



REPORT TO: PERFORMANCE & AUDIT COMMITTEE - 22 SEPTEMBER 2020
REPORT ON: DUNDEE INTEGRATION JOINT BOARD INTERNAL AUDIT CHARTER
REPORT BY: CHIEF FINANCE OFFICER
REPORT NO: PAC22-2020

1.0 PURPOSE OF REPORT

1.1 The aim of this paper is to seek approval for an updated Internal Audit Charter for Dundee IJB.

2.0 RECOMMENDATIONS

It is recommended that the Performance & Audit Committee (PAC):

- 2.1 Notes and approves the proposed update of the Internal Audit Charter as set out in Appendix 1 to this report.
- 2.2 Agrees that changes to the Internal Audit charter in future will be approved as part of the approval of the IJB's Annual Internal Audit Plan.

3.0 FINANCIAL IMPLICATIONS

3.1 None.

4.0 MAIN TEXT

- 4.1 The Performance and Audit Committee previously considered and approved the Internal Audit Charter at its meeting of the 28th November 2017 (Item VIII of the minute refers). It had been drafted in line with the requirements of the Public Sector Internal Audit Standards applicable to both Health and Local Authority Internal Audit services. The cover paper stated that the Charter will take effect from the date approved at the Performance and Audit Committee until such times as it is revoked or replaced. However it has more recently been agreed to review this charter more regularly.
- 4.2 The Charter sets out the purpose of the internal audit function as defined within the Public Sector Internal Audit Standards. It establishes the scope of the Internal Audit function and lays out the requirements of the Chief Internal Auditor. The role of the Chief Internal Auditor and the authority of that position is set out clearly alongside the controls in place to provide assurance on independence, ethics, confidentiality and objectivity.
- 4.3 As well as reviewing and approving this updated Charter, it is recommended that the Charter be reviewed annually at the point of approval of the Annual Internal Audit plan (from 21/22, assumed to be June in each financial year), to ensure it remains up to date.

5.0 POLICY IMPLICATIONS

5.1 This report has been screened for any policy implications in respect of Equality Impact Assessment. There are no major issues.

6.0 RISK ASSESSMENT

6.1 This report has not been subject to a risk assessment as it does not require any policy or financial decisions at this time.

7.0 CONSULTATIONS

7.1 The Chief Officer, Regional Audit Manager and the Clerk were consulted in the preparation of this report.

8.0 BACKGROUND PAPERS

8.1 None.

Dave Berry
Chief Finance Officer

Date: 31 August 2020

Dundee IJB Internal Audit Charter

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Introduction

Public Sector Internal Audit Standards require each organisation to agree an Audit Charter which is regularly updated following approval by the Board, in this case through the Performance & Audit Committee of Dundee IJB. This Charter is complementary to the relevant provisions included in the organisation's own Standing Orders (SOs) and Standing Financial Instructions (SFIs), which include provision for the delivery of audit services to Dundee IJB.

The terms 'Board' and 'senior management' are required to be defined under the Standards and therefore have the following meaning in this Charter:

- Board means the Integration Joint Board (IJB) with responsibility to direct and oversee the activities and management of the organisation. The Board has delegated authority to the Performance & Audit Committee in terms of providing a reporting interface with internal audit activity; and
- Senior Management means the Chief Officer as being the designated Accountable Officer for Dundee IJB. The Chief Officer has made arrangements within this Charter for an operational interface with internal audit activity through the Chief Finance Officer;

In addition, for clarity, the following definitions are explained:

- FTF Audit and Management Services (FTF) are the Internal Auditors for NHS Tayside and, following a meeting of Dundee IJB in May 2016, were appointed as Dundee IJB's Internal Audit Service, with the current Chief Internal Auditor (CIA) for NHS Tayside also fulfilling this role for Dundee IJB. Both FTF and Dundee City Council Internal Audit commit resources to support Dundee IJB's Internal Audit requirements and allow delivery of the Internal Audit function.
- Accountable Officer means the Chief Officer;
- Partner bodies means Dundee City Council and NHS Tayside.

