

# Internal Audit Charter

2024



# Contents

1.	Introduction	1
2.	Mission and Core Principles of Internal Audit	1
3.	Purpose, Authority and Responsibility	2
4.	Scope of Internal Audit	3
5.	Stakeholder Roles and Audit Independence	7
6.	Audit Reporting	7
7.	Role of the Head of Internal Audit (CIA)	8
8.	Role of the Service Director - Finance (Section 151 Officer)	10
9.	Role of Corporate Leadership Team Members	10
10.	Responsibilities of the Audit & Standards Committee	10
11.	Relationship with External Audit	12
12.	Due Professional Care	12
13.	Quality Assurance	12
14.	Audit Processes	13
15.	Use of and the Processing of Data	13
	<b>Appendix A – Extract from Financial Regulations</b>	<b>14</b>
	<b>Appendix B – Audit Opinions</b>	<b>17</b>

*The Charter is a mandatory requirement of the UK Public Sector Internal Audit Standards (2017) and CIPFA's Local Government Application Note (2019). Also, this document considers the requirements of the CIPFA statement regarding the Role of the Head of Internal Audit in Public Sector Organisations (2019 Edition)*

## 1. Introduction

This charter defines for the internal audit activity of Newcastle Under Lyme Borough Council (the Council), its purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS). It also aims to confirm relationships with key stakeholders. It is subject to annual approval by the Board<sup>1</sup>.

Internal Audit has limited resources and therefore its workforce is deployed in accordance with the annual Audit Strategy having regard to relative risks and levels of assurance required, translated into an agreed annual Audit Plan and delivered through individual audit assignments. This is agreed by the Board each year.

The Audit Charter should be read in conjunction with the relevant sections of Financial Regulations of the Council (Appendix A refers).

## 2. Mission and Core Principles of Internal Audit

The mission of Internal Audit articulates what it aspires to accomplish within an organisation. The mission statement below is that included within the updated PSIAS issued in April 2017.

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

In addition, a set of core principles, detailed below, have also been developed which taken as a whole, articulate internal audit effectiveness. For an Internal Audit function to be considered effective, all principles should be present and operating effectively.

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

---

<sup>1</sup> The Audit & Standards Committee is referenced in the PSIAS as the Board.

### 3. Purpose, Authority and Responsibility

#### Purpose

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, controls and governance processes (*UK Public Sector Internal Audit Standards and CIPFA Local Government Application Note*).

#### Authority

The authority for the Internal Audit function is derived from legislation and the Council. The requirement for an Internal Audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs". The Accounts and Audit (England) Regulations 2015, specifically require that a relevant body 'must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. Proper internal audit practices for Local Government are defined as constituting adherence to the requirements of both the UK Public Sector Internal Audit Standards and CIPFA's Local Government Application Note. These requirements are mandatory; instances of non-conformance must be reported to the Board as part of the Chief Internal Auditor's (CIA's) annual outturn report. The Service Director - Finance (S151) has been delegated with this requirement by the Council.

#### Responsibility

The CIA is required to provide an annual opinion to the Council and to the Service Director – Finance (s151) through the Audit & Standards Committee, on the adequacy and effectiveness of the risk management, governance and control environment for the whole organisation and the extent it can be relied upon, in line with the Accounts and Audit (England) Regulations 2015. To achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources.
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.

- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.
- To provide advice and support to management to enable an effective control environment to be maintained.
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud.
- To investigate, in conjunction with the appropriate agencies when relevant, allegations of fraud, bribery and corruption.
- To evaluate whether the information technology governance of the Council supports its strategies and objectives.

