

# Audit Committee

Item No.....

<b>Report title:</b>	<b>Internal Audit Terms of Reference (Charter) and Code of Ethics (incorporating the Interreg VA France Channel England Programme Audit Authority)</b>
<b>Date of meeting:</b>	<b>31 January 2019</b>
<b>Responsible Chief Officer:</b>	<b>Executive Director of Finance and Commercial Services</b>
<b>Strategic impact</b>  The Audit Committee provide proactive leadership and direction on audit governance and risk management issues, in accordance with their terms of reference which are part of the <a href="#">Council's Constitution, part 4.1 (4.4)</a> (page 13) being:  <b>B. INTERNAL AUDIT AND INTERNAL CONTROL</b> 1. With Chief Officers, to provide proactive leadership and direction on audit governance issues and champion audit and internal control throughout the Council.  <b>C. RISK MANAGEMENT</b> 5. Independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk.  The Accounts and Audit Regulations 2015 require that, from April 1 2015, the Council must ensure that it has a sound system of internal control that meets the relevant standards.  On 26 January 2016, Norfolk Audit Services was formally designated by DCLG to deliver the Audit Authority (AA) function for the Interreg VA France Channel England Programme over the lifetime of the programme, building on Council approval from 10 June 2013 to bid for that contract.	

## Executive summary

The purpose of this report is to present the revised Internal Audit Terms of Reference (Charter) and the Code of Ethics following a review, in accordance with CIPFA's and the IIA's UK Public Sector Internal Audit Standards. These were last presented to Audit Committee in April 2018 following a full review which incorporated the new requirements from the International Standards for the Professional Practice of Internal Auditing (Standards) which came into effect January 2017. This current review has resulted in minor changes as underlined.

The UK Public Sector Internal Audit Standards (UK PSIAS) requires that the purpose, authority and responsibility of the internal audit activity must be formally defined by the Council in an audit charter (UK PSIAS standard 1000), for Norfolk County Council this document is the Internal Audit Terms of Reference. Part I of the Internal Audit Terms of Reference refers to Norfolk County Council.

European Commission guidelines require that the Audit Authority mandate is documented in an audit charter when the mandate is not already set out in national legislation. Where an audit charter exists for the audit function, the Audit Authority mandate should be incorporated. This contributes to the independence of the Authority. Part II of the Internal Audit Terms of Reference (Charter) refers to the Interreg VA France Channel England Programme (FCE) Audit Authority.

The development of an FCE Audit function within the internal audit team was approved by Cabinet on 10 June 2013, as part of its approval for ETD to present a bid to act as Managing Authority for the FCE programme 2014-20. The approved proposal provided for other programme authorities to be set up within existing NCC services (namely Finance and NAS). It is anticipated that the FCE Audit function will be required to be in existence until the end of 2025, although the exiting of the UK from the European Union may bring this date forward.

In terms of performance and conduct, the UK Public Sector Internal Audit Standards contain requirements to set minimum standards for the performance and conduct of all internal auditors and includes five main principles; Integrity, Objectivity, Competence, Confidentiality and Professional Behaviour.

The current Internal Audit Code of Ethics appears at **Appendix B** and is applicable to all staff employed by the internal team, whether they are deployed on internal audit activities or EU audit activities. This continues to be based on best practice, the Nolan Principles of Public Life and the CIPFA publication “Code of Ethics for Professional Accountants” (2011) which is compatible with the UK PSIAS.

### **Recommendation:**

The Audit Committee is recommended to:

- consider and, if satisfied, agree the amended Internal Audit Terms of Reference (Charter) as set out in **Appendix A**, and the Code of Ethics as set out in **Appendix B** of this report.

## **1. Proposal (or options)**

- 1.1 The Audit Committee is recommended to consider, comment upon and agree the amended Terms of Reference (Charter) as set out in **Appendix A** and the Code of Ethics as set out in **Appendix B** of this report.

## **2. Evidence**

- 2.1 The proposed Terms of Reference (Charter) and Code of Ethics are presented at **Appendix A** and **Appendix B**. There are minor changes, as underlined in the text for ease of reference.

