



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 Accounts and Audit Regulations 2015, Global Internal Audit Standards (GIAS), Internal Audit Standards Advisory Board (IASAB) – Application Notes, CIPFA – Code of Practice for the Governance of Internal Audit in UK Local Government and the County Council's Financial Regulations. This Charter has been approved by Nottinghamshire County Council's Governance and Ethics Committee, acting as the 'Board' under the requirements of the Global Internal Audit Standards.

2 **INTERNAL AUDIT MANDATE**

- 2.1 The Internal Audit mandate is established through the Accounts and Audit Regulations 2015 and applied through the Nottinghamshire County Council governance arrangements via the Governance and Ethics Committee. Internal Audit services are provided in line with the GIAS as interpreted through the Application Note and the CIPFA Code of Practice.

3 **THE FUNDAMENTALS**

- 3.1 The Internal Audit Team strives for compliance with the five Domains capturing the GIAS which in turn contain the following 15 core principles for the professional practice of internal auditing:

- Demonstrates Integrity
- Maintain Objectivity
- Demonstrates Competency
- Exercise Due Professional Care
- Maintain Confidentiality
- Authorised by the Board
- Positioned Independently
- Overseen by the Board
- Plan Strategically
- Manage Resources
- Communicate Effectively
- Enhance Quality
- Plan Engagements Effectively
- Conduct Engagement Work

- Communicate Engagement Results and Monitor Action Plans

4 **PURPOSE, AUTHORITY AND RESPONSIBILITY**

- 4.1 Internal auditing strengthens the organisations ability to create, protect, and sustain value by providing the Board and management with independent, risk-based, and objective assurance, advice, insight and foresight.

Internal auditing enhances the organisations:

- Successful achievement of its objectives.
- Governance, risk management and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Internal auditing is most effective when:

- It is performed by competent professionals in conformance with the Global Internal Audit Standards which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the Board.
- Internal auditors are free from undue influence and committed to making objective assessments.

- 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 entire control environment of the Council
- (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 mandate from the Accounts and Audit Regulations 2015, from the Nottinghamshire County Council's Constitution and from this Charter. The Financial Regulations, which are part of the Constitution, set out that:

- The Section 151 officer carries responsibility for ensuring an effective internal audit service is in place
- Internal audit reviews and reports on the Council's control environment and its arrangements for securing value-for-money, and it makes recommendations requiring a formal response
- 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
- Internal Audit has a defined role in the Council's Fraud Response Plan

- Internal Audit reports its findings to Members of the Council, and it co-ordinates its activities with external audit.

4.4 The following key roles and responsibilities are established at Nottinghamshire County Council to ensure the requirements of the GIAS and this Audit Charter are complied with:

- The role of the 'board' is fulfilled by the Governance and Ethics Committee
- The role of senior management is fulfilled by the Corporate Leadership Team, comprising the Chief Executive and Executive Directors of the Authority
- The role of the chief audit executive is fulfilled by the Chief Internal Auditor. The Chief Internal Auditor reports directly to the Section 151 Officer, but also has unrestricted access to senior management and members, particularly the Leader of the Council, the Chair of the Governance and Ethics Committee, the Chief Executive, Executive Directors and Service Directors. The Chief Internal Auditor reports in their own name.

The Internal Audit Charter is formed and proposed by the Chief Internal Auditor in consultation with the aforementioned groups which incorporates an understanding of the responsibilities and expectations regarding the organisational support of the Internal Audit function in order to fulfil its mandate. The proposed Charter is discussed with the Board and senior management to confirm it accurately reflects understanding and expectations before approval by the Governance & Ethics Committee.

4.5 In addition to Internal Audit, the Chief Internal Auditor is responsible the delivery of services by the Risk Management and Insurance Teams. To maintain segregation from operations, the Chief Internal Auditor has put in place arrangements for avoiding conflicts of interest. These are focused on obtaining independent, external assurance that internal controls are effective in respect of the Council's arrangements for risk management and insurance.

4.6 Periodic reviews of these areas are carried out by external providers of internal audit, the findings of which are reported independently of the Chief Internal Auditor to the Section 151 Officer and members of the Governance and Ethics Committee. The appointment and coordination of external providers of assurance services are completed in line with GIAS - Standard 9.5.

