

# Internal Audit Charter

## APPENDIX 1

### 1. Introduction

From the first of April 2025, Public Sector Internal Audit functions must follow the new Global Internal Audit Standards (GIAS). These standards replace the Public Sector Internal Audit Standards (PSIAS) and are a combination of the GIAS, and the Application note for GIAS in the UK Public Sector. The application note was issued by the UK Internal Audit Standard Setters (CIPFA and Internal Audit Standards Board)

The Internal Audit Charter is a formal document, required by the Global Internal Audit Standards in the UK Public Sector (GIAS in the UK Public Sector) that defines the Internal Audit Services activities, purpose, authority and responsibility.

The GIAS define Internal Audit's purpose as to *“strengthen the organisation's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight”*.

Standard 6.2 of the GIAS requires that the Chief Audit Executive develop and maintain an Internal Audit Charter.

Caerphilly Internal Audit Service will adhere to the GIAS and Application note for the Global Internal Audit Standards in the UK Public Sector.

The Internal Audit Charter establishes Internal Audit's position within the organisation, including the nature of the Chief Audit Executive/Internal Audit Manager's functional reporting relationship with the Governance & Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.

This Charter has been written in accordance with the GIAS and application note.

For the purposes of this document reference is made to the “Board”, “Chief Audit Executive” and “Senior Management” and in respect of Caerphilly County Borough Council and this Charter specifically, these terms are taken to mean as follows: -

“The Board” - the Council's Governance and Audit Committee,

“Chief Audit Executive” – the Internal Audit Manager

“Senior Management Team” – the Council's Corporate Management Team and wider leadership as appropriate.

### 2. Mandate and Authority

#### Mandate

The GIAS requires that the Internal Audit Service has a mandate to act endorsed by the Chief Executive, S151 Officer and Senior Management, this ensures that the

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Chief Audit Executive /Internal Audit Manager or delegated staff have their support in fulfilling their roles as defined in the GIAS, the Internal Audit Strategy and this Charter.

## Updates and Changes to Mandate and Charter

Circumstances may arise where updates or changes may be needed to the Internal Audit Mandate or Charter such as: -

- Changes or updates in the GIAS
- Organisational changes or reorganization affecting the Chief Audit Executive, Governance and Audit Committee, and /or Senior management
- Significant changes to the Council, risk profiles, strategies or objectives or other high impact changes
- Updated or new regulations or laws that affect the work of Internal Audit.

The Charter and other related documents such as the Internal Audit Strategy may also be subject to a periodic review which may also result in updates or revision to the Charter.

## Authority

Internal Audit Services derives its authority from legislation. The requirement for an Internal Audit function for Local Authorities is implied by Section 151 of the Local Government Act 1972 which requires that Authorities shall “*make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs*”. The Accounts and Audit (Wales) Regulations 2014 requires that “*a local government body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control*”.

The scope of Internal Audit allows for a free and unfettered ability to plan and undertake audit assignments deemed necessary to fulfil its purpose, and to have a right of direct access to the Chair of the Governance & Audit Committee and the Chief Executive of the Council in doing so.

To enable the service to discharge its duties fully, the Chief Audit Executive/Internal Audit Manager and Internal Audit staff are authorised to: -

Have unrestricted access to all functions, records, property, and personnel, although this may be restricted to named Senior Audit staff where information is sensitive or confidential, with the prior agreement of the S151 officer.

Have full and free access to the Governance & Audit Committee, the Chief Executive, all officers including Executive Directors, Directors, the Leader of the Council, and Council Members.

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Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and

Obtain the necessary assistance of personnel in service areas of the Council where they perform audits, as well as other specialised services from within or outside the Council.

## 3 Vision and Mission

Our mission is to be a high quality, professional, independent and objective provider of Internal audit service to the Council, in line with regulations and statute. We aim to strengthen the Council's ability to create, protect, and maintain value for money, give assurances on internal controls and governance by providing independent, risk-based, and objective assurance, advice, insight, and foresight.

### Definition

The GIAS state the purpose of Internal Audit is to *“strengthen the organisation's ability to create, protect, and sustain value by providing the board and management with independent, risk based, and objective assurance, advice, insight, and foresight”*.