#### 4. Scope

The Council's Internal Audit function is provided by Staffordshire County Council's in-house team supported by additional resources procured via an external support framework contract. The scope of the function includes the review of all activities (financial and operational) and the entire control environment of the Council. In addition to its Council internal audit work programme (the annual Audit Plan), the Internal Audit Section currently:

- Evaluate the reliability and integrity of information and the means used to identify, measure, classify, and report such information;
- Evaluate the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation;
- Evaluate the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluate the effectiveness and efficiency with which resources are employed;
- Evaluate 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;
- Evaluate the potential occurrence for fraud as part of the audit engagements;
- Monitor and evaluate governance processes;
- Monitor and evaluate the effectiveness of the organisation's risk management processes;

- Monitor the degree of coordination of Internal Audit and external audit;
- Perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation;
- Report periodically on the Internal Audit activity's purpose, authority, responsibility, and performance relative to its plan;
- Report significant risk exposures and control issues, including fraud risks, governance issues, and other matters to the Board;
- Evaluate specific operations at the request of management, as appropriate;
- Support management upon the design of controls at appropriate points in the development of major change programmes.
- provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract documentation.

Furthermore, the CIA has overall responsibility for providing assurance over the adequacy and effectiveness of the organisation's framework of governance and risk management and the work of Internal Audit feeds into the Annual Governance, where appropriate.

In accordance with the PSIAS, most individual audits are undertaken using the risk-based systems audit approach, the key elements of which are listed below:

- Identify and record the objectives, risks, controls and tests;
- Establish the extent to which the objectives of the system are consistent with corporate priorities and to link audit work programmes to the Council's priorities and principles of the Council, where relevant;
- Evaluate the controls in principle to decide whether they are appropriate and can be reasonably relied upon;
- Identify any instance of over/under control;
- Determine an appropriate strategy to test the effectiveness of controls;
- Arrive at a conclusion and produce a report leading to management actions and provide an opinion on the effectiveness of the control environment.

Where possible Internal Audit will seek to identify and place reliance on assurance work completed elsewhere within the Council's areas of responsibility as part of the planning process. In addition, Internal Audit will as part of the audit plan contribute to the development of an assurance framework for the Council.

Internal Audit may undertake consulting activities. The Institute of Internal Auditors (IIA) defines consulting as '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 responsibility'. See section 5 regarding Audit Independence.

Internal Audit does not undertake value for money studies routinely unless specifically requested.

The CIA cannot be expected to give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control and managing the risk of fraud, corruption and potential for bribery within their area of responsibility. They should ensure that appropriate and adequate control and risk management processes, accounting records, financial processes and governance arrangements exist without depending on internal audit activity to identify weaknesses.

### Fraud and Corruption Related Work

The role of the Chief Executive, Service Directors and Business Managers in relation to the reporting of all instances of potential and actual irregularity affecting the finances of the Council is documented in both the Anti-Fraud and Anti-Corruption Framework and Fraud Response Plan which is reviewed and approved annually.

The internal audit role and the counter fraud roles that internal auditors will be involved in, relating to fraud and corruption work are broken down into three divisions:

- Core internal audit roles that all internal auditors should include in their risk-based approach;
- Counter fraud roles that internal audit can undertake without compromising audit independence;
- Counter fraud roles where internal audit may provide consultancy or advisory services, with safeguards.

Core Internal Audit role - The primary role of Internal Audit is to provide assurance on counter fraud arrangements and fraud risks in accordance with the standards.

The Internal Audit Section as part of its activity will evaluate the potential for the occurrence of fraud and how the Council manages its fraud risk (standard 2120.A2). To enable this, the CIA will ensure that individual internal auditors have sufficient knowledge of fraud risks and fraud risk management practice (standard 1210.A2). Fraud risks that are covered within standard audit work programmes are identified within the Pentana Audit System. Controls within audit work programmes are also categorised as either preventative type controls or detective type controls.

Supporting counter fraud roles – The Internal Audit Section may also take on additional roles or undertake work as part of an advisory or consultancy role to support or promote the development of effective counter fraud practice in the Council. In these instances, the CIA will ensure that internal auditors have adequate proficiency to undertake the activity (standard 1210.A2). Any impairment to independence or objectivity will also be identified and managed prior to the work commencing (standard 1000).

The Internal Audit Section will carry out a thorough investigation of all potential and actual irregularities in accordance with the Section's Fraud Manual. For employee related frauds, the investigation is dealt with under the Council's Staff Disciplinary

Procedure and upon conclusion; the matter may be referred to the Police in accordance with Council Policy. It should be noted that if the offence committed is serious and/or high value, the matter may be referred to the Police prior to the disciplinary proceedings being concluded. In these instances, the Police will be made aware of the Council's on-going investigations. It is not the normal practice of Internal Audit to issue formal cautions to suspects under the Police and Criminal Evidence Act (P.A.C.E.) 1984.