Purpose and responsibility

Within the organisation, responsibility for internal control rests fully with management to ensure that appropriate and adequate arrangements are established. *"Internal audit is an independent, objective assurance and consulting function designed to add value and improve the operations of NHS Tayside. Internal audit helps the organisation accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes." Its mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.* (See Annex 1 for FTF Mission Statement).

Internal Audit is responsible for providing an independent and objective assurance opinion to the Accountable Officer, the Board and the Audit Committee on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. In addition, internal audit's findings and recommendations are beneficial to management in securing improvement in the audited areas.

The Shared Services Agreement and associated Service Specification between FTF and NHS Tayside set out their specific responsibilities as internal auditors to NHS Tayside and by extension, to Dundee IJB.

Authority and Accountability

Internal Audit derives its authority from the Integration Joint Board, the Accountable Officer and Performance & Audit Committee. These authorities are established in Standing Orders and Standing Financial Instructions adopted by the Board.

The Chief Internal Auditor (CIA) leads the internal audit activity and assigns a named contact to each client. For line management (e.g. individual performance) and professional quality purposes (e.g. compliance with the Public Sector Internal Audit Standards), the Regional Audit Managers report to the Chief Internal Auditor. A joint working protocol has been agreed between the Local Authority and NHS Internal audit services to ensure work is performed to the required standards.

The Chief Internal Auditor reports on a functional basis to the Accountable Officer and to the Audit Committee on behalf of the Board. Accordingly the Chief Internal Auditor has a direct right of access to the Accountable Officer, the Chair of the Performance & Audit Committee and the Chair of the IJB if deemed necessary.

The Performance & Audit Committee approves all Internal Audit plans and may review any aspect of its work. The Performance & Audit Committee provides for the opportunity for private meetings with the Chief Internal Auditor. The Performance & Audit Committee Chair and members have a right to have private meetings with the Chief Internal Auditor and vice versa if issues cannot be addressed through Performance & Audit Committee meetings.

In order to facilitate its assessment of governance within the organisation, Internal Audit is granted access to attend any committee, sub-committee or group of the Board charged with aspects of governance.

Scope

The scope of Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management arrangements, systems of internal control, and the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. It includes but is not limited to:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify measure, classify, and report such information;
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations, and reports on whether the organisation is in compliance;
- Reviewing assurances received on internal controls operating through partner bodies;
- Reviewing and appraising the economy and efficiency with which resources are employed, this may include benchmarking and sharing of best practice;
- Reviewing assurances received that directions are consistent with the organisation's objectives and goals are being carried out as planned;
- Reviewing specific operations at the request of the Performance & Audit Committee or management, this may include areas of concern identified in the corporate risk register;
- Monitoring and evaluating the effectiveness of the organisation's risk management arrangements and the overall system of assurance (see below);
- Ensuring effective co-ordination, as appropriate, with external auditors; and
- Reviewing Annual Governance Statement prepared by senior management.

Internal Audit will devote particular attention to any aspects of the risk management, internal control and governance arrangements affected by material changes to the organisation's risk environment.

If the Chief Internal Auditor or the Audit Committee consider that the level of audit resources or the Charter in any way limit the scope of internal audit, or prejudice the ability of internal audit to deliver a service consistent with the definition of internal auditing, they will advise the Accountable Officer and Board accordingly.

Risk Management

Internal Audit will liaise with both the Performance & Audit Committee and senior management as part of our annual internal audit planning process to discuss the alignment of audit priorities to strategic and emerging risks. This will include the strategic risks not being audited in-year to enable a discussion about coverage and the level of audit resource.

Periodically, a detailed review of risk management arrangements will be undertaken by internal audit as well as an annual high level review as part of the governance assessment to inform the Annual Internal Audit report and specifically the Chief Internal Auditor's opinion on the adequacy and effectiveness of internal control.

Irregularities, Fraud & Corruption

It is the responsibility of management to maintain systems that ensure the organisation's resources are utilised in the manner and on activities intended. This includes the responsibility for the prevention and detection of fraud and other illegal acts.