4.7 The resourcing of Internal Audit is under continuous review by the Section 151 Officer and the Chief Internal Auditor. The resource requirements are brought into sharp focus during discussions and agreement on the Internal Audit Strategy and Termly Plans. Further details are set out in Section 8.

4.8 In addition, the Team undertakes internal consultancy work, carries out some 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.

5 INDEPENDENCE AND OBJECTIVITY

- 5.1 The Internal Audit Team is organised so that it is independent of the activities that it audits. Because of this, the Team can provide impartial and unbiased professional opinions and recommendations. Internal Audit is free to plan, undertake and report on its work, as the Chief Internal Auditor deems appropriate.
- 5.2 The status of the Chief Internal Auditor 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 and 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 and Ethics Committee, as part of its termly planning process.
- 5.4 The Chief Internal Auditor provides termly updates to the Authority's Corporate Leadership Team, membership of which includes the 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 Chief Internal Auditor is required to confirm annually the organisational independence of the internal audit activity. The Chief Internal Auditor 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 Chief Internal Auditor 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.
- 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 when performing their duties. Internal Auditor also comply with their membership of professional bodies and routine training is provided to enhance the application of such ethical practices.

6 PROFICIENCY AND DUE PROFESSIONAL CARE

- 6.1 Internal Audit operates in accordance with the GIAS, IASAB – Application Note and CIPFA – Code of Practice. Compliance with the Standards is reviewed annually by the Interim Chief Internal Auditor along with the Internal Audit Strategy.

- 6.2 A thorough recruitment process, in accordance with the Authority's procedures, applies to the appointment of Internal Audit staff to ensure the Team has the appropriate, professional skills and experience to fulfil its objectives. The Chief Internal Auditor is appointed by the Section 151 Officer and must have a full CCAB qualification and have significant post qualification experience, preferably gained in an internal audit role. Similarly, the Audit Team Manager should be a qualified accountant with at least three years' financial and managerial experience. The qualifications and skills required for all posts are detailed in job descriptions and person specifications maintained by the Chief Internal Auditor. These appointments are made in line with the IASAB – Application Note and CIPFA – Code of Practice.
- 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.
- 6.4 The performance of the Chief Internal Auditor is constantly reviewed by the Governance & Ethics Committee, Corporate Leadership Team and reflected within the Head of Internal Audit Annual Report. The Section 151 Officer formally reviews the performance of the Chief Internal Auditor in accordance with Nottinghamshire County Council development programme and professional competence.

7 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

- 7.1 The Chief Internal Auditor reviews the work of the Team on an annual basis to provide assurance that it conforms to the relevant standards and requirements of the Internal Audit Charter. The Team Manager provides a 'real-time review' and 'final' review of each engagement that is undertaken by the Internal Audit Team to ensure consistent compliance to the requirement of the Charter.
- 7.2 The Internal Audit Team 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 corporate governance, risk management and 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 IASAB – Application Note and CIPFA – Code of Practice 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 Chief Internal Auditor will raise this periodically with the Governance and 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 Chief Internal Auditor will, in discussion with senior management and the Governance and Ethics Committee, develop a Quality Assurance & Improvement Programme and report this as part of the Internal Audit Annual Report.
- 7.5 Where non-conformance to the GIAS, IASAB – Application Note and CIPFA – Code of Practice impacts on the overall scope or operation of the internal audit activity, the Interim Chief Internal Auditor must disclose the non-conformance to senior management and the Governance and 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 Chief Internal Auditor produces an Internal Audit Strategy, and this provides the framework within which three termly plans are delivered in each financial year. Each termly plan covers a period of four months and is developed in consultation with the Statutory Officers, Executive Directors, Corporate Leadership Team and Members of the Governance and Ethics Committee. The Strategy details how the assurance for the opinion on the overall adequacy and effectiveness of the organisation's corporate governance, risk management and control environment will be demonstrated.
- 8.3 The Internal Audit plans are subject to revision and approval by the Section 151 Officer for reporting to the Governance and Ethics Committee. These plans include an element of flexibility to allow Internal Audit to be responsive to changes in conditions and to requests for consultancy and advice. 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 planning process also involves assessing, through ongoing liaison with management and External Audit, any new developments or significant changes in the Authority's responsibilities which are captured in the 'Intelligence Hub'.
- 8.4 Scopes are prepared for each Internal Audit engagement and are normally discussed with relevant line managers before the work is started. Internal Audit will schedule regular update meetings with the client while the audit is being undertaken, to ensure emerging findings and possible recommendations are raised, verified and discussed while the audit is live. At the close of the fieldwork, a feedback meeting will be arranged to discuss the findings of the review. During this closing meeting, draft management responses to recommendations will be elicited wherever possible, for inclusion in the formal, draft report when issued. 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 Chief Internal Auditor considers it necessary.
- 8.5 The Team adopts a structured approach to all its work, including the use of a risk-based, systematic approach, where appropriate, for opinion audits.

