



## Internal Audit Charter

### 1.0 Purpose

- 1.1 This charter is a high-level statement of how the National Assembly for Wales Commission (the Assembly Commission) delivers and develops Internal Audit and formally defines the purpose, authority and responsibilities of Internal Audit.
- 1.2 The UK Public Sector Internal Audit Standards define Internal Audit as below:

*'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.'*

- 1.3 The purpose of Internal Audit is to advise the Assembly Commission that arrangements for governance, risk management and internal control are in place and are operating effectively.
- 1.4 Internal Audit fulfils that purpose by providing independent assurance on the adequacy and effectiveness of the system of controls, which have been established to manage the risks of the Assembly Commission, to enable the achievement of organisational goals and ensure the accountability of public funds.

### 2.0 Authority

- 2.1 The requirement for an internal audit function is detailed within the [National Assembly for Wales Commission Governance Principles and Supporting Provisions document \(section D2\)](#) .

2.2 The standards for 'proper practices' in relation to internal audit activity are laid down in the UK Public Sector Internal Audit Standards (PSIAS).

### **3.0 Responsibilities**

3.1 The Chief Executive and Clerk to the Assembly is responsible for ensuring:

- there is a proper framework of prudent and effective controls, so that risks can be assessed, managed and taken prudently;
- there is clear accountability for managing risks; and
- officials are equipped with the relevant skills and guidance to perform their assigned roles effectively and efficiently.

3.2 Internal Audit is responsible for evaluating the Assembly Commission's systems and controls.

3.3 The Head of Internal Audit is responsible for effectively managing the internal audit activity in accordance with *the Definition of Internal Audit, the Code of Ethics* and the Public Sector Internal Audit Standards.

### **4.0 Definitions**

4.1 PSIAS refer to 'The Board' as the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and integrity of financial reporting. The Assembly Commission's Audit and Risk Assurance Committee (ACARAC) fulfils this function in respect of the Assembly Commission. ACARAC provides such assurance to the Assembly Commission; via its Annual Report; and interim updates via the Commissioner for Assembly Resources.

4.2 Similarly, PSIAS define Senior Management, as those responsible for the leadership and direction of the organisation. At the Assembly Commission, the Chief Executive and Clerk; and the Assembly Commission's Management Board fulfil this role.

## **5.0 Position in the Organisation**

- 5.1 The Head of Internal Audit reports functionally to the ACARAC. At each meeting of the ACARAC, the Head of Internal Audit, or their representative, will provide a report summarising internal audit activity and any findings during the period under review.
- 5.2 The Head of Internal Audit will also have direct access to and routinely meet with the Clerk and Chief Executive of the Assembly Commission, who is the Assembly Commission's Accounting Officer.

## **6.0 Internal Audit Resourcing**

- 6.1 The Head of Internal Audit will be professionally qualified (<sup>1</sup>CCAB, CMIIA<sup>2</sup> or equivalent), have on-going access to a programme of Continued Professional Development (CPD) and have experience in audit, governance and risk management.
- 6.2 Current arrangements see an external supplier of internal audit services supporting the Head of Internal Audit to develop and undertake activity for specific internal audit assignments.
- 6.3 The Charter outlines the respective operational responsibilities of the Head of Internal Audit and the external supplier in Annex A.
- 6.4 The external supplier will be expected to provide a team that is competent, trained and qualified (where appropriate), with access to continuous professional development.
- 6.5 The supplier's staff should also display specific expertise, a proven track record in the delivery of a range of internal audit services and relevant experience of internal audit in the public sector. The supplier will estimate the audit resource required to

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<sup>1</sup> CCAB – refers to the Consultative Committee of Accountancy Bodies and currently includes five member bodies: Association of Chartered Certified Accountants (ACCA); Chartered Accountants Ireland (CAI); Chartered Institute of Public Finance and Accountancy (CIPFA); Institute of Chartered Accountants in England and Wales (ICAEW); and Institute of Chartered Accountants of Scotland (ICAS).

