



North Tyneside Council

NORTHUMBERLAND

Northumberland County Council

Shared Internal Audit Service

Internal Audit Charter

July 2020

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1 Introduction and Purpose of the Internal Audit Charter

- 1.1 The Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013 and were revised on 1 April 2017. The PSIAS and associated Local Government Application Note are the mandatory standards with which every Internal Audit provider delivering such services in local government is required to comply. PSIAS require that each local authority has an internal audit charter in place to define the purpose, authority and responsibility of Internal Audit.
- 1.2 The Internal Audit Charter must be consistent with the Definition of Internal Auditing and the Code of Ethics which form part of the Standards. The Internal Audit Charter must also be consistent with the Attribute Standards which address the characteristics of organisations performing internal audit activities, and with the Performance Standards which provide quality criteria against which the performance of these activities can be evaluated.
- 1.3 The PSIAS require that the Internal Audit Charter is approved by “senior management” and the “board”. At both North Tyneside Council and Northumberland County Council, the Audit Committee fulfills the role of the “board”. “Senior Management” refers to North Tyneside Council’s Senior Leadership Team and Northumberland County Council’s Executive Management Team.
- 1.4 The PSIAS also uses the term “Chief Audit Executive”, referring to the person who has responsibility for managing the internal audit activity in accordance with the Internal Audit Charter and associated mandatory requirements. Within North Tyneside Council and Northumberland County Council, this is the Chief Internal Auditor.
- 1.5 This document seeks to codify existing practice and arrangements governing the work of Internal Audit within North Tyneside Council and Northumberland County Council. The Internal Audit Charter confirms:
- the objectives of Internal Audit;
 - the position of Internal Audit within the organisation;
 - the scope of Internal Audit activity; and
 - Internal Audit’s authority and right of access to all records.
- 1.6 The Internal Audit Charter complies fully with each partner organisation’s Financial Regulations / Finance and Contract Rules, and the provisions on Internal Audit contained therein.

2 Role and Objectives of Internal Audit

- 2.1 The Public Sector Internal Audit Standards define internal auditing as ‘*an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to*

evaluate and improve the effectiveness of risk management, control and governance processes.'

- 2.2 Internal Audit assists management in delivering the objectives of the organisation by assessing exposure to risk and recommending, where appropriate, practical improvements to the control environment. It objectively examines, evaluates and reports on the control environment in place as a contribution to the proper, economic, efficient and effective use of resources.
- 2.3 Internal Audit has a vital role in providing assurance to the organisation and evaluating the governance arrangements in place. Internal Audit must provide an overall annual opinion on the adequacy and effectiveness of the organisation's framework of governance, risk management and control. This overall opinion is supported by individual audit assignments which are undertaken in accordance with the Strategic Audit Plan. Internal Audit is responsible for completing sufficient work as part of the Strategic Audit Plan, to evidence and support the overall annual opinion. It is important to emphasise with regard to the annual opinion, that Internal Audit's responsibilities extend to the entire framework of governance, risk management and control and is not restricted to financial controls.
- 2.4 In addition to performing internal audits of existing systems, Internal Audit has a significant role in providing an advice and consultancy role for the organisation. This includes advising on controls during the introduction of new systems, to minimise the risk of weaknesses in new systems and strengthens the control environment. This activity comprises 'consulting activity' under the PSIAS (see section 7).
- 2.5 Internal Audit performs investigations into suspected fraud or irregularity. It is important that the organisation can call upon Internal Audit resource to respond quickly to assess the extent of potential problems and to secure evidence if required. Internal Audit will also review weaknesses in control to establish the reasons for the fraud / irregularity occurring and recommend improvements in the control environment to minimise the risk of reoccurrence. At Northumberland County Council, there is a separate counter fraud team to whom Internal Audit may refer counter fraud matters.

3 Role and Responsibilities of the Board

- 3.1 The responsibilities of the Board as detailed in the PSIAS are:
 - (i) Approving the Internal Audit Charter.
 - (ii) Approving the annual risk based Internal Audit plan and any amendments to the plan during the course of the year.
 - (iii) Approving the Internal Audit budget and resource plan and establishing that there are sufficient resources with regard to the provision of an annual audit opinion (See 2.3 above).
 - (iv) Considering communications from the Chief Internal Auditor on Internal Audit performance relative to its plan and other matters.