9 GOVERNANCE AND ETHICS COMMITTEE RESPONSIBILITIES

- 9.1 In accordance with the Council's Constitution, Internal Audit has a responsibility to report to the Authority's Governance and 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 the Authority has good governance in place.
- 9.2 The Committee reviews and comments upon:
- Internal Audit Charter
 - Internal Audit's Annual Report (including the annual opinion on the Authority's control environment)
 - Internal Audit's strategy, termly plans and progress reports (including key findings and recommendations)
 - Annual Assurance Mapping Exercise
 - Annual Counter Fraud Report
 - 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 Chief Internal Auditor attends every meeting and presents Internal Audit reports to the Committee.

10 ADVISORY AND CONSULTANCY SERVICES

- 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 applying business process re-engineering techniques.
- 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 Constitution and Financial Regulations, Internal Auditors may 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, following consultation with Statutory Officers, 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 Action Fraud and 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 Chief Internal Auditor 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
Priority 1	Fundamental for effective governance, risk management and internal control, must implement recommendations to improve existing arrangements
Priority 2	Desirable for effective governance, risk management and internal control, should implement recommendations to improve existing arrangements

'Advisory recommendations may also be raised in feedback meetings with managers at the close of 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 Head of Internal Audit's Annual Report and 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 Table 1 below:

Table 1: Protocol for chasing responses to Internal Audit's Draft Reports	
Week 0	Issue draft report, typically to Group Manager and Service Director, requesting a response within 2 weeks
Week 3 – no response	Reminder issued by Head of Internal Audit to Group Manager, Service Director and Executive Director. Request a response in 2 weeks.
Week 5 – no response	Issue a reminder and copy to: Chair of the Governance & Ethics Committee, Chief Executive and Executive Director. Request a response in 1 week
Week 6 – no response	Issue final report with no response and schedule the report on the next meeting of the Governance and Ethics Committee, with the relevant manager(s) being requested to attend to provide an update to the Committee on proposed actions to address the report's recommendations
N. B	<p>At any point in the above procedure, the timeline may be re-set to deal with particular circumstances such as:</p> <ul style="list-style-type: none"> to further discuss the audit findings and recommendations wherever concerns with them remain to allow for extended response times during periods of extreme workloads or the non-availability of key staff revised timescales for responses should be formally agreed

12.4 Management responses to draft reports are incorporated into a final version for circulation, as standard, to the following:

Members

- All Members of the Governance and Ethics Committee
- Cabinet Member and Deputy for Finance
- Cabinet Member and Deputy for the relevant Portfolio
- Leader and Opposition Leaders

Officers

- Relevant Executive Director(s), Service Director(s) and Group Manager(s)
- Section 151 Officer and Monitoring Officer
- Group Manager Finance and relevant Senior Finance Business Partners
- External Audit

Members can raise queries on reports as appropriate by contacting the Chief Internal Auditor or Internal Audit Team Manager directly 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.

12.5 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	Compliance testing scheduled to confirm all agreed actions relating

	all agreed actions have been taken	to Priority 1 recommendations are carried out consistently.
Priority 2		Compliance testing is scheduled for selected Priority 2 actions

- 12.6 Six-monthly progress on the implementation of agreed management actions is reported to senior management and to the Governance and Ethics Committee. The Governance and 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.

13 **COORDINATION OF AUDIT ASSURANCE**

- 13.1 The Chief Internal Auditor 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 year as appropriate.
- 13.2 In line with the GIAS the Chief Internal Auditor has undertaken an assessment of Internal and External providers of assurance services and assessed where appropriate reliance can be placed on their work. Where assurance has been placed on the work of other assurance providers the basis for that reliance is documented.
- 13.3 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.
- 13.4 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 and plans.
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