<sup>2</sup> CMIIA – refers to a Chartered Member of the Institute of Internal Auditors, this is the highest level of Internal Audit qualification in the United Kingdom.

complete each element of the audit plan, discuss, and agree this with the Head of Internal Audit.

6.6 All personnel engaged in internal audit activity must adhere to the Public Sector Internal Audit Code of Ethics.

## **7.0 Independence and Objectivity**

7.1 Internal Audit will be free from interference in determining the scope, performance and communication of its work. Auditors will be sufficiently independent of the activities they audit to enable them to perform their duties in a manner that facilitates impartial and effective professional judgments and recommendations.

7.2 If independence or objectivity is impaired in fact or appearance, the Head of Internal Audit will disclose the details of the impairment to the Chief Executive and Clerk and the Chair of the ACARAC. The nature of the disclosure will be dependent on the impairment.

7.3 The Head of Internal Audit is Head of Service for the Assembly Commission's Governance and Audit Team. A number of governance related functions sit within this team. As and when an internal audit of one of these functions is due, the Head of Internal Audit will ensure that appropriate safeguards are in place so as to ensure that independence and objectivity is not compromised.

7.4 In the capacity of Head of Service, the Head of Internal Audit reports to the Director of Resources. However, he also has a direct line of reporting to the Chief Executive and Clerk, to safeguard the independence of the role and to ensure that those subject to audit cannot influence remuneration and performance assessment.

7.5 The Head of Internal Audit also has free and unrestricted access to the Chair of the Audit and Risk Assurance Committee.

7.6 Both the Chief Executive and Clerk and the Chair of the Audit and Risk Assurance can provide feedback to contribute to the

Performance Management Development Review (performance appraisal) of the Head of Internal Audit.

## **8.0 Proficiency and Due Professional Care**

8.1 Internal Audit will perform work with due professional care, competence and diligence. Internal Audit cannot identify every control weakness or irregularity. However, Internal Audit designs its work to enable the provision of reasonable assurance regarding the controls examined, within the scope of the review.

8.2 All internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgment based upon appropriate training, ability, integrity, objectivity and respect.

8.3 Internal auditors will also familiarise themselves with the *Definition of Internal Auditing, the Code of Ethics and the Standards* and will work in accordance with these in the conduct of their duties.

## **9.0 Scope of Audit work**

9.1 The scope of Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management arrangements, system of internal control, and the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. It includes but is not limited to:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify measure, classify, and report such information;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations, and reports on whether the organisation is in compliance;

- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Reviewing and appraising the economy and efficiency with which resources are employed, this may include benchmarking and sharing of best practice;
- Reviewing operations or programmes to ascertain whether results are consistent with the organisation's objectives and goals and whether the operations or programmes are being carried out as planned;
- Reviewing specific operations at the request of the Audit and Risk Assurance Committee or management, this may include areas of concern identified in the corporate risk register;
- Monitoring and evaluating the effectiveness of the organisation's risk management arrangements and the overall system of assurance;
- Ensuring effective co-ordination, as appropriate, with external auditors; and
- Reviewing if the Annual Governance Statement prepared by senior management.

9.2 Internal Audit will devote particular attention to any aspects of the risk management, internal control and governance arrangements affected by material changes to the organisation's risk environment.

9.3 If the Head of Internal Audit considers that the level of audit resources or the Charter in any way limit the scope of internal audit, or prejudice the ability of internal audit to deliver services consistent with the definition of internal auditing, he will advise the Accounting Officer and Audit and Risk Assurance Committee, accordingly.

9.4 The scope of the audit activity within the Assembly Commission is categorised into five different categories of audit approach and delivery and the Charter outlines these in Annex B.

## **10.0 Fraud, corruption and bribery**

10.1 Managing the risk of fraud, corruption and bribery is the responsibility of management. Internal Audit will assist management in the effective discharge of this responsibility.