Internal Audit shall not be relied upon to detect fraud or other irregularities. However, Internal Audit will give due regard to the possibility of fraud and other irregularities in work undertaken. Additionally, Internal Audit shall seek to identify weaknesses in control that could permit fraud or irregularity.

If Internal Audit discovers suspicion or evidence of fraud or irregularity, this will immediately be reported to the organisation's NHS Fraud Liaison Officer in accordance with the relevant partner's Fraud policy/Plan and in line with S10 of the SSA.

Independence and Objectivity

Independence as described in the Public Sector Internal Audit Standards is the freedom from conditions that threaten the ability of internal audit to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the Chief Internal Auditor will have direct and unrestricted access to the Board and Senior Management, in particular the Chair of the Performance & Audit Committee and the Accountable Officer.

Organisational independence is effectively achieved when the auditor reports functionally to the Audit Committee on behalf of the Board. Such functional reporting includes the Performance & Audit Committee:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- receiving outcomes of all internal audit work together with the assurance rating; and
- reporting on internal audit activity's performance relative to its plan.

Whilst maintaining effective liaison and communication with the organisation, as provided in this Charter, all internal audit activities shall remain free of untoward influence by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective attitude necessary in rendering reports.

Internal Auditors shall have no executive or direct operational responsibility or authority over any of the activities they review. Accordingly, they shall not develop nor install systems or procedures, prepare records, or engage in any other activity which would normally be subject to Internal Audit.

This Charter makes appropriate arrangements to secure the objectivity and independence of internal audit as required under the standards. The Shared Services Agreement between FTF and NHS Tayside sets out the operational independence of FTF as internal auditors. In particular it states '*FTF may be called upon to provide advice on controls and related matters, subject to the need to maintain objectivity and to consider resource constraints. Normally FTF will have no executive role nor will it have any responsibility for the development, implementation or operation of systems. Any internal audit input to systems development work will be undertaken as specific assignments. In order to preserve independence and objectivity, any such involvement in systems development activities will be restricted to the provision of advice and ensuring key areas in respect of control are addressed.*'

FTF have controls in place to ensure compliance with the relevant aspects of the Public Sector Internal Audit Standards and the wider requirement to conform with NHSScotland standards of conduct regulations.

Similarly, Dundee City Council Internal Audit has a Charter in place which sets out how to maintain the internal auditors' independence and objectivity.

Appointment of CIA and Internal Audit Staff, Professionalism, Skills & Experience

Under the Service Specification for FTF, NHS Fife, as the host body, is responsible for appointing a CIA who is a member of a CCAB Institute or CMIIA with experience equivalent to at least five years post-qualification experience and at least three years of audit.

The Specification also sets out the required qualified skill-mix and the proportion of the Audit Plan to be delivered by the Chief Internal Auditor, Regional Audit Manager and other qualified staff as well as specifying the responsibility of FTF to ensure staff are suitably trained with appropriate skills with a formal requirement for preparation and maintenance of Personal Development Plans for all audit staff. These provisions apply to the totality of the service provided to NHS Tayside and are also applicable to Dundee IJB, although not specifically measured for them.

Relationships

The Chief Internal Auditor will maintain functional liaison to the Chief Finance Officer who has been nominated by the Accountable Officer as executive lead for internal audit.

In order to maximise its contribution to the Board's overall system of assurance, Internal Audit teams will work closely with each other as well as IJB Management in planning its work programme. Co-operative relationships between the audit teams and with management enhance the ability of internal audit to achieve its objectives effectively. Audit work will be planned in conjunction with partner auditors as well as management, particularly in respect of the timing of audit work.

Internal Audit will meet regularly with the external auditor to consult on audit plans, discuss matters of mutual interest, discuss common understanding of audit techniques, method and terminology, and to seek opportunities for co-operation in the conduct of audit work. In particular, internal audit will make available their working files to the external auditor for them to place reliance upon the work of Internal Audit where appropriate.

