

MINISTRY OF FINANCE & ECONOMIC MANAGEMENT (MFEM)



MFEM INTERNAL AUDIT CHARTER

July 2021

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Introduction

The Financial Secretary has established the Internal Audit Function as a key component of the Cook Islands Public Sector governance framework.

The Internal Audit Function will support the Ministry of Finance in discharging its administrative responsibilities required under the Ministry of Finance and Economic Management Act 1995-96 (the Act).

The Act requires that Heads of Government Departments ensure;

- sound financial management systems and internal controls exist, and these are operated so as to provide:
 - timely and materially accurate financial information; and
 - reasonable assurances that the transactions recorded are within statutory authority and properly disclose the use of all public financial resources administered by the department on behalf of the Crown;

This charter provides the framework for the conduct of the Internal Audit function and has been approved by the Financial Secretary on the advice of the Audit Committee.

Purpose of Internal Audit

Internal audit provides an independent and objective assurance and advisory service to:

- provide assurance to the Financial Secretary that the Crown's financial and operational controls are operating in an efficient, effective, economical and ethical manner; and
- Assist management in improving the entity's business performance and internal control.

Scope of Internal Audit activity

Internal audit activity encompasses the review of all financial and non-financial policies and operations. Internal audit reviews may cover any of the programs and activities of MFEM together with Government Ministries, Island Administrations, Statutory Agencies, State Owned Enterprises, and Crown Agencies etc. as provided for in relevant business agreements, memoranda of understanding or contracts.

Independence

Independence is essential to the effectiveness of the internal audit function.

Internal audit reports functionally to the Audit Committee and administratively to the Director of Treasury.

Internal audit function has no direct authority or responsibility for the activities it reviews. The internal audit function has no responsibility for developing or implementing procedures or systems and does not perform in-line management functions.

The Internal Auditor has direct access to the Financial Secretary, the Chair, and other members of the Audit Committee. Periodic meetings will be held between the Internal Auditor and the Audit Committee without other parties being present.

Authority and Confidentiality

All reviews are undertaken under the authority of the Financial Secretary as specified in the Act.

Subject to compliance with Cook Islands Government policies, Internal Auditors are authorised to have full, free and unrestricted access to all functions, premises, assets, personnel, records, and other documentation and information that the Internal Auditor considers necessary to enable internal audit to meet its responsibilities.

All records, documentation and information accessed in the course of undertaking internal audit activities are to be used solely for the conduct of these activities.

The Internal Auditor and individual internal audit staff (including contractors and external service providers performing work on behalf of internal audit) are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.

Prior approval from the Financial Secretary is required before Sub Contractors are engaged.

Roles and Responsibilities

In the conduct of its activities, internal audit will play an active role in:

- developing and maintaining a culture of accountability, integrity and adherence to high ethical standards;
- facilitating the integration of risk management into day-to-day business activities and processes; and
- Promoting a culture of cost-consciousness and self-assessment.

Internal audit has a primary responsibility to advise on governance, risk management and control issues and is required to report inadequately addressed risks and non-effective control processes to management and/or the Audit Committee.

Reporting will be escalated to a level consistent with the internal audit assessment of the risk.

Internal audit activities will encompass the following areas:

Assurance activities

Internal audit assurance activities include audits with the following orientation:

Compliance

- compliance with legislative requirements, Cook Islands Government and MFEM policies and procedures,

- the adequacy and effectiveness of internal controls, including information technology system controls such as those relating to finance, projects, operations, information technology systems and information security;
- the ethical conduct of the agency and its employees, contractors and agents;
- the recording, control and use of entity assets; and

Performance improvement

- The economy, efficiency and effectiveness of the entity's business systems and processes.

