

## FTF Audit Charter

### 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 Audit Committee. This Charter is complementary to the relevant provisions included in the organisation's own Standing Orders (SOs) and Standing Financial Instructions (SFIs) and the Shared Service Agreement and Service Specification with FTF Audit (SSA).

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 Board of NHS Forth Valley with responsibility to direct and oversee the activities and management of the organisation. The Board has delegated authority to the Audit Committee in terms of providing a reporting interface with internal audit activity; and
- Senior Management means the Chief Executive as the designated Accountable Officer for NHS Forth Valley. The Chief Executive has made arrangements within this Charter for an operational interface with internal audit activity through the Director of Finance.
- FTF Audit and Management Services (FTF) are the Internal Auditors for NHS Forth Valley

### Purpose and responsibility

*"Internal audit is an independent, objective assurance and consulting function designed to add value and improve the operations of NHS Forth Valley. 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 Appendix 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 with FTF set out their specific responsibilities as internal auditors to NHS Forth Valley.

### Independence and Objectivity

Independence as described in the Public Sector Internal Audit Standards is the freedom from conditions that threaten the ability of the internal audit activity 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 Audit Committee and 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 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.

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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. In addition, the shared service model of provision across FTF Audit and Management Services provides further organisational independence.

The Shared Services Agreement sets out the operational independence of FTF as internal auditors to NHS Forth Valley. 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.

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

Under s5.1 of the Specification, NHS Fife, as the host body, is responsible for appointing a CIA who (Spec s12.6) is a member of 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.

**Authority and Accountability**

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

The Chief Internal Auditor leads FTF Audit and Management Services and assigns a named contact to NHS Forth Valley. 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.

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 Audit Committee and the Chair of the Health Board if deemed necessary.

The Audit Committee approves all Internal Audit plans and may review any aspect of its work. The Audit Committee also has the opportunity to hold regular private meetings with the Chief Internal Auditor and its remit requires it *'To ensure there is direct contact between the Audit Committee and Internal Audit and the opportunity is given for discussions with the*

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*Chief Internal Auditor as required without the presence of the Executive Directors. The Chief Internal Auditor must have appropriate access to both the Chief executive and the Chair of the Audit Committee’.*

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

**Relationships**

The Chief Internal Auditor will maintain functional liaison to the Director of Finance 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 will work closely with NHS Forth Valley Senior Leadership Team in planning its work programme. Co-operative relationships with management enhance the ability of internal audit to achieve its objectives effectively. Audit work will be planned in conjunction with 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.

The Audit Committee may determine that another Committee of the organisation is a more appropriate forum to receive and action individual audit reports. However, the Audit Committee will remain the final reporting line for all reports.

**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 operate in accordance with the Shared Services Agreement (updated 2019) and associated performance standards agreed with the Audit Committee. The Shared Services Agreement includes a number of Key Performance Indicators and these will be reported to each Audit Committee as part of the internal audit progress report...

**Scope**

The scope of Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management arrangements, system 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 the means of safeguarding assets and, as appropriate, verifying the existence of such assets;

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- Reviewing and appraising the economy and efficiency with which resources are employed, this may include benchmarking and sharing of best practice;
- Reviewing operations or programmes to ascertain whether results are consistent with the organisation's objectives and goals and whether the operations or programmes are being carried out as planned;
- Reviewing specific operations at the request of the 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 services 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 Audit Committee and senior management to discuss the alignment of audit priorities to strategic and emerging risks. This will include the corporate risks not being audited in-year to enable a discussion about coverage and the level of audit resource.

An annual overview of risk management arrangements will be undertaken by FTF through the Internal Control Evaluation and Annual Report.

An overall review of risk management has been within the annual internal audit plan. This review will encompass validation of corporate risk assurances, risk management self-assessments and KPI reporting.

We will also review the risk management systems, associated controls, assurance processes and functions, and test the operation of controls beyond the risk register within NHS Forth Valley. This will be achieved through specific audits and by incorporation within standard audit processes as part of every relevant audit undertaken. Significant findings will be communicated to allow immediate action to be taken by NHS Forth Valley.

Appropriate communication is in place, including provision of all audit reports through the Director of Finance and SLT.

**Reporting arrangements including Key Performance Indicators**

Arrangements for reporting and following up individual assignments are contained within the reporting and follow-up protocols approved by the Audit Committee. The Specification states that *'The principal report to be produced by Internal Audit will be the Annual Audit Report for each audit year. This needs be prepared in time for submission to the Audit Committee not later than the target date specified in Appendix I in order 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;*

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- ✧ *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*
- *summary of performance against this service specification*
- *progress in delivering the Quality Assurance Improvement Programme.*

The Specification sets out the key performance indicators to be used by Internal Audit and requires that they be reported in full within the Annual Internal Audit Report. The KPIs are also reported to each Audit Committee meeting.

### **Assurances provided to parties outside the organisation;**

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

### **Approach**

To ensure delivery of its scope and objectives in accordance with the Charter, Internal Audit has produced a suite of working practice documents. This suite includes arrangements for annual and strategic planning, individual audit assignment planning, fieldwork and reporting.

### **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. NHS Forth Valley's Standing Financial Instructions state that '*The Chief Internal Auditor is entitled without necessarily giving prior notice to require and receive:*

- a) *Access to all records, documents and correspondence relating to any financial or other relevant transactions, including documents of a confidential nature (in which case he shall have a duty to safeguard that confidentiality) within the confines of the data protection act*
- a) *Access at all reasonable times to any land, premises or employees of the Board;*
- b) *The production or identification by any employee of any cash, stores or other property of the Board under an employee's control;*
- c) *Explanations concerning any matter under investigation.*

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 SSA 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.

Where there is a request to share information amongst the NHS bodies, for example to promote good practice and learning, then permission will be sought from the Accountable Officer/Lead Officer before any information is shared.

### **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.

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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 Fraud Liaison Officer in accordance with the organisation's Counter Fraud Policy & Fraud Response Plan and with S10 of the SSA.

### **Quality Assurance**

S7 of the SSA requires that *'the Chief Internal Auditor shall be responsible for the preparation and maintenance of quality processes which maintain and record the operational procedures and quality standards of the Service, and which are compliant with PSIAS.'*

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 and against agreed KPIs will be provided in the Annual Internal Audit Report and KPIs are reported to each Audit Committee.

### **Resolving Concerns**

S5.2 of the Specification states that *'The Chief Internal Auditor will also be responsible for monitoring the contract and will therefore be the Agreement Control Officer performing the additional quality, performance measurement and liaison activities. The Chief Internal Auditor shall be available to meet with the Director of Finance whenever required and at least bi-annually to discuss the service.'* S7 of the SSA states that *'The Chief Internal Auditor shall be available to meet with the Client Director of Finance or nominated representative whenever required and at least bi-annually to discuss the services. Any issues should be raised with the Chief Internal Auditor in the first instance.'*

*If the matter is not resolved to the satisfaction of the Client, then it shall be presented to the next available meeting of the Partnership Board for resolution by majority vote.'*

### **Review of the Internal Audit Charter**

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

Date: October 2019

Date of next review: October 2020.

## FTF Audit Charter

### Appendix 1

#### 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 Partnership 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.