## **3. Financial Implications**

- 3.1. The expenditure in relation to the internal audit function falls within the parameters of the Annual Budget agreed by the Council.
- 3.2. Expenditure incurred in the delivery of the FCE Audit function is recoverable from the European Commission under the terms of the Technical Assistance budget, provided the expenditure is in line with EU eligibility rules and satisfactory evidence of compliance has been retained.

## **4. Issues, risks and innovation**

### **4.1. Risk implications**

- 4.2. These documents underpin the operational performance of Norfolk Audit Services and hence significant changes to these documents would impact on the delivery of the audit service and may put at risk the good reputation of the service. The External Auditor places reliance on the work of internal audit which helps to lower their fees to the Council.
- 4.3. The British and French Member States and the European Commission will place reliance on the work of the FCE audit team, which will enable the programme to function. Any issue raised with regards to the quality of the work produced by the Audit Authority or the adequacy of the audit strategy in place may result in programme interruptions and/ or suspension of payments from the European Commission.

### **4.4. Environmental implications**

- 4.5. The scope of the work of the FCE audit team has a direct impact on the geographical territory to be covered by its activities, with audit activities planned over the whole FCE territory and training and strategical coordination meeting taking place throughout the EU territory. EU Regulations are prescriptive in terms of their requirements for site visits and limited scope for remote auditing. There will therefore be a significant increase in transport incurred by staff. This will be mitigated through maximising the use of public transport.

- 4.6. There are no implications with respect to:

- Legal
- Equality
- Human Rights
- Health and Safety.

## 5. Background

- 5.1. The Internal Audit Terms of Reference and Code of Ethics were last approved at the April 2018 Audit Committee meeting.
- 5.2. Under section 17 of the Crime and Disorder Act 1998, the Council has a statutory general duty to take account of the crime and disorder implications of all its work and do all that it reasonably can to prevent crime and disorder in Norfolk.
- 5.3. Internal Audit helps with this by aiming to deter crime, to increase the likelihood of detection through making crime difficult, to increase the risk of detection and prosecution and to reduce the rewards from crime.
- 5.4. Internal Audit's Terms of Reference (Charter) and Code of Ethics have been drafted to cover higher risk areas, including where weaknesses in controls might increase the risk of theft, fraud or corruption. An action plan is agreed for any weaknesses that are identified during audits, including any which might increase the risk of theft, fraud or corruption. Consideration has been given to the present economic conditions and the Anti-Fraud and Corruption plan and resources are considered adequate.

### 5.5. Background papers

There were no background papers relevant to this report.

## Officer Contact

If you have any questions about matters contained in this paper, please get in touch with:

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## **TERMS OF REFERENCE (CHARTER)**

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## **APPENDIX A**

### **PART I : NORFOLK COUNTY COUNCIL INTERNAL AUDIT – TERMS OF REFERENCE (CHARTER)**

#### **1 RESPONSIBILITIES, CORE PRINCIPLES, OBJECTIVES AND SCOPE**

- 1.1 Internal auditing is 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.
- 1.2 The Core Principles for the Professional Practice of Internal Auditing, taken, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. The Core Principles, as demonstrated throughout this terms of reference (Charter), are:
  - 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.
- 1.3 The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
- 1.4 In meeting its responsibilities, Internal Audit activities are conducted in accordance with the County Council Strategy and 'Norfolk Futures' priorities and established policies and procedures. In addition, Internal Auditors shall comply with the Code of Ethics and the Public Sector Internal Audit Standards and other such codes of professional bodies of which internal auditors are members, such as CIPFA and the Chartered Institute of Internal Auditors.
- 1.5 The scope for Internal Audit is 'the control environment comprising risk management, control and governance'. This means that the scope of Internal Audit includes all the Council's operations, resources, services

and responsibilities including those where the Council works with other bodies. This definition shows the very wide scope of Internal Audit's work.

- 1.6 To turn this generic description of scope into actual subjects for audit, the Chief Internal Auditor uses a risk assessment to identify high-risk areas. This risk assessment includes an assessment of the effectiveness of the systems of internal audit, reviewing the adequacy and effectiveness of risk management and reviewing corporate and departmental risk registers. This process inevitably identifies the Council's fundamental financial systems as being 'high risk', but other non-financial systems and functions are also identified as important areas for review by Internal Audit, for example governance, data quality, environment, business continuity and health and safety.

