

INTERNAL AUDIT CHARTER

Internal Audit Charter	29.10.2012
Revised	29.4.2014
Revised	14.4.2016
Revised	December 2016
Internal Audit Policy	4.10.2012
Revised	29.4.2014
Revised	14.4.2016
Revised and name changed to Governance Policy	December 2016

I hereby approve the SPREP Internal Audit Charter.

This policy will strengthen the role and function of the independent auditor in SPREP.

Date: _____

Kosi Latu

Director General

This table tracks all revisions and updates to this policy from time to time. It attempts to capture the date of when the policy has been reviewed and updated together with the official designation and signature of the Director General or proxy for approval. A summary of the changes that are made to this policy should be provided in a separate form and attached as an “Addendum”.

Policy Reviewed and Updated			
Date	Designation	Signature	Addendum Number

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1. Introduction

1. This Charter elaborates the “SPREP Governance Policy” relating to Core Requirement 3 – The Internal Audit Function. It provides a comprehensive statement of the purpose, authority, responsibilities and reporting relationship of the Internal Audit Function.
2. The Internal Audit Function will be conducted in accordance with the International Standards for the Professional Practice Framework (IPPF) of the Institute of Internal Auditors (IIA) which includes amongst others: a definition of internal auditing, a Code of Ethics and Standards.

Definition of Internal Audit

3. SPREP has an Internal Audit Function that provides an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations.¹ The function is headed by the Internal Auditor and helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
4. The IIA definition covers two types of internal audit services:

‘Assurance services’ - *an objective examination of evidence for the purpose of providing an independent assessment of risk management, control and governance processes for the organization.*

Thus it gives assurance to the Director General, the Senior Management Team, and managers that the Secretariat’s financial and operational controls designed to manage the organisation’s risks and achieve the entity’s objectives are operating in an efficient, effective and ethical manner, and assists management in improving the Secretariat’s service delivery performance.

‘Consulting services’ - *advisory and related client activities, the nature and scope of which are agreed upon with the services and which are intended to improve and add value to the organization’s operations.*

This gives the Director General, the Senior Management Team and in some cases manager the opportunity to obtain an advice from an independent internal source.

Independence

5. The independence of the Internal Audit Function from the administrative and operational activities is assured by:
 - a functional reporting line to the Audit Committee which involves that the Internal Auditor:
 - discusses the strategic direction of the Internal Audit Function,

1 Definition adopted follows the Institute of Internal Auditors (IIA) definition of 'internal audit'

- obtains approval of the risk based Annual Internal Audit Plan,
- submits an Annual Report on the activities and results of the Internal Audit Function,
- is accountability for completing of the Annual Internal Audit Plan in terms of expected outputs and results as well as time planned for the different activities and reports and the actual time taken,
- shares all internal audit and other reports issued with the Audit Committee,
- shares the follow-up reports on the implementation of Agreed Action Plans and recommendations, and
- annually demonstrates adherence to the IPPF; and
- an administrative reporting line to the Director General to facilitate the day-to-day operations;
- direct access for the Internal Auditor to the Director General, and to the Chair and other members of the Audit Committee;
- the classification of the Internal Auditor at a sufficiently senior level; and
- the Internal Audit Function having no direct authority, responsibility, or involvement in the activities it reviews.

Code of Ethics

6. The staff of the Internal Audit Function – including anyone seconded for a period of time or for a particular task and any consultants – shall adhere to:
 - SPREP Organizational Values and Code of Conduct; and
 - Code of Ethics contained in the IPPF which has been reproduced in Annex 1.

Quality Assurance Programme

7. The Internal Auditor must ensure that there is a documented and operational Quality Assurance and Improvement Programme for the Internal Audit Function.
8. The Internal Auditor will arrange for an independent review of the efficiency and effectiveness of the operations of the internal audit function at least every five years.
9. Both of these are requirements of the IPPF.

Relationship with external audit

10. Periodic meetings and contact between internal and external audit shall be held to coordinate their activities, ensure the adequacy of overall audit coverage, minimise duplication of effort, and discuss matters of mutual interest.

