

TERMS OF REFERENCE

INTERNAL AUDIT

Establishment of the Internal Audit Function

It is the policy of PEMSEA to support internal audit as an independent, objective, assurance and consulting activity to examine and evaluate the activities of PEMSEA as a service to management, Executive Council, Country and Non- Country Partners.

Mission and Scope of Work

The mission of the Internal Audit is to provide independent, objective assurance and advisory services designed to add value and improve PEMSEA's operations. It helps PEMSEA accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, control, and accountability processes.

The Internal Audit provides assurance services as to whether PEMSEA's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure that

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with PEMSEA's policies, standards, procedures, laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in PEMSEA's control processes
- Significant legislative or regulatory issues impacting that PEMSEA is recognized and addressed properly.

Opportunities for improving management control, value for money, revenue enhancement and PEMSEA's image maybe identified during the audit. They will be communicated to the appropriate level of management.

The Internal Audit also provides advisory services to assist management in meeting its objectives. Example of such services may include facilitation, training, and research

services on prospective issues that may affect PEMSEA's external developments with regard to governance, risk management, internal control, and value for money.

Accountability

The Internal Audit, in the discharge of his/her duties, shall be accountable to the Audit Committee and the Executive Director to:

- a. Provide annually an assessment on the adequacy and effectiveness of PEMSEA's processes for controlling its activities and managing risks
- b. Report significant issues related to the processes for controlling the activities of PEMSEA, including potential improvements to those processes, and provide information concerning such issues through resolutions;
- c. Periodically provide information on the status and results of the annual audit plan, the unit's **Balanced Scorecard** commitments (including **QEHS** functional objectives) and the sufficiency of department resources;
- d. Periodically review the Internal Audit charter and Policy Manual for updates on effectiveness and applicability of the provisions; and
- e. Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, governance)

Independence

To provide for the independence of the Internal Audit, he/she shall report to the Audit Committee and administratively to the Executive Director in a manner outlined in the Accountability section. It will include as part of its reports to the Audit Committee, a regular report on internal audit of personnel.

Responsibility

Internal Audit responsibilities are:

- a. Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risk or control concerns identified by management, and submit the plan to the Audit Committee for review and approval as well as periodic updates;
- b. Implement the annual audit plan, as approved, including as appropriate any special task or project requested by the management and the Audit Committee;
- c. Assist in the investigation of significant suspected fraudulent activities within the organization and notify the management and the Audit Committee of the results;

- d. Review and evaluate significant merging/consolidating functions, and new or changing service, processes, operations and control processes in line with their development, implementation and/or expansion;
- e. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost;
- f. Issue periodic written reports to the Audit Committee and the Executive Director summarizing results of the audit activities;
- g. Keep the Audit Committee informed of emerging trends and successful practices in Internal Auditing;
- h. Provide a list of significant measurement goals and results to the Audit Committee;
- i. Maintain professional audit staff with sufficient knowledge skills, experience and professional certifications to meet the requirements of this charter; and
- j. Establish a quality assurance program as a basis for evaluating, monitoring and improving the internal auditing activities.

Authority

The Internal Audit are authorized to:

- a. Have unrestricted access to all functions, records, property and personnel;
- b. Have full and free access to the Audit Committee;
- c. Allocate resources, set frequencies, select subjects, determine scope of work, and apply the techniques required to accomplish audit objectives;
- d. Obtain the necessary assistance of personnel in units of the organization where they perform audits, as well as other specialized services from within or outside the organization when budgetary constraints permit, in accordance with current procedures. All personnel are obliged to assist the Internal Auditor in fulfilling his/her roles; and
- e. Receive information concerning possible fraud, corruption, waste or mismanagement in accordance with PEMSEA's Policy.

Internal Audit is not authorized to:

Perform any non-audit operational activity or accounting transactions for PEMSEA or direct the actions of any non-audit staff/personnel except if they have been assigned to assist the audit.

Standards of Audit Practice

Internal Audit shall meet the *International Standards for the Professional Practice of Internal Auditing* and the *Code of Ethics* of the Institute of Internal Auditors.