The Counter Fraud Manager will consult the Section 151 Officer, Service Director, and the Service Director for Strategy, People and Performance to determine whether any matter should be referred to the Police for criminal investigation. This is in accordance with the Fraud Response Plan.

A Counter Fraud Plan is produced and reviewed on an annual basis. In addition to the investigation of potential irregularities, work is undertaken to promote an anti-fraud culture, which may include.

a) Creation of an Anti-Fraud Culture:

- Raising fraud awareness via anti-fraud communications and other communications in year;
- Promotion of the Fraud e-learning package.
- Adherence to the recommendations contained in the Fighting Fraud Locally Strategy and the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.
- Promotion of anti- fraud Campaigns to raise awareness in conjunction with the Staffordshire Counter Fraud Partnership.

b) Deterrence

- Publicise both local and national cases of proven fraud within the Council.

c) Prevention

- A programme of continuous controls monitoring (CCM) is carried out throughout the year to identify 'red flags' for further investigation using our data analysis and file interrogation solution, IDEA. Areas susceptible to fraud are monitored on an on-going basis. Areas where CCM is utilised include creditor payments, purchasing card transactions, mileage and expenses claims and casual hours claims and overtime.

d) Detection

- Participation in the Cabinet Office's national fraud initiative data matching exercise.

e) Investigation

- Hotline monitoring and intelligence gathering.
- Investigations of all areas of concern identified through routine audit, reported to management or via whistleblowing communication channels.



## 5. Stakeholder Roles and Audit Independence

The Audit & Standards Committee will fulfil the role of the Board for the Council. For this purpose, the Board is defined in the PSIAS/LGAN as ‘the highest level of governing body charged with the responsibility to direct and/or oversee the activities and hold senior management of the organisation accountable. Typically, this includes independent Directors. Board may refer to an audit committee to which the governing body has delegated certain functions.’

The CIA reports to the Service Director – Finance (S151). Section 151 matters are reported in all instances to the Service Director - Finance who reports to CLT for all Section 151 matters.

The extent of non-Council related audit work undertaken by the Section shall be limited to that defined within the Audit Strategy unless approved otherwise by the Service Director – Finance (S151).

Internal Audit is not responsible for the detailed development or implementation of new systems but may be consulted during the system development process on the control measures to be incorporated in new or amended systems. To maintain independence, the Auditor who was involved in the ‘consultancy style exercise’ will not take any further part in the audit process. Any significant ‘consultancy’ activity not already included in the annual Audit Plan which may impact on the ability to provide the required assurance opinion will be reported to the Audit & Standards Committee for approval. The nature and scope of this type of work includes facilitation, process and/or control design, training, advisory services and risk assessment support.

As a Condition of Service, all employees are expected to maintain conduct of the highest standard such that public confidence in their integrity is maintained. This includes declarations of interest, as appropriate (*organisational level*). Furthermore, all directly employed audit staff are required to make an annual declaration to ensure that Auditors objectivity is not impaired and that any potential conflicts of interest are appropriately managed in line with the requirements of the Code of Ethics within the PSIAS and the Nolan Committee’s Standards on the Seven Principles of Public Life (*individual auditor level*). In addition, all staff complete an audit declaration as part of each review which requires any conflicts of interest or impairments to be disclosed (*individual engagement level*).

All Internal Audit Contractor staff are also required to declare any potential conflicts of interest at the start of any assignment to the CIA.

## 6. Audit Reporting

Assurance is provided on the organisation’s risk management, governance and internal control processes to confirm that they are operating effectively. Audit assurance opinions are awarded on the completion of audit reviews reflecting the efficiency and effectiveness of the controls in place. Audit opinions are ranked either as; Substantial Assurance, Adequate Assurance or Limited Assurance. Recommendations made will be ranked as; High, Medium or Low depending upon the relative importance of the audit finding. The methodology used is attached at **Appendix B**.

