

AUDIT COMMITTEE – 25 JULY 2014

Title of paper:	INTERNAL AUDIT CHARTER	
Director(s)/ Corporate Director(s):	Glen O'Connell Acting Corporate Director for Resources	Wards affected: All
Report author(s) and contact details:	Shail Shah - Head of Internal Audit 0115-8764245 shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	Endorse the Internal Audit Charter at Appendix 1 .	

1. REASONS FOR RECOMMENDATIONS

- 1.1. The Internal Audit Service (IA) impacts on corporate objectives by bringing a systematic disciplined approach to improve the effectiveness of risk management control and governance processes. It is an important part of the Council's governance and control framework.
- 1.2. The Public Sector Internal Audit Standards (PSIAS) require the production of a Charter which defines the purpose, authority and responsibility of the IA function. The Charter, which should be reviewed regularly, is to be presented to the Audit Committee for endorsement. The Charter is attached at **Appendix 1** and has been updated to reflect the standards set in the PSIAS.

2. BACKGROUND

- 2.1. IA impacts on corporate objectives by bringing a systematic disciplined approach to improve the effectiveness of risk management control and governance processes. It is an important part of the Council's governance and control framework.
- 2.2. The Accounts and Audit Regulations 2011 state that local authorities should maintain an adequate and effective system accounting for the resources they use and an effective system of internal control.
- 2.3. The (PSIAS) set the responsibility for the management of with the Board. In practical terms this Board responsibility is vested in the Audit Committee and Section 151 Officer who exercise their Board responsibility via the Constitution and the associated policies and procedures of the City council.
- 2.4. The Charter was last endorsed at the 27 September 2013 meeting of this Committee. This updated version for endorsement contains minor

amendments explaining the reporting lines to senior management in accordance with the PSIAS.

3. **BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION**

None.

4. **PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

- The Accounts and Audit Regulations 2011
- Public Sector Internal Audit Standards 2012
- Audit Committee – 27 September 2013 : Internal Audit Annual Report 2012/13 and Internal Audit Charter

Nottingham City Council – Internal Audit Charter

Introduction

The Public Sector Internal Audit Standards define 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.”

Independence

A key factor in the effectiveness of Internal Audit is that it is seen to be independent. To ensure this independence, Internal Audit operates within a framework that allows:

- Unrestricted access to senior management
- Reporting in its own name
- Segregation from line operations.

Every effort will be made to preserve the objectivity of the service by ensuring that all audit colleagues are free from any conflicts of interest and do not undertake any non-audit related duties. Registers of interest/gifts will be maintained in accord with corporate best practice.

Objectives

The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner. Internal Audit’s mission is:

“To provide a cost effective, independent, professional and high quality audit service which supports managerial objectives by promoting the highest levels of financial management and probity across the Authority”.

In so doing the service aims to support the effectiveness of the risk management, control and governance processes within the City Council and its significant partners.

Scope

Internal Audit will review and investigate the areas of key risk to the Council’s objectives across the entire range of its activities. In order to fulfil this role the service requires unrestricted access to all the colleagues, records and assets of the Council and/or its partners. Council colleagues are required by the Head of Internal Audit to ensure permission to access records is incorporated in formal agreements setting up partnership arrangements or other arrangements with other third parties.

In addition, the Head of Internal Audit has unrestricted access to the Chief Executive, Councillors, Corporate Directors and all employees of the City Council and its partners.

Each audit or piece of work undertaken will have a clear scope and objectives. Any audit undertaken within the Council and its partners will be conducted under the framework of an agreed audit programme, service level agreement or a clearly defined letter of engagement. This is of particular importance in the management of consultancy where the respective roles, inputs and outputs will be clearly defined and the independence of auditors maintained. Internal Audit work will be co-ordinated with that of external review agencies to provide maximum audit coverage and to prevent duplication of effort where practical.

Responsibility

The main areas of Internal Audit responsibility within the Council will be to:

1. Review, appraise and report on:
 - the soundness, adequacy and application of internal controls as a contribution to the proper control of risk and the economic, efficient and effective use of resources
 - the suitability and reliability of financial and other management data, including aspects of performance measurement
 - the extent to which the assets and interests are accounted for and safeguarded from loss.
2. Aid Corporate Directors in the investigation of fraud and irregularity as prescribed in the Council's Fraud Response Plan and to develop and implement the Council's Counter Fraud Strategy.
3. Receive information on instances of fraud and corruption to inform opinion on the control environment and to help determine the resources required to manage the associated risks. Managing the risk of fraud and corruption is the responsibility of management, but the Head of Internal Audit must be informed of any instances.
4. Advise on the internal control implications of new systems.

Audit Style and Content

The Head of Internal Audit is required to manage the provision of a complete audit service to the Authority which includes risk based, system and ICT audits. In discharge of this duty, the Head of Internal Audit will prepare a rolling strategic risk-based Audit Plan.

