



NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

Internal Audit Charter

<i>Title</i>	<i>Internal Audit Charter</i>
<i>Author</i>	<i>Clare Potts, Chief Internal Auditor, clare.potts@stoke.gov.uk</i>
<i>Date Created</i>	<i>28/02/2019 (Version 1.0)</i>
<i>Version</i>	<i>Version 1.0</i>
<i>Approval</i>	<i>Audit & Standards Committee</i>
<i>Description</i>	<i>A definition of Internal Audit's purpose, authority and responsibility</i>
<i>Subject Category</i>	<i>Management</i>
<i>Rights. Protective Marking</i>	<i>Official</i>
<i>Status</i>	<i>Draft</i>
<i>Review Date</i>	<i>01/03/2020</i>

1 Introduction

1.1 The Internal Audit Charter is a formal statement that defines the purpose, authority and responsibility of Internal Audit. The internal audit charter establishes Internal Audit's position within the organisation; authority, access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit to evaluate and report on the Authority's activities.

2. Statutory Role

2.1 The Accounts and Audit Regulations (England) 2015 states that:

"A relevant body shall maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control".

Newcastle-under-Lyme Borough Council (The Authority) is a relevant body.

2.2 Public Sector Internal Audit Standards, originally issued in April 2013 and updated in April 2017, are mandatory and apply to all public sector internal audit service providers, whether in-house, shared or outsourced and encompass the required elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework.

3. Mission of Internal Audit¹

3.1 The mission of the Authority's Internal Audit service is:

"To enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight."

4. Internal Audit Purpose

4.1 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.

4.2 In doing this Internal Audit supports the Authority in the effective delivery of services and will implement the following core principles of effective internal auditing¹:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.

¹ As prescribed by the Public Sector Internal Audit Standards

- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

4.3 Internal auditors in UK public sector organisations must conform to the Code of Ethics².

4.4 Internal Audit also assists the Audit & Standards Committee and the Executive Management Team to discharge their roles of accountability and stewardship.

5. Scope

5.1 Senior management and officers are responsible for putting in place proper arrangements in accordance with the relevant policies, regulations and best practice to secure the economy, efficiency and effectiveness of the Authority's resources; ensuring integrity, proper stewardship and governance.

5.2 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Authority's governance, risk management and internal processes as well as the quality of performance in carrying out assigned responsibilities to achieve the Authority's stated goals and objectives. This includes evaluating and providing assurance on:

- The reliability and integrity of information and the means used to identify, measure, classify and report such information.
- The systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on the Authority.
- The means of safeguarding assets and as appropriate, verifying the existence of such assets.
- The effectiveness and efficiency with which resources are employed.
- Operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- The governance processes.
- The effectiveness of the Authority's risk management processes.
- Specific operations at the request of the Audit & Standards Committee or senior management as appropriate.

5.3 In doing this Internal Audit will:

- Report periodically on its purpose, authority, responsibility and performance relative to its plan.
- Report significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Audit & Standards Committee or senior management.
- Perform consulting and advisory services³ related to governance, risk management and control as appropriate for the Authority.

² As prescribed by the Public Sector Internal Audit Standards

³ **Consulting Services:** Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training. [Public Sector Internal Audit Standards]

6. Authority

6.1 Internal Audit shall have authority to:

- Enter, at all reasonable times, any Council premises, property or land.
- Access all Council and partner records, information, correspondence and data, in whatever format or media, relating to the Council's activities.
- Access relevant third party records.
- Request and receive such explanations as they consider necessary concerning any matter under examination.
- Require any employee, Member or agent of the Council to produce or account for any cash, assets or other Council property under that person's control.

7. Independence & Objectivity

- 7.1 The Internal Audit service will remain free from interference by any element in the Council including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of a necessary independent and objective attitude of mind.
- 7.2 Internal Audit is positioned within Resources and Support Services and is the responsibility of the Chief Internal Auditor⁴. Internal Audit is accountable to the Executive Director (Resources & Support Services) as the Section 151 Officer and also has a direct reporting line to the Chief Executive.
- 7.3 The Chief Internal Auditor must also establish effective communication with, and have free and unfettered access to the Chief Executive, the Chair of the Audit & Standards Committee, the Monitoring Officer and the Senior Information Risk Officer.
- 7.4 Where the internal audit team has or is expected to have roles and responsibilities that fall outside of internal auditing; safeguards will be put in place to limit the potential impairments to independence and objectivity. These responsibilities will be regularly reviewed and agreed with the Executive Director (Resources & Support Services) as the Section 151 Officer and the Chief Executive.
- 7.5 Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly they will not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair their independent judgment.
- 7.6 Internal auditors must have an impartial, unbiased attitude and therefore every effort is made to preserve objectivity by ensuring that all internal auditors are free from any conflicts of interest⁵. All potential conflicts of interest are to be disclosed to enable any potential conflict of interest to be avoided.
- 7.7 The Chief Internal Auditor must confirm to the Audit & Standards Committee, at least annually, the organisational independence of the internal audit activity.

8. Competence

- 8.1 The Chief Internal Auditor must hold a professional qualification (CCAB, CMIIA or equivalent) and be suitably experienced.

