



**Northumberland**  
County Council

**Internal Audit Service**

**Internal Audit Charter**

**March 2024**

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# 1 Introduction and Purpose of the Internal Audit Charter

- 1.1 The Accounts and Audit Regulations 2015 require every local authority to “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.”
- 1.2 The Public Sector Internal Audit Standards (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. The PSIAS require that each local authority has an internal audit charter in place to define the purpose, authority and responsibility of Internal Audit.
- 1.3 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.
- 1.4 This document seeks to codify existing practice and arrangements governing the work of Internal Audit within 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.
- 1.5 The Internal Audit Charter complies fully with the organisation’s Financial Regulations / Finance and Contract Rules, and the provisions on Internal Audit contained therein.

## 2 Definitions

### 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 The Local Government Application Note, which accompanies the PSIAS, adds that “*Internal Audit provides an independent and objective opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. It may also undertake consulting*

*services at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources.”*

#### The “Board” and “Senior Management”

- 2.3 The PSIAS require that the Internal Audit Charter defines the “senior management” and the “board” of the organisation. At Northumberland County Council, the Audit Committee fulfils the role of the “board”. “Senior Management” refers to the County Council’s Executive Management Team.

#### Chief Audit Executive

- 2.4 The PSIAS 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 Northumberland County Council, the Head of Internal Audit and Risk Management fulfils the role of ‘Chief Audit Executive’.

### **3 Mission of Internal Audit**

#### Internal Audit

- 3.1 The Public Sector Internal Audit Standards define the mission of internal audit as *‘to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.’*
- 3.2 To achieve this mission, the PSIAS sets out the Core Principles required:
- Demonstrates integrity.
  - Demonstrates competence and due professional care.
  - Is objective and free from undue influence (independent).
  - Aligns with the strategies, objectives, and risks of the organisation.
  - Is appropriately positioned and adequately resourced.
  - Demonstrates quality and continuous improvement.
  - Communicates effectively.
  - Provides risk-based assurance.
  - Is insightful, proactive, and future-focused.
  - Promotes organisational improvement.

### **4 Status**

- 4.1 The authority of Internal Audit is derived directly from its statutory responsibilities, in the Accounts and Audit Regulations 2015, and the County Council’s Constitution and Finance Procedure Rules.
- 4.2 The work of Internal Audit embraces the organisation’s whole framework of governance, risk management and control, 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.

4.3 In addition to Northumberland County Council, the Internal Audit Service also provides services to Advance Northumberland Group of Companies and to Northumberland Inshore Fisheries and Conservation Authority.

## **5 Reporting Lines 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 Head of Internal Audit and Risk Management 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 Head of Internal Audit and Risk Management reports functionally to the board. Within Northumberland County Council, these requirements are achieved by:

- the Head of Internal Audit and Risk Management reporting functionally to the Audit Committee. The Head of Internal Audit and Risk Management 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 Head of Internal Audit and Risk Management reporting operationally to a member of the organisation's senior management team. The Head of Internal Audit and Risk Management is line managed by the Executive Director of Transformation and Resources.

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 Head of Internal Audit and Risk Management. The Head of Internal Audit and Risk Management will also confirm the

organisational independence of Internal Audit to Audit Committee at least annually.

- 5.4 In addition, the Head of Internal Audit and Risk Management has free and unfettered access to the Chief Executive, Executive Director of Transformation and Resources (s151 Officer), and Monitoring Officer.
- 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 Head of Internal Audit and Risk Management dictates, separation of duties is enforced within the team to ensure sufficient independence. Any Internal Audit work undertaken on any area for which the Head of Internal Audit and Risk Management is responsible (for example risk management) is led by, issued by and in the name of a Group Assurance Manager who has no responsibility for delivery of that service.
- 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 Head of Internal Audit and Risk Management.
- 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 Responsibilities

