



## **National Assembly for Wales**

### **Internal Audit Charter**

#### **Purpose**

- 1.1 This charter is a high level statement of how internal audit will be delivered and developed and formally defines the purpose, authority and responsibilities of Internal Audit at the National Assembly for Wales.
- 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 Commission that arrangements for governance, risk management and internal control are in place and are operating effectively.
- 1.4 Internal Audit fulfill 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, to enable the achievement of organisational goals and ensure the accountability of public funds.

#### **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 Auditing Standards 2013 (the Standards).

## **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 systems and controls which have been established.
- 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.

## **Definitions**

- 4.1 The Standards 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 Audit and Risk Assurance Committee (the Audit Committee) fulfills this function in respect of the Assembly, providing such assurance to the Assembly Commission via its Annual Report and interim updates via the Commissioner for Assembly Resources.
- 4.2 Similarly, the Standards define Senior Management, as those responsible for the leadership and direction of the organisation. At the Assembly this role is fulfilled by the Chief Executive and Clerk of the Assembly and the Assembly Commission Management Board.

## **Position in the Organisation**

- 5.1 The Head of Internal Audit reports functionally to the Audit Committee. At each meeting of the Audit Committee, the Head of Internal Audit, or his 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, who is the Assembly's Accounting Officer.

## **Internal Audit Resourcing**

- 6.1 The Head of Internal Audit will be professionally qualified (CCAB, CMIIA or equivalent), have ongoing access to a programme of Continued Professional Development (CPD) and have experience in audit, governance and risk management.
- 6.2 The Head of Internal Audit will be supported by an external supplier, of internal audit services, to assist in developing and undertaking activity for specific internal audit assignments.
- 6.3 The respective operational responsibilities of the Head of Internal Audit and the external supplier are outlined 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 complete each element of the audit plan and discuss and agree this with the Head of Internal Audit.
- 6.6 All personnel engaged in internal audit activity must at all times adhere to the Public Sector Internal Audit Code of Ethics.

## **Independence and Objectivity**

- 7.1 Internal auditors will be sufficiently independent of the activities they audit to enable them to perform their duties in a manner which facilitates impartial and effective professional judgments and recommendations.
- 7.2 Internal Audit will be free from interference in determining the scope, performance and communication of its work.
- 7.3 If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to Chief Executive and Clerk and the Audit Committee. The nature of the disclosure will be dependent on the impairment.
- 7.4 The Head of Internal Audit reports to the Head of Assembly Resources. To ensure the independence of the Head of Internal Audit is safeguarded and that remuneration and performance assessment are not inappropriately influenced by those subject to audit, the Head of Internal Audit will have an independent reporting line to and meet on a monthly basis with the Chief Executive and Clerk of the Assembly.
- 7.5 The Chief Executive and Clerk of the Assembly will also have the opportunity to provide feedback and countersign or review any

performance appraisal of the Head of Internal Audit. Feedback will also be sought from the Chair of the Audit Committee.

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

- 8.1 Internal Audit will perform work with due professional care, competence and diligence. Internal Audit cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their 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 appraise themselves of the *Definition of Internal Auditing, the Code of Ethics and the Standards* and will work in accordance with them in the conduct of their duties.

### **Scope of Audit work**

- 9.1 The scope of the audit activity within the Assembly is categorised into five different types of audit approach and delivery and these are outlined in Annex B.

### **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 so as 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 that fraud, corruption and irregularity will be detected. Internal Audit does not have responsibility for the prevention and detection of fraud, corruption or bribery. Internal auditors will, however, be alert, in all their work, to risks and exposures that could result in fraud, corruption or bribery.

## **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 that can be used by the Accounting Officer in their 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 Committee***

- 11.3 Organisational independence is effectively achieved when the Head of Internal Audit reports functionally to the Audit Committee. Examples of the types of reporting are outlined in Annex C.

### ***Reporting to Management***

- 11.4 At the end of each audit assignment, the draft findings and recommendations from the audit review will be shared 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 Final audit reports will be addressed to the Audit Sponsor and the Clerk of the Audit Committee who will arrange for transmission to the members.

### ***Reporting to External Audit***

- 11.6 Final audit reports will be copied to the Engagement Lead and Financial Audit Manager at the Wales Audit Office.

## **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 Audit Committee at least annually. This will include a quinquennial independent external review of the independent audit service.
- 12.2 All details of the external assessment will be agreed between the Head of Internal Audit, Senior Management and the Audit Committee.

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

- 13.1 This Charter will be reviewed annually (minimum) by the Head of Internal Audit and presented to Senior Management and the Audit Committee 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 Audit Committee and Senior Management;</li> <li>• Regular reporting to Senior management and Audit Committee;</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 - Different Types of Internal Audit at the Assembly:

- (i) Strategic, Corporate and Governance covering governance frameworks and strategic organisational areas;
- (ii) Operational Areas such as procurement, projects, value for money assessments in business areas;
- (iii) Infrastructure which relate to key areas of control such as Finance reviews, Human Resource policies and processes, ICT;
- (iv) Special projects which are highlighted through discussions with senior management and assessment of current risk registers.
- (v) Advisory work: – Internal Audit will all times maintain their auditor independence when engaged in such work and this will include:
  - a) Pro-active involvement in Assembly activities and developments to provide advice on design and effectiveness of controls;
  - b) Joint work with other parts of the organisation, as depicted by the Fraud assurance work undertaken with teams in the Resource Group.



## Annex C - Examples of functionally reporting to the Audit Committee:

- 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;
- agreement of 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; and
- approval of significant consulting services not already included in the audit plan, prior to the acceptance of the engagement.