

PRACTICAL ACTION'S INTERNAL AUDIT CHARTER

INTRODUCTION

Within the limitations of the scope of internal audit laid out below, Practical Action intends its internal audit function to work to the standards laid out by the Chartered Institute of Internal Auditors (CIIA). The CIIA requires that the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter which:

...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, including the nature of the chief audit executive'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.

This document aims therefore to set out Practical Action's Internal Audit Charter which is made up of the 3 elements laid out below:

1. A description of the position of Internal Audit within Practical Action
2. A description of the scope of internal audit with Practical Action
3. The job description and person specification for the Internal Auditor (attached as Appendix 1 to this document)

POSITION OF INTERNAL AUDIT IN PRACTICAL ACTION

The Internal Auditor is line managed by the Chief Executive, who is expected to provide day to day guidance and direction to the Internal Auditor via regular meetings, including formal monthly 1:1's. The Chief Executive is responsible for the Internal Auditor's annual performance appraisal.

The Internal Auditor also has a direct functional reporting line to the Board of Trustees. Normally, the functional reporting line is achieved by regular attendance at the quarterly meetings of the Finance, Audit and Risk (FAR) sub Committee of the Board of Trustees and through the Chair of that committee providing feedback on the Internal Auditor's performance during the annual appraisal process carried out by the Chief Executive. Exceptionally, the functional reporting line to the board may be supplemented through direct contact with Chair of that Committee in between meetings of FAR, either at the Chair's instigation or at the instigation of the Internal Auditor where the latter feels there is a sufficiently urgent issue that is not being addressed adequately by Management.

In order to carry out their role, the Internal Auditor is authorised to access to all records, personnel and physical properties across the Charity and its two subsidiary companies Practical Action Consulting and Practical Action Publishing that are relevant to the performance of engagements laid out in the 'scope of internal audit' section below.

SCOPE OF INTERNAL AUDIT

The Internal Auditor's remit may, on occasion, extend to all areas but will normally be focussed the issues outlined in the table below.

Internal audits are expected to be carried out, on average, on a two yearly basis in each office but, based on risk assessment, this may be amended to between one and three year periods. Internal Audits are expected to include operations of subsidiary companies when present.

An internal audit exercise is expected to cover the items in red in the table below as mandatory plus one of options A, B, C or D. Choice of option, and of any additional areas of investigation, will be dependent on the Internal Auditor's assessment of risk, after consultation with Management.

<u>Audit / risk category</u>	<u>Types of issues</u>
Governance	Compliance with national legislation, registration e.g. charity or PAC, process for identifying, monitoring and managing risk.
Financial probity	Financial control, compliance with Group Finance Manual, potential for fraud and malpractice, sampling of donor contractual compliance
Response to previous audit	Verification of progress on previous internal audit recommendations
External / Environmental	Political instability, natural disasters, civil conflict, macro economic shocks
KPI systems	Assessment of system for quality assuring the data that produces the quarterly KPIs.
Restricted Fund-raising	Assessment of the systems for quality assurance of donor proposals and reports, breadth of donor base, level of secured income.
Organisational infrastructure and support	Staff management, appraisal and development, IT systems, compliance with relevant Practical Action policies
Unrestricted income (UK only)	Procedures and controls for receiving and handling donations

KEY

	Mandatory
	Option A
	Option B
	Option C
	Option D

For guidance purposes, a normal international audit would be expected to conform to a timetable based on 8 - 9 working weeks from audit start date (in-country) to sign off

which could extend to an absolute deadline of 12 weeks allowing for holidays and other work. This is based on:

1. Two weeks preparation
2. Two to three weeks in country, including initial presentation of draft findings to local Senior Management Team
3. Two weeks report preparation
4. Two weeks country review and comment
5. One week for review and comment by International, Finance and Practical Action Consulting Directors
6. One week to agree final action plan.
7. Half a week for review of management responses by Internal Auditor
8. Half a week for CEO sign-off

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