

Audit Advisory Division

Internal Audit Charter

The Treasury

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Contents

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1. Mission and Purpose

- 1.1 In accordance with the Chartered Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) the purpose, authority and responsibility of the Internal Audit (IA) activity must be formally defined in an IA Charter, consistent with the [Mission of Internal Audit](#) and the mandatory elements of the International Professional Practices Framework (the [Core Principles for the Professional Practice of Internal Auditing](#), the [Code of Ethics](#), [the Standards](#) and the [Definition of Internal Auditing](#)).
- 1.2 The Director of Audit Advisory is responsible for applying this IA Charter and ensuring it is maintained, up to date and, in line with the Isle of Man [Government Internal Audit Standards](#) (GIAS). This Charter will be reviewed every 3 years or sooner if significant changes have been made by the Chief Financial Officer and/or the Chief Officer's Group (COG) to ensure that it remains relevant to the needs of the Government.
- 1.3 The role of IA, which is part of the Isle of Man Government's Audit Advisory Division (AAD) in Treasury, *"is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively."*
- 1.4 AAD's primary objective is the provision of assurance on the adequacy and effectiveness of control, risk management and governance processes in managing the Isle of Man Government's risk exposures to acceptable levels. AAD acknowledges and aspires to achieving the mission of Internal Auditing as provided by the IIA:
"To enhance and protect organisational value by providing stakeholders with risk based and objective assurance, advice and insight."
- 1.5 AAD is not responsible for control systems and managing risks other than its own. Responsibility for effective internal control and management of risks rests with the management of the Department, Statutory Board and Office.
- 1.6 At its core, an effective IA service will be seen as a catalyst for improvement who become recognised across the Isle of Man Government as a value added, trusted advisor and assurance provider.

2. Authority

- 2.1 The requirement for a system of Internal Audit is mandated in the Audit Act 2006, associated Accounts and Audit Regulations 2018 and the Treasury Act 1985. The Isle of Man Government Financial Regulations require all Government Departments, Statutory Boards, Offices and Local Authorities to have their system of IA approved by the Director of Audit Advisory.
- 2.2 For every Government Department, Statutory Board, Office and Local Authority the Audit Advisory Division will have free and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information. This does not apply to information which is statutorily confidential, such as the Council of Ministers' papers, whose access would need the approval of the Chief Minister. Nor does it apply to any information which attracts Parliamentary Privilege.

- 2.3 The Director of Audit Advisory is entitled to require the provision of information and explanations from all Government employees who are involved with the review. Detailed information obtained to produce reports by AAD will not ordinarily be disclosed to any other parties.
- 2.4 The Director of Audit Advisory and AAD staff are not authorised to:
- Perform any operational duties for the Government unless officially seconded or in an emergency situation. The Director of Audit Advisory will then agree that sufficient arrangements are in place to ensure objectivity for future reviews;
 - Initiate or approve accounting transactions external to AAD; and
 - Direct the activities of any Government employee not employed by Audit Advisory Division, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.
- 2.5 The standards to which AAD should operate are set out in the Isle of Man GIAS and should be read in conjunction with this Charter.

3. Scope

- 3.1 The scope of work of the AAD is to determine whether the Government's framework of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:
- Risks are appropriately identified and managed;
 - Significant financial, managerial and operating information is accurate, reliable, and timely;
 - Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
 - Resources are acquired economically, used efficiently and protected adequately;
 - Programs, plans and objectives are achieved;
 - Quality and continuous improvement are fostered in the control process; and
 - Significant legislative or regulatory issues impacting the Government are recognised and addressed appropriately.
- 3.2 The Audit Advisory Division is also responsible for:
- Maintaining and monitoring the Governments Counter Fraud Strategy;
 - Facilitating the Government's Risk Management process; and
 - Undertaking independent investigations in relation to Financial Irregularities, Tender Appeals and any Whistleblowing reports made to the Division.
- 3.3 AAD also has the responsibility to provide consulting and advisory services to management relating to risk management, control and governance as appropriate. AAD may evaluate specific operations at the request of Chief Officers or senior management, as appropriate.
- 3.4 Before any consultancy work is agreed, the Director of Audit Advisory will ensure that IA has the appropriate skills, resources and approval to undertake the review. The Director of Audit Advisory will also ensure that appropriate safeguards are in place to preserve objectivity in areas subject to future IA activity.