11. The External Auditors will have full access to internal audit plans and reports and any other management letters, advice or other reports issued by the Internal Auditor including the supporting working papers.

Annual Internal Audit Plan

12. The Internal Auditor in consultation with the Director General and senior managers prepares a risk based Annual Internal Audit Plan for approval by the Audit Committee. Significant changes to the Plan are submitted to the Audit Committee for approval. The Internal Auditor is accountable to the Audit Committee for achieving the Plan.
13. The Annual Internal Audit Plan should reflect:
 - the audit universe consisting of SPREP processes, organizational units, and projects that could be subject to internal audit;
 - the most significant audit risks in the audit universe;
 - the areas proposed for an internal audit review are based on:
 - the risk associated with the area,
 - the time elapsed since the last audit or review,
 - the ability of the Internal Audit Function to contribute to improvements,
 - requests for an audit review from senior managers, the external auditors and the Audit Committee, and
 - a fair allocation between audits of the administrative and operational areas.
14. The Annual Internal Audit Plan should describe:
 - the resources available in terms of manpower (hours) and funds for consultancy and travel;
 - **note:** project audits should be funded through the project budget whenever this is feasible;
 - the allocation of resources to:
 - internal audit studies and reporting,
 - audit advisory services,
 - internal audit overhead activities such as the annual reporting, interacting with the Audit Committee and the external auditors, following up on internal audit recommendations and attending SPREP management meetings,
 - non-internal audit tasks such as review of the risk management system, and the receipt and investigation of fraud allegations,
 - staff training and development, and
 - a contingency provision;
 - the planned audits including:
 - the number of hours to be allocated to each audit, and
 - the expected date for issuing the audit report; and
 - the plan should be in balance between the resources available and planned.

Annual Internal Audit Report

15. The Internal Auditor prepares an Annual Report within two months of year end covering:

- the execution of the Annual Internal Audit Plan including an explanation of any variances of actual versus the original Plan;
- a brief summary of each report issued including a listing of significant findings, and Agreed Action Plans and recommendations; and
- a status report on the implementation of Agreed Action Plans and recommendations.

The Internal Audit Assignment – Execution Phases

Planning the Internal Audit Review

16. Planning an internal audit review consists of familiarization study of the area to be audited, including:

- gathering and studying relevant documents;
- doing a risk analysis of the area to be audited;
 - **note:** in a low risk scenario, the familiarization study and a short memo could be the end of the audit assignment;
- developing an audit programme based on the risk which could be in the form of questionnaires;
- deciding on the extent of testing; and
- agreeing on the scope, the nature of the review and reporting dates with the auditee.

Audit Execution

17. The audit programme, testing, and working papers are done during the execution phase. It includes:

- completing the working papers;
 - while kept to a minimum, they should have sufficient data so that the Internal Auditor or a third party can trace the rationale for the audit conclusions and recommendations;
 - they consist of the completed questionnaires, hand written or typed notes, spread sheets and copies of auditee documents, etc.; and
 - the working papers should be referenced to the Internal audit report.

Audit reporting

18. The audit report is the key means of communicating the findings and recommendations of the internal audit. The most efficient way to write an audit report is to write most of it during the two prior phases. The background and scope can be completed during the familiarization phase and individual observations, conclusions, and Agreed Action Plans can be formulated during the execution phase at which time they can already be discussed with the auditees. The summary and completion of the final document is done during the reporting phase. In this phase:

- the first draft should be issued within a week of the completion of the field work and finalized within three weeks of completion of the field work;

- this requires the services to respond to draft reports within a week of receipt thereof;
- the Director General or his Deputy should be informed of any significant delays on these timeframes including the reasons therefore; and
- an audit report should generally follow the template in Annex 2 and preferably be limited to no more than seven pages.