## **2 REPORTING LINES AND RELATIONSHIPS**

- 2.1 Internal Audit forms part of the Finance and Commercial Services Directorate. The Chief Internal Auditor reports directly to the Section 151 Officer (Executive Director of Finance and Commercial Services).
- 2.2 The Council has an Audit Committee and the Chief Internal Auditor reports to the Audit Committee on a quarterly and annual basis, through the Executive Director of Finance and Commercial Services. The Chief Internal Auditor's Annual Report includes an 'opinion' on the adequacy and effectiveness of risk management, governance arrangements and internal control within the authority.
- 2.3 The Audit Committee is responsible for endorsing the Annual Internal Audit Plan. The quarterly and annual reports from the Chief Internal Auditor show progress against the plan through a summary of audit work over the period. Quality feedback from questionnaires received from clients following audits is also presented to the Audit Committee.
- 2.4 The Audit Committee is responsible for ensuring Internal Audit are independent of the activities it audits, is effective, has sufficient experience and resources and that the scope of audit work to be carried out is appropriate.
- 2.5 The Audit Committee Chairman meets separately and privately with the Chief Internal Auditor and with the Council's External Auditor from time to time.
- 2.6 Internal Audit co-ordinate their work with that of the external auditors and assist the external auditors as required to ensure that appropriate reliance can be placed on Internal Audit's activities; Internal Audit may also place reliance upon the work of the external auditors, or external inspection bodies such as Ofsted, or departmental peer reviews.
- 2.7 Internal Audit will work in partnership with other bodies to secure robust internal controls that protect the Council's interests.

### **3 INDEPENDENCE AND ACCOUNTABILITY**

- 3.1 Internal Audit is independent of the activities that it audits which enables the auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and unbiased recommendations.
- 3.2. Independence and objectivity will be preserved by ensuring that all members of staff are free from any conflicts of interest and do not undertake any duties that they could later be called upon to audit, including where members of staff have been involved in, for example working groups, consultancy etc. Internal auditors will also refrain from assessing specific operations for which they were previously responsible, within the previous two years.
- 3.3 Internal Audit determines its priorities based on an evaluation of risk in consultation with the Audit Committee. The Chief Internal Auditor has continual direct access to Council records, officers and reports and the ability to report independently and impartially if required. Accountability for the response to the advice and recommendations of Internal Audit lies with Chief Officers and Heads of Service, who either accept and implement the advice or choose another course of action on a risk assessed basis.
- 3.4 Internal auditors have no operational responsibilities, except for the Chief Internal Auditor who manages Corporate Risk Management, the Council's Whistleblowing Policy and is the Head of the FCE Audit Authority. These functions are overseen independently and will be subject to independent assurance reporting.

### **4 STATUTORY ROLE**

- 4.1 Internal Audit is a statutory service in the context of the Accounts and Audit Regulations (England) 2015, which state in respect of Internal Audit that:

(Part 2 section: 5) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit: make available such documents and records; and supply such information and explanations; as are considered necessary by those conducting the internal audit.

(Part 2 section 6) A relevant authority must, each financial year conduct a review of the effectiveness of the system of internal control required by regulation 3; and prepare an annual governance statement. If the relevant authority is a Category 1 authority (which NCC is), then following the review, it must consider the findings of the review by a



committee; or by members of the authority meeting as a whole; and approve the annual governance statement by resolution of a committee; or members of the authority meeting as a whole.

- 4.2 The statutory role is recognised and endorsed within the Council's Financial Regulations (Section C, Risk Management and Control of Resources), which provide the authority for Internal Audit's access to officers, members, premises, assets, documents and records and to require information and explanation as necessary. These rights of access also extend to partner organisations.
- 4.3 Internal Audit's remit extends to the entire control environment of the Council. The Chief Internal Auditor will provide an annual audit opinion as to the adequacy of the Council's internal controls and risk management processes. This opinion is driven by individual audit opinions from each internal audit engagement, as agreed within the annual audit plan, and informs the Council's Annual Governance Statement. Likewise any findings or concerns raised in the Annual Governance statement will be reflected in audit plans and coverage.