- (v) Receiving annual confirmation from the Chief Internal Auditor that Internal Audit is organisationally independent.
- (vi) Considering the results of the quality assurance and improvement programme from the Chief Internal Auditor.

4 Role and Responsibilities of Senior Management

4.1 The responsibilities of Senior Management as detailed in the PSIAS are:

- (i) Providing input to the annual Internal Audit plan.
- (ii) Actioning Internal Audit reports and follow-up reports.
- (iii) Receiving the results of the quality assurance and improvement programme (see section 10) from the Chief Internal Auditor.

4.2 In addition, the organisation's chief officers – those at Head of Service / Director level and above – are responsible for ensuring that appropriate and adequate internal controls exist, **independently of any Internal Audit activity**. Chief officers must establish sound arrangements for planning, appraising, authorising and controlling their operations in order to achieve continuous improvement, economy, efficiency and effectiveness; and for achieving their financial performance targets.

4.3 When an Internal Audit report is issued, it is for management to decide whether to accept and implement audit findings and recommendations, subject to adherence to Council policy and Financial Regulations. Any decision to reject a formal recommendation must be justified in writing. It is the Chief Internal Auditor's duty to consider taking matters to a higher level of management, or to the Audit Committee, if it is felt that a risk should not (or need not) be borne.

5 Objectivity and Independence

5.1 Internal Audit must be, and must be seen to be, independent. To ensure this, a number of arrangements are in place to ensure that Internal Audit operates within a framework which allows:

- unrestricted access to the board and senior management;
- impartial and unbiased opinions;
- reporting in its own name; and
- segregation from line operations.

5.2 It is a requirement of the PSIAS that the Chief Internal Auditor reports 'to a level within the organisation that allows the Internal Audit activity to fulfil its responsibilities.' The PSIAS interprets organisational independence as being effectively achieved when the Chief Internal Auditor reports functionally to the board. Within North Tyneside Council and Northumberland County Council, these requirements are achieved by:

- the Chief Internal Auditor reporting functionally to the Audit Committee at each partner organisation. The Chief Internal Auditor reports functionally to Audit Committee in his own name and has the right of free and unfettered access to the Audit Committee and Chair of Audit Committee.
 - the Chief Internal Auditor reporting operationally to a member of each partner organisation's senior management team. At North Tyneside Council, the Chief Internal Auditor is line managed by the Head of Resources, who is a member of the Senior Leadership Team. At Northumberland County Council, the Chief Internal Auditor is currently line managed by the Service Director: Corporate Assurance.
- 5.3 In line with the requirements of the PSIAS, the Chief Executive and the Chair of Audit Committee will be invited to provide input / feedback to the annual performance review of the Chief Internal Auditor. The Chief Internal Auditor will also confirm the organisational independence of Internal Audit to each partner organisation's Audit Committee at least annually.
- 5.4 In addition, the Chief Internal Auditor has free and unfettered access to the Chief Executive, Chief Finance Officer (s151 Officer), and Monitoring Officer at each partner organisation.
- 5.5 Internal Audit shall have no responsibilities over the operations which it audits other than the furnishing of recommendations to relevant management, and advice to management on risks and controls. Where the span of management control of the Chief Internal Auditor dictates, separation of duties is enforced within the team to ensure sufficient independence. Any Internal Audit work undertaken on any area for which the Chief Internal Auditor is responsible (for example risk management) will be led by, issued by and in the name of the Group Assurance Manager.
- 5.6 Internal Auditors will complete an annual declaration confirming compliance with rules on independence, conflicts of interest and the offer and / or acceptance of gifts and hospitality. In compiling the Strategic Audit Plan it will be ensured that this recognises and addresses potential conflicts of interest, in particular, by ensuring that staff do not undertake an audit assignment for at least one year in an area where they have had previous operational roles.
- 5.7 All Internal Auditors will be appraised of the "Definition of Internal Auditing", the "Code of Ethics" and the "Standards" and will work in accordance with these requirements. This will form the basis of the performance appraisal for each Internal Auditor.
- 5.8 Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review. Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

- 5.9 When performing their work, internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Chief Internal Auditor in accordance with the procedures within each partner organisation.
- 5.10 Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so.

