



INTERNAL AUDIT CHARTER

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1. INTRODUCTION

- 1.1 This is the Internal Audit Charter for the Education Authority (EA). It aims to determine the purpose, authority and responsibility of the Internal Audit function which is part of the Chief Executive's Office. The personal responsibility and authority of the Head of Internal Audit (HIAA) is also delineated within the Charter.
- 1.2 The Public Sector Internal Audit Standards (PSIAS) (issued by HM Treasury) in operation from April 2013 require the purpose, authority and responsibility of the internal audit activity to be formally defined in an Internal Audit Charter. The Charter should be consistent with the definition of Internal Auditing, the Audit Code of Ethics and the PSIAS. Their mandatory nature should also be recognised.

2. ROLE AND PURPOSE OF INTERNAL AUDIT

- 2.1 Internal Audit is an independent and 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.
(Source: The PSIAS)
- 2.2 Risk management, control and governance comprise the policies, procedures and operations established to ensure:
- the achievement of objectives;
 - the appropriate assessment of risk;
 - the reliability of internal and external reporting and accountability processes;
 - compliance with the applicable laws and regulations; and
 - compliance with the behavioural and ethical standards set by EA.
- 2.3 Internal Audit within EA, through the HIAA, delivers a broad range of work and is required to consider all aspects of EA necessary to deliver an audit opinion in an economical, efficient and timely manner, to the Chief Executive, as Accounting Officer, on the overall adequacy and effectiveness of the EA risk management, control and governance arrangements. Internal Audit also provides an independent and objective consultancy service.

2.4 The Annual Internal Audit Opinion and Report, provided by the HIAA, takes account of assurance and consultancy activity and is a key element of the framework of assurance which the Accounting Officer may rely upon when completing the annual Governance Statement. The HIAA's Annual Report will incorporate the opinion, a summary of the work that supports the opinion and a statement of conformance with the PSIAS.

3. AUTHORITY

3.1 Internal Audit receives its authority directly from the Internal Audit Charter approved by the EA Board¹. The Accounting Officer* is personally responsible for ensuring the establishment of an effective and adequately resourced Internal Audit function and for ensuring that it operates within the PSIAS. The Accounting Officer is also responsible for appointing the HIAA and ensuring that all audit staff are appropriately trained to carry out their roles competently.

3.2 The HIAA is accountable directly to the Accounting Officer for the work undertaken in order to deliver an audit opinion in the manner and nature required.

4. INDEPENDENCE AND OBJECTIVITY

4.1 The internal audit function must be independent and Internal Auditors must be objective in performing their work. This remains the case in the event that Internal Audit staff are used to complete non-audit activities. Independence enables Internal Audit to perform its duties in a manner which facilitates the provision of impartial and effective professional judgements and recommendations.

4.2 Independence is established and maintained by:

- Internal Audit receiving its authority and Charter directly from the EA Board;
- the HIAA having free and unfettered access to the Accounting Officer and the Chair of the Audit and Risk Assurance Committee (ARAC) on matters of audit concern when required;
- the Accounting Officer, advised by the Chair of the ARAC, being responsible for the performance appraisal of the HIAA;

¹ The Board refers to the Chairman and the appointed corporate body of EA. The Accounting Officer is the Chief Executive and together with second tier officers form the Senior Management Team of EA.

- the Accounting Officer and ARAC objectively evaluating audit resource requirements and availability on an annual basis;
- the HIAA being free from interference in determining the scope and performance of audit work and communicating results;
- Internal Auditors being impartial and avoiding conflicts of interest;
- Internal Audit having the right of access to all records, assets, personnel, premises and such information as it considers necessary to fulfil its responsibilities. This right of access is not restricted by the medium on which information is recorded and stored and extends to EA information held by third parties in connection with EA related activities. Rights of access to other bodies or groups funded by EA should be set out in the conditions of funding;
- Audit advice and recommendations being provided without prejudice to the right of Internal Audit to subsequently review and comment on any related policies, procedures and operations at a later date; and
- Internal Audit having no responsibility for executive duties or functions. Primary responsibility for risk management, control and governance resides with line managers, who should ensure that arrangements are appropriate and adequate.

5. ACCOUNTING OFFICER, AUDIT AND RISK ASSURANCE COMMITTEE AND HIAA RELATIONSHIP

5.1 Although primarily accountable to the Accounting Officer, the HIAA will also report on a regular basis to the ARAC. The Internal Audit Strategy and Annual Work Programme will be approved by the Accounting Officer with advice from ARAC.

5.2 The HIAA will attend all ARAC meetings and has the right of access to the Chair of ARAC without other parties being present.

