

# EXECUTIVE COUNCIL

## PUBLIC

<b>Title:</b>	Internal Audit Charter
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<b>Responsible Director:</b>	Financial Secretary
<b>Report Author:</b>	Chief Internal Auditor
<b>Portfolio Holder:</b>	MLA Roger Spink
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<b>List of Documents:</b>	Internal Audit Charter

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### 1. Recommendations

Honourable Members are recommended to approve the Internal Audit Charter

### 2. Additional Budgetary Implications

2.1 None

### 3. Executive Summary

3.1 Internal Audit has a key role in providing independent assurance on FIG's Risk Management, Control and Governance Processes. As such it helps FIG deliver its vision and priorities set out in the islands plan. 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, including the nature of the Chief Internal Auditor's functional reporting relationships; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

3.2 Members are asked to approve the revised Internal Audit Charter (see Appendix A).

- 3.3 This update will bring the Internal Audit Charter into line with the Public Sector Internal Audit Standards (2017)<sup>1</sup> and ensure reporting to the Monitoring Officers Group (MOG) and support for the Public Accounts Committee (PAC) is captured.
- 3.4 The Chief Internal Auditor has consulted with members of MOG, the PAC, the portfolio holder and external audit.

#### **4. Background and Links to Islands Plan and Directorate Business Plan/s**

- 4.1 A professional, independent and objective internal audit service is one of the key elements of good governance helps FIG uphold and improve its governance standards. Whilst FIG's Internal Audit section is not bound by the UK Public Sector Internal Audit Standards (PSIAS), it adheres to these as best practice guidance. Internal Audit best practice and a requirement of PSIAS is the adoption of a Charter that defines the role, remit and authority of the Internal Audit service. PSIAS requires periodic review of an organisation's Internal Audit Charter to ensure it remains up to date and fit for purpose.
- 4.2 SFC approved FIG's Internal Audit Charter in 2014. This was based on the PSIAS framework at the time, with slight amendments for FIG's particular circumstances. The Charter was last reviewed in 2015 and CMT approved a change in the reporting line of the Chief Internal Auditor from the Director for Central Services to the Financial Secretary.
- 4.3 In 2017, a new model charter was introduced which introduced Internal Audits "purpose and Mission" as a separate heading.
- 4.4 In March 2017, FIG's governance arrangements were enhanced by the creation of the Monitoring Officer's Group (MOG). The purpose of the group is to have ethical, operational oversight, information sharing, monitoring, and evaluation of conduct of public service officers and, to the extent pertinent, members. It plays a key role in reviewing the work of internal audit.
- 4.5 The Public Accounts Committee (PAC) is an important part of the FIG Governance Framework. The majority of UK Overseas Territories have a National Audit Office and can therefore dedicate resources to completing value for money reviews which are then considered by the PAC. In the past the PAC have used the External Auditors (currently Mazars) to perform their value for money (VFM) reviews but these took considerable time to be completed and the reviews become focused on compliance with little or no discussion with management. In July 2017 FIG agreed that Internal Audit would provide the Public Accounts Committee (PAC) with up to 30 days per year support, subject to appropriate separation and safeguards. These arrangements have been captured in a memorandum of understanding.
- 4.6 This proposed Internal Audit Charter updates the previous 2015 Charter in line with PSIAS (2017), Internal Audit reporting to MOG and the PAC support.

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<sup>1</sup> <https://www.gov.uk/government/publications/public-sector-internal-audit-standards>

- 4.7 In other aspects, the role, remit and authority of the Internal Audit established in previous charters have been retained.
- 4.8 CMT, MOG, the PAC and FIG's external auditors have been consulted on the proposed Internal Audit Charter.

## **5. Options and Reasons for Recommending Relevant Option**

- 5.1 Option 1 – Approve the revised Internal Audit Charter. This will ensure the Internal Audit Charter reflects updated guidance and current governance arrangements. In September / October 2019 the External Quality Assessment (EQA) of FIG's Internal Audit service is due. The revised charter will help demonstrate for Internal Audit's stakeholder support, formal mandate, organisational independence and unrestricted access to information.
- 5.2 Option 2 – Do nothing. This is not recommended as the Internal Audit Charter would not reflect the latest PSIAS guidance or current governance arrangements. There is a reputational risk if FIG cannot clearly demonstrate Internal Audit's role and remit.