## **5 Consultancy or advisory reviews**

- 5.1 In addition to formal audit work, Internal Audit perform consultancy or advisory reviews as part of the annual internal audit plan, or on an ad hoc basis when requested by management. All such advisory work will be clearly identified in the internal audit plan. Where a significant consultancy or advisory service is required, either within or external to the Council, approval will be sought from the Audit Committee. Reports from this type of work contain findings, audit views and recommendations and whilst no formal opinion is given, this work does inform the Chief Internal Auditor's overall opinion on the adequacy and effectiveness of internal controls.
- 5.2 Assurance Services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system, or other subject matter. The nature and scope of the assurance engagement are determined by the internal auditor. Internal audit is sometimes requested to undertake internal audit and assurance activity for third parties. These include internal audit services, grant certification and financial accounts sign off. The same principles detailed in this charter and our operational procedures will be applied to these engagements. In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement. Internal auditors will address controls consistent with the engagements objectives and be alert to significant control issue.

## **6 INTERNAL AUDIT STANDARDS**

- 6.1 There is a statutory requirement for Internal Audit to work in accordance with 'proper audit practices'. These 'proper audit practices' are in effect 'the Standards' for local authority internal audit.
- 6.2 CIPFA and the IIA have published the UK Public Sector Internal Audit Standard (updated October 2016, effective January 2017). The mandatory elements include: the definition of Internal Auditing; the Core Principles, the Code of Ethics and the International Standards for the Professional Practice of internal Auditing. CIPFA has also published in consultation with the IIA a Local Government Application Note with respect to the Standards. Our Internal Audit Terms of Reference, Code of Ethics are compliant with the Standard and Guidance.

## **7 INTERNAL AUDIT RESOURCES**

- 7.1 The Chief Internal Auditor has ensured that the resources of the Internal Audit Section are sufficient to meet its responsibilities and achieve its objectives. If a situation arises whereby the Chief Internal Auditor concludes that resources are insufficient, he must formally report this to the Section 151 Officer. The Chief Internal Auditor reports on the adequacy of resources on an annual basis.
- 7.2 The Chief Internal Auditor has been responsible for appointing the staff of the Internal Audit Section and has ensured that appointments have been made to achieve the appropriate mix of qualifications, experience and skills. In addition to this, the Chief Internal Auditor maintains a 'mixed economy' delivery model by having a call of arrangement with a contractor (by competitive tender) to supplement the resource and skills of the in house team. This provides flexibility and resilience in delivering aspects of the plan to ensure best expertise and value for money.
- 7.3 Internal Audit is appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to the Standards. Internal Auditors are properly trained to fulfil their responsibilities and maintain their professional competence through appropriate development programmes.
- 7.4 Where skills do not exist within the team, the Chief Internal Auditor buys in resources from external sources to provide an adequate, effective and professional service, for instance with respect to ICT technical audits.
- 7.5 If Internal Audit staff are appointed from operational roles elsewhere in the Authority, they do not undertake an audit in that operational area during the first two years of their appointment, except by prior agreement between the Chief Internal Auditor and the relevant Head of Service.

## **8 FRAUD AND CORRUPTION**

- 8.1 The Anti-Fraud and Corruption Strategy 2017-2019 was endorsed by the Audit Committee at the September 2017 meeting. The Strategy sets out the responsibilities of the various parties and falls in line with 'Fighting Fraud and Corruption Locally', the local government fraud and corruption strategy 2016-2019. These include, amongst other things, that the promotion of and revision to the Strategy lies with the Monitoring Officer (Chief Legal Officer), advised by the Chief Internal Auditor. Managing the risk of fraud and corruption is the responsibility of Chief Officers; Internal Audit does not have responsibility for the prevention or detection of fraud and corruption. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Internal Audit may be requested by management to assist with fraud related work. An investigative Auditor has this designated responsibility within the team, supported on an ad-hoc basis by other members of the team. A training programme to develop fraud investigatory skills within the team is included within the development plans.
- 8.2 The Chief Internal Auditor advises Chief Officers on fraud and corruption issues.
- 8.3 The Chief Internal Auditor has made arrangements to be informed of all suspected or detected fraud, corruption or improprieties so that he can determine if an investigation needs to take place, consider the adequacy of the relevant controls, and evaluate the implications for the opinion on the internal control environment.

