

## RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

### MUNICIPAL YEAR 2015/16

COMMITTEE:

AUDIT COMMITTEE

31<sup>st</sup> March 2016

Item No. 8
Internal Audit Charter

REPORT OF:-

GROUP DIRECTOR, CORPORATE & FRONTLINE SERVICES

Author: Marc Crumbie (Operational Audit Manager)

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#### 1. PURPOSE OF THE REPORT

1.1 This report provides Members with the Internal Audit Charter.

#### 2. RECOMMENDATIONS

It is recommended that Members:

2.1 Consider what comments and recommendations, if any, they wish to make

2.2 Approve the Internal Audit Charter for 2016/17 (as included at **Appendix A**) as required by Attribute Standard 1000 of the Public Sector Internal Audit Standards.

#### 3. BACKGROUND

3.1 The Public Sector Internal Audit Standards (PSIAS) require the purpose, authority and responsibility of each Internal Audit Service to be defined in a document called an 'Internal Audit Charter' (**Attribute Standard 1000 Purpose, Authority and Responsibility**).

3.2 The PSIAS makes reference to a governance group it calls 'the Board'. The responsibilities of the board in Rhondda Cynon Taf County Borough Council is defined within the Internal Audit Charter (as recommended) and allocates the responsibilities referred to within the PSIAS to the Council's Audit Committee.

3.3 The Internal Audit Charter is a formal document that establishes the Internal Audit Service's position within the organisation, including the nature of the Operational Audit Manager's functional reporting relationship with the Board (the Council's Audit Committee); authorises access to records, personnel and

physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the Internal Audit Charter resides with the Board.

**4. SUMMARY**

- 4.1 The Internal Audit Charter is the document that defines the purpose, authority and responsibility of the Council's Internal Audit Service.
- 4.2 In line with the PSIAS, the Council has drafted an Internal Audit Charter for Audit Committee's consideration and if deemed appropriate, approval for the 2016/17 financial year.

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**LOCAL GOVERNMENT ACT, 1972**

**as amended by**

**THE ACCESS TO INFORMATION ACT, 1985**

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

**LIST OF BACKGROUND PAPERS**

**AUDIT COMMITTEE**

**31<sup>st</sup> March 2016**

**Report of the Group Director, Corporate & Frontline Services**

Author: Marc Crumbie (Operational Audit Manager).

**Item**

**File Ref:**

8. Internal Audit Charter

IA / MC

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# **Rhondda Cynon Taf County Borough Council**

## **Internal Audit Charter**

March 2016

### **Review and approval of the Internal Audit Charter**

- A. In accordance with the 'Public Sector Internal Audit Attribute Standard 1000 Purpose, Authority and Responsibility', this Internal Audit Charter will be reviewed annually by the Council's Audit Committee and if deemed appropriate, approved by this Committee.
  
- B. The Internal Audit Service is committed to meeting the standards laid down in the Public Sector Internal Audit Standards Framework. The Wales Audit Office assesses the conformance with the Standards annually.
  
- C. In Rhondda Cynon Taf County Borough Council the role of the Board as defined within the Public Sector Internal Audit Standards will be the responsibility of the Council's Audit Committee and any reference made throughout this document relating to Audit Committee assumes the responsibilities of the Board as defined and referred to within the Standards.
  
- D. In addition to this Charter, Internal Audit has an Audit Manual that provides detailed guidance to staff when undertaking their daily duties.

### **Introduction & Overview of the Internal Audit Service**

- 1.1 This Internal Audit Charter defines the purpose, authority and responsibility of the Internal Audit Service.
- 1.2 The Internal Audit Charter is defined within the Public Sector Internal Audit Standards as follows:  
*'The Internal Audit Charter is a formal document that defines the Internal Audit activity's purpose, authority and responsibility. The Internal Audit Charter establishes the Internal Audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.'*
- 1.3 A professional, independent and objective Internal Audit service is one of the key elements of good governance, as recognised throughout the UK Public Sector.