6 Scope and Authority

6.1 Each partner organisation's s151 Officer is designated by the organisation as the officer responsible for making proper arrangements for the administration of the organisation's financial affairs. In addition, the Accounts and Audit Regulations 2015 require that each organisation "must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance."

6.2 The Accounts and Audit Regulations 2015 make it a legal requirement that any officer or elected member of a relevant local authority must, if required to do so for the purposes of internal audit:

- a) make available such documents and records (including those in an electronic form); and
- b) supply such information and explanations

as are considered necessary by those conducting the internal audit. This Internal Audit Charter affirms these statutory rights of access for Internal Audit.

6.3 These rights of access are also enshrined within each partner organisation's Financial Regulations / Finance and Contract Rules. These include the provision that Internal Audit has the authority to:

- access the Council's premises at all reasonable times;
- access all records, documents, correspondence and control systems;
- receive any information and explanation considered necessary concerning any matter under consideration;
- require any employee of the authority to account for cash, stores or any other authority asset under his or her control; and
- directly access the head of paid service, Chief Executive, the Cabinet / Executive, Audit Committee and / or other appropriate committees
- access financial records belonging to third parties, such as contractors, organisations in receipt of grant funding, and partnering arrangements in any scheme for which the organisation has responsibility as lead or accountable body.

6.4 In turn, the Financial Regulations / Finance and Contract Rules place a responsibility on all chief officers to ensure that Internal Audit is given access at all reasonable times to such premises, personnel, documents and assets that Internal Audit considers necessary for the purposes of its work. Chief officers are also charged with:

- ensuring that Internal Audit is provided with any information and explanations that it may seek in the course of its work;
- considering and responding promptly to recommendations in audit reports; and
- ensuring that any agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.

6.5 The work of Internal Audit embraces the whole internal control system of the organisation, including all of its activities, funded from any source. Internal Audit's remit includes:

- assessing if operations are being carried out as planned, and if objectives / goals are being achieved;
- assessing the adequacy of systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by either the management of the organisation or externally;
- assessing the completeness, reliability and integrity of information, both financial and operational;
- assessing the extent to which the organisation's assets, data and interests are properly accounted for and safeguarded from losses of all kinds, including fraud, corruption, waste, extravagance, abuse, ineffective management and poor value for money; and
- assessing the economy, efficiency and effectiveness with which resources are deployed.

6.6 The Financial Regulations / Finance and Contract Rules place a duty on chief officers to ensure that, where existing financial systems are proposed to be changed or new systems established, the agreement of the s151 Officer and Chief Internal Auditor is obtained before implementing any changes.

6.7 The counter fraud policy at each partner organisation will require that Internal Audit is informed in the event that fraudulent activity or financial irregularity is suspected or confirmed. Internal Audit or counter fraud officers will co-ordinate the investigation of alleged financial irregularity in accordance with the respective organisation's counter fraud policy, including liaison with the Police.

7 Consulting Activity

7.1 The PSIAS define consulting services as:
“Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without

the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.”

- 7.2 The Strategic Audit Plan, agreed by the Audit Committee in March each year, will identify any assignments which fall within the above definition. In addition, in terms of the requirements of the PSIAS, any significant additional consulting services identified during the course of the year will be approved by the Audit Committee prior to accepting the assignment. Within North Tyneside Council and Northumberland County Council, it is considered appropriate to define “significant” as any single assignment which is estimated to require a resource of 15 days or more.