Counter Fraud, Bribery and Corruption

- 3.5 The Chartered Institute of Internal Auditors defines IA's role in counter fraud, bribery and corruption practices as:

"Internal audit has an important role to play in ensuring that management has effective systems in place to detect and prevent corrupt practices within an organisation. This is part of its normal role of supporting the Board's and Audit Committee's oversight of risk management.

But it is not the job of internal audit directly to detect or prevent corrupt practices. This is for executive management. Internal audit's role includes promoting anti-fraud and anti-bribery best practice, testing and monitoring systems and advising on change where it is needed."

- 3.6 Managing the risk of fraud, corruption, and bribery is the responsibility of all officers, management, Ministers and Members. AAD can assist management in the effective discharge of this responsibility, including the investigation of suspected fraud and financial irregularities.
- 3.7 The AAD Team also commits resources to proactive fraud work, which includes raising awareness of fraud issues.
- 3.8 Internal Auditors will have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation. In addition, AAD may support, as needed, in the identification and investigation of suspected fraudulent activities within the organisation and notify management and Audit and Risk Committees of the results (where appropriate).

4. Appointment and Accountability

- 4.1 The Director of Audit Advisory will be appointed on the approval of the Chief Financial Officer, all other officers within the Division will be appointed on the approval of the Director or a senior officer within the Division.
- 4.2 In discharging their duties the Director of Audit Advisory is accountable to the Chief Financial Officer, Treasury; and the Audit and Risk Committees of the Isle of Man Post Office, the Manx Utilities Authority and Manx Care (in relation to their entities) to:
- Provide an annual assessment on the adequacy and effectiveness of the Government's processes for controlling its activities and managing its risks within the scope of its work;
 - Report 'Fundamental' and 'Significant' issues related to the processes and activities of the Government and its affiliates, including potential improvements to those processes, and to provide information concerning such issues through to resolution (the latter is not applicable to the Isle of Man Post Office); and
 - Provide information periodically on the status and results of the audit plan and the sufficiency of AAD's resources.
- 4.3 The Director of Audit Advisory also has a responsibility to all other Accountable Officers within Government. This is to provide advice on the adequacy and effectiveness of individual systems and processes for controlling activities and managing of risks within that Department, Statutory Board or Office. The extent of this advice is based on the Internal Audit Plan.

Tynwald Auditor General

- 4.4 The role and responsibilities of AAD is independent of the Tynwald Auditor General (TAG). There is a clear distinction between the work performed by IA and the duties of the TAG. As discussed earlier in section 1 of this Charter, IA is charged with providing independent and objective assurance over the Government's control, risk management and governance processes.
- 4.5 The TAG, in accordance with the [Tynwald Auditor General Act 2011](#), is independent of both government and the Public Services Commission and reports annually to Tynwald. The TAG will be responsible for improving government accountability for public spending, supporting value for money and financial efficiency.

5. Independence

- 5.1 AAD will be independent of all activities that it audits to enable Internal Auditors to perform their duties in a way that allows them to make professional and impartial judgements and recommendations.
- 5.2 To carry out Internal Audit's responsibilities effectively, it is imperative that independence and objectivity are maintained at the highest standard. *"The internal audit activity must be independent, and internal auditors must be objective in performing their work."* AAD staff must declare any activities that may impair their judgement and activity. AAD staff will not participate in any work/area where a declaration of interest or conflict may occur.
- 5.3 IA will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity 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 judgements.