Advisory services

Internal audit can advise management on a range of matters including:

New programs, systems and processes

- providing advice on the development of new programs and processes and/or significant changes to existing programs and processes, including the design of appropriate controls;

Risk management

- assisting management to identify risks and develop risk mitigation and monitoring strategies as part of the risk management framework;
- coordinating an MFEM Risk Management Plan;
- monitoring and reporting on the implementation of risk mitigation strategies;

Fraud control

- assisting management to identify the risks of fraud and develop fraud prevention and monitoring strategies; and
- Develop, maintain and coordinate a Fraud Control Policy.

Audit support activities

Internal audit is also responsible for:

- assisting the Audit Committee to discharge its responsibilities;
- providing secretariat support to the Audit Committee;
- monitoring the implementation of recommendations;
- disseminating better practice and lessons learnt arising from its audit activities across the entity; and
- managing the audit function.

Follow-up activities

Internal audit activity will be responsible for appropriate follow-up of audit engagement findings and recommendations.

Standards

Audit activities will be conducted in accordance with the following professional standards:

- The IIA's International Standards for the Professional Practice of Internal Auditing (Standards).

Internal audit activities will also be conducted in accordance with the Cook Islands Public Service values, policies and procedures.

In the conduct of internal audit work, internal audit staff will comply with relevant professional standards of conduct and exercise due professional care in performing their duties.

Relationship with Audit Office and other assurance activities

Internal audit will establish and maintain an open relationship with the Audit Office and any other assurance providers. Consistent with the internal audit strategy, internal audit will plan its activity to help ensure the adequacy of overall audit coverage and to minimise duplication of assurance effort.

Audit Office has full and free access to all internal audit strategies, plans, working papers and reports.

Planning

The Internal Auditor will prepare, for the Audit Committee's consideration, an internal audit strategy and an internal audit work plan in a form and in accordance with a timetable agreed with the Audit Committee.

The Internal Auditor will communicate the impact of resource limitations and any significant changes in the strategy and plan to the Audit Committee.

Reporting to the Internal Audit Committee

The Internal Auditor will report to each meeting of the Internal Audit Committee on:

- audits completed;
- progress in implementing the internal audit strategy and work plan; and
- The status of the implementation of agreed internal and Audit Office, PERCA and other relevant external body recommendations as they relate to Government activities.

Internal audit will also report to the Internal Audit Committee at least once annually on the overall state of internal controls and any systemic issues requiring management attention, based on the work of internal audit and other assurance providers.

Administrative arrangements

Any change to the position of the Internal Auditor, or a service provider, will be approved by the Financial Secretary. The Audit Committee chair, and the committee as appropriate, will be consulted as part of the process.

As part of a comprehensive quality assurance program, 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.

The results of the quality assurance program and, in particular, of the external review, will be reported to the Audit Committee.

The Internal Audit Committee

The authority of the internal audit committee to perform its work is established within the scope of this charter. In discharging its responsibilities, the audit committee shall have unrestricted access to members of management, employees, and relevant information it considers necessary to discharge its duties.

The audit committee may engage independent counsel and/or other advisers as it deems necessary to carry out its duties.

Internal Audit Committee Members

Chair – The Financial Secretary

Member – Commissioner, Office of the Public Service

Member – Director of Treasury

These are the permanent members of the internal audit committee, other members shall be engaged or invited on a case-by-case basis and reviewed from time to time as the function develops.

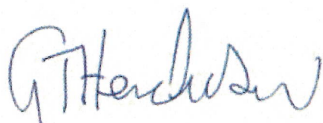
Responsibilities

It is the responsibility of the Internal Audit Committee to:

- Review and approve proposed risk-based internal annual audit work plans and make recommendations concerning internal audit projects.
- Endorse the Internal Audit annual work plan.
- Review internal audit reports and other communications to management.
- Review and advise management on the results of any special investigations.
- Review and provide input on internal audit's charter.

Review of the Charter

This charter will be reviewed at least annually by the Audit Committee. Any substantive changes will be formally approved by the Financial Secretary on the recommendation of the Audit Committee.



Garth Henderson
Financial Secretary/Audit Committee Chair

Date: 8 July 2021