5.3 The Chair of ARAC will meet privately with the HIAA as often as the Chair may determine but in any event not less than twice annually.

6. INTERNAL AUDIT APPROACH

6.1 The approach used by Internal Audit in fulfilling its responsibilities will be in accordance with the PSIAS and current internal audit best practice.

6.2 Internal Audit will:

- develop an Audit Strategy to meet the audit needs of EA which is determined by reference to the EA's business and resource allocation plans, key risks and the assurance framework;
- measure and evaluate the risk management, control and governance arrangements in place to achieve agreed objectives; and
- report findings, form conclusions and offer recommendations for improvement.

6.3 The HIAA will submit to the Accounting Officer and ARAC:

- the risk-based Audit Strategy and Annual Work Programme;
- a statement of the scope of work required of Internal Audit, including any limitations placed on it and any other factors which might affect the quality of the assurance given;
- explanations of significant variations from the approved work programme; and
- an annual evaluation of the risk management, control and governance arrangements in place to meet EA's agreed objectives.

7. **ASSURANCE AND CONSULTANCY ACTIVITY**

7.1 Internal Audit's objective is to provide an audit opinion to the Accounting Officer on risk management, control and governance within EA. In line with the PSIAS this can be done through both assurance and consultancy work. All internal audit assurance and consultancy work should fall within the scope of the *Definition of Internal Auditing*.

Assurance Work

7.2 Internal Audit primarily provides an independent and objective opinion to the Accounting Officer using assurance work. This is done by systematically reviewing and evaluating the policies, procedures and operations in place to:-

- establish and monitor the achievement of EA's objectives;
- identify, assess and manage the risks to achieving those objectives;
- advise on, formulate, and evaluate policy within the responsibilities of the Accounting Officer;
- ensure the economical, effective and efficient use of resources;
- ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations;

- safeguard EA's assets (including reputation) and interests from losses of all kinds, including those arising from fraud, irregularity or corruption; and
- ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

7.3 On the basis of audit work undertaken using this approach, Internal Audit will provide management with beneficial findings, recommendations and opinions on the risk management, control and governance arrangements in place.

Consultancy Advice and Guidance

7.4 Additionally, Internal Audit will provide independent and objective consultancy advice and guidance to help line management improve risk management, control and governance. Work of this nature should contribute to the HIAA's opinion. When performing consultancy, Internal Audit must remain objective and not assume management responsibility. Conflicts of interest (real or perceived) must be avoided and it is the responsibility of individual Auditors to alert the HIAA to any potential for conflict of interest as soon as this is apparent. Internal Audit may also carry out investigatory work on behalf of the Accounting Officer.

7.5 The balance of assurance and consultancy work undertaken by Internal Audit will be agreed between the HIAA and the Accounting Officer with advice being provided by the ARAC as appropriate taking into account the:

- level and nature of assurance required by the Accounting Officer;
- extent of system development and change on-going within EA;
- demand from customers for audit consultancy services / advice and guidance;
- need to investigate all suspected cases of irregularity;
- added value that can be obtained from such consultancy activity; and
- availability of audit staff with the necessary skills to carry out such work.

8. REPORTING and FOLLOW-UP

8.1 The draft audit reports for systematic assurance and consultancy work will normally be issued to the Head of Business Unit and the appropriate Director(s). Reports will specify a date for the management response to the audit findings to be returned (normally within 20 working days following the issue of the draft report). The

appropriate Director(s) will be informed of any undue delay in the return of a management response.

8.2 Final reports will be issued to the Business Unit Manager, Director(s), Accounting Officer, ARAC, Sponsoring Department and the Northern Ireland Audit Office.

8.3 Follow-up reviews will be undertaken in order to ensure that audit recommendations accepted by management have been implemented within agreed timescales and are operating in a manner which addresses the control weaknesses identified. The timing of follow-up reviews will be agreed with management and will take account of the timescales for implementing the recommendations. A periodic report on the implementation of Priority 1 recommendations will be considered by ARAC.

9. FRAUD

9.1 Internal Audit is not responsible for the prevention or detection of fraud. This responsibility lies clearly with line management. Internal Audit will, however be alert to the possibility of fraud when carrying out audit assignments. The EA Anti-Fraud Policy and Fraud Response Plan require the HIAA to be informed of all suspected or detected fraud so that the adequacy and effectiveness of controls and the implications for the audit opinion can be determined.

9.2 The HIAA will investigate all suspected cases of fraud and any limitations to the scope of the investigation will be formally raised by the HIAA with the Accounting Officer. The Accounting Officer's decision on this matter should be formally recorded.

