



**NEWCASTLE·UNDER·LYME**  
**BOROUGH COUNCIL**

# INTERNAL AUDIT CHARTER

2016/17

## **1. Introduction**

1.1 The internal audit charter is a formal document that defines internal audit's purpose, authority and responsibility. The charter establishes Internal Audit's position within the organisation, including the nature of the Audit Manager's functional reporting relationship with the Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit's activities. It provides a framework for the conduct of the service and has been approved by the Council's Executive Management Team and the Audit Committee.

## **2 Purpose of Internal Audit**

2.1 The accepted definition from the Institute of Internal Auditors states:

*“Internal auditing 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.”<sup>1</sup>*

2.2 Internal Audit is therefore an assurance function which primarily provides an independent and objective opinion to the Council on its governance arrangements and internal controls.

2.3 Responsibility for governance rests predominantly with Executive Management Team and Heads of Service, who shall establish and maintain an adequate system of internal control to enable them to discharge their responsibilities and to ensure that the Council's resources are properly applied in the manner and on the activities intended.

2.4 Internal Audit contributes to the proper, economic, efficient and effective use of the Council's resources by objectively examining the adequacy of its governance processes and reporting on their effectiveness in achieving the Council's objectives.

2.5 The Internal Audit Section does this by conducting an independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole of the Council and to all levels of management.

## **3 Objectives of Internal Audit**

3.1 The primary objective of the Internal Audit Section is to give assurance to the Council on the adequacy of its governance arrangements. This is achieved by reviewing and evaluating: -

- The completeness, reliability and integrity of financial, performance, risk and other management information;

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<sup>1</sup> Definition taken from “Public Sector Internal Audit Standards”

- The systems established to ensure compliance with corporate and departmental policies and procedures and legislative requirements
- The means of promoting appropriate ethics and values within the organisation; and
- The means of safeguarding assets.

3.2 The other objectives of the Internal Audit section are:

- To provide advice and support to ensure an effective control environment is maintained;
- To contribute to the achievement of Corporate objectives by recommending improvements in control and performance; and
- To provide advice and guidance to ensure Managers have developed effective arrangements to prevent and detect fraud and corruption including input in to the key policies such as Financial Regulations and the Anti-fraud and Anti-Corruption Policies.

#### **4 Scope & Authority of Internal Audit**

- 4.1 The requirement for an Internal Audit function derives from local government legislation, including section 151 of the Local Government Act 1972 which requires that all Local Authorities must “make arrangements for the proper administration of their financial affairs”. More specific requirements are set out in the Accounts and Audit Regulations 2015 which require the Council to “maintain an adequate and effective system of internal audit of their accounting records and control systems in accordance with proper internal audit practices”. This is reinforced in the Council’s Financial Regulations.
- 4.2 All of the Council’s activities, regardless of funding source, may be subject to review by Internal Audit. Internal Audit work will cover all of the operational and management controls within the Council. This does not imply that all systems will be subjected to review in any given year, but that all systems will be included in the audit planning process and hence be considered for review following the assessment of risk.
- 4.3 The scope of audit work extends to services provided through partnership arrangements. The Audit Manager will decide, in consultation with all parties, whether Internal Audit will conduct the work to derive the required assurance themselves or rely on assurance provided by other auditors. Where relevant, appropriate access rights will be negotiated and included in contracts and partnership agreements to ensure that Internal Audit can obtain access to the personnel and records within the partner organisation to obtain the necessary assurances.
- 4.4 The Internal Audit Section will consider the adequacy of the controls established by managers to secure propriety, economy, efficiency and effectiveness in all areas.
- 4.5 It is not the remit of the Internal Audit Section to question the appropriateness of policy decisions. However, the Section is required to examine the management arrangements of the Council by which such decisions are made, monitored and reviewed.

- 4.6 The Internal Audit Section may also conduct any special reviews, providing independent and objective services, such as consultancy and fraud related work as requested by Management. There will always be due consideration in planning this work to ensure that the Section maintains its objectivity and independence. The impact of taking on additional work on the audit plan will be taken into account and where necessary reported to the Executive Director Resources & Support Services and the Audit Committee for approval.
- 4.7 Internal Audit does not have responsibility for the prevention and detection of fraud or corruption. It is the responsibility of all Managers to ensure appropriate procedures are put in place to prevent and detect fraud. Internal Auditors should however, be alert in all their work to risks and exposures that could allow fraud or corruption to occur and to any indications that fraud or corruption may have been occurring.
- 4.8 In line with the Council's Anti-fraud and Anti-Corruption Framework, the Audit Manager should be notified of all suspected or detected fraud, corruption or impropriety within the Council. Where relevant the Internal Audit section will advise and assist Managers in the investigation of the fraud and corruption.

