

Audit Committee 29 September 2009

Internal Audit Charter

Executive summary and recommendations

Introduction

New government internal audit standards require Health Professions Council to have an Internal Audit Charter in place.

Decision

The Audit Committee is requested to discuss and approve the Internal Audit Charter in Appendix One of this document for ratification by Council at a later date.

Background information

An outline draft charter was supplied with the Government Internal Audit Standards by PFK, HPC's current internal auditors. The executive have tailored the outline document to meet the needs of HPC which is presented in draft format in appendix one.

Attached at Appendix two is the relevant extract from a 40 page document on Government Internal Audit Standards.

Resource implications

None.

Financial implications

None.

Appendices

Appendix One – HPC Internal Audit Charter – Draft

Appendix Two – Extract from Government Internal Audit Standards

Date of paper

17 September 2009.

Internal Audit Charter

Introduction

Regulation 54 of the HPC's Financial Regulations provides that:

"The main purpose of the internal audit is to provide the Council with independent and objective assurances on the adequacy of HPC's financial control, operating control and risk management systems."

This charter, which accords with the current *Government Internal Audit Standards*¹ (**GIAS**), supplements those Financial Regulations and sets out the responsibility for the HPC's internal audit activity. The charter was adopted by the Council on [date] and has effect from that date and until such time as it is replaced or revoked.

Internal Audit

The *International Standards for the Professional Practice of Internal Auditing*² define "internal audit activity" 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 evaluating and improving the effectiveness of risk management, control and governance processes".

HPC internal audit activity provides the Chief Executive and Registrar, as Accounting Officer, with an objective evaluation of, and opinion on, the overall adequacy and effectiveness of governance, risk management and control arrangements. Those opinions are a key part of the assurance framework that informs the Accounting Officer's completion of the Annual Statement on Internal Control.

In addition, internal audit activity provides advice and support to the Council, the Audit Committee and management in respect of matters such as value for money, benchmarking against best practice, change management, the investigation of financial irregularities and internal financial control.

¹ Government Internal Audit Standards, HM Treasury, April 2009

² published by the US-based Institute of Internal Auditors (www.theiia.org) and adopted in the GIAS

Head of Internal Audit

Internal audit activity needs to be provided in an economical, efficient and timely manner. Following a rigorous tendering process, the HPC has appointed PKF as its internal auditors. As part of that appointment, PKF is required to nominate a suitably skilled and experienced person to be the Head of Internal Audit for the HPC.

The Head of Internal Audit's duties are performed with the authority of the Accounting Officer, the Audit Committee and the Council. The Head of Internal Audit report to each of them and is entitled to have unfettered access to the Accounting Officer, the Chair of the Audit Committee and the Chair of the Council.

In order to perform their functions, Regulation 56 of the Financial Regulations provides the Head of Internal Audit (and any nominated representative) with the authority to:

- enter, at a reasonable time, any HPC premises or land;
- have access to records, documents and correspondence relating to any transaction of HPC;
- review any relevant activity of HPC;
- require and receive such explanations from HPC employees as are necessary concerning any matter under examination; and
- require any HPC Council member, employee or contractor to produce any asset under his or her control for which HPC is responsible.

In addition, the Head of Internal Audit is entitled:

- to report any findings and conclusions from internal audit activity to relevant line managers, Directors, the Accounting Officer and the Audit Committee; and.
- to notify the Accounting Officer or the Chair of the Audit Committee of any circumstances in which access is being denied or the conduct of internal audit activity is being impeded.

Internal Audit Standards

Overall responsibility for the internal audit rests with the Accounting Officer but is delivered by the internal auditors, under the direction of the Head of Internal Audit.

The Head of Internal Audit must ensure that internal audit activity is delivered in accordance with the contract for those services between the HPC and PKF, the GIAS and the internal auditors' Code of Ethics, which, with appropriate modifications, is set out in the Annex to this charter.³

³ Code of Ethics of the Institute of Internal Auditors, adopted in the GIAS

Scope and Nature of Internal Audit Activity

The internal audit shall include the following services:

- Annual reviews of:
 - corporate governance and risk management
 - financial systems
 - information technology arrangements
 - programmes
 - strategies
- Audit planning, management and reporting
- Follow up reviews
- Provision of an annual report
- Ad hoc reviews of risks, issues, projects or circumstances
- Provision of ad hoc advice

The Head of Internal Audit will establish a three year risk-based plan for the internal audit. The development of this will take into account:

- risks faced by the HPC and its risk management framework;
- alternative forms of assurance available;
- priorities of the Accounting Officer and the Audit Committee.

This plan will be updated each year. The plan will be discussed with the Accounting Officer before presentation to the Audit Committee for consideration. The approval of the plan will be by the Accounting Officer, taking account of the views and advice of the Audit Committee.

Internal audit will prepare audit specifications for each audit or group of audits within the annual programme. These will be provided to the director with responsibility for the area under audit for comment and subject to the final approval of the Accounting Officer.

Audits will be carried out in accordance with the agreed specification and the internal audit methodology and subject to the standard quality assurance processes. Should this not be achievable the Head of Internal Audit will raise this with the Accounting Officer.

Internal Audit Reporting

The Head of Internal Audit will report periodically to senior management and the Audit Committee on the audit progress and results of the audit work carried out.

For each area subject to audit the Head of Internal Audit will provide a draft project report with an opinion on the adequacy of internal control. Recommendations for improvement will be made where appropriate. This will usually be within four weeks of completion of the fieldwork.

Management will confirm the factual accuracy of the report provide a written response to each recommendation made, stating whether it is accepted, what action is planned to address the recommendation, when this is expected to be completed and who is responsible. Internal audit will consider these responses and take them into account in finalising the report.

All final audit reports will be presented to the Audit Committee for consideration.

At the end of each year an annual internal audit report will be prepared by the Head of Internal Audit. This will provide a summary of the work carried out and conclusions and provide an opinion on internal control at that time. This will be timed to support the Statement on Internal Control.

Assessment of Performance

The Accounting Officer and Audit Committee will assess the performance of the Head of Internal Audit and internal audit function each year and provide constructive feedback to the Head of Internal Audit.

ANNEX

Internal Auditors' Code of Ethics

Principles

Internal auditors are expected to apply and uphold the following principles:

1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

2. Objectivity

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

3. Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

4. Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

Rules of Conduct

1. Integrity

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the HPC.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the HPC.

2. Objectivity

Internal auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the HPC.

- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the HPC.

4. Competency

Internal auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the Government Internal Audit Standards.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

DRAFT - FOR APPROVAL

4 Standards

Attribute standards

1000 – Purpose, authority, and responsibility

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics*, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

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; 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 internal audit charter resides with the board.

Central government requirement

The main purpose of internal audit activity within central government is to provide the Accounting Officer, in an economical, efficient and timely manner, with an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The Head of Internal Audit's opinions are a key element of the framework of assurance that the Accounting Officer needs to inform the completion of the annual Statement on Internal Control (SIC). The Internal Audit Charter must also cover the arrangements for the appointment of the Head of Internal Audit and internal audit staff, and identify the nature of professionalism, skills and experience required.

1000.A1 – The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

1000.C1 – The nature of consulting services must be defined in the internal audit charter.

Central government requirement

The nature and scope of the consulting engagement should aim to improve governance, risk management and control and the evidence gathered should contribute to the Head of Internal Audit's opinion. When performing consulting services, the internal auditor must maintain objectivity and not take on management responsibility.

1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter

The mandatory nature of the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* must be recognised in the internal audit charter. The chief audit executive should discuss the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* with senior management and the board.