

Internal Audit Charter

1. **INTRODUCTION**

- 1.1 This Charter defines Internal Audit's role within the County Council. The Charter complies with the Public Sector Internal Audit Standards, the Accounts and Audit Regulations 2011, and the County Council's Financial Regulations. This Charter has been approved by Nottinghamshire County Council's Audit Committee, acting as the 'Board' in respect of Internal Audit.

2. **PURPOSE, AUTHORITY AND RESPONSIBILITY**

- 2.1 The purpose of Internal Audit is to provide 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.
- 2.2 It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

In particular it:

- (a) carries out a risk based review and evaluation of the County's financial and other systems and procedures
 - (b) provides management and Members with advice and assurance to assist them in the effective discharge of their responsibilities
 - (c) plans audit work having regard to the Authority's Corporate plans.
- 2.3 Internal Audit derives its authority from the Accounts and Audit Regulations 2011, this Charter and Nottinghamshire County Council's Constitution. The Financial Regulations, which are part of the Constitution, set out that:-

The Section 151 Officer is responsible for arranging the continuous independent internal audit of the Council. The Internal Audit Service will be provided in accordance with the Internal Audit Charter and the Public Sector Internal Audit Standards.

Internal Audit focuses on the Authority's control environment and independently appraises the internal controls present in financial and other systems. The arrangements made by Corporate Directors for securing

economic, efficient and effective use of resources are also reviewed. Internal Audit reports are produced containing recommendations which should be responded to formally in writing. The results of Internal Audit work contribute to the Authority's Annual Governance Statement.

Internal Audit staff have the right of access to such records, assets, premises and personnel, and are entitled to receive such information and explanation, as they think necessary for the proper fulfilment of their duties.

If an irregularity occurs or is suspected, which may involve financial loss, it must be reported immediately to the Section 151 Officer who may investigate and report to the Monitoring Officer and the relevant Corporate Director. The Section 151 Officer and the Monitoring Officer will jointly determine what further action to take, in consultation with the Corporate Director.

The Internal Audit Service reports on relevant audit issues on a regular basis to the Authority's Audit Committee. Frequent liaison also occurs between Internal Audit and the Authority's External Auditors who rely upon the work of Internal Audit when forming their opinion on the Authority's key financial and other systems.

- 2.4 The role of the 'board' is fulfilled by the Audit Committee.
- 2.5 The role of senior management is fulfilled by the Corporate Leadership Team, comprising the Chief Executive and Corporate Directors of the Authority.
- 2.6 The role of the chief audit executive is fulfilled by the Group Manager – Audit and s/he is responsible for meeting the requirements of the Internal Audit Charter and complying with the Public Sector Internal Audit Standards. The Group Manager – Audit reports directly to the Section 151 officer, but also has responsibilities to senior management and the Audit Committee.
- 2.7 The resourcing of Internal Audit is under continuous review by the Section 151 Officer and the Group Manager – Audit. The resource requirements are brought into sharp focus during discussions and agreement on the Internal Audit Strategy and Annual Plan. Further details are set out in Section 6.
- 2.8 In addition, the Section undertakes internal consultancy work, carries out suspected irregularity investigations and provides an audit service, on a contract basis, to specific external clients.
- 2.9 In carrying out consultancy work, the Internal Audit role is to assist management in the achievement of the Authority's objectives. The work involved may cover facilitation, process design, training, advisory services and investigatory work. For most assignments, specific terms of reference will be drawn up to define the scope and limits of the work involved. In

overall terms, in order to ensure it can deliver its assurance work, Internal Audit aims to limit its consultancy and irregularity work to approximately 10% of its available resource.