9.3 Due to the specialised nature of fraud investigation, only those employees with appropriate fraud investigative skills and qualifications should be used to complete this type of work under the guidance of the HIAA who should also hold a formal qualification in fraud investigation. The HIAA is responsible for ensuring that the skills and training of fraud investigators is kept up to date.

10. RELATIONSHIP WITH OTHER REVIEW BODIES

- 10.1 Internal audit will establish and maintain an open relationship with the NIAO and any other assurance providers. Consistent with the internal audit strategy, internal audit will plan its activity to help ensure the adequacy of overall audit coverage and to minimise duplication of assurance work. External auditors have full and free access to all internal audit strategies, plans, working papers and reports.
- 10.2 Internal Audit will endeavour to foster and maintain constructive working relationships with other review agencies and, when required, audit staff may participate in multi or joint disciplinary reviews. However, care will be taken to ensure that Internal Audit's effectiveness and independence will not be prejudiced by undertaking such work.
- 10.3 Where possible, Internal Audit will place reliance on the work carried out by other review agencies. If reliance is to be placed on the work of others, Internal Audit will satisfy itself that the scope and quality of the work undertaken can be relied on. This will involve consideration of the skills and experience of the individual / group undertaking the work along with a review of reports and associated working papers. Where assurance is derived from another source, this will be clearly set out in the relevant statements and reports.

11. STAFFING

- 11.1 Staffing of the Internal Audit Unit, including appointment of the HIAA will, as a minimum, be in line with the PSIAS.
- 11.2 The HIAA must be professionally qualified to the satisfaction of HM Treasury, have wide and recent experience of Internal Audit, corporate governance and risk management and must meet the minimum level of skill, knowledge and experience required of an Internal Auditor. The HIAA is also responsible for ensuring that only those individuals with appropriate intellectual qualities and personal attributes are selected as Trainee Auditors and that they are given the necessary training and experience.
- 11.3 All new Internal Audit employees should undergo a training programme in order to attain the minimum necessary qualifications. Qualified employees will undertake a

programme of continuing professional development to maintain and further develop their skills. The HIAA is responsible for ensuring that members of Internal Audit between them possess the full range of knowledge, skills, qualifications and experience to meet audit objectives and will ensure that appropriate provision is made for maintaining and developing the competence of audit employees. The HIAA is responsible for making alternative staffing arrangements where there is a requirement for specialist audit skills or where there is a shortage of in-house internal audit staff.

- 11.4 All staff will comply with the Code of Ethics for Internal Auditors, observing the principles of integrity, objectivity, competency and confidentiality when carrying out their duties.

12. QUALITY ASSURANCE

- 12.1 As part of a comprehensive quality assurance programme, the HIAA will arrange for an independent review of the efficiency and effectiveness of the operations of the internal audit function at least every five years. The results of the quality assurance programme and, in particular, of the external review, will be reported to the Accounting Officer and the ARAC.

13. REVIEW

- 13.1 This Charter will be reviewed at least annually by the ARAC and the Accounting Officer. Any substantive revisions to the Charter should be approved by the EA Board.

Internal Audit Code of Ethics

The purpose of the Code of Ethics is to promote an ethical culture in the profession of internal auditing.

A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance. The Code of Ethics extends beyond the definition of internal auditing to include two essential components:

- Principles - that are relevant to the profession and practice of internal auditing;
- Rules of Conduct - that describe behaviour norms expected of internal auditors.

These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics provides guidance to internal auditors serving others. An internal auditor refers to those who provide internal auditing services within the definition of internal auditing.

Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services. Breaches of the Code of Ethics should be identified by Heads of Internal Audit and referred to their Audit Committee and Head of the Government Internal Audit Profession as appropriate. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the individual liable to disciplinary action

Integrity

Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Rules of Conduct

Internal auditors:

- *Shall perform their work with honesty, diligence and responsibility.*
- *Shall observe the law and make disclosures expected by the law and the profession.*
- *Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.*
- *Shall respect and contribute to the legitimate and ethical objectives of the organisation.*

Objectivity

Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Rules of Conduct

Internal auditors:

- Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- Shall not accept anything that may impair or be presumed to impair their professional judgement.
- Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

Confidentiality

Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Rules of Conduct

Internal auditors:

- Shall be prudent in the use and protection of information acquired in the course of their duties.
- Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

Competency

Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

Internal auditors:

- Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- Shall perform internal auditing services in accordance with the Government Internal Audit Standards incorporating the International Standards for the Professional Practice of Internal Auditing.
- Shall continually improve their proficiency and the effectiveness and quality of their services.

In addition, internal auditors must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life (commonly known as the Nolan Principles).