The scope of work of Internal Audit allows for the unrestricted coverage of the Authority's activities in order to review, report and provide the appropriate assurance based on its review to the Governance & Audit Committee. This is in order for the Committee to determine whether the Council's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure: -

Risks are appropriately identified and managed.

Interaction with the various governance groups occurs as needed.

Significant financial, managerial, and operating information is accurate, reliable, and timely.

Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.

Resources are acquired economically, used efficiently, and adequately protected.

Programs, plans, and objectives are achieved.

Quality and continuous improvement are fostered in the Council's control process.

Significant legislative or regulatory issues impacting the Council are recognised and addressed appropriately; and

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Opportunities for improving management control, profitability and the Council's image may be identified during audits. They will be communicated to the appropriate level of management.

The scope of Internal Audit work may include audit activity both within the Council and on functions that the Council has delegated or contracted out, where the Council remains accountable for the expenditure involved.

Where other internal or external assurance providers may have undertaken relevant assurance and audit work, Internal Audit Services will seek to rely on the work of these other assurance providers where professional standards would make it appropriate to do so.

## 4 Objectives

Internal Audit's main objectives are to: -

- Provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources.
- Provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- Assist in ensuring the objectives of the Council are being met.
- Provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.
- Provide advice and support to management to enable an effective control environment to be maintained.
- Promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud.
- Investigate allegations of fraud, bribery, corruption and other irregularities,
- Liaise with the police where criminal activities are suspected.

## 5 Role of Chief Audit Executive

### Ethics and professionalism

The Chief Audit Executive will ensure that Internal Auditors: -

- Conform with the GIAS in the UK Public Sector, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organisation and be able to recognise conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organisation.

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- Report organisational behaviour that is inconsistent with the organisation's ethical expectations, as described in applicable policies and procedures.

## **Objectivity**

The Chief Audit Executive will ensure that the Internal Audit function remains free from matters that threaten the ability of Internal Auditors to carry out their responsibilities in an unbiased fashion.

If the Chief Audit Executive determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed appropriately.

In accordance with domain IV of the GIAS, the Chief Audit Executive may delegate appropriate responsibilities to other qualified professionals in the Internal Audit function, but they retain ultimate accountability.

## **6 Role of Internal Auditors**

Internal Auditors work under the direction of the Chief Audit Executive in the undertaking of individual audit either individually or part of a group assigned to that audit. They will be expected to display the following characteristics.

### **Ethics and objectivity**

The Standards also set out a mandatory code of ethics by which Internal Auditors must abide in order to promote an ethical culture in the internal auditing profession. The function provides independent and objective evaluation of, and opinion on, the overall adequacy and effectiveness of the framework of governance, risk management and control in the Authority in an economical, efficient and timely manner.

The GIAS requires that Internal Auditors will maintain an unbiased approach that allows them to perform engagements objectively, do not compromise quality, or judgment on audit matters.

Internal Auditors will have no direct operational responsibility or authority over any of the operational activities they review. Accordingly, Internal Auditors will not take responsibility for the implementation of internal controls, developing procedures or guidance documents, implementation of systems, or undertake any other activities that may impair their judgment, such as: -

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for Caerphilly County Council.
- Initiating or approving transactions external to the Internal Audit function.
- Directing the activities of any Caerphilly County Borough Council employee that is not employed by the Internal Audit function, except where they have

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been engaged /contracted to Internal Audit teams or to assist Internal Auditors.

Internal Auditors will be required to : -

- Disclose impairments of independence or objectivity, to appropriate parties, such as the Chief Audit Executive, S151 Officer, Governance & Audit Committee, management, or others.
- Exhibit professional care and maintain objectivity in gathering data, evaluating, and communicating information.
- Make balanced assessments of relevant facts and circumstances when coming to any conclusions or reporting findings.
- Take necessary precautions to avoid conflicts of interest.

