



Internal Audit Charter

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1. PURPOSE

The purpose of the Internal Audit Charter is to define the Internal Audit function's remit, scope and authority.

2. SCOPE

The scope of the Internal Audit function activities and related assurance applies to the Company (NI Water Ltd) and all of its subsidiaries, i.e. the 'Group'.

3. MISSION

Internal Audit's mission is *'to assist the Group to achieve its strategies / objectives by providing expert professional independent assurance whilst helping to make the business better'*.

This is consistent with the Public Sector Internal Audit Standards (PSIAS) definition of Internal Auditing:

'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. OBJECTIVES

The Internal Audit function has two clear objectives:

- To provide independent assurance to both the Audit Committee and Management on the adequacy and effectiveness of the governance, risk management and control arrangements in place to achieve the strategic and business objectives, including:
 - Internal controls;
 - The effectiveness of operations;
 - The economical and efficient use of resources;
 - Compliance with applicable policies, procedures, laws and regulations, and contracts;
 - Safeguards against losses, including those arising from fraud, irregularity or corruption;
 - Risk management; and
 - The integrity and reliability of information and data.
- To work in partnership with the business to provide challenge, advice and support in improving business process and control. To this end, each Internal Audit assignment aims to contribute to the improvement of

governance, risk management and control processes. Internal Audit may also provide consultancy services as part of its routine activities and/or in response to requests by management in order to improve governance, risk management and control. The nature of these services could include:

- Formal consulting engagements planned and subject to written agreement;
- Informal consulting engagements for routine activities such as participation on limited-life projects, ad-hoc meetings and information exchange;
- Special consulting engagements such as participation on a project team to introduce new systems or processes; and
- Emergency consulting engagements such as participation on a team established for recovery or maintenance of operations after a disaster or extraordinary business event.

Before undertaking any Consultancy work, the Head of Internal Audit will assess whether Internal Audit has the appropriate resource, in terms of both capacity and capability, and that the proposed work represents an opportunity for Internal Audit to add value.

The Audit Committee will be informed of any significant consulting assignments not already included in the audit plan, with updates included as part of Internal Audit Progress reports.. Any evidence gathered in the course of consultancy provision will contribute to the Head of Internal Audit's annual assurance opinion.

5. NATURE AND SCOPE OF ASSURANCES

The Internal Audit Strategy sets out the planned programme of internal audit activity over a three-year rolling period and is updated and agreed by the Audit Committee prior to the start of each financial year. This is designed to provide reasonable, but not absolute assurance that the systems of internal control, governance and risk management are adequate to contain risks within acceptable limits. The plan may be flexed during the year, to take account of new/emerging risks, following Audit Committee approval.

Reporting for each completed assurance assignment includes an assurance opinion over the adequacy and effectiveness of the system of governance, risk management and control for the assignment scope areas reviewed.

An annual assurance opinion is provided on the overall adequacy and effectiveness of the Group's framework of governance, risk management and control. This is based on audit findings from the current year assurance work programme, advisory activity, progress in addressing prior year audit recommendations and our assessment of the corporate governance and risk management frameworks.

In line with the Centre of Procurement Excellence (CoPE) accreditation model agreed by the Central Procurement Directorate's Procurement Board in 2012, the Head of Internal Audit is also required to provide an annual Internal Audit

opinion on the CoPE, based on Internal Audit's annual coverage of the Group's procurement and contract management activity.

6. RELATIONSHIP WITH OTHER ASSURANCE PROVIDERS

In setting and delivering the assurance programme, Internal Audit will:

- Liaise with the Group's external auditors to ensure that there is effective co-ordination of work, ensuring that they can place reliance on work completed by Internal Audit as relevant; and
- Take into consideration the work of second line of defence compliance functions and other assurance providers, assessing whether sufficient reliance can be placed on the work and co-ordinating work as appropriate.

7. ROLE IN FRAUD RELATED / INVESTIGATION WORK

In accordance with the Fraud Policy and Response Plan, the Head of Internal Audit will be informed of all suspected / actual frauds or whistle-blowing reports by the Corporate Governance team via the Initial Confidential Enquiry (ICE) reporting. (Central responsibility for reporting and co-ordination of fraud / suspected fraud / whistle-blowing incidences resides with the Head of Corporate Governance.)

The Head of Internal Audit may provide advice, as appropriate, to those charged with undertaking related investigations. Depending on the nature of the case, the Head of Internal Audit may be appointed by the Director of Finance & Regulation to lead the investigation, or to provide specific support to investigations.

Where control improvement related recommendations / actions arise from fraud / suspected fraud / whistle-blowing reports, independent follow up on implementation may be performed by Internal Audit for confirmation to Audit Committee.

8. INDEPENDENCE AND AUTHORITY

Internal Audit is independent of the activities which it audits to ensure unbiased judgement, essential to its independent assurance remit. The independence is strengthened with the Head of Internal Audit's reporting lines as follows:

- Direct reporting line to the Chief Executive for administrative purposes;
- Direct reporting to the Chair of the Audit Committee in respect of the scope and remit of internal audit activity, assessment of adequacy of resources, appraisal of function effectiveness and ongoing assessment of independence;

- The Head of Internal Audit will have unrestricted access to, and communicate and interact directly with the Audit Committee, including in private meetings without management present; and
- Right of access to the Chair of the Board, where issues cannot first be satisfactorily resolved with the Chief Executive and Chair of the Audit Committee.