6. Ethics

- 6.1 All Officers of the Division are required to meet and uphold the highest ethical standards as outlined within the Isle of Man Corporate Governance Principles, the Financial Regulations and Internal Audit Code of Ethics in relation to:
- Integrity;
 - Objectivity;
 - Confidentiality; and
 - Competency.
- 6.2 Internal Auditors will also abide by the Committee on Standards of Public Life's Seven Principles of Public Life (also known as the Nolan Principles): *1) Selfishness, 2) Integrity, 3) Objectivity, 4) Accountability, 5) Openness, 6) Honesty and 7) Leadership.*
- 6.3 The AAD will maintain and regularly review a register of declarations of business and personal interests. If there are occasions where Internal Auditors undertake non-Internal Audit activities including the development, design or implementation of systems, then that individual will not subsequently perform an Internal Audit review of those systems.

7. Reporting

Chief Financial Officer and Chief Officer's Group

- 7.1 AAD is based within the Treasury and Audit Advisory's Strategy, the selection of reviews is not hindered or restricted in any way by either the Treasury Minister, the Treasury Member(s), the Chief Financial Officer or any other officer of the Treasury. The Treasury's operations are subject to review like those of any other Government Department.
- 7.2 The Internal Audit programmes for the Isle of Man Post Office, the Manx Utilities Authority and Manx Care will also be agreed with their respective Audit and Risk Committees.
- 7.3 The Council of Ministers, Ministers/Members and managers are free to request reviews and investigations because they are either aware of areas of concerns which warrant investigation or are interested in specific operations within their Department being reviewed. However, these latter reviews must fall within the remit of AAD, that is, the work undertaken has to be risk-based and in accordance with its objectives. Managers should not request reviews that should be encompassed within the day-to-day duties of their own Department.
- 7.4 The Director of Audit Advisory has final responsibility for the content of all AAD-related work and prioritisation of such work will be risk assessed through the audit planning process. The timing of these reviews, unless because of their nature they warrant immediate action (irregularities etc.), will need to be determined with consideration of the relative priority of all other AAD planned assignments.
- 7.5 The Director of Audit Advisory and/or any officer from AAD are not responsible for the satisfactory operation of systems of control as this is a responsibility borne by the Accountable Officer of each Department.

Public Accounts, Council of Ministers and Audit and Risk Committees

- 7.6 AAD may perform consulting and advisory services related to governance, risk management and controls as appropriate for the Isle of Man Government, Statutory Boards and Offices. AAD may also evaluate specific operations at the request of the Public Accounts Committee (PAC)/Audit and Risk Committee (ARC) as appropriate or Treasury. Based on its activity, AAD is responsible for reporting significant risk exposures and control issues identified to the PAC, ARC and/or Treasury.
- 7.7 AAD will prepare a quarterly report to the Council of Ministers detailing all 'Fundamental' (High risk) and 'Significant' (Medium risk) audit recommendations and the actions taken to mitigate the risk.

Director of Audit Advisory's Annual Report and Opinion

- 7.8 The Director of Audit Advisory will produce an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual IA report and opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report will incorporate as a minimum: the opinion; a summary of the work that supports the opinion and a statement on conformance with the GIAS and the results of the Quality Assurance and Improvement Programme.

8. Responsibility

Risk-Based IA Strategy and IA Plan

- 8.1 The IA plan is a crucial component of the annual opinion statement provided by the Director of Audit Advisory to those charged with governance. In order to deliver this assurance it is vital to have a comprehensive risk-based IA plan to determine the priorities of the IA activity, consistent with the organisation's goals.
- 8.2 The overarching IA plan is presented to the Accountable Officer and the Audit and Risk Committees for approval. Any significant deviation from the approved IA plan will be communicated to senior management and the Audit and Risk Committees. The IA Plan is available to the appropriate body for their review and information, all requests for the IA Plan must be made to the Director of Audit Advisory for consideration.
- 8.3 The annual IA plan is undertaken based on a risk assessment, enabling the Director of Audit Advisory to ensure that the most effective IA coverage is achieved, which focuses on each Department's key risks. Accountable Officers are required to ensure that key staff are available to IA during the agreed period of a review and for ensuring that information requested is accurate, timely and reliable.