- 6.1 The Head of Internal Audit and Risk Management is required to provide the Council with an independent and objective opinion on the overall framework of governance, risk management and control on an annual basis.
- 6.2 In order to deliver an annual opinion, Internal Audit prepares a Strategic Audit Plan, setting out the scope of work to be undertaken within the organisation each year. This detailed plan is prepared in consultation with the Chief Executive, s151 Officer, all Executive Directors, Service Directors, Heads of Service, Audit Committee Members, Cabinet Portfolio holder and the external auditor, and is approved by the Audit Committee.
- 6.3 Internal Audit's plan of work must be based on an assessment of risk and Internal Audit must have an unrestricted range of coverage of the Council's operations. The Head of Internal Audit and Risk Management will have the freedom to determine the priorities of Internal Audit, following consultation with the senior management of the organisation.
- 6.4 The Strategic Audit Plan will provide a broad objective for each audit assignment, together with the respective priorities and resources required. 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.
- 6.5 The scope of Internal Audit's work will cover all aspects of the County Council's activities and encompass both financial and non-financial aspects of the control environment. This includes activities undertaken in partnership with other organisations where assurance may be sought in accordance with agreed protocols and access rights.
- 6.6 Internal Audit's services will be conducted and provided in accordance with legislation (including the Accounts and Audit Regulations 2015), and related professional regulations including the Public Sector Internal Audit Standards.
- 6.7 At the end of every Internal Audit assignment, a draft audit report will be issued to the relevant senior officer(s) as 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.
- 6.8 Should the Head of Internal Audit and Risk Management 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 Head of Internal Audit and Risk Management has the authority to do so. Accordingly, the Head of Internal Audit and Risk Management 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.

- 6.9 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 on Internal Audit's work and the implementation of recommendations will be reported to the Executive Management Team and Audit Committee on a periodic basis.

## **7 Fraud and Corruption**

- 7.1 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. Internal Audit or counter fraud officers will co-ordinate the investigation of alleged financial irregularity in accordance with the organisation's counter fraud policy, including liaison with the Police.
- 7.2 The County Council's Anti-Fraud, Bribery and Corruption Policy requires that Internal Audit is informed in the event that fraudulent activity or financial irregularity is suspected or confirmed, in accordance with the Council's Finance and Contract Rules. This is to ensure that the Head of Internal Audit and Risk Management can consider the adequacy of relevant controls as part of the annual opinion on the overall adequacy of the effectiveness of the framework of governance, risk management and control.

## **8 Access**

- 8.1 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.

- 8.2 These rights of access are also reiterated within the County Council's Finance and Contract Rules. These include the provision that Internal Audit has the authority to:
- access the County Council's premises at all reasonable times;
  - access all assets, records, documents, correspondence and control systems relating to the matter under examination;



- require and receive from employees, Members or other persons, assistance or explanations, written or oral, concerning any matter under examination;
- require any employee of the Council to account for cash, stores or any other council asset under his or her control;
- access financial records belonging to third parties, such as contractors, organisations in receipt of grant and partnering arrangements where the Council has lead responsibility, when required; and
- directly access the Chief Executive, the Executive, and Audit Committee.

8.3 In turn, the Finance and Contract Rules place a responsibility on all Executive Directors to:

- ensure that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work.
- ensure that auditors are provided with any information and explanations that they seek in the course of their work;
- consider and respond promptly to recommendations in audit reports and to clearly indicate the action they intend to take, including (where appropriate) reasons why a recommendation has not been accepted or why the proposed action cannot be implemented; and
- ensure that any agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.

## **9 Limitations of Internal Audit Responsibilities**

9.1 In the discharge of the responsibilities of Internal Audit, as detailed above, it should be noted that the Internal Audit Service is not responsible for:

- Implementing controls / controlling risks of the Council.
- Establishing / maintaining systems of internal control.
- Determining operational policies or procedures.
- Identifying all instances of fraud / poor governance.

## **10 Resources**

10.1 The Head of Internal Audit will hold a relevant professional qualification and have suitable experience of audit and management. The Head of Internal Audit and Risk Management will also ensure that the Internal Audit Service is appropriately resourced in terms of number, grades, qualifications and experience.

10.2 The Strategic Audit plan, once set, will be compared to resource availability and where there is any 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.

- 10.3 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 Head of Internal Audit and Risk Management, 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.

## **11 Consulting Activity**

- 11.1 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.”*
- 11.2 The Internal 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 additional consulting services identified during the course of the year will be approved by the Head of Internal Audit & Risk Management (Chief Internal Auditor), where resources permit without impacting on the ability to provide the planned annual opinion.
- 11.3 Should significant unplanned consultancy work be identified, approval will be sought from Audit Committee prior to work taking place. Within 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.
- 11.4 Where internal audit work is proposed in area / Service which has previously received consulting services, resourcing is carefully managed, in order to ensure that independence and objectivity is not impaired.