8 Planning

- 8.1 Internal Audit prepares a Strategic Audit Plan, setting out the scope of work to be undertaken within each partner organisation each year. This detailed plan is prepared in consultation with the Chief Executive, s151 Officer, senior management, and is approved by the Audit Committee. Proposed coverage is also shared with the relevant Cabinet / Portfolio holder and the external auditor.
- 8.2 Internal Audit must however be independent in its planning and operation. In producing the Strategic Audit Plan, the Chief Internal Auditor will have an unrestricted range of coverage of the Council’s operations. The Chief Internal Auditor will have freedom to determine the priorities of Internal Audit, following consultation with the senior management of the organisation.
- 8.3 The Strategic Audit Plan will provide a broad scope of each audit assignment, together with the resources required and the respective priorities. The Plan will be kept under review to identify any amendment needed to reflect changing priorities and emerging risks. It will be flexible, containing an element of contingency to accommodate assignments, fraud investigations and staff vacancies which could not be reasonably foreseen. If the Audit Committee considers it appropriate, an appropriate budget of time will be included to cover a defined number of assurance assignments relating to specific areas of assurance requested by the Audit Committee. In such cases, the Chief Internal Auditor will be responsible for defining the scope and coverage of this work to ensure that this remains within the definition and remit of Internal Audit activity.
- 8.4 The Strategic Audit plan, once set, will be compared to resource availability and where there is an imbalance between the two, the Audit Committee will be informed of this and proposed solutions. The Local Government Application Note which supports the PSIAS on which this Internal Audit Charter is based, makes clear that significant matters that jeopardise delivery of the plan, or require changes to the plan, should be identified, addressed and reported to the board.
- 8.5 In determining the resourcing of Internal Audit, the staffing of the Internal Audit Service will be kept under annual review. As a minimum, resourcing will

ensure that the Service is able to comply with the requirements of the Public Sector Internal Audit Standards. Resourcing required will be identified by the Chief Internal Auditor, ensuring that as a minimum resources are sufficient to provide a level of coverage necessary to give an annual evidence based opinion on the adequacy and effectiveness of the organisation's framework of governance, risk management and control. Local factors within each organisation covered by the Chief Internal Auditor will determine this minimum level of coverage. A risk based audit plan will be prepared which reflects the Chief Internal Auditor's view about the level of audit coverage and optimum resources to be devoted to Internal Audit.

9 Reporting

- 9.1 At the end of every Internal Audit assignment, a draft audit report will be issued to the relevant audit client, as identified in the project brief prepared at commencement of the assignment and agreed with the audit client. The project brief will set out clearly the circulation of the report and Internal Audit will normally observe this circulation list very closely.
- 9.2 Should the Chief Internal Auditor consider that a matter of governance or control is so serious as to warrant communication to other officers of the organisation, or to an external agency such as the Police, the Chief Internal Auditor has the authority to do so. Accordingly the Chief Internal Auditor will have direct access to, and freedom to report to, all senior management and elected members, and any external agency which, in his professional judgement, he considers appropriate.
- 9.3 The organisation's management is expected to implement all accepted recommendations within a reasonable timescale, determined by management and agreed with Internal Audit at the end of the audit assignment. Each audit will be followed up to assess the extent to which this has happened. Summary information will be reported to the respective senior management team and Audit Committee on a periodic basis.
- 9.4 On an annual basis the Chief Internal Auditor is required to consider the results of Internal Audit work performed during the year and to prepare an annual opinion on the adequacy and effectiveness of the framework of governance, risk management and control. This opinion is presented to and considered by each partner organisation's Audit Committee in conjunction with the Annual Governance Statement, each year.

10 Quality Assurance and Improvement Programme

- 10.1 Quality assurance procedures have been in place within the Internal Audit team for many years as part of the team's adherence to the relevant professional standards prevailing at that time. The PSIAS introduced a requirement to develop a 'quality assurance and improvement programme' (QAIP). The PSIAS recognised that the new requirement should not add significantly to existing quality requirements.

- 10.2 The Chief Internal Auditor will codify all existing qualitative measures used to manage effectiveness of Internal Audit activity under one QAIP. In addition, the QAIP will include any new qualitative measures required by the PSIAS, such as the requirement for an external assessment at least once in every five years. The results of the QAIP will be reported to senior management and the board as required by the PSIAS.
- 10.3 As required by the PSIAS, the Chief Internal Auditor will discuss with senior management and the board the qualifications and independence of the independent external assessor. Each partner organisation will identify an appropriate sponsor for this process.

IA/KM
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