### **Public Sector Internal Audit Standards**

- 1.4 The Public Sector Internal Audit Standards became effective from the 1<sup>st</sup> of April 2013. The Public Sector Internal Audit Standards replaced the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. Conformance with the Standards, the Definition of Internal Auditing and Code of Ethics is mandatory.

### **Objectives of Internal Audit**

- 1.5 As an independent appraisal function within the Council, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of internal controls as a contribution to the proper, economic, efficient and effective use of resources.
- 1.6 The Internal Audit Service completes an annual Delivery Plan where the objectives of the service are identified.
- 1.7 In visionary terms, the Internal Audit Delivery Plan provides the following statement of purpose:  
*"To provide an assurance to the Leader of the Council, the Executive, the Chief Executive and the Group Director, Corporate & Frontline Services that there is an effective Internal Audit function in place that helps to safeguard the Council's*

*accounting records and control systems and that assists Managers in identifying, assessing and managing significant risks”.*

### **Independence and Objectivity**

1.8 The main determinant of the effectiveness of Internal Audit is that it is seen to be independent and that Internal Auditors must be objective in performing their work.

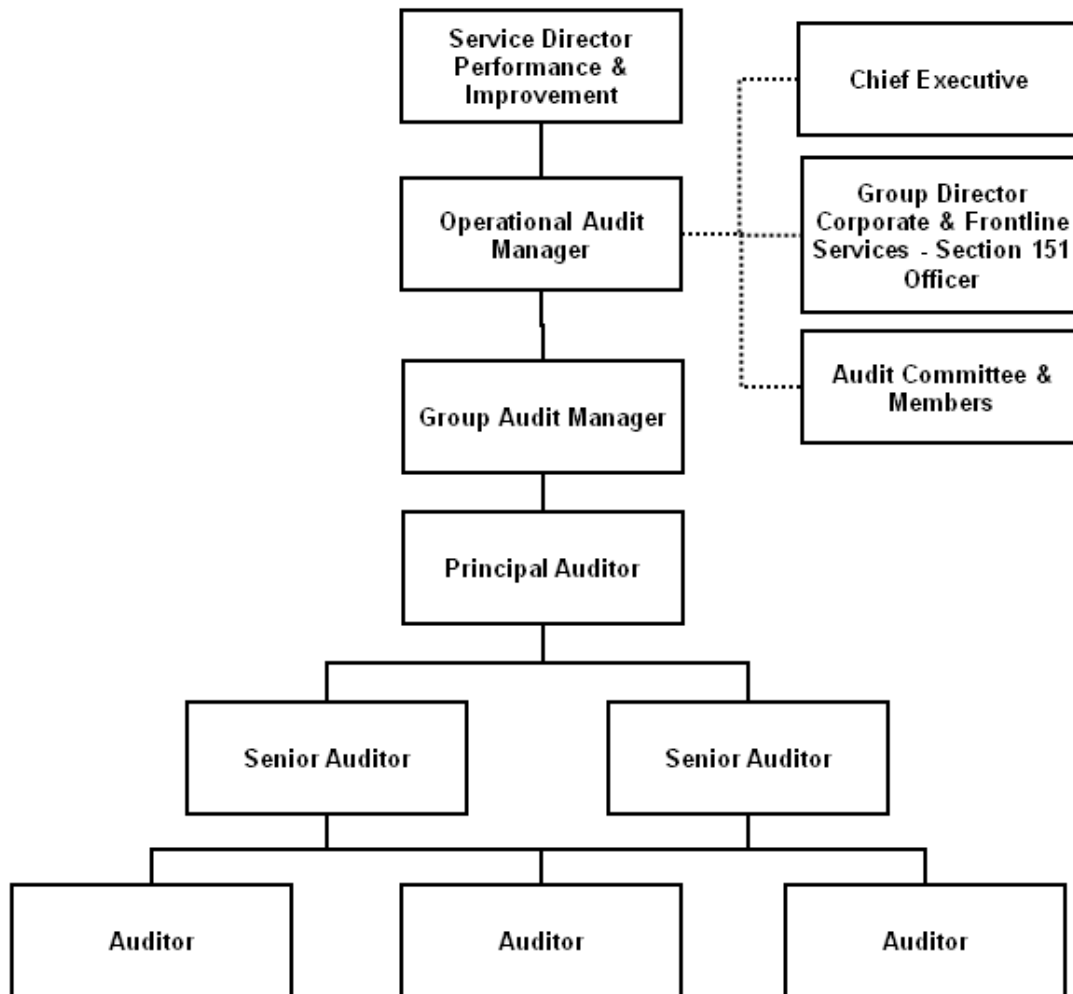
To ensure this, Internal Audit operates within a framework that allows:

- Unrestricted access to Senior Management (including the Chief Executive and Senior Leadership Team);
- Unrestricted access to Members (including the Leader, Cabinet Members and Audit Committee);
- Unrestricted access to the Wales Audit Office (External Auditors); and
- Reporting in its own name.

1.9 To achieve the degree of organisational independence necessary to effectively carry out the responsibilities of the Internal Audit activity, the Operational Audit Manager has direct and unrestricted access to senior management and the Audit Committee. In Rhondda Cynon Taf this is achieved through a dual-reporting relationship as the following staffing structure shows:



Figure 1 – Internal Audit structure & reporting arrangements



**Group Director, Corporate & Frontline Services**

1.10 As Section 151 officer, the Group Director, Corporate & Frontline Services has overall responsibility for the proper administration of the Council's financial affairs. Internal Audit assists the Group Director by providing an opinion on the overall control environment and by regular assurance testing of the key financial systems.

**Service Director Performance & Improvement and Operational Audit Manager**

1.11 The Service Director Performance & Improvement and the Operational Audit Manager are responsible for ensuring the effective delivery of the Internal Audit function in accordance with the principles agreed with the Group Director, Corporate & Frontline Services and also conforming with the Public Sector Internal Audit Standards. In addition to this, the Operational Audit Manager is responsible

for the day-to-day delivery of the Approved Audit Plan, the content of audit reports and the effective deployment and management of staff.

- 1.12 As a result of the Service Director Performance & Improvement also having service specific financial management responsibilities together with a Council-wide remit in respect of performance and risk management arrangements, the Operational Audit Manager will refer any audit issues relating to these areas directly to the Group Director, Corporate & Frontline Services (Section 151 Officer).
- 1.13 As the direct line manager of the Operational Audit Manager, the Service Director Performance & Improvement undertakes and contributes to the performance appraisal of the Operational Audit Manager.
- 1.14 The above responsibilities and reporting arrangements allows the Operational Audit Manager to deliver a service that is independent, and enables an objective approach to be maintained that allows for impartial and unbiased judgements, which are essential to the proper conduct of the Internal Audit Service and individual audit reviews.
- 1.15 In addition, all staff within the Internal Audit Service undertake their work in accordance with the requirements laid down within the Code of Ethics (Appendix B).

### **Audit Committee**

- 1.16 The Council operates an Audit Committee that meets on a cyclical basis. It monitors the performance of Internal Audit in relation to productivity, efficiency and quality. It receives regular reports on individual audit assignments and progress in delivering the annual audit plan and is attended by the Operational Audit Manager.
- 1.17 In addition, the Audit Committee receives the Internal Audit Annual Report from the Operational Audit Manager that provides a summary of all planned and unplanned work (assurance, consultancy and investigations into malpractice) and concludes by giving an opinion on the overall control environment within the Council (this report is presented to Audit Committee at the same time as the Annual Governance Statement as the former document supports the latter). If a

qualified or unfavourable annual internal audit opinion is given, the reasons to support this will be stated within.

1.18 As the structure in Figure 1 shows, the Operational Audit Manager has access to the Chair of Audit Committee. The Terms of Reference for the Audit Committee is included in Appendix C.

1.19 In terms of additional focus and challenge, the Public Sector Internal Audit Standards places a responsibility on the Operational Audit Manager to seek feedback from the Chair of Audit Committee in relation to performance and documented feedback will be retained.