Rating of the Audit Area and Objectives

19. The audit report should give an overall audit conclusion and rating applicable to the full audit review and one related to each significant audit objective. The following ratings are given:

Ratings of audit areas and objectives		
Satisfactory:		Audit confirmed that the area audited is generally functioning within rules and procedures and are efficient. There may be minor but not significant audit observations.
Mostly satisfactory:		Audit confirmed that the area audited is mostly functioning within rules and procedures but efficiency improvements in procedures and/or some strengthening of controls are identified.
Improvements required:		Failures in the functioning within the rules and procedures are identified and require corrective action to ensure that the area operates within an acceptable margin of risk or there are failures in the system of controls or inefficiencies in processes or procedures.
Significant improvements needed:		Failures in the functioning within the rules and procedures are identified and require corrective action to reduce the associated risk or the failures in controls or inefficiencies in processes and procedures require immediate management attention.

Construction of individual observations

20. The stakeholders have greater confidence in the accuracy and validity of internal audit findings if the following common reporting elements are present for each individual observation in the report:

- **Background information** for the reader to understand the context of observation. This can be kept short given that SPERP staff and management are familiar with most of the areas subject to audit;
- **Scope of the examination** which is a brief statement of what the auditor did to reach a conclusion;
- **The findings** which provides the evidence and explains the results of the testing, enquiries and review of policies and procedures;
- **The conclusion and rating** or the so what, which explains the implication of the findings;

- **The action** that is needed to rectify the identified weakness or inefficiency to correct the situation or avoid future occurrences; and
- An **action plan**, which includes the individual responsible and the timeframe for implementing agreed action or recommendation.

Each audit observation and corresponding action plan is classified and prioritized according to the risk described in the following table:

Rating of each action plan			
Risk to SPREP		Description	Aim* to have the agreed corrective action within
None		Area satisfactory	None required
Low		Improvements are desirable but current situation does not put SPREP a great risk or inefficiency	One year
Medium		The area would be better run if the risks and inefficiencies would removed	Six months
High		There are significant risks or inefficiencies that should need to be addressed	Three months
* The timeframe can be modified by the internal auditor based on the real need.			

Agreed Action Plans

21. The Internal Auditor in consultation with the services must formulate an agreed course of action for every audit finding. The “Agreed Action Plan” must assign responsibility for implementation to a specific individual and have a timeframe for completion. In case an agreed action cannot be arrived at then a “recommended action” can be formulated by the Internal Auditor.
22. The Director General must ensure that the agreed actions and recommended actions are referred to Senior Management Team for formal response. Senior Management Team has the right to reject an action on reasonable grounds. The Internal Auditor must report to the Audit Committee where agreement cannot be reached on a high risk audit finding.
23. The Internal Auditor must report to the Audit Committee at each meeting the high risk audit findings that were issued.

Following-up on the agreed actions and recommendations

24. The Director General must ensure that all agreed actions and recommended actions are implemented within agreed timeframes or that the risks associated with non-accepted recommendations are managed. To facilitate this the Internal Auditor provides him or her with a quarterly status of all outstanding agreed actions and recommendations. A copy of this update is provided to the Audit Committee. That must:

- review all the high risk audit findings and related Agreed Action Plans and recommendations issued since the last meeting;
- review the status of all outstanding Agreed Actions Plans and recommendations; and
- include in its annual report whether it is satisfied with the progress to implement Agreed Action Plans and recommendations.

Annex 1: Code of Ethics for the Internal Audit Function²

Principles

The 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 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 organization.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organization.

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 relationship that may be in conflict with the interests of the organization.
- 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.

² From the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA)

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 organization.

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 International Standards for the Professional Practice of Internal Auditing.
- 4.3** Shall continually improve their proficiency and the effectiveness and quality of their service.

Annex 2: Audit report template

The following template can be used to have consistency amongst the various audit reports.



Audit Report:

Title page:

- Title,
- Date and report number
- Person(s) who worked on the audit

Table of Contents:

Abbreviations and acronyms used:

Summary including report rating:

The Agreed Action Plans:

- The actions and the rating
- Person responsible and date
- Additional cost of action to SPREP

Background:

Observations:

- Background information,
- Scope of the examination,
- The findings,
- The conclusion and rating, and
- The Agreed Action Plan.