## **6. Resource Implications**

### **6.1 Financial Implications**

There are no financial implications arising from this paper.

### **6.2 Human Resource Implications**

There are no human resource implications arising from this paper.

### **6.3 Other Resource Implications**

There are no implications for other resources arising from this paper.

## **7. Legal Implications**

- 7.1 The existence of Internal Audit is mentioned in the Public Accounts Committee Ordinance (2009) and the Committees (Public Access) Ordinance (2012). Neither is explicit on its role or function.
- 7.2 Section 11 (1) of the Public Accounts Committee Ordinance (2009) states that “in addition to the function specified in section 81(5) of the Constitution, the Committee has the following functions ....(c) to examine and report to the Assembly on all internal audit reports produced by the Internal Audit Department of the Government”
- 7.3 Section 16 of the Committees (Public Access) Ordinance (2012) states:
- (1) Reports (and draft reports) produced for the purpose of carrying out internal auditing of the activities of FIG or a public body are exempt information.

(2) Information is also exempt information if it relates to the preparation of a report (or draft report) that is exempt information under sub-paragraph (1).

7.4 These two pieces of legislation implies the existence of the Internal Audit department but is silent on its remit. The Internal Audit Charter is critical in defining the department's mission and purpose.

## **8. Environmental & Sustainability Implications**

8.1 There are no environmental or sustainability implications arising from this proposal.

## **9. Significant Risks**

9.1 PSIAS require an annual Internal Quality Assessment and an EQA at least every 5 years. FIG is currently the only UKOT with an Internal Audit Service that has demonstrated compliance with professional standards through an EQA. This has been commented on favourably by the FCO and Commonwealth Parliamentary Association. The next EQA is due in 2019 and there is potential for reputational damage if the EQA identifies significant non-conformities with PSIAS.

## **10. Consultation**

10.1 All members of MOG, the PAC, the portfolio holder and external audit have been consulted on the proposed Internal Audit Charter.

## **11. Communication**

11.1 The report to be made public.

# Appendix A



## FIG Internal Audit Charter

### Purpose and Mission

The purpose of the Internal Audit section is to provide an independent, objective assurance and consulting services designed to add value and improve the operations of the Falkland Islands Government (FIG). The Internal Audit section helps FIG accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

The mission of Internal Audit is:

*To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.*

### Standards for the Professional Practice of Internal Auditing

The Internal Audit section will govern itself by adherence to The Institute of Internal Auditors' (IIA) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing (Standards) and Information Systems Audit and Control Association Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of Internal Auditing and for evaluating the effectiveness of the Internal Audit section's performance.

The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the Internal Audit section will adhere to FIG's relevant policies and procedures and the Internal Audit section's standard operating procedures manual.

The Chief Internal Auditor will report periodically to Corporate Management Team (CMT) and Standing Finance Committee (SFC) regarding the Internal Audit section's conformance to the Code of Ethics and the Standards.

## **Authority**

To establish, maintain, and assure that FIG's Internal Audit section has sufficient authority to fulfil its duties, ExCo will approve the Internal Audit section's charter and SFC will:

- Approve the risk-based Internal Audit plan.
- Receive communications from the Chief Internal Auditor on the Internal Audit section's performance relative to its plan and other matters.

The Internal Audit section, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are expected to assist the Internal Audit section in fulfilling its roles and responsibilities. The Internal Audit section will also have free and unrestricted access to CMT.

## **Organisation**

The Internal Audit section is established by the CMT. The Internal Audit section's responsibilities are defined by CMT as part of their oversight role.

The Chief Internal Auditor will report functionally to CMT and administratively to the Financial Secretary. The Chief Internal Auditor will report to the Monitoring Officers Group (MOG), in accordance with the MOG terms of reference, when they are considering items on behalf of CMT.

The Chief Internal Auditor will communicate and interact directly with MOG and CMT, including between meetings as appropriate.

All Internal Audit reports will be delivered to the Public Accounts Committee (PAC).

