



Nottinghamshire County Council

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 2014 2015, and the County Council's Financial Regulations. This Charter has been approved by Nottinghamshire County Council's Governance & Ethics Committee, acting as the 'Board' in respect of Internal Audit.

2 **MISSION OF INTERNAL AUDIT**

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

3 **CORE PRINCIPLES**

- 3.1 The Internal Audit Section strives for compliance with the following 10 core principles for the professional practice of internal auditing, as set out in the Public Sector Internal Audit Standards:
- 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.

4 **PURPOSE, AUTHORITY AND RESPONSIBILITY**

- 4.1 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.

- 4.2 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.
- 4.3 Internal Audit derives its authority from the Accounts and Audit Regulations 2011, from this Charter and from 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.'

- 4.4 The role of the 'board' is fulfilled by the Governance & Ethics Committee.
- 4.5 The role of senior management is fulfilled by the Corporate Leadership Team, comprising the Chief Executive and Corporate Directors of the Authority.

- 4.6 The role of the chief audit executive is fulfilled by the Head of Internal 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 Head of Internal Audit reports directly to the Section 151 officer, but also has ~~responsibilities to senior management and the Governance & Ethics Committee. unrestricted access to senior management and members, particularly the Leader of the Council, the Chair of the Governance and Ethics Committee, the Chief Executive, Corporate Directors and Service Directors. Furthermore, the Head of Internal Audit maintains segregation from operations and reports in his/her own name.~~
- 4.7 The resourcing of Internal Audit is under continuous review by the Section 151 Officer and the Head of Internal 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 8.
- 4.8 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. The nature and extent of work for external clients is kept under review to ensure: a) it does not impinge on the audit work carried out for the Council, and; b) there is no conflict of interest or impairment of independence arising from this work.
- 4.9 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.

5 INDEPENDENCE AND OBJECTIVITY

- 5.1 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 Head of Internal Audit deems appropriate.
- 5.2 The status of the Head of Internal Audit is sufficient to allow the effective discussion of audit strategies, plans, results and improvement plans with senior management in the organisation.
- 5.3 Internal Audit is accountable to the Section 151 Officer and the Authority's Governance & Ethics 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 Governance & Ethics Committee, as part of its annual planning process.

- 5.4 The Head of Internal Audit meets quarterly with the Authority's three statutory officers: the Chief Executive, the Section 151 Officer and the Monitoring Officer. Key issues concerning the governance of the Authority are discussed and the Annual Governance Statement is kept under ongoing review.
- 5.5 The Head of Internal Audit is required to confirm annually the organisational independence of the internal audit activity. The Head of Internal Audit has the right to direct and unrestricted access to senior management and the Board.
- 5.6 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 to confirm they have read the Authority's Code of Conduct for employees. The Head of Internal 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.
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| 5.7 | Internal Auditors also have due regard to the Seven Principles of Public Life (the Nolan Principles) – Selflessness; Integrity, Objectivity; Accountability; Openness; Honesty; and Leadership. |
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6 PROFICIENCY AND DUE PROFESSIONAL CARE

- 6.1 Internal Audit operates in accordance with the Public Sector Internal Audit Standards. Compliance with the Standards is reviewed annually by the Head of Internal Audit.
- 6.2 A thorough recruitment process, in accordance with the Authority's procedures, applies to the appointment of Internal Audit staff to ensure the Section has the appropriate professional skills and experience to fulfil its objectives. The Head of Internal 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 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 Head of Internal Audit.
- 6.3 Internal Auditors have an annual review of their performance and development needs. They are provided with the appropriate training to fulfil their responsibilities and to maintain their professional development and competence.

7 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

- 7.1 The Head of Internal Audit reviews the work of the Section on an annual basis to provide assurance that it conforms to the relevant standards and requirements of the Internal Audit Charter.
- 7.2 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.
- 7.3 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 Head of Internal Audit will raise this periodically with the Governance & Ethics Committee to determine the form of external assessment, the required qualifications and independence of the assessor and the frequency of the assessment.
- 7.4 Arising from the internal review, external assessments and the annual review of Internal Auditors' performance and development, the Head of Internal Audit will, in discussion with senior management and the Governance & Ethics Committee, develop an Improvement Programme.
- 7.5 Where non-conformance to the Public Sector Internal Audit Standards impacts on the overall scope or operation of the internal audit activity, the Head of Internal Audit must disclose the non-conformance to senior management and the Governance & Ethics Committee.

8 **MANAGEMENT OF INTERNAL AUDIT ACTIVITY**

- 8.1 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.
- 8.2 The Head of Internal 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.
- 8.3 The Internal Audit plans are subject to annual revision and approval by the Section 151 Officer for reporting to the Governance & Ethics 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, which 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.
- 8.4 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 Head of Internal Audit considers it necessary.

