to determine the resources, expertise, qualifications, and systems for the internal audit service that are required to meet its objectives and provide an annual audit opinion.



- to take account of the CIPFA Statement on the Head of Internal Audit (2019), which sets out individual and organisational responsibilities, and represents best practice guidance to support internal audit effectiveness.

## Responsibilities of senior management

37. To maximise the effectiveness and efficiency of the Internal Audit function, we ask that senior management:

- engage fully and flexibly in the audit planning process and provide information and insight into high-risk areas or areas of strategic focus or concern.
- nominate and commit to lead officers for each internal audit assignment and a point of reference for the overall management of the internal audit process.
- engage in a timely manner with Internal Audit in the scoping of work and agree terms of reference, dealing with audit queries and discussing draft and final reports.
- provide evidence of the implementation of agreed management actions promptly.

## Scope

38. The scope of the internal audit function covers the entire breadth of the Council's activities and includes unrestricted access to all assets and personnel of the Council.
39. The overall approach is determined by the Head of Audit and Risk and will take into account the level of assurance required, the Council's strategic objectives, the degree of change within the Council, the prevailing risk appetite and culture, previous audits and implementation of agreed management actions.
40. We have a customer-focused approach to planning individual audits, from project scoping to delivery, involving members, senior management and staff.
41. Our strategy takes account of the strategic risk register and other assurances that the Council may receive, internal or external, to prevent duplication and co-ordinate regulatory work. It also takes account of discussions with senior management.
42. Our work provides a risk-based approach that allows the Head of Audit and Risk to form and evidence her opinion on the control environment to support the Council's Annual Governance Statement.

## Consulting activities

43. Internal Audit may occasionally provide guidance and advice, e.g. on new systems or may help to develop new processes using our specific skills. Services may also occasionally ask us to carry out specific projects on a consultancy basis. On these occasions, we make it clear from the outset that we are working on a consultancy basis rather than internal audit basis and are not giving audit assurance on these occasions.

## Internal audit's role in fraud-related work

44. Internal audit carries out activity to ensure the Council does all that it can to minimise the risk of fraud, bribery and corruption occurring within and against the Council.
45. This supports the requirements of the PSIAS which require internal audit to evaluate the potential for fraud occurring and how the organisation manages fraud risk (Standard 2120).
46. In addition, the Accounts and Audit (Wales) Regulations 2014 state that the Council's responsible financial officer (Section 151 Officer) must ensure that its accounting control systems include measures to enable the prevention and detection of inaccuracies and fraud.
47. However, internal audit is not responsible for managing the risk of fraud – this lies with the Council's senior management.
48. Where fraud, bribery, corruption or impropriety is suspected or detected, the Council's policy for the Prevention of Fraud and Corruption requires managers to inform the Head of Audit and Risk, to inform her opinion on the internal control environment and internal audit's work programme, as well as to allow her to ensure the Council takes appropriate action.
49. Although internal audit carries out proactive projects to identify potential fraud, bribery and / or corruption and can carry out special investigations into alleged irregularities, the Head of Audit and Risk retains the right to decide on an appropriate course of action, which may mean a joint investigation or investigation by the service. However, management should send the outcome of all investigation activities to the Head of Audit and Risk for inclusion in the Internal Audit Annual Counter Fraud, Bribery and Corruption Report.
50. Where it is thought necessary, the external auditor may conduct investigations, either in liaison with internal audit or independently.

## Organisational position and reporting relationships

51. The PSIAS require that the chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities; reporting to the board or its delegated equivalent is the generally accepted method of helping to ensure the achievement of organisational independence.
52. The Head of Audit and Risk has direct access to the Governance and Audit Committee and is free to report directly to any member of the senior leadership team or head of service.
53. While the requirement to have effective internal audit rests with the authority, the Standards expect the chief financial officer (CFO) (Director of Function (Resources) and Section 151 Officer) to support internal audit. The relationship between the chief audit executive and the CFO is therefore of particular importance and is strong within the Council.
54. Although administratively reporting to the Director of Function (Resources) and Section 151 Officer, the Head of Audit and Risk also has direct access to the Chief Executive Officer and Monitoring Officer, which is provided for in the Council's Financial Procedure Rules (4.8.5.3.5).
55. These extended reporting lines provide internal audit with sufficient independence of the activities that it reviews to enable its auditors to perform their duties objectively, allowing them to make impartial and effective professional judgements and raise issues for improvement.
56. The Director of Function (Resources) and Section 151 Officer annually appraises the Head of Audit and Risk's performance with input and feedback from the Chief Executive Officer and the Chair of the Governance and Audit Committee.
57. This ensures that the Head of Audit and Risk's opinion and scope of work cannot be limited or affected by her administrative line management position within the Council.

## Safeguards to limit impairments of independence or objectivity

58. To be effective, internal audit must be independent and be seen to be independent. To ensure this, internal audit will operate within a framework that allows:

- unrestricted access to senior management and the chair of the Governance and Audit Committee
- reporting in its own name
- segregation from line operations.