To discharge his responsibilities effectively, the Chief Internal Auditor will have free and unfettered access to the Chief Executive.

## **Independence and objectivity**

The Internal Audit section will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. If the Chief Internal Auditor determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to the appropriate parties.

Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop

procedures, install systems, prepare records, or engage in any other section that may impair an Internal Auditor's judgment. They will not direct the activities of any FIG employee not employed by the Internal Audit section, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist Internal Auditors.

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the section or process being examined. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Chief Internal Auditor will disclose to MOG, CMT, SFC and /or PAC any interference and related implications in determining the scope of Internal Auditing, performing work, and/or communicating results.

The Chief Internal Auditor will confirm to CMT and SFC, at least annually, the organisational independence of the Internal Audit section.

## **Scope of Internal Audit Activities**

The scope of Internal Auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal Audit assessments include evaluating whether:

- Risks relating to the achievement of FIG's strategic objectives are appropriately identified and managed.
- The actions of FIG's officers, directors, employees, and contractors are in compliance with FIG's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact FIG.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Chief Internal Auditor also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed.

Internal Audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of CMT or management, as appropriate. Internal Audit may also conduct consulting or assurance engagements on behalf of Falkland Island statutory

corporations or other external organisations where resources allow and where there is no conflict of interest. Each engagement will be documented to ensure roles and responsibilities, reporting lines and ownership of records and outputs is clear.

Internal Audit may, when requested, provide direct assistance to the PAC in their value for money reviews in line with conditions laid out in a Memorandum of Understanding between the PAC and FIG.

It also assists the PAC in evaluating the quality of performance of FIG's external auditors and maintains a proper degree of coordination with external audit.

Internal Audit will also undertake preliminary investigations in line with the organisation's anti-fraud and anti-corruption strategy.

## **Internal Audit plan**

The Chief Internal Auditor has the responsibility to:

- Submit, at least annually, to senior management and MOG, CMT and SFC a risk-based Internal Audit plan for review and approval, including risk assessment criteria.
- Communicate to senior management and CMT / SFC the impact of resource limitations on the Internal Audit plan.
- Review and adjust the Internal Audit plan, as necessary, in response to changes in FIG's business, risks, operations, programs, systems, and controls.
- Communicate to senior management and CMT/SFC any significant interim changes to the Internal Audit plan.
- Ensure each engagement of the Internal Audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the MOG/CMT/SFC any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the Internal Audit section collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Internal Audit charter.
- Ensure trends and emerging issues that could impact FIG are considered and communicated to senior management and CMT / SFC as appropriate.
- Promote an anti-fraud, anti-bribery and anti-corruption culture within FIG to aid the prevention and detection of fraud.
- Ensure emerging trends and successful practices in Internal Auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the Internal Audit section.
- Ensure adherence to FIG's relevant policies and procedures, unless such policies and procedures conflict with the Internal Audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and MOG/CMT/SFC.



- Ensure conformance of the Internal Audit section with the IIA Standards.

## Reporting and monitoring

A written report will be prepared and issued by the Chief Internal Auditor or his designee following the conclusion of each Internal Audit engagement and will be distributed as appropriate. This will provide reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls associated with the management of risk in the area being audited. All finalised reports will be copied in full to the Financial Secretary and the Public Accounts Committee. Internal Audit results will also be communicated in summary to MOG and CMT.

The Internal Audit report should include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The Internal Audit section will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will be monitored and reported to MOG and CMT until cleared.

In addition, the Chief Internal Auditor will report periodically to senior management and MOG/CMT/SFC regarding:

- The Internal Audit section's purpose, authority, and responsibility.
- The Internal Audit section's plan and performance relative to its plan.
- The Internal Audit section's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the MOG/CMT/SFC.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to FIG.

## Quality Assurance and Improvement Programme

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the Internal Audit section. The program will include an evaluation of the Internal Audit section's conformance with the *Definition of Internal Auditing and the Standards* and an evaluation of whether Internal Auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the Internal Audit section and identifies opportunities for improvement.

The Chief Internal Auditor will communicate to MOG, CMT and SFC on the Internal Audit section's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.