Work undertaken by Internal Audit will normally be concluded by the production of a formal written report to the respective individuals detailed below, dependent on the nature of the review and the opinion category.

Distribution	High Risk Reviews (Substantial Assurance / Adequate Assurance)	High Risk Reviews (Limited Assurance)	Other Reviews (Limited Assurance)	Major Irregularity / Special Investigation – (loss > £10,000)	Other Reviews (Substantial Assurance / Adequate Assurance)
Operational Manager	●	●	●	●	●
Corporate Leadership Team	●	●	●	●	●
Relevant Cabinet Member	●	●	●	●	
Cabinet Member for Finance, Town Centres & Growth	●	●	●	●	
Audit & Standards Committee Members	●	●	●	●	

## 7. Role of the Head of Internal Audit (CIA)

The CIA must be a suitably professionally qualified individual who has the appropriate skills, knowledge, experience and resources to effectively perform in the role. They should also ensure that they take part in continuing professional development activities to remain up to date with developments within Internal Audit.

The CIA must establish an environment of trust, confidence and integrity in the work of the Internal Audit Section within the Council.

The CIA will have direct access to the Service Director - Finance, Monitoring Officer (Service Director – Legal & Governance), Head of Paid Service (Chief Executive), Audit & Standards Committee Chairman and Members as required.

The CIA will brief the Audit & Standards Committee Chairman regarding the content of Audit & Standards Committee agenda papers, including agreeing future agenda items and potential areas for training.

The CIA will contribute to the review of the Audit & Standards Committee effectiveness, advising the Chair of any suggested improvement.

The CIA is responsible for the overall development of the Audit Strategy and annual Internal Audit Plan, which demonstrates value for money to the organisation.

The UK Public Sector Internal Audit Standards require the CIA to report at the top of the organisation and this will be achieved by:

- The Internal Audit Strategy and Charter; including any amendments to them are reported to the Audit & Standards Committee annually for formal approval.

- The annual Internal Audit Plan is produced by the CIA taking account of the Council's risk framework and after input from Members of Corporate Leadership Team (CLT) and the Council's External Auditor. It is then presented to CLT and subsequently Audit & Standards Committee for endorsement prior to approval by the Service Director – Finance (S151).
- The adequacy, or otherwise of the level of internal audit resources (as determined by the CIA) and the independence of internal audit is reported annually to the Audit & Standards Committee. The approach to determining resources required is outlined in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk/control issues arising are reported to the Audit & Standards Committee.
- Annually to report the results of the quality assurance exercise to the Audit & Standards Committee.
- The CIA ensures that the requirements of the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note are met in full and adherence, together with any areas of non-conformance to these requirements reported as part of the annual review of the effectiveness of internal audit report to the Audit & Standards Committee. This will incorporate where the CIA has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be put in place to limit impairments to independence or objectivity.

The CIA should be consulted on all proposed major projects, programmes and policy initiatives. This is achieved through the linkage with the Senior Managers and forms a key part of the annual Audit Plan. Business as Usual change projects are evaluated as part of the annual risk assessment planning process to determine the annual Internal Audit Plan.

The CIA should be consulted on proposed changes to the following key policy documents:

- a. Financial Regulations
- b. Procurement Regulations
- c. Anti –Fraud and Anti-Corruption Framework
- d. Fraud Response Plan
- e. Whistleblowing policy
- f. Anti-Money Laundering Policy and Guidance
- g. Officers' Code of Conduct
- h. Risk Management Policy

Where partnership/ joint venture/ outsourced and shared service arrangements exist that require joint working with other organisations and their respective auditors, the CIA will produce a protocol outlining the respective roles and responsibilities of each partner, access to working papers, confidentiality and sharing of audit reports including reporting to Audit & Standards Committee (where appropriate).

In instances, where services are provided by third parties, the CIA must ensure that suitable clauses are included within Contract documentation to ensure that internal audit retains the right of access to documents/ personnel and systems as and when required.

## 8. Role of the Service Director - Finance (Section 151 Officer)

The Service Director - Finance has overall delegated responsibility from the Council for the Internal Audit function. Following consultation with the Corporate Leadership Team and the Audit & Standards Committee they will approve the annual Audit Plan.