59. Every effort will be made to preserve objectivity by controlling the involvement of audit staff in non-audit duties in order to avoid potential conflicts of interest, specific exceptions are however acceptable in respect of participation in service improvement projects, where a 'critical friend' role will be held.

60. In addition, appropriate arrangements are in place to limit the impairment of independence and objectivity due to the Head of Audit and Risk's line management of the Risk Management and Insurance service.

61. The Head of Audit and Risk will not scope or review internal audit activity relating to this service area, and all assurance activity will be outsourced. The Director of Function (Resources) and Section 151 Officer will sign off reports.

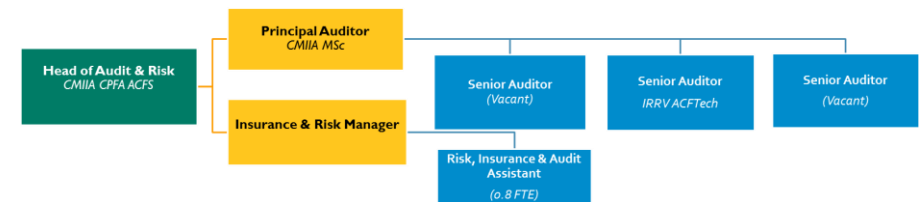
62. Should any conflict or impairment be known or arise, it will be reported to the Chair of the Governance and Audit Committee.

## Internal audit resources

63. Despite carrying two vacancies, we have a well-qualified and experienced team, with a mix of relevant qualifications to reflect the varied functions of the internal audit service.

64. Where specialisms are not present, we are using the funding to commission subject matter experts from outside the Council, which is providing critical assurance for the Council, with added value for money.

### Internal Audit and Risk Management (April 2024)



65. The Governance and Audit Committee annually reviews the resources of the internal audit service through the acceptance of the internal audit strategy and updates on its priorities.

66. The Standards require that internal auditors must enhance their knowledge, skills and other competencies through continuing professional development. The Head of Audit and Risk carries out a regular review of the development and training needs of all auditors through ongoing one-to-one supervision and annual appraisals.

# Communication

## Internal Audit Strategy

- 67. The Head of Audit and Risk prepares the internal audit strategy in consultation with the Director of Function (Resources) and Section 151 Officer, and senior management. The Leadership Team regularly reviews internal audit priorities.
- 68. The Head of Audit and Risk presents the strategy annually to the Governance and Audit Committee for approval and provides in-year revisions to the Committee as part of the update report presented at each meeting.

## Annual Opinion

- 69. The Head of Audit and Risk provides the Council with an opinion on the adequacy and effectiveness of the Council’s governance, risk management and control arrangements in support of the Annual Governance Statement.
- 70. However, it should be noted that assurance can never be absolute; the most that can be provided is a reasonable assurance that there are no major weaknesses in governance, risk management and control processes.
- 71. The Head of Audit and Risk provides the annual opinion in the Annual Internal Audit Report after the year-end.

## Assignment Reporting

- 72. The Internal Audit function is fully committed to the Council’s Welsh Language policy. Reporting is bilingual and the team includes bilingual staff who can undertake reviews in the language of choice of those assisting with reviews.
- 73. All audit reviews are the subject of formal reports. Debrief meetings are held with the managers responsible for the area under review to agree the factual accuracy of the issues and risks raised.

- 74. After agreement, we issue draft reports to the relevant manager who records the action that will be taken to address the issues / risks raised and the officers assigned responsibility to implement along with timescales for implementation. Once the action plan has been fully completed and agreed with the auditor, we issue a final report.
- 75. The Head of Audit and Risk provides a copy of every report to the relevant Head of Service, the Director of Function (Resources) and Section 151 Officer (if financial implications), the Chief Executive Officer, members of the Governance and Audit Committee and the relevant Portfolio Holder.
- 76. The Head of Audit and Risk presents a summary of each report to the Governance Audit and Committee. Members of the Governance and Audit Committee and the Portfolio Holder will also receive copies of agreed action plans where reports have received a ‘Limited’ or ‘No’ assurance rating.

## Assurance Rating

- 77. We provide an opinion on the overall level of assurance for each internal audit assignment. In reaching a conclusion, we use the following definitions, which the Governance and Audit Committee approved at its meeting in April 2019:

Level of Assurance	Definition
Substantial Assurance	Arrangements for governance, risk management and internal control are good. We found no significant or material Risks/Issues.
Reasonable Assurance	Arrangements for governance, risk management and/or internal control are reasonable. There are minor weaknesses in the management of risks and/or controls but there are no risks to the achievement of objectives. Management and Heads of Service can address.
Limited Assurance	Arrangements for governance, risk management and internal control are limited. There are significant weaknesses in the management of risks and/or controls that put the achievement of objectives at risk. Heads of Service need to resolve, and Leadership Team may need to be informed.
No Assurance	Arrangements for governance, risk management and internal control are significantly flawed. There are fundamental weaknesses in the management of risks and/or controls that will lead to a failure to achieve objectives. The immediate attention of Leadership Team is required, with possible Executive intervention.