Managing Audit Engagements

- 8.4 For each engagement, IA officers will meet with the relevant managers to discuss the scope, objectives and risks of the area being audited. Each IA engagement will be sponsored by an Accountable Officer (or Executive Director for the Isle of Man Post Office, the Manx Utilities Authority and Manx Care) and engagements intended to provide an IA assurance opinion will be undertaken using a risk-based approach. IA will promptly communicate its findings and conclusions to management, proposing recommendations to address any identified weaknesses, risks or issues.
- 8.5 AAD will have systems in place to ensure that Internal Auditors obtain and record sufficient evidence to support their conclusions and engagement results to demonstrate the adequacy of evidence obtained to support professional judgements made. This includes management supervision to ensure objectives are achieved, quality assured and staff developed.
- 8.6 To try to generate action which will lead to an enhancement of internal control arrangements, when testing has concluded we will prepare a draft report to the relevant responsible officer. The aim of the report is to:
- Provide assurance over the adequacy of the control environment under review;
 - Prompt management action to implement recommendations for change leading to improvement in performance and control; and
 - Provide a formal record of matters arising from the audit and agreements reached with management.
- 8.7 After proper consideration has been given to the report, each responsible officer should formally respond, that is, provide written management comments to the recommendations contained within the report. The response should indicate what actions are to be taken or have been taken in regards to the recommendations. If the former, then a timetable for the anticipated completion of the action, should also form part of the response.

- 8.8 Copies of the final assurance reports may encompass the response to the recommendations. Reports will be provided to the relevant Accountable Officer and Minister/Members, Chief Financial Officer, the Central Government Public Auditors and the Standing Committee on Public Accounts, as appropriate.

Follow-up

- 8.9 IA will follow-up all 'Fundamental' (High) and 'Significant' (Medium) risk-rated recommendations to establish if management has taken appropriate action to address any weaknesses, risks or issues identified.

Management Responsibilities

- 8.10 In order to be effective, the AAD requires full co-operation from senior management. AAD is not responsible for internal control systems or managing risks other than its own. Responsibility for effective internal control and management of risks rests with management.
- 8.11 Senior management must also keep the AAD abreast of significant proposed changes in processes, systems, newly identified significant risks and all suspected or detected fraud or corruption. Senior management will ensure that IA has access to sufficient resources in order to deliver the IA plan. Responsibility for the deployment of resources in delivery of the IA plan rests with the Director of Audit Advisory.

Staff Training and Development

- 8.12 IA will be appropriately staffed in terms of numbers, professional qualifications and experience, having regard to AAD's objectives and to the standards set out in the GIAS. The staffing of IA will be kept under review by the Director of Audit Advisory.
- 8.13 The Director of Audit Advisory must hold a relevant professional qualification (for e.g. CMIIA, CIA or equivalent professional membership (PIIA for Statutory Boards)) and will be suitably experienced. All AAD staff will be properly trained to fulfil their roles and responsibilities and they will each maintain their professional competence through an appropriate on-going professional development programme. When necessary, in-house IA resources will be supplemented by external resources.

9. Quality Assurance

Professional Standards

- 9.1 The IA activity 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 the International Professional Practices Framework (IPPF), incorporating the Mandatory Standards.
- 9.2 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 activities performance to ensure that engagements are performed with proficiency and due professional care. In addition, IA will adhere to the Government's relevant policies and procedures and the Internal Audit activity's standard operating procedures manual.

Quality Assurance and Improvement Programme

- 9.3 The Director of Audit Advisory will develop and maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the Internal Audit activity including its evaluation of conformance to IIA Standards.
- 9.4 The work of AAD will be controlled at each level to ensure that a continuously effective level of performance is being maintained. The Director of Audit Advisory will seek feedback from audit sponsors and Committee Members over the work and conduct of the Audit Advisory Division to ensure a high level of professionalism and value added work is being consistently delivered. If improvements are identified these will be actioned as soon as practicable.
- 9.5 The results of the QAIP and progress against any improvement plans will be reported to the Chief Officer's Group and the Audit and Risk Committees within the Annual IA Report.
- 9.6 To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

External Reviews

- 9.7 The Director of Audit Advisory should make provision for external quality reviews to be sponsored by the Chief Financial Officer at a minimum every five years. Progress against any consequent improvement plans should be reported upon in the annual report of the service.