Internal Audit strives to add value to the organisation's processes and help improve its systems and services. To support this, Internal Audit will obtain an understanding of the organisation and its activities, encourage two way communications between internal audit and operational staff, discuss the audit approach and seek feedback on work undertaken.

Subject to the availability of resources, FTF and its staff shall co-operate and respond to reasonable requests or give support in situations, whether or not they are detailed in the specification.

Standards, Ethics, and Performance

Internal Audit must comply with the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing. The CIA will discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the Board.

Internal Audit will report progress against the annual internal audit plan to each meeting of the Audit Committee.

Reporting arrangements

Arrangements for reporting individual assignments are contained within the Audit Joint Working Protocol approved through the Tayside Chief Internal Auditor Group as well as the Output Sharing Protocol approved by the Performance & Audit Committee.

Internal Audit will produce an Annual Audit Report for each audit year in time to provide the assurance required in considering the Board's Annual Accounts.

The Annual Audit Report should contain:

- *An opinion on whether:*
 - ✧ *Based on the work undertaken, there were adequate and effective internal controls in place throughout the year;*
 - ✧ *The Accountable Officer has implemented a governance framework in line with required guidance sufficient to discharge the responsibilities of this role;*
 - ✧ *The Internal Audit plan has been delivered in line with PSIAS;*
- *Analysis of any changes in control requirements during the year;*
- *Comment on the key elements of the control environment.*

Assurances provided to parties outside the organisation;

Internal Audit will not provide assurance on activities undertaken by Dundee IJB to outside parties without specific instruction from Dundee IJB or as per the approved output sharing protocol.

Approach

To ensure delivery of its scope and objectives in accordance with the Charter, the lead Internal Audit team has arrangements in place for annual and strategic planning, individual audit assignment planning and reporting. Fieldwork allocated to either or both Internal Audit teams will be conducted in accordance with the normal audit approach adopted by that team, including appropriate quality assurance processes.

Access and Confidentiality

Internal Audit shall have the authority to access all the organisation's information, documents, records, assets, personnel and premises that it considers necessary to fulfil its role. This shall extend to the resources of the third parties that provide services on behalf of the organisation.

All information obtained during the course of a review will be regarded as strictly confidential to the organisation and shall not be divulged to any third party without the prior permission of

the Accountable Officer. S6.6 of the Shared Service Agreement sets out those circumstances in which reports and working papers will be shared with the statutory External Auditors and the application of the Freedom of Information (Scotland) Act 2002.

A separate protocol is in place which sets out the sharing of information and reports amongst partner bodies or other Tayside IJBs.

Quality Assurance

The Chief Internal Auditor has established a quality assurance programme designed to give assurance through internal and external review that the work of Internal Audit is compliant with the Public Sector Internal Audit Standards and to achieve its objectives. A commentary on compliance against PSIAS will be provided in the Annual Internal Audit Report.

Resolving Concerns

The Chief Internal Auditor will be responsible for managing the delivery of the internal audit service. The CIA will be available to meet with the Chief Finance Officer as required to discuss the service and any issues arising. If the matter is not resolved to the satisfaction of the Client, the matter shall be presented to the next available meeting of the Performance & Audit Committee.

Review of the Internal Audit Charter

This Internal Audit Charter shall be reviewed annually and approved by the Performance & Audit Committee.

Date: August 2020

Date of next review August 2021.

Annex 1 FTF Mission Statement

Mission and values

The purpose of the internal audit function has been defined within the Public Sector Internal Audit Standards (PSIAS). FTF, following discussion with staff and the Management Board has developed a mission and vision statement which incorporates this definition as well as additional elements reflecting our way of delivering the audit function as follows:

WORKING TOGETHER TO PROVIDE ASSURANCE AND ADD VALUE

We achieve this by following the Public Sector Internal Audit Standards:

*“Internal Audit is 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”.*

We work with our clients to provide an excellent service by understanding their values, their objectives and risks and the environment in which they operate. We value and listen to our staff and ensure that they have the skills and knowledge they require to help us to succeed, continuously assessing and improving the service we provide.