## **7 Role of Internal Audit**

The role of Internal Audit is to: -

- Review and assess the soundness, adequacy and reliability of financial and non-financial systems and operations.
- Review and assess the effectiveness of internal controls.
- Review and assess the appropriateness of actions proposed by management to rectify identified risks or to improve the internal control environment.
- Assess whether the Council's assets and interests are adequately protected, and risks are effectively managed.
- Assess the adequacy of compliance with legislation, Council policies and procedures.
- Review and assess the effectiveness of the Council's governance and risk management frameworks.
- Check for compliance with legislation, policies, and procedures.
- Promote and assist with the effective use of resources.
- Perform or support independent investigations into allegations of fraud or irregularities in accordance with the Council's policies and procedures.
- Perform any other specific reviews at the request of S151 officer.

## **8 Responsibilities of Internal Audit**

The Chief Audit Executive and their staff within the Internal Audit function have a responsibility to: -

### ***Plan***

Internal Audit is committed to providing a plan of cyclical audits over a period of time with Major (fundamental or inherent high risk) systems being subject to more frequent coverage.

Internal Audit will create and prepare a flexible annual audit plan. This planning process will include discussions or consultation with management, and others relevant parties and also consider known or emerging risks.

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The plan will detail the specific audits to be undertaken by using a risk-based methodology, including any risks and concerns identified by management. That plan will be submitted to the Governance & Audit Committee for review and approval.

Internal Audit will communicate the detail of the plan with the Section 151 Officer and the Governance & Audit Committee.

Internal Audit will keep the plan under review and adjust as necessary in response to changes in risk, resources, operational matters or other issues. Such changes will be communicated to the Committee and management as appropriate.

Internal Audit will advise Departments and locations of the planned reviews to be undertaken and will attempt to schedule such reviews to the mutual convenience of all parties.

## **Act**

Internal Audit will also assess third party assurance sources and conduct audits in accordance with the approved plan, and relevant professional standards, GIAS, laws, regulations and policies.

Internal Audit will evaluate and assess areas of significant change.

Internal Audit will assist, as needed, in the investigation of significant suspected fraudulent activities within the organisation.

## **Report**

Internal Audit will report all audit assignments to the management of the service area or establishment under review. Draft reports will be sent to Service Managers for verification of factual accuracy and for the recording of any comments and agreed actions in relation to any recommendations made. Final reports once agreed will then be issued to Directors, , Head Teachers, Chairs of Governing Bodies and under specific circumstances to Executive Directors.

Audit reports will include an opinion of the system or compliance with controls based on the evidence found during the audit.

Internal Audit will agree a reporting protocol with the Governance & Audit Committee and associated escalation procedures. The reporting protocol should also include agreements regarding timescales for following up audit reports and tracking recommendations made.

Internal Audit will issue periodic reports to the Governance & Audit Committee summarising results of Internal Audit activities.

Internal Audit will consider the scope of work of other assurance providers for the purpose of providing optimal assurance coverage.

## **Communicate**

Internal Audit will communicate regularly with Internal Audit stakeholders and customers to ensure that changes in the business, its activities and the control

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environment are factored into the Internal Audit strategy and plan where appropriate.

During audits, Internal Audit will raise significant issues for the attention of line management as soon as identified and discuss all draft reports with the auditee before finalisation to confirm facts and incorporate management responses.

## **9 Provision of Internal Audit, Management Responsibilities and Reporting Lines**

The Internal Audit Function is expected to perform in accordance with the mandate. The function is currently provided in house and comprises 8 members of staff, Internal Audit manager (Chief Audit Executive), 2 Service Auditors, 4 Senior Audit Assistants and 1 Audit Assistant.

Day to day management of the Internal Audit team is undertaken by the Chief Audit Executive / Internal Audit Manager. The team consists of a number of professionally qualified and part-qualified staff (ACA, ACCA, AAT) and it operates as a separate unit within the Corporate Finance Service area.

Operational Management is performed by the Director of Financial Services and S151 Officer. The Chief Audit Executive/Internal Audit Manager has a direct right of access to the Chief Executive Officer and Chair of the Governance and Audit Committee as and when required.

The Chief Audit Executive/Internal Audit Manager reports to the Council's Governance & Audit Committee for organisational purposes but will report significant audit findings and audit progress directly to the S151 Officer as appropriate. The Chief Audit Executive/Internal Audit Manager will keep the S151 Officer, and the Governance & Audit Committee informed of progress and developments on a regular basis.