10. Other Internal Audit Work

Statutory Boards and Offices

- 10.1 IA may carry out assurance work for third parties (i.e. organisations outside of the Isle of Man Government). Currently, AAD provides Internal Audit services to the Isle of Man Post Office, the Manx Utilities Authority and Manx Care. AAD's role, responsibilities and outputs are outlined in a Service Level Agreement with each respective 'client'.

Consulting Services

- 10.2 IA may perform consulting services related to governance, risk management and controls as appropriate for the organisation. IA may also evaluate specific operations at the request of Accounting Officer, Chief Officers or Ministers, as appropriate. Based on its activity, IA is responsible for reporting significant risk exposures and control issues identified to senior management or the Audit and Risk Committees (for Boards and Offices).
- 10.3 For most consultancy work, no assurance opinion will be provided but the outcome of this work will be reported to the Accountable Officer and/or the Audit and Risk Committees (for the Isle of Man Post Office, the Manx Utilities Authority and Manx Care) in so far as it impacts on the organisations governance, risk and control environment.

Major Projects

- 10.4 The IA service will be informed of major projects and their progress through continued discussion with management and attendance at project working groups, where invited to attend. Where a project team seeks advice or further support from the IA service, we will treat the request as one for consultancy support and make appropriate arrangements to ensure future objectivity is not impaired.

Risk Management

- 10.5 AAD will be guided by the IIAs position paper on [Risk Management and internal audit](#) and therefore AAD will not undertake any roles defined as inappropriate by that guidance. Inappropriate roles include setting the Government's risk appetite, imposing a risk management process and taking on full accountability for risk management.
- 10.6 Further, the IIA position paper contains a list of legitimate roles (with safeguards) that the IA function can provide in relation to risk management:
- Co-ordination of risk management activities;
 - Consolidating risk reporting;
 - Developing a risk approach for approval and its subsequent maintenance;
 - Facilitating identification and evaluation of risks; and
 - Coaching management in responding to risks.
- 10.7 The Isle of Man Government's Risk Management Policy (approved by the Council of Ministers in March 2023) defines its role in relation to risk management, including safeguards put in place, which include:
- The responsibility for the application of the structured approach and delivery of the effective management of strategic and operational risk lies with the Chief Executive Officers of all Departments of Government, both individually and collectively;
 - Risk management is an integral part of the management process and needs to be embedded in the culture of every Government organisation, integrated into job descriptions, performance objectives, and all aspects of strategic and operational activities. It is essential that all members of staff are aware of their role in the management of risk to an acceptable level;
 - The reporting mechanism will require Departments to produce, on an annual basis, a Statement of Internal Control; and collectively those statements will provide an assurance or otherwise to the Chief Financial Officer who will report corporately, providing a Statement on behalf of Government. Risk Management must be included as an integral component of the Business Planning and Performance Management process; and
 - The Department's Senior Management Team will deliver and maintain a Risk Management System within its Department. This will include coordination of the risk management processes described in this policy, for example, maintaining risk registers, and assessing progress with Risk Owners. This should provide the Chief Executive with risk updates and assess whether any decisions made could impact the existing processes.

11. Approval

- 11.1 The Audit Advisory Division Internal Audit Charter is the responsibility of the Director of Audit Advisory and must be subject to review at a minimum of every three years.
- 11.2 The Chief Financial Officer shall formally approve the Internal Audit Charter.

SIGNED

David Catlow

Interim Chief Financial Officer

David Catlow

31st January 2023



Director of Audit Advisory

Sarah Hydrie

31st January 2023