### **Senior Management**

1.20 The Council is divided into 3 Service Groups, each of which is headed by a Group Director or equivalent, and a Chief Executive's Division headed by the Chief Executive. It is the role of the Chief Executive and each Group Director to ensure delivery and operation of the service areas falling within their remit:

- Chief Executive's Division;
- Community & Children's Services;
- Corporate & Frontline Services; and
- Education & Lifelong Learning.

### **Relationships with key stakeholders**

#### **Service Managers**

1.21 The Internal Audit Service continues to develop constructive working relationships with Managers at all levels within the Council in terms of:

- planning work;
- carrying out audit assignments; and
- agreeing action plans arising from the work undertaken.

1.22 Whilst maintaining its independence, the Internal Audit Service recognises that it must work with Managers to agree improvements that are deemed necessary.

### **External Auditors**

- 1.23 The aim of the relationship between internal and external auditors is to achieve mutual recognition and respect, leading to a joint improvement in performance and to avoid, wherever possible, duplication of work.
- 1.24 Internal Auditors meet regularly with their counterparts in the Wales Audit Office to consult on audit plans, discuss matters of mutual interest and to seek opportunities for co-operation in the conduct of audit work.

### **Elected Members**

- 1.25 The Service Director Performance & Improvement and the Operational Audit Manager have established sound working relationships and channels of communication with Cabinet, Scrutiny & Audit Committee Members.

## THE PURPOSE OF INTERNAL AUDIT

### Statutory Requirement for Internal Audit

1.26 The Accounts and Audit (Wales) Regulations 2005 direct that:

*“The (Council) shall be responsible for putting in place and ensuring that there is a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk and adequate and effective financial management. “*

1.27 Paragraph 6 of the Regulations states that... *“(the Council) shall maintain an adequate and effective system of Internal Audit of its accounting records and of its system of internal control in accordance with the proper Internal Audit practices.”*

1.28 Whilst the above requirements stem from statutory obligations, it is important that the Internal Audit function is also seen as *‘An Aid to Management’*.

### Definition of Internal Audit

1.29 Internal Audit is defined within the Public Sector Internal Audit Standards as follows:

*‘Internal Audit 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. The Internal Audit activity evaluates and contributes to the improvement of governance, risk, management and control processes using a systematic and disciplined approach.’*

1.30 The Public Sector Internal Audit Standards provide the following definitions for assurance and consultancy work:

- **Assurance Services**

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

- **Consulting Services**

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the Internal Auditor assuming management responsibility. Examples include counsel, advice, facilitation and training. The nature of Consulting Services provided includes acting as a 'critical friend' on Project Boards. These Services can/are provided, as per the definitions above, to external parties also.

1.31 The core aim of the work undertaken is to establish a balanced annual Internal Audit Plan that covers the entire control environment of the Council based upon areas identified as high risk and high priority. In order to undertake a balanced workload we plan to complete a mix of assurance and consultancy work, the outcomes of which contributes to the Head of Internal Audit's Annual Report where it concludes with an opinion on the Council's overall control environment.

## THE AUTHORITY OF INTERNAL AUDIT

### Scope & Rights of Access

- 1.32 All the Council's activities, funded from whatever source, and indeed the entire control environment fall within the remit of Internal Audit. Internal Audit will consider the adequacy of controls necessary to secure propriety, economy, efficiency and effectiveness in all areas. It will seek to confirm that management have taken all necessary steps to achieve these objectives. The scope of Internal Audit work should cover all operational and management controls and should not be restricted to the audit of systems and controls necessary to form an opinion on the financial statements. This does not imply that all systems will necessarily be reviewed, but that all will be included in the audit needs assessment and hence considered for review following the assessment of risk. The Internal Audit activity is free from interference in determining the scope of Internal Auditing, performing work and communicating results.
- 1.33 It is not in the remit of Internal Audit to challenge the appropriateness of policy decisions. However, Internal Audit is required to examine the management arrangements of the Council by which such decisions are made, monitored and reviewed.
- 1.34 Internal Audit may also conduct any special reviews, providing independent and objective services, including consultancy and fraud related work, requested by the Chief Executive, the Section 151 Officer, the Monitoring Officer, or other Directors. There will always be due consideration in planning this work to ensure that Internal Audit maintains its objectivity and independence. The prioritisation of special work will also take account of the requirements of the Section 151 Officer and the approved Audit Plan.
- 1.35 Internal Audit has rights of access to all of the Council's records, information and assets that it considers necessary to fulfil its responsibilities, including those of partner organisations. Rights of access to other bodies funded by the Council should be set out in conditions of funding. The Service Director Performance & Improvement and the Operational Audit Manager have a right of direct access to the Chief Executive, the s151 Officer, the Leader of the Council, the Monitoring