The Service Director - Finance will ensure that they are periodically briefed by the CIA on the following:

- Overall progress against the annual Audit Plan;
- Those audit areas where a “Limited Assurance” opinion has been given;
- Progress on the implementation of all “high” level audit recommendations; and
- Progress on all fraud and irregularity investigations carried out by the Internal Audit Section.

Following on from the above, the Service Director - Finance will ensure that update reports are reported regularly to the Audit & Standards Committee, to include an annual outturn report.

## 9. Role of Corporate Leadership Team Members

For the purposes of the UK Public Sector Internal Audit Standards, the Council’s Corporate Leadership Team (CLT) performs the role of the ‘senior management’.

All Internal Audit reports referred to above will receive consideration by CLT prior to the formal distribution of the draft report. This includes any fraud and corruption related exercises.

To assist the discharge of those responsibilities defined at **Appendix A**, CLT Members may appoint a senior officer to act as the first point of contact between Internal Audit and their area of responsibility.

The CIA will present the annual Internal Audit Plan and Audit Strategy to CLT members for their consideration and endorsement. The annual outturn report, together with the overall opinion of the Organisation’s control environment will also be circulated to CLT, where appropriate.

CLT Members are also responsible for ensuring that staff within their areas participate fully in the audit planning process and actively enforce the implementation of agreed audit recommendations by the required date. The quality of these relationships impacts on the effective delivery of the internal audit service, its reputation and independence. Co-operative relationships with management can enhance Internal Audit’s ability to achieve its objectives.

## 10. Responsibilities of the Audit & Standards Committee

The Audit & Standards Committee is a key component of the Council’s governance framework. Their role is to operate as ‘those charged with governance’ and provide independent assurance on the adequacy of the risk management framework, the

internal control environment and the integrity of the financial reporting and annual governance processes. For the purposes of the UK Public Sector Internal Audit Standards, the Audit & Standards Committee performs the role of the 'Board'.

Following consideration, Members of the Audit & Standards Committee have determined that they wish to receive the following documents:

- The annual Audit Strategy & Plan;
- The Internal Audit Charter;
- The annual assessment of Internal Audit to ensure that it meets the requirements set out in the Accounts and Audit Regulations 2015 and UK Public Sector Internal Audit Standards;
- The results of the external assessment of Internal Audit which must be performed every 5 years.
- Regular updates on progress against High Level Recommendations;
- Periodic progress reports and the annual outturn report including results of anti-fraud and corruption work / special investigations;
- Copies of the Fraud-Watch Publication (as appropriate);
- A copy of the audit report for those reviews given an opinion of "Limited Assurance";
- A copy of the audit report for all major special investigations (i.e. those areas where the potential loss is greater than £10,000);
- A copy of the audit report/ briefing note for those reviews awarded the greatest risk score irrespective of opinion (The top risk areas within the Audit Plan).
- The Annual Governance Statement (AGS) prior to approval to consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
  - A copy of the audit report for those reviews relating to the governance and assurance arrangements for significant partnerships and/or collaborations.
  - A copy of the Council's Assurance Framework relating to key risk areas.

#### Note

Notwithstanding the above, all audit reports will be made available to members of the Audit & Standards Committee (either individually or collectively) upon request.

Members of the Audit & Standards Committee will agree key performance targets for the Internal Audit Section and ensure that they are reported upon as part of the annual outturn report and the review of the effectiveness of internal audit. Currently these are:

- Draft reports have been issued for at least 90% of the annual Audit Plan.
- Average score for quality questionnaires from auditees is equal to or exceeds the 'good' standard.

The Audit & Standards Committee will publish an annual report on its work including performance in relation to the terms of reference and effectiveness in meeting its purpose.

## **11. Relationship with External Audit**

Internal Audit will liaise with the external auditors of the Council to:

- Foster a co-operative and professional working relationship;
- Eliminate the incidence of duplication of effort;
- Ensure appropriate sharing of information; and
- Co-ordinate the overall audit effort.

## **12. Due Professional Care**

Since April 2013, the Internal Audit Section (including its external providers) has operated in accordance with the professional standards and practice statements included within the UK Public Sector Internal Audit Standards (Revised 2016 and 2017) and the CIPFA Local Government Application Note (Revised 2019). Instances of non-conformance with the standards must be reported to the Audit & Standards Committee.