## **5 Responsibility of Internal Audit**

- 5.1 The Council has a responsibility for conducting, at least annually, a review of the effectiveness of the governance arrangements and producing an Annual Governance Statement. The review of the effectiveness of the governance arrangements is informed by the work of the internal auditors; the managers within the authority who have responsibility for the development and maintenance of governance arrangements; and also by comments made by the external auditors and other review agencies and inspectorates.
- 5.2 To assist with this review the Audit Manager will produce an annual report covering each service area and any corporate issues that have been subject to Internal Audit review in the year. This annual report will include an opinion, based on the areas examined, on whether the Council's governance arrangements, including those for economy, efficiency and effectiveness, are adequate and have been properly applied in the year.
- 5.3 In order to provide the required opinion the Internal Audit Section will undertake a programme of work on the advice of the Audit Manager. The programme of work will aim to achieve the following objectives:
- to appraise the soundness, adequacy, and application of the whole internal control system;
  - to ascertain the extent to which the systems of internal control ensure compliance with current policies and procedures;
  - to ascertain the extent to which assets and interests entrusted to or funded by the Council are properly controlled and safeguarded from losses arising from fraud, irregularity or corruption;
  - to ascertain that accounting and other information is reliable as a basis for the production of accounts, and financial, statistical and other returns;

- to ascertain the integrity and reliability of financial and other information provided to management, including that used in the decision making processes;
  - to ascertain that systems of control are laid down and operate to promote the economic and efficient use of resources;
  - to investigate, where appropriate, frauds or significant breaches of the internal control system.
- 5.4 Managers and not Internal Audit have ultimate responsibility for ensuring that internal controls throughout the Council are adequate and effective. This responsibility includes the duty to continuously review internal controls and ensure that they remain suitable in design and effective in operation. The existence of Internal Audit does not diminish the responsibility of management to establish and maintain systems of internal control to ensure that activities are conducted in a secure, efficient and effective manner.
- 5.5 Responsibility for the response to advice and recommendations of Internal Audit lies with management, who either accept and implement the advice or formally reject it accepting the risks involved in doing so. Internal Audit advice and recommendations are given without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later stage.

## **6 Statutory Requirement and Standards of Approach**

- 6.1 The work of the Internal Audit Section will be performed with due professional care and in accordance with the Accounts and Audit Regulations 2011 and the Public Sector Internal Audit Standards (PSIAS) and any subsequent guidance which updates or replaces these.
- 6.2 The Internal Audit Section will adopt a predominantly risk based systems approach to auditing in order to meet its primary objective of reviewing the governance arrangements of the Council. In undertaking its work the Section will:
- identify all elements of control systems on which it is proposed to place reliance;
  - evaluate those systems, identify inappropriate or inadequate controls and recommend improvement in procedures or practices;
  - provide advice on the management of risk, predominantly but not exclusively surrounding the design, implementation and operation of systems of internal control;
  - produce clear reports that provide management with an opinion on the soundness, adequacy and application of internal controls;
  - ascertain that those systems of internal control are designed and operate to achieve the most economic, efficient, and effective use of resources;
  - draw attention to any apparently uneconomical or unsatisfactory result flowing from decisions, practices or policies;
  - contribute to the general management and conduct of business through the provision of expertise on appropriate working-groups and participation in ad-hoc exercises, subject to adequate resources being available in the audit plan; and
  - liaise with External Auditors.

- 6.3 All Internal Auditors working in Local Government are required to comply with the Code of Ethics contained in PSIAS in addition to any requirements placed on them by the Council or any other Professional Body that they are members of.