- 8.5 The Section adopts a structured approach to all its work including the use of a risk-based, systematic approach, where appropriate, for opinion audits.

9 **GOVERNANCE & ETHICS COMMITTEE RESPONSIBILITIES**

- 9.1 Internal Audit has a responsibility to report to the Authority's Governance & Ethics Committee. The Committee is chaired by a member of the majority party and consists of 11 members. The Committee meets on a six-weekly basis 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.

- 9.2 The Committee reviews and comments upon:
- Internal Audit Charter
 - Internal Audit's Annual Report (including the opinion of the Authority's control environment)
 - Internal Audit's Strategy, Annual Plan and Progress against the Plan (including key findings and recommendations)
 - External Audit's Annual Audit Letter and Annual Plan
 - Reports on the implementation of Internal Audit recommendations
 - Reports on relevant public sector publications concerning general audit developments
 - Any significant audit issues that may arise within the Authority.

- 9.3 The Head of Internal Audit attends every meeting and presents Internal Audit reports to the Committee.

10	<u>ADVISORY AND CONSULTANCY SERVICES</u>
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| 10.1 | Internal Audit offers an advisory and consultancy service to provide support and assistance to the Council in the development of its systems and procedures. Internal auditors are well positioned to offer this type of input, due to their detailed knowledge of the Council's activities, and due to their expertise in assessing value for money and options for process re-engineering. |
| 10.2 | The nature and scope of consultancy engagements are agreed with the client and are intended to add value and improve the Council's governance, risk management and control processes. Consultancy input may take the form of counsel, advice, facilitation and training. This type of input is beneficial to both clients and internal auditors alike; clients receive timely advice whilst systems and processes are being designed, and internal auditors have the opportunity to influence the developing control framework in the Council. |

11 **SUSPECTED IRREGULARITY INVESTIGATIONS**

- 11.1 In accordance with the Authority's Financial Regulations, Internal Auditors carry out investigations into suspected financial irregularities. All managers in the Authority 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.
- 11.2 When conducting audit engagements, Internal Auditors 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.
- 11.3 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.
- 11.4 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. Internal Audit's role in tackling suspected cases of fraud or irregularity is set out in the Council's Fraud Response Plan
- 11.5 The Head of Internal Audit may carry out other special investigations at the request of the Section 151 Officer or other senior managers.




12 **INTERNAL AUDIT REPORTING**

- 12.1 Internal Audit reports its findings to appropriate managers, who have a responsibility to respond promptly to the reports' recommendations. Recommendations are priority ranked, as follows:

Priority Level	Description	Recommended action timescales
Priority 1	Essential for effective internal control, must implement recommendations to improve existing control arrangements	Immediate
Priority 2	Highly desirable for effective internal control, should implement recommendations to improve existing control arrangements	Within two months

'Low priority' recommendations are not made in Internal Audit reports. Instead, advisory recommendations are raised in feedback meetings with managers at the close of the fieldwork.

- 12.2 Reports on assurance work contain an audit opinion on the area reviewed. One of the following three audit opinions of the level of assurance is provided:

	LIMITED ASSURANCE	Risk levels are high
	REASONABLE ASSURANCE	Risk levels are acceptable
	SUBSTANTIAL ASSURANCE	Risk levels are low

The spread of Internal Audit opinions each year is one factor used to inform the Authority's Annual Governance Statement.

- 12.3 Management responses to Internal Audit's draft reports are sought in accordance with the protocol set out in Appendix 1.
- 12.4 All Internal Audit recommendations are followed up to confirm the agreed management actions are taken. Two levels of assurance are applied to confirm implementation, as detailed below:

Priority rating of recommendation	Management assurance	Internal Audit assurance
Priority 1	Assurance is sought from management that all agreed actions have been taken	Compliance testing scheduled to confirm all agreed actions relating to Priority 1 recommendations are carried out consistently.
Priority 2		Compliance testing is scheduled for selected Priority 2 actions

- 12.5 Quarterly progress on the implementation of agreed management actions is reported to senior management and to the Governance & Ethics Committee. The Governance & Ethics Committee determines whether it wishes to receive an update from senior managers at its next meeting to provide further assurance regarding actions to improve the internal controls in a specific area of activity.
- 12.6 Internal Audit reports are circulated to the relevant Committee Chairmen/Chairwomen 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 Head of Internal Audit or Audit Managers direct on issues which concern them. This direct access by Members to Internal Audit applies in any situation where Members wish to raise issues of concern with Internal Audit.

13 **COORDINATION OF AUDIT ASSURANCE**

- 13.1 The Head of Internal 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.

- 13.2 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.
- 13.3 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.
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Protocol for chasing responses to Internal Audit's Draft Reports

APPENDIX 1