To demonstrate that due care has been exercised, the internal auditor is expected to:

- Exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity;
- Apply confidentiality as required by law and best practice;
- Obtain and record sufficient audit evidence to support their findings and recommendations;
- Show that audit work has been performed competently and in a way that is consistent with applicable audit standards; and
- Consider the use of technology-based audit and other data analysis techniques.

## **13. Quality Assurance**

The CIA maintains a Quality Assurance and Improvement Programme to review all aspects of activity of the Internal Audit Section (including its external providers) to provide reasonable assurance that its work conforms with the relevant standards and to the requirements of this document. An external assessment will be undertaken at least once every five years by a suitably qualified, independent assessor as required by the Public Sector Internal Audit Standards. The timing, form of the assessment, qualifications of any external assessor, results and any resultant improvement plans will be agreed with and reported to the Audit & Standards Committee in the annual report. Significant deviations will be considered for inclusion in the Annual Governance Statement.

## 14. Audit Processes

An Audit Manual is maintained detailing the procedures to be followed at each stage of the audit process including instruction documents, guidance and videos guides for the operation of the Audit Management System, Pentana Audit. The content of the Manual will be reviewed regularly and will include details of the arrangements to be followed in the event of suspected irregularities. The CIA shall periodically ensure adherence to its content. CLT Members will be consulted on any significant changes to the Manual.

A Data Utilisation Strategy is in place which outlines a vision of how the Internal Audit Service will use available data sources and analytics to enhance efficiency, reduce key risks and facilitate the Council in effectively making best use of data sources available.

## 15. Use of and the Processing of Data

Internal Audit is entitled to conduct its duties in line with its Charter and will review, appraise and report on the governance risk management, internal control and counter fraud environment. The provision of internal audit services may involve the processing of personal data. In respect of this, new data protection legislation came into force from the 25<sup>th</sup> May 2018, which aims to protect the privacy of all UK and EU citizens and prevent data breaches.

The Internal Audit Service is aware of the requirements of the UK GDPR & Data Protection Act 2018 and ensures that it complies with the requirements contained within the Act.

The Internal Audit Service shall be provided in accordance with the contract between Staffordshire County Council (SCC) and Newcastle Under Lyme Borough Council (NuLBC) as specified within sections 11 to 13 of the signed and sealed contract.

NuLBC's core data protection obligations and commitments are set out in the Council's main privacy notice.

[Privacy notice – Newcastle-under-Lyme Borough Council \(newcastle-staffs.gov.uk\)](https://www.newcastle-staffs.gov.uk/your-council-and-democracy/Report-fraud-bribery-and-theft/Online-reporting-form.aspx)

Also, Internal Audit may collect data from the public directly via a fraud referral e-form. The information provided on this form is subject to the provisions of the UK GDPR & Data Protection Act 2018. It may be used for purposes relating to the investigation of crime or misuse of resources, including liaison with the police, and for the purpose of performing other statutory enforcement duties. Also, the Council may share information provided to it with other bodies for the purpose of prevention, or detection of crime. The privacy notice covering the collection of personal data via the fraud referral e-form can be found using the attached link.

<https://www.staffordshire.gov.uk/Your-council-and-democracy/Report-fraud-bribery-and-theft/Online-reporting-form.aspx>

**FINANCIAL REGULATION D4-D7 – RISK MANAGEMENT AND CONTROL OF RESOURCES**

**Internal Control, Audit Requirements & Preventing fraud and corruption**

**D4. Internal Controls**

D4.1 The Section 151 Officer and Service Director Legal and Governance are responsible for advising on effective systems of internal control. These arrangements need to ensure compliance with all applicable statutes, regulations, and other relevant statements of best practice. They should ensure that public funds are properly safeguarded and used economically, efficiently, and in accordance with the statutory and other authorities that govern their use.

D4.2 It is the responsibility of Service Directors to establish sound arrangements for planning, appraising, authorising and controlling their operations in order to achieve continuous improvement, economy, efficiency and effectiveness and for achieving their financial performance targets.

