Cyfoeth Naturiol Cymru
Natural Resources Wales

Natural Resources Wales

Board Meeting

16 October 2013

Paper Title	**Internal Audit Charter**
Paper Reference:	**NRW B (O) 44.13 (Oct 13)**
Paper Prepared By:	Martin Veale

Purpose of Paper:	**Decision**
Recommendation:	To approve the Internal Audit Charter
Decision Required:	Yes

Impact:	**Impact on the Environment**: Effective assurance will help delivery of our outcomes. **Impact on the Economy**: Effective assurance will help ensure that there is improved value for money to customers that we charge for our service. **Impact on Community**: Effective assurance will help ensure that we maximise the benefits to communities. **Impact on Knowledge**: n/a

Issue

1. Public Sector Internal Audit Standards require that all public sector organisations have an Internal Audit Charter which is approved by the Board.

Background

2. The Public Sector Internal Audit Standards (PSIAS) require that the purpose, authority and responsibility of internal audit activity must be formally defined in an Internal Audit Charter.

3. The charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. It establishes the internal audit activity's position within the organisation, including the nature of the Head of Audit's functional reporting relationship with the Board; 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 charter resides with the board.

4. This draft has been developed from best practice as set out by HM Treasury, the Chartered Institute of Internal Auditors and elsewhere, and tailored to fit our organisation.

5. At its meeting on 15 July 2013 the Audit and Risk Assurance Committee approved the Internal Audit Charter and recommended that it should be taken to the Board for approval.

Next Steps

6. The Board is asked to approve the Internal Audit Charter.

7. Once approved, a copy will be published on our Intranet.

Financial Implications

8. There are no financial implications arising from this paper.

Risks

9. N/A

Communications

10. Once approved, the Charter will be published on our intranet and be part of a suite of guidance developed to communicate the role and purpose of our internal audit service.

Equality impact assessment (EqIA)

11. N/A

Index of Annex

12. Annex 1: Internal Audit Charter

Martin Veale
Head of Audit and Risk Assurance

Internal Audit Charter

1. This charter describes the purpose, authority and responsibility of Natural Resources Wales' Audit and Risk Assurance team.

Definition

2. The Public Sector Internal Audit Standards (PSIAS) define internal audit as:

"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."

Responsibility

3. The Board has delegated responsibility to the Audit and Risk Assurance Committee for the approval, review and oversight of the Audit and Risk Assurance team's services. These are set out in the committee's Terms of Responsibility.

4. The Audit and Risk Assurance team provides the following services to Natural Resources Wales:

   - **Assurance** services are an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes to ensure operations are being conducted in accordance with external regulations, legislation, internal policies and procedures. The provision of assurance services is the ***primary role*** for the Audit and Risk Assurance team. Assurance engagements form the majority of the annual audit plan.

   - **Consulting** services are advisory and related to service activities, the nature and scope of which are agreed with senior management. They are intended to add value and improve governance, risk

management and control processes without the internal auditor assuming management responsibility, e.g. advice and guidance. The annual audit plan includes provision for consulting services.

- **Fraud Prevention and Detection**. Fraud is "an illegal act categorised by deceit, concealment or violation of trust". Frauds are perpetrated by individuals and organisations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.

  Managing the risk of fraud and corruption is the responsibility of management; the Audit and Risk Assurance team will assist management in their effective discharge of this responsibility.

Authority

5. The Audit and Risk Assurance team, 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 requested to assist the Audit and Risk Assurance team in fulfilling its roles and responsibilities.

6. The Head of Audit and Risk Assurance will report to the Head of Governance but will have free and unfettered access to the Chief Executive and the Chair of the Audit and Risk Assurance Committee.

Professionalism

7. The Audit and Risk Assurance team will govern itself by adherence to the Chartered Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and HM Treasury's Public Sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Audit and Risk Assurance team's performance.

8. The CIIA's and HM Treasury's position papers, advice and guidance notes will also be adhered to as applicable to guide operations. In addition, the Audit and Risk Assurance team will adhere to Natural Resources Wales' relevant policies and procedures.

Standards

9. Quality Assurance and continuous improvement will be monitored by way of post engagement appraisal feedback by senior management on the performance of internal audit activity at an individual engagement

basis, through periodic self-assessment and external assessment (at least once every five years).

Independence and objectivity

10. The Audit and Risk Assurance team 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 independence and objectivity.

11. Audit and Risk Assurance staff 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 activity that may impair their judgment.

12. Audit and Risk Assurance staff must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. They 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.

13. The Head of Audit and Risk Assurance will confirm to the Audit and Risk Assurance Committee, at least annually, the organisational independence of the internal audit activity.

Internal audit plan

14. At least annually, the Head of Audit and Risk Assurance will submit to the Audit and Risk Assurance Committee an internal audit plan for review and approval. The audit plan will include timing as well as budget and resource requirements for the financial year. The Head of Audit and Risk Assurance will communicate the impact of resource limitations and significant interim changes to the Accounting Officer and the Audit and Risk Assurance Committee.

15. The audit plan will be developed based on a prioritisation of the activities of Natural Resources Wales, and its corporate plan, taking into account risk and other sources of assurance. Prior to submission to the Audit and Risk Assurance Committee for approval, the plan may be discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

Reporting and monitoring

16. A written report will be prepared and issued by the Head of Audit and Risk Assurance or designee following the conclusion of each audit engagement and will be distributed to the Accounting Officer and other staff as appropriate. Internal audit results will also be communicated to the Audit and Risk Assurance Committee.

17. The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

18. The Audit and Risk Assurance team will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

Martin Veale
Head of Audit and Risk Assurance
July 2013