3. INDEPENDENCE AND OBJECTIVITY

- 3.1 The Internal Audit Section is organised so that it is independent of the activities that it audits. Because of this, the Section can provide impartial and unbiased professional opinions and recommendations. Internal Audit is free to plan, undertake and report on its work, as the Group Manager - Audit deems appropriate.
- 3.2 The status of the Group Manager - Audit is sufficient to allow the effective discussion of audit strategies, plans, results and improvement plans with Senior Management in the organisation.
- 3.3 Internal Audit is accountable to the Section 151 Officer and the Authority's Audit Committee, both being involved in determining its priorities. It reviews the resources available to it on a regular basis to ensure that it has sufficient resources to fulfil its responsibilities, reporting the results of the review to the Audit Committee, as part of its annual planning process.
- 3.4 The Group Manager - Audit meets on a regular basis with the Authority's Section 151 Officer and the Authority's Monitoring Officer as the key officers with statutory responsibilities in relation to the internal control environment.
- 3.5 The Group Manager – Audit is required to confirm annually the organisational independence of the internal audit activity.
- 3.6 Individual internal auditors are also required to have an impartial, unbiased attitude and avoid any conflict of interest. To meet this requirement, each auditor is required to declare any interests they have that could have an impact on their audit work, and confirms that they have read the Authority's Code of Conduct for employees. The Group Manager – Audit will not assign work to an auditor where a conflict of interest may arise. If independence or objectivity is impaired, either in fact or appearance, the details of the impairment must be disclosed to the relevant parties.

4. PROFICIENCY AND DUE PROFESSIONAL CARE

- 4.1 Internal Audit operates in accordance with the Public Sector Internal Audit Standards. Compliance with the Standards is reviewed annually by the Group Manager - Audit.
- 4.2 A thorough recruitment process, in accordance with the Authority's procedures, applies to the appointment of Audit staff to ensure the Section has the appropriate professional skills and experience to fulfil its

objectives. The Group Manager - Audit is appointed by the Section 151 Officer and must be a qualified accountant with at least 5 years audit and managerial experience. Similarly, the Audit Team Managers should be qualified accountants with at least 3 years audit and managerial experience. The qualifications and skills required for all posts are detailed in job descriptions and person specifications maintained by the Group Manager - Audit.

- 4.3 Internal Auditors have an annual review of their performance and development needs. They are provided with the appropriate training to fulfil their responsibilities and maintain their professional development and competence.

5. **QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

- 5.1 The Group Manager - Audit reviews the work of the Section on an annual basis to provide assurance that it conforms with the relevant standards and requirements of the Internal Audit Charter.
- 5.2 The Internal Audit Section takes the following actions to provide a professional service:

- Adopts a flexible risk driven approach
 - Works in partnership with managers and staff to develop and maintain adequate and reliable systems of internal control
 - Continually seeks to improve the effectiveness and efficiency of its services in consultation with managers from across the Authority
 - Maintains an effective Audit Manual and regularly reviews its procedures to ensure they remain appropriate
 - Monitors and reports on specific performance indicators and targets.

- 5.3 The Public Sector Internal Audit Standards require that an external assessment of Internal Audit be conducted at least once every five years by a qualified, independent assessor from outside the organisation. The Group Manager – Audit will raise this periodically with the Audit Committee to determine the form of external assessment, the required qualifications and independence of the assessor and the frequency of the assessment.
- 5.4 Arising from the internal review, external assessments and the annual review of Internal Auditors’ performance and development, the Group Manager – Audit will, in discussion with senior management and the Audit Committee, develop an Improvement Programme.
- 5.5 Where non-conformance to the Public Sector Internal Audit Standards impacts on the overall scope or operation of the internal audit activity, the Group Manager – Audit must disclose the non-conformance to Senior Management and the Audit Committee.

6. **MANAGEMENT OF INTERNAL AUDIT ACTIVITY**

- 6.1 Internal Audit work is planned at all levels of operation in order to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources in meeting the Internal Audit Charter.
- 6.2 The Group Manager - Audit produces an Internal Audit Strategy consisting of a three year plan and an annual plan. The plans are developed in consultation with the Corporate Directors, Section 151 Officer and Senior Managers. The Strategy details how the assurance for the opinion on the overall adequacy and effectiveness of the organisation's control environment will be demonstrated.
- 6.3 The Internal Audit plans are subject to annual revision and approval by the Section 151 Officer for reporting to the Audit Committee. These plans include an element of contingency to allow Internal Audit to be responsive to changes in conditions and to requests for assistance from managers. They also take account of the Authority's risk management process with the aim of identifying and evaluating any residual risks, not covered by appropriate control mechanisms, that need to be included in the Internal Audit Plan. The Plan process also involves assessing, through ongoing liaison with management and External Audit, any new developments or significant changes in the Authority's responsibilities.
- 6.4 Objectives are prepared for each routine Internal Audit assignment and are normally discussed with relevant line managers before the work is started. Internal Audit will usually give reasonable notice to the relevant manager of the start of an audit and will minimise any disruption to the smooth running of the area under review. However, Internal Audit reserves the right to make unannounced visits where the Group Manager - Audit considers it necessary.
- 6.5 The Section adopts a structured approach to all its work including the use of a risk based systematic approach, where appropriate, for opinion audits.