## **7 Independence of Internal Audit**

- 7.1 The Internal Audit Section will remain independent of the systems and procedures which are subject to its review. Internal Audit will also remain free from interference by any element of the Council and the scope of its work will not be restricted in any way.
- 7.2 To enable the auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations Internal Audit staff will not be responsible for activities outside of Internal Audits main responsibilities. All audit staff will act with due professional care ensuring that they are fair and objective, free from any conflicts of interest and abide by professional standards and guidelines.
- 7.3 In seeking to provide an independent and objective opinion it is accepted that, being located within the organisation, the Internal Audit function cannot be wholly independent of all management. Internal Audit's independence will therefore be achieved through its organisational status although the Audit Manager is also the Council's Monitoring Officer this does not undermine or compromise the independence. Consideration was given as to whether or not there would be any conflict with regards to the issue of Independence, however given the similarity in nature to both the roles it is felt that there would be no compromise to independence.
- 7.4 The Audit Manager will make the Audit Committee aware if the independence of Internal Audit is impaired or appears to be impaired. The nature of such a disclosure will depend upon the nature of the impairment.
- 7.5 Internal Audit staff are often consulted during system, policy or procedure development. This is a good practice as it enables comments to be made on potential control weaknesses and tries to ensure that systems, policies or procedures are adequate prior to being introduced. However, this does not preclude Internal Audit staff from reviewing and making comments for improvements during routine audits or other reviews where they were consulted during the system, policy or procedure development stage.
- 7.6 The Internal Audit Section determines its work priorities in consultation with senior management, the s151 Officer and the Audit Committee.
- 7.7 The Audit Manager reports to the Executive Director Resources & Support Services who is also the Council's s151 Officer, and has a right of access to the Chief Executive, Chair of the Audit Committee or External Auditor where it is deemed necessary.
- 7.8 The Audit Manager reports functionally to the Audit Committee in relation to the Internal Audit Plan, Annual Audit Report and periodic updates of Internal Audit work.

- 7.9 The Audit Manager is responsible for the content of all written reports produced by the section. The Audit Manager has the right to report in her own name and offer an audit opinion without “fear or favour” to all officers and members and in particular to those charged with governance at the Council.

## **8 Authority and Rights of Access**

- 8.1 In order to perform their duties Internal Audit has the authority, as set out in the Council’s Financial Regulations, to:

- enter at all reasonable times, any Council premises or land;
- have access to all records, documents, information and correspondence relating to any financial and other transaction as considered necessary;
- evaluate the adequacy and effectiveness of internal controls designed to secure assets and data to assist management in preventing and deterring fraud;
- request explanations as considered necessary to provide assurance as to the correctness of any matter under examination;
- require any employee of the Council to produce cash, materials or any other Council property in their possession or under their control;
- access records belonging to third parties, such as contractors, when required and
- directly access the Chief Executive, the Cabinet and the Audit and Risk Committee.

- 8.2 Where necessary such rights of access may be called upon and should be granted to Internal Auditors on demand and not subject to prior notice or approval.

- 8.3 All employees are required to assist Internal Audit in fulfilling its roles and responsibilities.

- 8.4 The Internal Audit Section will comply with any requests from External Auditors for access to any information, files or working papers obtained or prepared during the audit work that they need in order to discharge their responsibilities.

## **9 Objectivity & Confidentiality**

- 9.1 Internal Auditors must demonstrate the highest level of professional objectivity in gathering, evaluating and communicating information about the function or process being examined. They must make a balanced assessment of all relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.
- 9.2 All records documentation and information accessed in the course of undertaking Internal Audit activities shall be used solely for that purpose. The Audit Manager and individual Internal Auditors (including contractors and external providers performing work on behalf of internal audit) are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.
- 9.3 All Internal Audit reports are confidential however they may be requested under the freedom of information legislation. The Audit Manager must be consulted before making the report available under FOI and where necessary elements of the report can be redacted.
- 9.4 The Audit Manager should also be consulted before any Internal Audit Report or extracts from it are included in a committee report or released to any other party.

## **10 Internal Audit Resources**

- 10.1 The Council has a duty to provide sufficient resources to allow an adequate and effective Internal Audit service to be provided. Where it is felt that the resources are inadequate to meet the objectives of the Internal Audit Section, the Audit Manager will report this to the Executive Director Resources & Support Services as Section 151 Officer , who will formally report this to the Chief Executive and the Audit Committee.
- 10.2 The staffing structure of the section will comprise a mix of professional and technician posts in order to provide a wide knowledge and skills base. The Audit Manager will hold a relevant professional qualification (CMIIA<sup>2</sup>, CCAB<sup>3</sup> or equivalent) and be suitably experienced.
- 10.3 The Audit Manager is responsible for ensuring that Internal Auditors receive appropriate training and experiences to fulfil their duties and that levels of competence are maintained via the use of continual professional development.
- 10.4 Where necessary access to appropriate specialists from other departments or external sources should be made available to the Internal Audit Section to assist in any audit or investigation requiring detailed specialist knowledge.