## **9 REPORTING ON INDIVIDUAL AUDIT ASSIGNMENTS**

- 9.1 A written report is prepared for every internal audit in accordance with the appropriate standards. The report is agreed with the Principal Client Manager before being issued to the responsible Senior Officer, or Executive Director of Service. The reports include an 'opinion' on the adequacy and effectiveness of risk management, governance arrangements and the internal controls in the area that has been audited.
- 9.2 Internal Audit make practical recommendations based on the findings of the work and discuss these with management to establish an appropriate action plan.
- 9.3 The responsible Senior Officer or Executive Director of Service is asked to respond to the report's recommendations within an agreed timescale. The response must show what actions have been taken or are planned in relation to each recommendation. If a recommendation is not accepted by the manager, this is also stated. The Chief Internal

Auditor assesses whether the managers response is adequate. If the Chief Internal Auditor concludes that management has accepted a level of risk that is unacceptable, the Chief Internal Auditor will discuss the matter with Senior Management and escalate to the County Leadership Team (as necessary) and to the Audit Committee.

- 9.4 Any findings given a high priority that are deemed corporately significant (based on the agreed criteria) are monitored and reported in a separate High Priority Findings (HPF) report. Management assurance is obtained to ensure the agreed actions have taken place and updates about the progress of dealing with high priority findings are reported to County Leadership Team quarterly. If actions have not been implemented satisfactorily by the agreed dates, the Chief Internal Auditor will make a risk based assessment to determine what further follow-up audit and subsequent reporting to County Leadership Team is required.
- 9.5 Any reports that, in consultation with Chief Officers, are judged to be “Corporately Significant” based upon agreed criteria are reported to the Audit Committee. These reports are subject to a full follow up audit.
- 9.6 The Chairman can request a sample of audit reports to review periodically.

## **10 Review of the Effectiveness of the Systems of Internal Audit**

- 10.1 The Accounts and Audit Regulations 2015 require that, from April 1 2015, the Council must ensure that it has a sound system of internal control that meets the relevant standards. There is a requirement for an annual review of the effectiveness of internal audit. This is also part of the wider review of the effectiveness of the systems of internal control. The Chief Internal Auditor will carry out a review of the Internal Audit Function, in accordance with the Quality Assurance and Improvement Programme outlined below and will report the results to the Executive Director of Finance and Commercial Services and the Audit Committee.
- 10.2 The Chief Internal Auditor will arrange for an independent review to be carried out, at least every five years which will be reported to the Executive Director of Finance and Commercial Services and the Audit Committee.

## **11. Quality Assurance and Improvement Programme**

- 11.1 The Chief Internal Auditor will maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of the internal audit activity. The programme will include an evaluation of internal audit activity’s conformance with the definition of Internal Auditing and the PSIAS and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identified opportunities for improvement.

- 11.2 The Chief Internal Auditor will communicate to the Executive Director of Finance and Commercial Services and the Audit Committee on the internal Audit activity's QAIP, including results of ongoing internal assessments and external assessments conducted at least every five years.

## **12 RELATED DOCUMENTS**

- 12.1 This document is one of a series that, together, constitute the policies of the authority in relation to anti-fraud and corruption. The other documents include:

**Anti-Fraud and Corruption Strategy**  
**Whistle-Blowing Policy**  
**Code of Conduct for Members and Co-opted Members**  
**Officers Code of Conduct.**  
**Anti-Money Laundering**

## **13 DEFINITIONS**

**In terms of the PSIAS and the LGAN:-**

**Audit Charter – these Terms of Reference for Internal Audit represent the Audit Charter.**

**Senior Board – functions are exercised by the Audit Committee**

**Senior Management – functions are exercised by the County Leadership Team**

**PSIAS** - CIPFA and IIA's UK Public Sector Internal Audit Standard, which came into force on 1 April 2013. The PSIAS were updated in October 2016 (effective from January 2017). The PSIAS and the Local Government Application Note (the Application Note) together supersede the 2006 CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* (the 2006 Code).

