

## **GUIDANCE ON INTERNAL AUDIT FOR VOLUNTARY AGENCIES**

*The Service Arrangement with voluntary agencies funded by the HSE under Sections 38 and 39 of the Health Act 2004 requires that the Service Provider shall*

***develop an internal audit capacity in consultation with the Executive and evaluate the effectiveness, efficiency and value for money of the provision of its Services on a regular basis (9.4.1)***

*This guidance note has been prepared by HSE Internal Audit to help agencies meet their obligations under this clause.*

The Board members of voluntary organizations are jointly responsible for maintaining a system of risk management and internal controls to ensure that the organization is able to meet its objectives by safeguarding its resources, reducing the risk of fraud and mismanagement, complying with legal and regulatory obligations, and achieving quality, efficiency, effectiveness and economy in the services it provides. While risks and controls are required for all aspects of the organisation's services and activities, this note deals primarily with financial risks and controls.

The nature of internal controls implemented will depend on the size of the organisation and the nature of its activities. For example, segregation of duties (whereby no individual has sole authority over transactions) is more difficult to achieve where staff are few in number, but this risk may be partly offset by the closer involvement of Board members in reviewing transactions in smaller organisations. It is not usually practical to eliminate risks completely, and internal controls should therefore be designed to reduce risks to what the Board considers an acceptable level, having regard to the resources available. In voluntary organisations internal controls are typically required to manage financial risks in the areas of -

- Recording of Income (e.g. donations, sales, social welfare, canteen)
- Handling of clients' funds
- Payroll (timesheets, deductions, payscales, joiners & leavers, annual leave)
- Cash receipts and payments
- Travel, subsistence and out of pocket expenses
- Purchases and Payments – procurement, approval, disbursement

Management are accountable to the Board for implementing and monitoring the system of internal controls. The reports from management to the board should provide a critical assessment of the significant risks to the organisation and the effectiveness of the system of internal control in managing those risks. Any significant control failings or weaknesses identified should be discussed in the reports, including the impact that they have had, or may have, and the actions being taken to rectify them.

The Board should periodically (at least annually) conduct a general review of the effectiveness of the organisation's system of risk management and internal controls, considering in particular:

- changes since the last assessment in the nature and extent of significant risks
- the quality of management's ongoing monitoring of risks and of the system of internal control, and, where applicable, the work of its internal audit function and other providers of assurance;
- any significant control failings or weaknesses that have been identified, including by the external auditors, and whether follow-up has been effective
- whether there are appropriate channels of communication for individuals to report suspected breaches of law or other improprieties, and policies for dealing with such

Internal audit is an important element of the risk management and internal control system. Its role is to provide independent assurance to the Board on whether the organisation's risk management, governance and internal control systems are operating effectively. Whereas external auditors primarily focus on whether the organisation's annual financial statements are in order, internal audit looks at all the risks facing the organisation and the effectiveness of the controls in place to manage the risks.

While providing such controls assurance is its core function, internal audit's remit can also extend to reviewing an organisation's operations and recommending improvements to achieve greater effectiveness and value for money, or to risk assessment of proposed projects or strategies.

Internal audit needs to be independent of the organisation's management and should report directly to the Board or its audit committee. Internal auditors should have the qualifications, skills and experience to carry out their role independently and with professional confidence and integrity.

Usually, only larger organisations can staff an internal audit service in-house, depending on the scale, complexity and resources of the organisation. It is unlikely that smaller charities will have the resources to support a separate internal audit function, although they should establish an audit committee. For smaller organisations it can be more practical and cost-effective to engage a professional firm to carry out the role of internal audit. The organisation's external auditors may be able to offer this as a separate service, or a different firm may be contracted for this purpose. In either case it is essential to have clear terms of engagement setting out the scope of the work to be carried out, the timescale, the format of the auditors' report and the lines of communication between auditors, management and the Board during and after the audit. Audit firms would be able to advise on suitable terms of engagement as part of their service.

The internal auditors should report to the Board and/or audit committee, and have full access to management and staff and all records, as required for their work.

The external auditors may be able to use the internal audit reports in assessing their reliance on internal controls for the purpose of forming their opinion on the annual financial statements. This may help reduce the costs of the external audit.

Where professional internal audit services are available, assessment of internal controls would be included in the scope of their work. Otherwise, agency boards (via the audit committee where one exists) should conduct a formal review on a self-assessment basis at least once a year, to ensure that the existing controls and risks are identified and understood, and that gaps or weaknesses can be addressed. Further guidance and checklists on self-assessment of controls are available from various sources including:

UK Charity Commission – Financial Controls Checklist CC8

[www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)

CPA Australia – Internal Controls for Not-for-profit Organisations

[www.cpaaustralia.com.au](http://www.cpaaustralia.com.au)

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