Officer, the Audit Committee and the External Auditor. In turn, Internal Audit will comply with any requests from External Audit for access to any information, files or working papers obtained or prepared during the audit work that they need to discharge their responsibilities.



## **THE RESPONSIBILITY OF INTERNAL AUDIT**

### **Managing the Internal Audit Activity**

- 1.36 The Operational Audit Manager is responsible for delivering an Internal Audit Service that has the appropriate knowledge and skills, and is resourced appropriately in order to deliver an appropriate level of assurance covering the Council's control environment.
- 1.37 The Operational Audit Manager is also responsible for ensuring that the Internal Audit Service conforms with the Public Sector Internal Audit Standards.

### **Individual Auditors**

- 1.38 Each Internal Auditor is responsible for undertaking their duties in accordance with the Public Sector Internal Audit Standards and strictly adhering to the Code of Ethics – included at Appendix B.

### **Ensuring Independence & Objectivity**

- 1.39 The Internal Audit activity is effectively managed when it provides independent and objective assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

### **Impairment to Independence – Assurance and Consulting Services**

- 1.40 If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment. Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations such as funding. The determination of appropriate parties to which the details of impairment to independence or objectivity must be disclosed is dependent upon the expectations of the Internal Audit activity and the Head of Internal Audit's responsibilities to senior management and the board as described in the Internal Audit Charter, as well as the nature of the impairment. Any instance of non-conformance with the Definition of Internal Auditing, the Code of Ethics or Standards which impacts a specific engagement, communication of the results will disclose the principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved; reasons(s) for non-conformance on the engagement and the communicated engagement results.

- 1.41 Independence is achieved via the reporting arrangements within the Council and the line management of the Operational Audit Manager. Objectivity (and also independence in terms of specific audit reviews) is managed by the Operational Audit Manager applying an evidenced based conflict of interest exercise each year.
- 1.42 A conflict of interest is any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively and hence the Operational Audit Manager requests a declaration from all staff annually to ensure there are no potential conflicts and to demonstrate transparency.
- 1.43 In the event that any potential conflicts are identified by members of the Internal Audit Service then they are taken into account when allocating individual workloads to auditors.

### **Resourcing**

- 1.44 The Service prepares a new Audit Plan for each year. When compiling the draft Internal Audit Plan, a full consultation process takes place with all key stakeholders during January & February. The Council's Strategic Risk Register is used to drive initial discussions with all Lead Officers. In addition to using the Strategic Risk Register, consultation also takes place with Group Directors, Service Directors and Heads of Service, and the audit plan takes into account the outcomes of previous audit work in the area(s) and the views of External Audit. It is important at this stage to confirm with managers whether any external inspections are timetabled for the forthcoming year in order for Internal Audit to not duplicate potential areas to be reviewed. This also provides the opportunity for Internal Audit to identify other sources from which assurance can be provided/placed upon.
- 1.45 The Audit Plan is fixed for a period of one year and outlines the assignments to be carried out, their respective priorities and the estimated resources needed. The plan differentiates between assurance and other work, and is flexible to be able to reflect the changing risks and priorities of the organisation. The aim is to establish a risk based audit plan that also covers the Council's overall control environment as far as practicable (as required within the Public Sector Internal Audit Standards). Contingencies are included within the Audit Plan in order for Internal Audit to respond to any emerging issues within the year.