Should the Chief Audit Executive/Internal Audit Manager not be satisfied with management's response to a given audit report then this will be highlighted to the S151 Officer and escalated to the Governance & Audit Committee if they remain unresolved.

## **10 Audit reporting**

All audit assignments will be the subject of an audit report. Draft reports will be issued to Service Managers, for agreement of factual accuracy and for them to consider any comments they may have and also to review the findings and recommendations made in the report and what actions they may agree to take.

Managers will be offered the opportunity to discuss the draft report before a final report is issued. Final reports will be issued to the Service Manager and relevant



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Director and may depending on the findings and opinions noted also be issued to Executive Directors and the S151 Officer.

Summary details of audits performed, opinions, and recommendations will also be routinely reported to the Governance and Audit Committee on a regular basis.

Standard 11.3 of GIAS and Application note ref 10 B discusses the requirement for an overall conclusion to be reported annually. The Chief Audit Executive/Internal Audit Manager will prepare an annual report covering outcomes in regard to audit work performed in relation to governance, risk and internal controls. This opinion will form part of the Annual Governance Statement.

## 11 Management Responsibilities

Internal Audit Services can only be effective if it receives the full co-operation of management. By approving this Internal Audit Charter the Section 151 Officer and the Governance & Audit Committee are mandating management to co-operate with Internal Audit in the delivery of the service by: -

- Agreeing Terms of Reference, to include agreements on duration, scope, reporting and response.

- Sponsoring each audit at Director level.

- Providing Internal Audit Services with full support and co-operation, including complete access to all records, data, property and personnel relevant to the performance of their responsibilities at all levels of operations, without unreasonable delay.

- Responding to the draft internal audit report, including provision of management responses to recommendations, within the timescale requested by the audit team.

- Implementing agreed management actions in accordance with the agreed timescales.

- Updating Internal Audit Services with progress made on management actions, informing Internal Audit Services of proposed changes and developments in processes and systems, newly identified significant risks and cases of a criminal nature.

Instances of late responses to reports and agreed actions not being implemented will be escalated, when appropriate, to the Section 151 Officer and the Governance & Audit Committee.

Whilst the Annual Internal Audit Report is a key element of the assurance framework required to inform the Annual Governance Statement, there are also a number of other sources from which those charged with governance should gain assurance. Additionally the annual Internal Audit opinion does not discharge the responsibility of

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those charged with governance from forming their own overall opinion on internal controls, governance arrangements, and risk management activities.

## 12 Accountability

The Chief Audit Executive/Internal Audit Manager, in the discharge of their duties, shall be accountable to the Governance & Audit Committee and the Section 151 Officer for: -

Providing, at least annually, an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control.

Preparing and reporting an annual plan to the Governance and Audit Committee.

Periodically reporting on the status/progress against the annual plan and results of audits completed since the previous reporting period.

Periodically reporting on the status of audit recommendations and implementation of agreed actions.

Ensuring that the Internal Audit function possesses adequate knowledge, skills qualifications and other competencies to meet the requirements of the GIAS and fulfil the mandate.

Periodically providing information on the status and sufficiency of the Internal Audit function's resources.

Ensuring that Internal Audit Engagements are conducted in conformance with the GIAS and application note in the UK public sector and any other relevant policies, regulations and laws.

Co-ordination with other significant assurance functions as may be appropriate.

## 13 Advisory Work

The Standards allow that Internal Audit effort may sometimes be more usefully focused towards providing advice rather than assurance over core controls. Where appropriate, Internal Audit will act in a consultancy capacity by providing guidance and advice for strengthening the control environment within the Authority, providing: -

The objectives of the Consulting engagement address governance, risk management and control processes to the extent agreed upon with the Authority.

The request has been approved by the Section 151 Officer.

Internal Audit Services is considered to have the right skills, experience, and available resource.

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Internal Audit's involvement will not constitute a conflict of interest in respect of maintaining an independent stance, and Internal Audit will not assume a management role in providing this advice.

When performing consulting services, the auditor must maintain objectivity and not take on management responsibility.

The Chief Audit Executive/Internal Audit Manager is responsible for ensuring that all requests are reviewed in accordance with the above criteria and for making the final decision. The role which Internal Audit Services will assume on any particular advisory assignment will be agreed with the sponsor and documented within the assignment plan.