Both the Chief Executive and the Chair of the Audit Committee will have a role in the Head of Internal Audit's annual performance appraisal.

To avoid conflicts of interest, Internal Audit does not have any executive management responsibilities and is not part of the direct control framework. If Internal Audit undertakes non-audit activities, such as sitting on Project Boards, this is in an advisory / consulting capacity and Internal Audit does not have any decision making authority.

The Head of Internal audit will confirm to the Audit committee, at least annually, the organisational independence of the internal audit department/activity.

In the event that the Head of Internal Audit considers that independence or objectivity of internal audit activity has been impaired / could be perceived to be impaired, they will immediately notify the Chief Executive and Audit Committee Chair and agree any remedial action required.

The appointment or dismissal of the Head of Internal Audit requires the prior approval of the Audit Committee.

The Audit Committee authorises internal audit to have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.

There are no restrictions placed on the scope of Internal Audit's work. Internal Audit has sufficient authority to allow access as such to assets, records and personnel as necessary for the proper fulfillment of its duties.

The Head of Internal Audit will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

9. PLANNING AND REPORTING

Internal Audit will provide regular progress reports to the Chief Executive and Audit Committee. Key reporting covers, but is not limited to the following:

- a) Submission to the Audit Committee for approval of the Internal Audit Strategy and Annual Plan, setting out the scope of its work for the period.
- b) Reporting to appropriate line management, the Chief Executive, members of the Executive as appropriate and the Audit Committee on the findings of Internal Audit's work with agreed management responses and action dates. On an exception basis, this will also highlight any

responses that Internal Audit view as insufficient to address the risk within the defined risk appetite.

- c) Internal Audit summary progress reports to each Audit Committee meeting, setting out any significant control issues arising in the period, progress in closure of previous audit recommendations and progress in completion of agreed annual audit plan. This also includes any updates on resourcing requirements / developments.
- d) An independent annual assurance opinion over the adequacy and effectiveness of governance, risk management and control from the Head of Internal Audit, based on the audit work completed in the year to the Audit Committee, Chief Executive. A separate opinion is also provided over the Centre of Procurement Expertise (CoPE), based on Internal Audit's annual coverage of the Group's procurement activity and processes.
- e) Periodic reporting to the Audit Committee on the status of the Internal Audit quality assurance and improvement programme (see section 12), including an annual self-assessment on the function's performance and an independent external quality assessment at least once every five years.

The Shareholder (Dfl) will receive copies of the Internal Audit Strategy and Annual Plan, final audit reports, progress reports to the Audit Committee, and the Annual Opinion.

10. RESPONSIBILITIES

The Head of Internal Audit must be either MIIA or CCAB qualified and has the responsibility to:

- Submit, at least annually, to Executive Management and the Audit committee a risk-based internal audit plan for review and approval. This is developed using a risk-based methodology, and also considers the Group's strategic objectives and Internal Audit practice emerging trends / latest guidance.
- Communicate to Executive Management and the Audit Committee the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in NI Water's business, risks, operations, programmes, systems and controls.
- Communicate to senior management and the Audit Committee any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented.

- Provide an annual independent assurance opinion in relation to the control, governance and risk management environment.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit department collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter. This includes ensuring that the necessary external expertise is secured from the Internal Audit Resourcing contract, as appropriate.
- Ensure trends and emerging issues that could impact the Group are considered and communicated to senior management and the Audit Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit department/activity.
- Ensure adherence to Group relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and Audit Committee.

Management is responsible for:

- a) Designing, implementing, operating and maintaining effective controls;
- b) Facilitating any access for Internal Audit to personnel, records or assets to enable it to perform its duties;
- c) Providing management responses to all audit reports issued within 10 working days (unless otherwise agreed due to exceptional circumstances); and
- d) Implementation of agreed management actions in accordance with the requirements set out in the 'Response to Internal Audit Recommendations Policy'.

11. STANDARDS

Internal Audit will perform its duties in accordance with the Public Sector Internal Audit Standards (PSIAS), consistent with the IIA International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing
- Code of Ethics ; and
- International Standards for the Professional Practice of Internal Auditing.

12. QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

In accordance with PSIAS, the Head of Internal Audit must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity and is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme must also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

Annually, the Head of Internal Audit will report on Quality Assurance and Improvement Programme activity to the Audit Committee; this incorporates:

- Feedback from audit assignment satisfaction surveys;
- Results from survey of Executive and Non-Executive Directors (bi-annually);
- Performance against Audit Delivery KPIs and Value Charter;
- Self-assessment of performance against HM Treasury's Internal Audit Quality Assessment Framework (IAQAF) and conformance with PSIAS; and
- An independent External Quality Assessment (once every five years).

13. ENQUIRIES

Enquiries about this policy should be addressed to Nicola Brennan, Head of Internal Audit:

Tel: 028 9035 7472 / 07815704302

Email: nicola.brennan@niwater.com

For further information visit the Internal Audit homepage on Source at: <http://intranet.water.nigov.net/internalaudit.aspx>

14. REVIEW OF THIS POLICY

This policy will be reviewed at least once every 2 years.