Work Planning

The Head of Internal Audit will produce and maintain a Strategic Plan and an annual operational Audit Plan. These plans will be derived from a comprehensive risk model and after consultation with Corporate Directors. The plans will be presented annually to the Audit Committee and will aim to:

- Support the Responsible Officer in the discharge of the Section 151 duty.
- Contribute to and support the Council's objectives of providing sound financial systems and governance arrangements.

- Provide recommendations and findings designed to enhance the reliability and accuracy of the Annual Governance Statement, financial statements and other published information.

Location

Internal Audit is located within the Resources Department and based in Loxley House, but operates throughout the Council.

Standards

Internal Audit colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards. The Head of Internal Audit will report any significant instances of non-conformance with these codes and standards to the Audit Committee.

The service has internal quality procedures in place and is ISO9001:2008 accredited. It has adopted the principles contained in the Public Sector Internal Audit Standards 2012 and has fulfilled the requirements of the Account and Audit Regulations 2011 and associated regulations in respect of the provision of an Internal Audit service.

Audit Resources

The Head of Internal Audit will be a CCAB qualified Accountant who will ensure that there are adequate resources available to complete the Audit Plan including appropriate contingencies and to help deliver the opinions required. The Head of Internal Audit will assess the available skills and competencies necessary for the audits planned and to produce annual evidence based opinion. Where a gap is identified action will be taken to procure the required resource.

Recruitment and procurement will be designed to ensure appropriate resources are put in place, in a timely manner, to ensure audit plans are kept to. The Head of Internal Audit will follow the Council's corporate policies and procedures when procuring such resources.

The establishment will comprise of suitably professionally qualified colleagues including Accountants, Technicians and other specialists necessary to resource the varied demands placed upon the service.

Audit Training

The Head of Internal Audit will use the Council's Performance Appraisal programme to assess the skills and competencies of the audit colleagues and develop appropriate Training & Development Plans to ensure audit resources are adequate to fulfil the required audit need. The Head of Internal Audit will carry out a continuous review of the development and training needs of all audit personnel and will arrange in-service training including: courses, work experience, coaching, mentoring and other relevant development opportunities.

Audit Reporting

Strategic Reporting

In accordance with the principles contained in the PSIAS:-

The responsibility for the management of Internal Audit is set with the Board. In practical terms this Board responsibility is vested in the Audit Committee and Section 151 Officer who exercise their Board responsibility via the Constitution and the associated policies and procedures of the City council. The Section 151 Officer will give operational direction whilst reports covering strategic and assurance issues will be presented to the Audit Committee.

In fulfilling his/her operational responsibility to report to senior management the HoIA, whilst maintaining operational independence, will:

- Regularly meet with and update the Council's Chief Finance Officer (CFO) (S151 Officer) who is a member of the Council's Corporate Leadership Team. The CFO will continuously review the performance and effectiveness of the service.
- Normally report directly to the Council's Director of Strategic Finance. However, where actual or potential conflict of interests are present the Head of Internal Audit may choose to report to the CFO, Chief Executive, Monitoring Officer, Leader of the Council or external agency at his/her discretion.
- Present performance reports to the Audit Committee.
- Provide an annual opinion to the Audit Committee on the status of the Council's entire control environment as informed by Audit work and reference to other internal and external assurance mechanisms available.

Operational Reporting

Reports will be in accordance with PSIAS and will be distributed to those responsible for governance in the areas audited. In the course of an audit, a draft report will be sent to the manager(s) responsible for the area under review for agreement to the factual accuracy of the findings. The final report will be issued to the Corporate Director or other responsible party or their nominated representatives and copied to the appropriate managers and or service directors with an appropriate agreed action plan included.

In event of disagreement the Head of Internal Audit will consult with the client managers responsible and will if necessary consult with the Section 151 Officer and or Chief Executive. Ultimately if agreement cannot be reached the Head of Internal Audit may reflect the fact in the final report. Copies of all final reports and supporting working papers will be retained electronically where possible and will be in accordance with corporate policies for document retention,

The responsibility for the implementation of agreed recommendations lies with the auditee. Recommendations will be followed up at the next review at the very least or before, depending on the level of associated risk. A copy of the report will also be sent to the Head of Service, Director, Corporate Director, CFO and if necessary the

Director of Strategic Finance and Corporate Director for Resources. Currently the Director of Strategic Finance is also the acting CFO and S151 Officer.

Where appropriate, recommendations will be fed into the corporate improvement programme and brought before Departmental Management Teams for action, and follow up of the recommendations.

On completion of audits a customer satisfaction survey will be undertaken to give feedback on performance and to facilitate continuous performance improvement. The results of these surveys will be included in the service's key performance indicators.