**D5. Internal Audit**

D5.1 The requirement for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”. The Accounts and Audit Regulations 2015 more specifically require that a “relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

D5.2 The Public Sector Internal Audit Standards (PSIAS) defines Internal Audit as “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”.

D5.3 This function can be delivered by a team internal to the council or it can be contracted out under the supervision of the Section 151 Officer.

D5.4 The Accounts and Audit Regulations 2015 require the council to review the effectiveness of its governance framework, including the system of internal control, on an annual basis and report the results in an Annual Governance Statement. This statement must provide a description of the governance framework within the council, a description of any work undertaken to assess its effectiveness and any significant governance weaknesses identified.

D5.5 To contribute to the production of the Annual Governance Statement, the Section 151 Officer is responsible for planning and delivering a programme of independent review of the council’s activities, the scope of the programme being based on the council’s



objectives and an assessment of the risk, which may affect the achievement of these objectives.

D5.6 The Section 151 Officer is also responsible for reporting to those charged with governance and can satisfy this requirement by presenting an annual report to the Audit and Standards Committee, summarising the audit plan for the coming year and a commentary on audit activity which is completed or in progress. Quarterly reports setting out progress against the annual audit plan and delivery against its key performance indicators are also taken to the Audit and Standards Committee. In addition, any matters of material importance in relation to audit matters are also reported to Cabinet and the Audit and Standards Committee.

D5.7 Audit staff will have full access to all premises, staff, assets, records and third party fund transactions as is necessary to conduct their reviews. With regards to organisations participating in partnering arrangements, including alternative delivery vehicles where provided for in the contract or service level agreement, audit staff shall have such access to premises, staff, assets and records of the partner as is necessary for the purposes of the partnering arrangement.

D5.8 Partners will be required to grant reasonable access when requested and details of such access should be agreed with the partner and set down in the partnering agreement. Where the right of access has not been specified in existing arrangements then appropriate discussions with partners should take place. Similar rights of access should be determined as part of the establishment of any alternative service delivery vehicles, and should be similarly agreed and documented in the contract or service level agreement.

## **D6. External Audit**

D6.1 The basic duties of the external auditor are governed by section 15 of the Local Government Finance Act 1982, as amended by section 5 of the Audit Commission Act 1998.

D6.2 The Local Audit and Accountability Act 2014 (the Act) established new arrangements for the audit and accountability of relevant authorities and these new arrangements include the ability for local authorities to appoint their own local (external) auditors via an 'auditor panel'. An auditor panel can be established individually or jointly with one or more other authority.

D6.3 The Council may, from time to time, also be subject to audit, inspection or investigation by external bodies such as HM Revenue and Customs, who have statutory rights of access.

## **D7. Preventing Fraud and Corruption**

D7.1 The Section 151 Officer is responsible for the development and maintenance of an Anti-Fraud and Corruption Strategy.

D7.2 The Council has an approved Anti-Fraud and Corruption Strategy that places responsibility for maintaining an anti-fraud culture with all Members, managers and individual members of staff. Any matters which involve, or are thought to involve,

any fraud or other significant irregularity involving council assets or those of a third party fund, must be notified immediately to the Section 151 Officer, in conjunction with other Officers detailed in the council's Anti-Fraud and Corruption Strategy, who will decide what steps are necessary.

D7.3 In line with the Anti-Fraud and Corruption Strategy, the Service Director Legal and Governance in his/her role as Monitoring Officer will, in consultation with the appropriate Service Directors, decide whether any matter under investigation should be referred to the Police or appropriate enforcement agency.

**AUDIT OPINIONS**

**Recommendation Risk Ratings**

At the conclusion of each audit, control weaknesses are rated based on their potential impact against the organisation, and likelihood of any associated risks occurring.

The scoring matrices below are used by Auditors as a guide to assessment of each control weakness, and therefore generating the priority rating of the resultant recommendation.

Priority ratings may subsequently be adjusted; for example, in a minor system with a total budget of £100,000, financial loss of £5,000 would be considered more a more significant risk to system objectives than the matrix below would initially suggest.