## **Fraud and Irregularity**

1.46 Internal Audit undertakes investigative work in respect of fraud / irregularity with the exception of Housing Benefit related fraud and irregularity, which is investigated within the Operational Finance Section of the Financial Services Division.

1.47 The Council's Anti-Fraud, Bribery & Corruption Policy and Procedure have a prominent position on the Council's web site and have been cascaded throughout the Council. The Anti-Fraud, Bribery & Corruption Policy and Procedure provides clear guidance in terms of notifying Internal Audit of all suspected or detected fraud, corruption or impropriety as follows:

### **5. The Responsible Officer**

5.a *Under Section 151 of the Local Government Act 1972 and Section 5 of The Accounts and Audit (Wales) Regulations 2005, the 'Responsible Officer' is responsible for ensuring that the Council has control systems and measures in place 'to enable the prevention and detection of inaccuracies and fraud, and the ability to reconstitute any lost records'.*

5.b *In Rhondda Cynon Taf County Borough Council, the 'Responsible Officer' is the Group Director, Corporate & Frontline Services and an Anti-Fraud, Bribery & Corruption Policy and Procedure helps towards discharging part of that responsibility.*

5.c *Also, under Section 6 of The Accounts and Audit (Wales) Regulations 2005, the Council has delegated to the Operational Audit Manager the responsibility for maintaining 'an adequate and effective system of Internal Audit of the Council's accounting records and its systems of internal control in accordance with proper Internal Audit practices', together with the statutory right of access to documents, records, information and explanations considered necessary for that purpose.*

5.d *Accordingly, the Operational Audit Manager will:-*

- *take overall responsibility for the maintenance and operation of this Policy;*
- *maintain records of financial malpractice, including concerns and allegations received; matters arising from audits; investigations and evidence; and the outcomes; and*
- *report as necessary.*

1.48 The Policy and Procedure goes on to provide the following advice:

### **Raising Concerns**

3.5 *Members and employees are an important element in the Council's stance on fraud and corruption, and they are positively encouraged and expected to raise any concerns that they may have on these issues where they are associated with the Council's activities.*

3.6 *Employees should normally raise concerns through their immediate manager; however it is recognised that they may feel inhibited in certain circumstances. In this case, employees should contact the Chief Executive, the Group Director, Corporate & Frontline Services, the*

*Director of Legal & Democratic Services or the Operational Audit Manager.*

1.49 In order to help ensure adequate coverage is included within each Annual Audit Plan to cater for Internal Audit's responsibilities identified within the Council's Anti-Fraud, Bribery & Corruption Policy and Procedure, contingencies are included within the resources available that ensure adequate planned time is available throughout the year.

**Assessment of risk and priority**

1.50 Each area identified within the draft Audit Plan is subject to a formal risk assessment. The methodology adopted has been recommended by CIPFA, 'The Exeter Approach'. The Exeter Approach uses a matrix of four main factors:

- Audit assurance / perception;
- Materiality;
- Inherent risk rating; and
- Staffing & systems.

1.51 The outcome of this exercise forms the basis of the Council's Audit Needs Assessment.

1.52 A formal Audit Needs Assessment, reviewing the draft plan (the 'wish list' of auditable areas) against the resources available is then completed in conjunction with the Council's Section 151 Officer. Should any potential areas be removed from the draft Audit Plan, full documented reasons for why areas have been removed are retained – examples of such reasons may be an external inspection is due, the area is not considered a high risk area and/or other support services within the Council could be utilised to undertake some of the work requested.

1.53 The draft Audit Plan contains a balance of assurance and consultancy work together with an adequate contingency of days for unplanned work.

1.54 The draft plan is then submitted to Audit Committee for review and if deemed appropriate, approval. Where there is an imbalance between the proposed Audit Plan and the resources available then the Audit Committee will be informed of the proposed solutions. The Audit Committee should approve, but not direct, the Internal Audit Plan.