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<sup>2</sup> CMIIA –Chartered Member of the Institute of Internal Auditors

<sup>3</sup> CCAB- Consultative Committee of Accountancy Bodies which includes CIPFA, ACCA and the ICAEW



## **11 Internal Audit Management**

11.1 The Audit Manager is responsible for the day-to-day management of the Internal Audit Section and fulfils the requirements of the “Chief Audit Executive” role required by the PSIAS. The Audit Manager will:

- prepare an Audit Strategy;
- prepare an audit plan to review all relevant areas, and to update the plan regularly to account for changes in Council priorities and risks. The plans will be presented to the Audit Committee on a regular basis;
- produce operational plans for each auditor to achieve the annual audit plan;
- ensure the issue of an Audit Brief for each assignment undertaken setting out the scope and objectives of the work, timescales and reporting arrangements, and obtain the approval of the relevant Head of Service for the Audit Brief;
- ensure that relevant testing is carried out on which sound judgements can be based;
- ensure that work is undertaken, completed and issued in a timely manner;
- ensure that a written report is produced for each assignment giving an opinion on the control environment and identifying actions to address any weaknesses;
- ensure that follow-up work is undertaken, where appropriate, to monitor the implementation of agreed management actions;
- ensure that all audit work is completed to high standards in accordance with relevant professional standards;
- establish and maintain effective relationships with managers of all levels and obtain feedback from them on the work of the section including the use of user satisfaction surveys;
- monitor the work of the Audit Committee and consider, where appropriate, whether changes need to be made to the Internal Audit Plan as a result of the issues arising from the work of the Audit Committee.
- establish and maintain effective relationships with the External Auditors;
- monitor the effectiveness of the service delivered to clients and compliance with relevant standards:
- undertake an annual review of the development and training needs of internal audit employees and arrange for appropriate training to be provided to address the needs where possible: and
- develop and maintain a quality assurance and improvement programme covering all aspects of Internal Audit Activity.

## **12 The Internal Audit Plan**

12.1 The work of the Internal Audit Section is based on the delivery of a risk based Audit Plan and is conducted on a predominantly risk based systems audit approach. The Section prepares a new Audit Plan each year in line with the requirements of the PSIAS.

12.2 The Audit Plan is derived from all of the areas that have been identified for review (The Audit Universe) following an assessment of the risks relating to each area based on a number of criteria adapted from a risk scoring model developed by the Institute of Internal Auditors.

12.3 Account is taken of the risks identified in the Council’s strategic risk register and Internal Audit also undertakes its own assessment of the potential areas for audit review to define the Audit Universe

12.4 Each area of activity is scored across a range of criteria as set out in the table below:-

<b>Internal Control Quality (25%)</b>	Segregation of duties
	Documentation
	Quality/Reliability
<b>Criticality/Monetary Factors (30%)</b>	Criticality
	Expenditure £
	Income £
	Stores
	Transactions
<b>Environmental Change (20%)</b>	Personnel Structure
	Systems changes
	Growth
	Incidence of local/national fraud
<b>Complexity (10%)</b>	Systems –computer/manual
	Technicality
<b>Legal and Regularity Considerations (5%)</b>	
<b>Political Sensitivity (10%)</b>	

12.5 The resulting scores are banded into three risk categories

- High – A risks (scores over 220);
- Medium- B risks (scores between 150 and 219); and
- Low – C risks (scores between 100 and 149).

12.6 The risk scores are reviewed each year. The review results in some scores increasing, some decreasing and some remaining unchanged. This in turn has an affect on the risk category assigned to each area, for example a medium risk this year could become a high risk or a low risk next year.

12.7 Once the risk scores have been updated the audits are ranked in accordance with the risk scores and this is compared to the resources available within the section to determine the areas that can be reviewed in the year. The Section will usually review all High Risk areas and a selection of Medium Risk areas each year.

- 12.8 Meetings will be held with all members of Executive Management Team each year to obtain input on the identification of the Audit Universe and in the compilation of risk scores. In addition views on the timings of reviews will also be sought from the relevant member of Executive Management Team.
- 12.9 The Internal Audit Plan is presented to the Audit Committee for approval, usually in February each year.