**LGAN - Local Government Application Note published by CIPFA in collaboration with the IIA in April 2013**

## **PART II : THE INTERREG VA FRANCE CHANNEL ENGLAND PROGRAMME AUDIT AUTHORITY – TERMS OF REFERENCE (CHARTER)**

### **1. Primary Role**

- 1.1. European Union regulations require that Member States must have in place a designated Audit Authority for all European Structural & Investment Funds. Norfolk Audit Services is the designated Audit Authority ('the Authority') for the Interreg V France (Channel) England programme. Interreg programmes are a specific type of European Structural & Investment Fund, falling under the European Regional Development Fund (ERDF) and more specifically the European Territorial Cooperation (ETC) programme.
- 1.2. Norfolk Audit Services was also designated Independent Audit Body for the purpose of the designation of the other programming bodies. The work of Norfolk Audit Services as Independent Audit Body is now completed.
- 1.3. The Authority's primary role is:
  - To seek to provide assurance to the programme national authorities<sup>1</sup> and the European Commission that the FCE programme is delivered in compliance with the regulatory requirements of the European Union in relation to the delivery of ETC programmes and with national regulatory requirements.
- 1.4. In the course of its work, the Authority is required to audit
  - (i) operations co-funded by the FCE programme and
  - (ii) the management and control systems set up in the Certifying Authority (Norfolk County Council – Finance) and the Managing Authorities (Norfolk County Council – Economic Development).
- 1.5. In order to provide good quality, fair and balanced reports, the Authority performs audits in accordance with applicable EU regulations and in accordance with internationally accepted auditing standards, as specified in the FCE Audit Strategy.

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<sup>1</sup> Each Member State participating in the cooperation programme appoints national authorities, to which the various programming bodies are accountable. The national authorities with regards to the audit activities is functionally independent from the national authorities working with the MA and the CA.

## 2. Authority

- 2.1. The Authority derives its authority from formal designation by the then Department for Communities and Local Government (DCLG) now MHCLG. Formal confirmation has been received from both Member States that Norfolk Audit Services will have authority to carry out directly the functions of the Audit Authority in the whole of the territory covered by the cooperation programme. Modality for Member State representatives to accompany FCE auditors on audit missions<sup>2</sup> were established as part of the Rules of Procedure agreed by the Consultative Audit Group on 20 April 2016.
- 2.2. The Department for Business, Energy & Industrial Strategy (BEIS) is responsible for ensuring that the Audit Authority is and remains fit for purpose, ie that it maintains its functional independence from the Managing Authority, Certifying Authority and project beneficiaries, is effective and has sufficient experience and resources. In practice, BEIS is relying on the Ministry of Housing, Communities and Local Government (MHCLG) to exercise this role, in its capacity as UK National Authority for the programme. MHCLG has a representative at the Consultative Audit Group.
- 2.3. In performing its activities, the Authority will have access to all people, records, information, systems and property deemed necessary, within the programming authorities and with each and every partner involved in the delivery of the cooperation programme. The Authority has been granted “read-only” access to the data and information held by the Managing Authority both in its information system and held on shared servers. The same access is in place with regards to the Certifying Authority data held on information systems. An agreement is in place that data held outside of shared information systems will be made available upon request.
- 2.4. All information requests should be dealt with promptly and truthfully by other parties. Should there be any perceived attempt to hinder the performance of the Authority’s duties, this would be communicated to:
  - The Managing Authority, where information has been requested from a project partner
  - The internal FCE programme board<sup>3</sup> in a first instance, with escalation to the Ministry of Housing, Communities and Local Government and the Government Internal Audit Agency (in their capacity as British National Authorities for the MA and AA respectively), where information has been requested from a programming authority.

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<sup>2</sup> It is a provision within the Common Provision Regulations that the Member States may request for their representatives to be present during audit missions on their own territory.

<sup>3</sup> The NCC internal FCE programme board is composed of Chief Officers and provide internal governance for the delivery of the MA, CA and AA functions.