1.55 The over-riding objective of undertaking a rigorous audit planning exercise is to ensure that Internal Audit is able to present an overall opinion on the Council's internal control environment (based on risk) in producing the Annual Governance Statement. If a qualified or unfavourable annual audit opinion is given, the reasons to support this will be stated within.

**Proficiency and due professional care (and compliance with the code of ethics) of auditors when undertaking their duties**

1.56 All staff are aware that they are required to undertake all duties asked of them with due professional care in accordance with the Public Sector Internal Audit Standards.

**Ensuring the team is competent and treats all matters that are relevant with confidentiality**

1.57 The Internal Audit Service has a staff mix that is experienced and skilled. When compiling the Annual Audit Plan and allocating subsequent reviews to individual auditors the Operational Audit Manager ensures that there is a balance between the skills available and the work required to be carried out i.e. that Internal Audit can actually carry out the work that it plans to undertake.

1.58 In addition to the above, to ensure continuous improvement and development of all staff, the Operational Audit Manager holds one to one feedback sessions with all auditors. Feedback is given and received in terms of performance and these sessions are also used to identify areas of development. The Internal Audit Service is a member of the South Wales Audit Group Training Programme and all Internal Audit staff members attend training sessions that are considered appropriate.

1.59 All staff are aware and are reminded when necessary, that all matters relating to Internal Audit work must be treated with strict confidentiality.

**Establishing appropriate quality assurance mechanisms within the service**

1.60 The Operational Audit Manager has developed a quality assurance and improvement programme that covers all aspects of the Internal Audit activity. A quality assurance and improvement programme is designed to enable an evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the Public Sector Internal Audit Standards together with 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.

- 1.61 The Operational Audit Manager communicates the result of the quality assurance and improvement programme to senior management and the board. The Council's Audit Committee receive regular performance reports from the Operational Audit Manager.
- 1.62 The core strength of Internal Audit's internal quality programme is the review, monitoring and mentoring systems that it has in place. There is a wealth of experience and knowledge within the team and this is used to its maximum potential when staff undertake individual reviews.
- 1.63 The Internal Audit Service undertakes an annual internal assessment of its conformance with the Public Sector Internal Audit Standards with the outcome being reported within the Head of Internal Audit's Annual Report. In the event of there being areas where non-conformance is identified these will be communicated to Audit Committee in the form of an action plan. If significant deviations from the Standards are evidenced, these will be reported in the Annual Governance Statement.
- 1.64 The new Standards came into practice on the 1<sup>st</sup> April 2013. Within the Standards there is a requirement for the Operational Audit Manager to procure an external assessment once every five years by a qualified, independent assessor or assessment team from outside the organisation. At the stage when an external assessment is required the Operational Audit Manager will discuss with the Audit Committee:
- The form of external assessment; and
  - The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.
- 1.65 Internal Audit will comply with the requirement of the external assessment as described by the Public Sector Internal Audit Standards. Once undertaken, the results of all external inspections will be reported to the Council's Audit Committee and any significant deviations reported in the Annual Governance Statement.
- 1.66 In addition to the Internal and External Assessments required by the Public Sector Internal Audit Standards, the Wales Audit Office undertakes an

assessment of the adequacy of Internal Audit in meeting the Standards set out in the Public Sector Internal Audit Standards.

### **Post Audit Feedback Questionnaires**

1.67 The Internal Audit Service values the views of Service Managers. On completion of each audit assignment, a Feedback Questionnaire is sent out asking Service Managers to comment on the way the review was conducted and the value they place on the findings and recommendations.

### **Communicating the results of individual audit reviews and following up the status of recommendations**

1.68 The final product from every Internal Audit assignment is the communication of its results to the Audit Client. The Audit Report (and the recommendations arising from it) is the main standard by which the client will judge the Internal Audit Service.

1.69 Findings and recommendations emanating from Audit Reviews need to be communicated to Management promptly and in line with agreed 'turnaround' targets.