10.2 Internal Audit will plan its work to have a reasonable expectation of detecting fraud and identify any significant weaknesses in internal control.

10.3 Internal Audit procedures alone, even when performed with due professional care, cannot guarantee the detection of fraud, corruption and irregularity.

10.4 Internal Audit does not have responsibility for the prevention and detection of fraud, corruption or bribery. However, internal auditors will be alert, in all their work, to risks and exposures that could result in fraud, corruption or bribery.

## **11.0 Reporting**

### *Head of Internal Audit Annual Report and Opinion*

11.1 The Head of Internal Audit will deliver an annual audit opinion and report; and annual fraud report. The Accounting Officer considers and reflects on these reports in the Annual Governance Statement.

11.2 The annual report will include as a minimum:

- The opinion;
- A summary of the work that supports the opinion;
- A statement on conformance with the Public Sector Internal Audit Standards; and
- the results of the on-going quality assurance and improvement programme.

### Reporting to the Audit and Risk Assurance Committee

11.3 Internal Audit achieves organisational independence when the Head of Internal Audit reports functionally to the ACARAC. The Charter outlines examples of the types of reporting in Annex B.

### Reporting to Management

11.4 At the end of each audit assignment, Internal Audit will share the draft findings and recommendations from the audit review with the relevant line managers, as co-ordinated by the Audit Sponsor (i.e. the person responsible for the area under review – e.g. Head of Service).

11.5 Internal Audit will address final audit reports to the Audit Sponsor. Subsequently, the Clerk to ACARAC will arrange for the transmission of the reports to ACARAC members.

### Reporting to External Audit

11.6 Internal Audit will send final audit reports to the Engagement Lead and Audit Manager at the Wales Audit Office.

## **12.0 Quality Assurance**

12.1 The Head of Internal Audit will establish and maintain a system of quality assurance and report upon the results of this to Senior Management and the ACARAC at least annually. This will include a quinquennial independent external review of the independent audit service.

12.2 The Head of Internal Audit, Senior Management and the ACARAC will agree all details of the external assessment.

## **13.0 Review of the Internal Audit Charter**

13.1 The Head of Internal Audit will review this Charter annually and present it to ACARAC for approval.



## Annex A – Internal Audit Responsibilities:

| Resource               | Responsibilities  |
|------------------------|---|
| Head of Internal Audit | <ul style="list-style-type: none"> <li>• Strategic and operational audit planning;</li> <li>• Undertake audit reviews per the audit plan;</li> <li>• Set and agree scope and approach for all audit reviews with management;</li> <li>• Monitor audit contractor performance;</li> <li>• Review, issue and take responsibility for all draft audit reports including those prepared by the contractor;</li> <li>• Undertake special reviews and investigations as identified by the ACARAC and Senior Management;</li> <li>• Regular reporting to Senior management and ACARAC;</li> <li>• Prepare final assurance statement for Principal Accounting Officer.</li> </ul> |
| External Supplier      | <ul style="list-style-type: none"> <li>• Provide advice and input into the planning process;</li> <li>• Develop draft scopes, work programmes and undertake detailed audit reviews of key operational systems, including:               <ul style="list-style-type: none"> <li>a) General assurance work;</li> <li>b) Governance and overall management arrangements;</li> <li>c) Economy efficiency and effectiveness reviews;</li> <li>d) Risk management;</li> <li>e) ICT audits.</li> </ul> </li> </ul>   |

## Annex B – Examples of Reporting to ACARAC

- Approving the internal audit charter.
- Approving the internal audit plan.
- Receiving communications from the Head of Internal Audit on the progress of work relative to the plan and other matters, including the annual report and opinion.
- Making appropriate enquiries of management and the Head of Internal Audit to determine whether there are inappropriate scope and resource limitations.
- Agreeing the scope and form of the external assessment as part of the quality management and improvement plan.
- Receiving results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance.
- Approving significant consulting services not already included in the audit plan, prior to the acceptance of the engagement.