## **14 Relationships**

The Chief Audit Executive/Internal Audit Manager and Internal Audit staff are involved in a wide range of relationships and the quality of those relationships impact on the quality of the audit function and the effective delivery of that function.

### **Relationships With Management**

The Chief Audit Executive/Internal Audit Manager and Internal Audit staff will maintain effective relationships with managers of the Council. Regular meetings will be held with key stakeholders and management will be consulted with in the audit planning process. Timing of audit work will be in conjunction with management.

### **Relationships With External Auditors**

Internal Audit Services and the Council's external auditors have an established working relationship where Internal and External Audit can rely on each other's work, subject to the limits determined by their responsibilities, enabling them to evaluate, review and only re-perform where necessary. Regular meetings will be held and plans and reports shared.

### **Relationships With Regulators And Inspectors**

The Chief Audit Executive/Internal Audit Manager and their staff will take account of the results and reports from any inspections when planning and undertaking Internal Audit work. Where appropriate the Chief Audit Executive/Internal Audit Manager will establish a dialogue with representatives of the appropriate inspection agencies.

### **Relationships With Elected Members**

The Chief Audit Executive/Internal Audit Manager will establish a working relationship with members, in particular with members of the Governance & Audit Committee. The Chief Audit Executive/Internal Audit Manager and the Chair of the Governance & Audit Committee will meet regularly with a view to discussing emerging issues or concerns as well as development opportunities with regard to the ongoing relationship between the Governance & Audit Committee and Internal Audit Services.

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## 15 Quality Assurance

The Chief Audit Executive/Internal Audit Manager will develop, implement and maintain a Quality Assurance and Improvement Programme .

All of Internal Audit Services' engagements are subjected to a thorough internal peer review of quality to ensure that its work meets the standards expected from its staff. Performance, training and development issues are identified as part of this process. These reviews undertaken cover the following: -

All work undertaken is in accordance with GIAS.

The work is planned and undertaken in accordance with risks associated with areas under review.

Sampling is undertaken in accordance with an agreed methodology.

The conclusions are fully supported by the detailed work undertaken.

Regular 1-2-1 meetings also take place as well as whole team briefings to ensure that individuals and the team's performance and development needs are identified and met wherever possible.

The GIAS require that the Audit Function is subject to a quality assurance and improvement programme that must include both internal and external assessment of conformance with the GIAS in the UK Public Sector. Such an assessment process will include an action plan to address any non-conformances, deficiencies or opportunities for improvement.

It is anticipated that the regulators will issue assessment guidance following the GIAS implementation date of 1/4/2025, together with supporting information as needed. Results of Internal assessments and any action plan will be reported to the Governance & Audit Committee annually.

External assessments will be conducted every 5 years by a suitably qualified independent assessor independent to Caerphilly.

## 16 Counter Fraud

Internal Audit are the lead in the Council's counter fraud approach and a number of the team have obtained accredited counter fraud qualifications.

The Council's Financial Regulations require that relevant Directors report any suspected or actual irregularity to the Section 151 Officer to ensure that satisfactory enquiries are undertaken in all such instances and that appropriate steps are taken to resolve and deal with any resultant findings. Whilst the initial responsibility for such enquiries rests with the Director concerned, the Section 151 Officer may require that the Chief Audit Executive/Internal Audit Manager manages and reports on any matter for investigation.

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All audit staff undertake their duties in the knowledge that they may come across or identify potential fraud or financial irregularity. Within the operational procedures for audit staff a formal notification / escalation process is set out which dovetails into the procedures required within the Authority's Financial Regulations. Internal Auditors may also under the Direction of the Chief Audit Executive/Internal Audit Manager assist with an investigation into a potential irregularity in order to support a formal investigation process.

## **17 Welsh Language**

Internal Audit is fully committed to the Council's Welsh Language Policy. Where a Department or Establishment wishes to have a review conducted through the medium of Welsh, Internal Audit will endeavour to utilise Welsh speaking staff wherever possible.

## **18 Review**

The Internal Audit Charter will be reviewed periodically with any resulting updates or amendments approved by the Council's Governance & Audit Committee.