1.70 All audit recommendations are reported to Audit Committee, along with the introduction, scope and objectives and audit opinion.

### **Follow Up**

1.71 The Internal Audit Service follows-up all agreed recommendations to ensure that they have been implemented within the timeframe agreed at the time the report was distributed. The provision and monitoring of this information is targeted at Group and Service Director level – and in turn receives the full support of all Group Directors. The provision of this information to Members (via Audit Committee) helps the Committee to monitor the Council's overall control environment and also ensures that the overall assurance statement at the end of each financial year incorporates the status of previously agreed audit recommendations.

1.72 Audit Committee receives a high-level summary report of outstanding recommendations across the whole of the Council's control environment.

## **Appendix A - Glossary of Terms**

### **Control Environment**

The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values;
- Management's philosophy and operating style;
- Organisational structure;
- Assignment of authority and responsibility;
- Human resource policies and practices; and
- Competence of personnel.



## **Appendix B - Code of Ethics**

### **Public sector requirement**

Internal Auditors in UK public sector organisations (as set out in the Applicability section) 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 promote 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:

### **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.

## **Appendix C - Audit Committee – Terms of Reference**

### **Audit Committee**

#### **Statement of Purpose**

The purpose of the Audit Committee is to monitor the adequacy of the risk management framework and the associated control environment; provide independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment; and to oversee the financial reporting process.

#### **Terms of Reference**

As a key element of new arrangements for corporate governance, designed to ensure openness, integrity and accountability, the Committee will assist the Authority in discharging its responsibility for ensuring financial probity, without taking any action which might prejudice it. The Committee will:-

- (A) Review and recommend for certification the Annual Governance Statement;
- (B) Review, approve and ensure the co-ordination of the Annual Internal Audit Plan for the coming financial year;
- (C) Review, scrutinise and issue reports and recommendations in relation to the Authority's financial affairs, and providing the opportunity for direct discussion with the auditor(s) on these;
- (D) Review, scrutinise and issue reports and recommendations on the appropriateness of the Authority's risk management, internal control and corporate governance arrangements, and providing the opportunity for direct discussion with the auditor(s) on these;
- (E) To receive reports on the performance of the Internal Audit Service throughout the year particularly in relation to matters of financial probity and corporate governance;

- (F) Oversee the Authority's audit arrangements (both internal and external);
- (G) Review and comment on the Authority's certified draft financial statements before their approval by Council;
- (H) To receive and consider the Head of Internal Audit's Annual Report and opinion on the level of assurance it can give over the Authority's governance arrangements and associated internal control environment;
- (I) To receive and consider reports of the External Auditor in relation to matters of financial probity and corporate governance and providing the opportunity for direct discussion with the auditor(s) on these;
- (J) Act as a point of arbitration, where senior officers of the Authority are unable to agree significant audit report recommendations;
- (K) Receive ad hoc reports on any significant matters involving fraud, theft or other appropriate matters in breach of the Authority's Financial Procedure Rules and Contract Procedure rules, as part of the development of an anti-fraud culture;
- (L) To receive reports in relation to proposed changes to the Authority's Contract Procedure Rules and Financial Procedure Rules and where deemed appropriate, recommend their approval to Council;
- (M) Promote and review any measures designed to raise the profile of probity within the Authority;
- (N) Consider national reports, for example, from the Wales Audit Office, of relevance to the work of the Authority;
- (O) Agree, where Committee Members deem it appropriate, that a matter arising from a written report to a Committee which requires further clarification may be

either dealt with by a request for a written commentary from the appropriate Group Director, or by that Group Director or their senior representative, attending to answer questions in person on that specific matter. Alternatively, the Audit Committee can refer the matter to the relevant Scrutiny Committee; and

- (P) The committee may require Members and officers of the Authority to attend before it to answer questions. Such Members and officers have a duty to comply but are not obliged to answer any questions that may be refused in court proceedings in England and Wales. The Committee may invite other persons to attend the meeting.

**Powers Delegated to Chief Officers**

All operational and management requirements arising from the Committee's Terms of Reference.

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