7. AUDIT COMMITTEE RESPONSIBILITIES

- 7.1 Internal Audit has a responsibility to report to the Authority's Audit Committee. The Committee is chaired by a member of the opposition party and consists of nine members. The Committee meets four times a year and has clear terms of reference. It reviews both Internal and External Audit work throughout the Authority and contributes to the organisation's overall process for ensuring that the Authority has good governance.
- 7.2 The Committee reviews and comments upon:
 - (a) Internal Audit Charter
 - (b) Internal Audit's Annual Report, (including the opinion of the Authority's control environment)
 - (c) Internal Audit's Strategy, Annual Plan and Progress against the Plan (including key findings and recommendations)

- (d) External Audit's Annual Audit Letter and Annual Plan
- (e) Reports on the implementation of Internal Audit recommendations
- (f) Reports on relevant Audit Commission and other public sector publications concerning general audit developments
- (g) Any significant audit issues that may arise within the Authority.

7.3 The Group Manager - Audit attends every meeting and presents Internal Audit reports to the Committee.

8. **SUSPECTED IRREGULARITY INVESTIGATIONS**

8.1 In accordance with the Authority's Financial Regulations, Internal Auditors carry out investigations into suspected financial irregularities. All managers have an obligation to maintain an effective internal control system within their areas of work, and this includes a responsibility for the prevention and detection of fraud, corruption and other irregularities as well as managing the risks of fraud or corruption.

8.2 However, Internal Auditors when conducting audit assignments are alert to circumstances, such as control weaknesses, that could allow fraud. If any evidence of fraud or other irregularity is discovered the relevant line manager is informed.

8.3 Managers are required to inform Internal Audit immediately if a fraud or other irregularity is suspected. In such cases, they should ensure that:

Any supporting information or other evidence is secured
Confidentiality is maintained so as not to prejudice any subsequent investigation.

8.4 Internal Audit will consider each suspected fraud or irregularity and determine whether to investigate it itself or to resolve it by another means, for example, referral to the Police, as appropriate. An established link exists with the Police which allows both formal and informal liaison on any suspected irregularity issues. Formal referral occurs after consultation with Legal Services and relevant Managers. It is the responsibility of the relevant line manager to determine what action to take as a result of the investigation.

8.5 The Group Manager - Audit may carry out other special investigations at the request of the Section 151 Officer or other Senior Managers.

9. **INTERNAL AUDIT REPORTING**

9.1 Internal Audit reports its findings to appropriate managers, who have a responsibility to respond promptly to the reports' recommendations. Recommendations are risk ranked and reports contain an audit opinion on the area reviewed. There are four separate audit opinions, namely sound, satisfactory, unsatisfactory and unsound. If an opinion is unsatisfactory or

unsound, a follow-up audit is carried out six months later to ensure that the recommendations have been implemented.

- 9.2 Where the opinion is sound or satisfactory, the Internal Audit Section reviews the implementation of agreed recommendations the next time the area is audited. In the case of unsatisfactory and unsound opinions, if the recommendations have still not been implemented when the follow-up audit is carried out, then this is reported to the Audit Committee who raise the issue with the relevant Managers concerned.
- 9.3 Audit reports are circulated to the relevant Committee Chairmen and Opposition Members so that they are aware of audit findings in their areas of portfolio responsibility. Members can raise queries on reports as appropriate by contacting the Group Manager - Audit or Audit Team Managers direct on issues which concern them. This direct access by Members to Internal Audit applies in any situation where Members wish to raise any issues of concern with Internal Audit.

10. **COORDINATION OF AUDIT ASSURANCE**

- 10.1 The Group Manager – Audit co-ordinates Internal Audit Plans and activities with other internal and external providers of assurance, including the External Auditors, to ensure the most efficient use of the total resources devoted to audit work. Regular liaison meetings take place during the course of the year as appropriate.
- 10.2 Internal Auditors foster constructive relationships with Members, the Managers and others involved in the areas being audited, and also with other review and specialist agencies that it may encounter as part of its work.
- 10.3 Liaison with Managers takes place at key stages of the audit process namely planning, undertaking, reporting and responding to, audits. The guiding principle adopted throughout is one of assistance in the achievement of the Authority's objectives.