**Impact Ratings**

Risk Type	Marginal	Significant	Fundamental	Catastrophic
	1	2	3	4
Financial	Lack of VFM or overspend resulting in a financial loss below £10,000	Lack of VFM or overspend resulting in a financial loss between £10,000 and £100,000	Lack of VFM or overspend resulting in a financial loss between £100,000 and £0.5m	Lack of VFM or overspend resulting in a financial loss in excess of £0.5m
Reputation	Adverse publicity unlikely (e.g. Just can't demonstrate that probity has been observed.)	Needs careful public relations (e.g. Minor theft of property or income.)	Adverse local publicity (e.g. Minor fraud case.)	Adverse national publicity (e.g. Major fraud or corruption case.)
Legal/Regulatory	Breaches of local procedures / standards	Breaches of regulations / standards	Breaches of law punishable by fines only	Breaches of law punishable by imprisonment
Legal/Regulatory	Not an issue that would interest the External Auditors	An issue that may require further checks to satisfy the External Auditor that control is sufficient.	Would warrant mention in the Annual Audit Letter or Annual Governance Statement (AGS).	Could lead to qualification of Council's Statement of Accounts
Legal/Regulatory	Unlikely to cause complaint / litigation	High potential for complaint, litigation possible	Litigation to be expected	Litigation almost certain and difficult to defend
Performance	Doesn't materially affect a departmental performance indicator or service objective.	Has a material adverse affect on a departmental/corporate performance indicator or service objective.	Could adversely affect a number of departmental/corporate performance indicators or could seriously damage Departmental objectives / priorities.	Could call into question the Council's overall performance framework or seriously damage a Council objective / priority.
Service Delivery	Doesn't affect any identified objectives	Adversely affects a service objective	Seriously damage Departmental objective / priority	Seriously damage any Council objectives / priorities
Service Delivery	No significant disruption to service capability	Short term disruption to service capability	Short term loss of service capability	Medium term loss of service capability
Service Delivery	No more than 3 people involved	No more than 10 people involved	Up to 50 people involved	More than 50 people involved
Health & Safety	No injuries beyond "first aid" level	Medical treatment required - long term injury	Extensive, permanent injuries; long term sick	Death

**Likelihood ratings:**

Risk Score	Description	Example Detail Description
5	Very Likely	Likely to occur within a year / Over 80% Probability of Likelihood
4	Likely	Likely to occur within 1 to 3 Years / 60%- 80% Probability of Likelihood
3	Possible	Likely to occur within 3 to 5 Years / 40%-60% Probability of Likelihood
2	Unlikely	Likely to occur within 5 to 10 Years / 20%-40% Probability of Likelihood
1	Remote	Likely to occur greater than 10 Years / Less than 20% Probability of Likelihood

**Priority Ratings Matrix**

Catastrophic	I m p a c t	4	4	8	12	16	20
Fundamental		3	3	6	9	12	15
Significant		2	2	4	6	8	10
Marginal		1	1	2	3	4	5
			1	2	3	4	5
			<b>Likelihood</b>				
			Remote	Unlikely	Possible	Likely	Very Likely

Risk Score		Recommendation Rating
>=	<	
1	5	Minor Priority
6	10	Low Priority
10	13	Medium Priority
15	21	High Priority

**Internal Audit Assurance Ratings**

Each Internal Audit report completed provides a level of assurance of; Limited, Adequate or Substantial Assurance. The following table is a guide to how assurance levels are determined. Dependent on the nature of the recommendations raised, the auditor may increase or decrease the level of assurance provided. For example a single very significant control weakness may give rise to only one recommendation, but severely compromise the effectiveness of a system and therefore result in a limited assurance report, or on occasion an audit may give rise to recommendation numbers close to the thresholds shown below for two or more categories of recommendation.

Assurance Level	Typical Findings
<b>Limited</b>	Either: 2+ high priority recommendations, 8+ medium priority recommendations, or 13+ low priority recommendations
<b>Adequate</b>	Either: 1 high priority recommendation, 3-7 medium priority recommendations, or 7-12 low priority recommendations
<b>Substantial</b>	0 high priority recommendations, 0-2 medium priority recommendations, and 0-6 low priority recommendations