### **13 Reporting Lines**

- 13.1 The Audit Manager reports to the Executive Director Resources & Support Services for line management purposes. However, alternative reporting lines are available to the Audit Manager where these are deemed necessary as set out in section 7.7.
- 13.2 The Audit Manager will report functionally to the Audit Committee in terms of the Internal Audit Plan and the reporting of the outcome of the work including the issuing of an annual report and opinion.
- 13.3 The Audit Manager will present the annual audit plan to members of Executive Management Team, the s151 Officer and the Audit Committee. This plan will be approved by the Audit Committee.
- 13.4 An annual report will be presented to the Audit Committee covering the work of the Internal Audit Section at the conclusion of the year. This report will also be a key source of assurance for the Council's Annual Governance Statement (AGS) and must be presented no later than the meeting at which the AGS is considered and approved.
- 13.5 The Audit Manager will monitor and report on the work of the team on a regular basis. Regular reports outlining progress against the Internal Audit Plan and summarising the assurances given for completed audits will be presented to the Audit Committee.
- 13.6 The Internal Audit Section will produce a written report for all assignments addressed to the Service Lead Officer (normally the relevant member of Executive Management Team).
- 13.7 The Audit Manager will be responsible for reviewing the implementation of recommendations. At the Audit Manager's discretion the failure to implement fundamental recommendations or a significant number of recommendations will be reported to the s151 Officer, Chief Executive or Executive Director, relevant Head of Service and the Audit Committee as appropriate.
- 13.8 The Audit Manager will report to the s151 Officer any serious weaknesses or significant fraud identified from the course of Internal Audit work or reported to Internal Audit. The matter may also be reported to the Chief Executive, relevant member of Executive Management Team, the External Auditors and the Audit Committee as appropriate.

### **14 Quality Assurance and Improvement Programme**

- 14.1 The Audit Manager will develop and maintain a Quality Assurance and Improvement Programme (QAIP) in accordance with PSIAS.
- 14.2 The QAIP will form the basis of the annual review of the system of internal audit as required by the Accounts & Audit Regulations 2015. For Internal Audit sections operating in Local Government proper practice is now deemed to be PSIAS plus the CIPFA Local Government Application Note (LGAN).
- 14.3 The QAIP will show conformance with PSIAS/LGAN requirements and will offer explanations where conformance with PSIAS/LGAN is not achieved. An action plan may be developed as a result of the QAIP to achieve or improve levels of conformance. The outcome of the review and any resulting action plan will be reported to the Audit Committee.
- 14.4 An independent external review of Internal Audit will be carried out as part of the QAIP at least once every five years. The Executive Director Resources & Support Services as s151 Officer will act as sponsor to agree the scope and nature of the external review with the Audit Manager and the external reviewer.
- 14.5 Where non-conformance with PSIAS/LGAN impacts on the overall scope or operation of Internal Audit activity the nature of the impact will be disclosed to the Audit Committee. Serious deviations from conformance need to be considered for inclusion in the Council's Annual Governance Statement.

## **15 Relationship With Elected Members**

- 15.1 The Executive Director Resources & Support Services and the Audit Manager will maintain a working relationship with the Chair and other members of the Audit Committee. Where necessary the Audit Manager will have direct access to the Chair of the Audit Committee.
- 15.2 Unless stated elsewhere, the Audit Committee will fulfil the roles and responsibilities of "The Board" for the purposes of the PSIAS.

## **16 Relationship with Senior Management**

- 16.1 The members of Executive Management Team will fulfil the role of "Senior Management" as defined in the PSIAS. The Audit Manager will work to maintain an on-going relationship with all members of the Executive Management Team.
- 16.2 A written report will be produced for each assignment and presented to the relevant member of the Executive Management Team. This report will:-
  - include an overall opinion on the adequacy of the internal control environment for the area under review;
  - identify any areas of weaknesses in the control environment and risks which have not been addressed;
  - make recommendations for the necessary improvements needed to address the weaknesses identified;
  - detail management's response and timescales for corrective action to be taken.

**17 Review of the Internal Audit Charter**

- 17.1 The Audit Manager will review the Audit Charter annually and any revision will be presented to the Executive Management Team and Audit Committee for approval.

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