⁴ Chief Internal Auditor role is currently undertaken by the Strategic Manager – Audit & Fraud at Stoke-on-Trent City Council

⁵ This will be recorded through a declaration

8.2 The recruitment processes for Internal Audit provide for the appointment of individuals with the appropriate skills, competencies and qualifications to meet the Standards, either individually or as a combined team. Where officers are members of professional bodies, they must comply with any Continuing Professional Development (CPD) requirements of their membership. On an annual basis each auditor has a Performance Appraisal Review which identifies whether any training needs are required to improve skills.

8.3 The Chief Internal Auditor will obtain competent advice and assistance from external providers where Internal Audit lacks the resources, knowledge, skills or other competencies needed to perform all or part of an engagement.

9. Quality Assurance

9.1 To ensure the quality of audits, a structured review procedure exists before the final report is issued. This provides the opportunity for examination of the report and working papers to ensure that the audit has been conducted to the required standards. In addition, progress is subject to regular review.

9.2 Internal Audit is subject to a continual quality assurance and improvement programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards and on-going performance monitoring, which forms an integral part of the day-to-day supervision.

9.3 An external assessment of Internal Audit is to be carried out at least once every five years by a suitably qualified, independent assessor. The scope of this external assessment is to be agreed by the Chief Internal Auditor and an appropriate sponsor e.g. Section 151 Officer, Chair of the Audit & Standards Committee, as well as with the external assessor. The last review was conducted in April 2017.

9.4 The results of quality and assurance programmes and processes against any improvement plans arising out of the internal and external assessments of Internal Audit will be reported to the Executive Director (Resources & Support Services) and the Audit & Standards Committee. A summary of these results will be included in the Annual Internal Audit Report presented to Audit & Standards Committee. Instances of non-conformance with the UK Public Sector Internal Audit Standards will be reported to the Audit & Standards Committee and considered for inclusion in the annual governance statement.

10. Planning

10.1 The internal audit service is delivered in accordance with a risk-based approach. Consideration is given to the Authority's organisational objectives and priorities, risk registers, local knowledge of the key financial systems, the fraud risks, known strengths and weaknesses within the internal control environment and the requirements of External Audit.

10.2 The plan details the number of person days available for the forthcoming year. As resources are finite, priority is given to those areas with the highest risk. The plan needs also to be flexible, balancing the need to ensure that it is completed to an acceptable level against the number of requests for unplanned work.

10.3 Both the level of audit coverage to be provided and the resources required will be presented to the Audit & Standards Committee for approval. Any proposed significant variations to the plan will also be reported to the Audit & Standards Committee for approval. Progress against the plan is to be reported to the Audit & Standards Committee on a quarterly basis. The overall objective of the plan is to provide an annual opinion on the Authority's control environment.

11. Audit Approach

- 11.1 To ensure a consistent approach to auditing, officers follow the principles laid down in the Audit Manual. This document is regularly reviewed and updated where appropriate.
- 11.2 The Chief Internal Auditor shall ensure that their nominated representatives maintain appropriate levels of integrity and confidentiality during the course of reviews and investigations with due regard to any legislation of laws or codes of conduct applicable at the time including Human Rights Act 1998, Data Protection Act 1998, Freedom of Information Act 2000, General Data Protection Regulations 2018 and The Nolan Committee's Seven Principles of Public Life.
- 11.3 For each planned audit, the auditor will discuss the assignment with the responsible officers to help identify the potential risks and key priorities of the system. Each auditor will look to make practical, risk based recommendations based on their findings and discuss these with management to ensure that agreed actions are formulated to improve a system's control environment, risk management, and its effectiveness and efficiency. This is documented in a standardised audit report.
- 11.4 Effective management of the delivery of the audit plan is essential to ensure that sufficient coverage is achieved. To achieve this consideration is given to the timing of specific audits and also to ensure that work is allocated to those staff with the appropriate skills and experience to complete the task.
- 11.5 All internal audit reports are confidential and as such will not be routinely published. A summary of all reports will be presented quarterly to the Audit & Standards Committee. Should requests for internal audit reports be made under the freedom of information legislation, the Chief Internal Auditor must be consulted before making the report available and where necessary, elements of the report will be redacted.

12. Fraud and Corruption

- 12.1 Managers are responsible for preventing and detecting fraud and corruption, managing associated risks through effective internal controls and investigating frauds.
- 12.2 Internal Audit will provide support for the Authority's Anti-Fraud & Anti-Corruption Framework and Corporate Fraud Investigator, and will investigate significant matters that are reported to it. Suspicions of fraud or corruption may be reported directly to Internal Audit through the Whistle-blowing policy.
- 12.3 Decisions to refer matters for prosecution or to the police will be taken by the Executive Director (Resources & Support Services) in consultation with relevant senior managers.

13. Related Documents

- 13.1 The following related documents apply:

- Public Sector Internal Audit Standards
- Constitution (Financial Regulations)
- Whistle-blowing Policy
- Officers Code of Conduct
- Records Management Policy
- Anti-Fraud and Anti-Corruption Framework

14. References

14.1 References to terms within the Public Sector Internal Audit Standards are as follows:

- The Chief Internal Auditor is the Chief Audit Executive.
- The Audit & Standards Committee is the Board.
- The Executive Management Team and those officers to whom responsibilities are delegated, are senior management.