### **3. Independence and objectivity**

- 3.1. To ensure its independence, the authority functions under the direct responsibility of the Council's Section 151 Officer (Executive Director for Finance and Commercial Services) with oversight from the Audit Committee. The Audit Authority is functionally independent from the Managing Authority (Norfolk County Council – Economic Development), the Certifying Authority (Norfolk County Council – Budgeting and Accounting within Finance) and the Beneficiary Bodies involved in any FCE co-financed operations.
- 3.2. Although the Audit Authority will feed into Norfolk County Council's internal governance arrangements through the provision of progress and performance update, the Audit Authority will in effect be accountable to the national designating body in the UK (BEIS) and to the European Commission.
- 3.3. The Authority is therefore functionally independent of the activities that it audits. Moreover, it has sole responsibility for the planning and selection of expenditure/operations to be audited and the manner in which the audits are conducted.
- 3.4. Upon request of a national authority, the Authority's staff may be accompanied by an auditor from the national authority. An expectation of independence will also be placed on that member of staff.
- 3.5. The Authority may, if deemed appropriate by the Chief Internal Auditor and the Audit Committee, or if requested by management, advise on financial control and audit issues or review systems under development without prejudicing its right to subsequently audit such systems.
- 3.6. All members of staff working for the Authority have a duty to abide by the Internal and Interreg FCE Audit Code of Ethics (Appendix B). The requirement for professional independence underpins the first two pillars of the internal code, namely integrity and objectivity. Staff are expected to complete annual declaration of interest, in order to detect and manage any potential conflict of interest with auditees.

### **4. Responsibilities**

- 4.1. The specific role and responsibilities of the Authority are determined by European Union Regulations and Guidelines for the Structural Funds. The key roles may be summarised as follows:
  - Produce a report for the benefit of the then DCLG,



including an opinion on the management and control systems set up by the Managing and Certifying Authorities, based on the descriptions provided, which will form the basis of their formal designation as programme authorities. This work must be undertaken prior to any claim for interim payment from the European Commission being submitted.

- Prepare, and update as necessary, an audit strategy in consultation with the National Authorities representatives on the Consultative Audit Group. The audit strategy will be submitted to the European Commission, upon request (in line with Article 127 (4) of EU Regulations 1303/2013).
- Prepare and deliver an annual audit plan, as discussed with National Authorities representatives on the Consultative Audit Group. Ensure the audit plan enables compliance with requirements as stated in EU regulation and complimentary guidance.
- Submit to the Commission an annual control report (ACR) setting out the findings of audits carried out during the audit year, with regards to audits of operations detailed expenditure, systems audits and follow up work on previous recommendations.
- Issue an annual audit opinion, on the basis of audits carried out, as to whether the management and control systems functioned effectively so as to provide reasonable assurance that statements of expenditure presented to the Commission are correct and, as a consequence, reasonable assurance that the underlying transactions are legal and regular.
- Submit to the Commission a winding up declaration in respect of the FCE programme before the statutory date for closure.

## **5. Relationship with other audit functions**

- 5.1. The Authority will be assisted by a Consultative Audit Group, which will be composed of competent and independent representatives of the National Authorities. The Consultative Audit Group will provide the National Authorities with a channel to influence the audit strategy and audit plan, to ensure specificities of their respective territories and needs are adequately met, whilst ensuring compliance with the relevant EU regulations and associated guidance.
- 5.2. The Authority will provide a progress update to the Norfolk County Council's Audit Committee for information. The update will focus on

summarising activity undertaken against expectations from the regulations and/ or the audit plan, to confirm satisfactory progress is being achieved.

- 5.3. The Authority shall liaise with the Audit Service of the European Commission in the Directorate General for Regional and Urban Policy (DG Regio) and submit all required documents, including the annual audit plans and an annual control report and annual audit opinion as outlined at 4 above.
- 5.4. If requested, the Authority will co-operate with audit missions by the European Commission Audit Services or the European Court of Auditors, either in the provision of information or advice in relation to financial control and audit procedures relating to the FCE programme or by participating in joint missions if appropriate.
- 5.5. Through the use of national public procurement procedures, the Authority will engage the use of private sector audit firms for audit activities on the French territory, specialist work or during particularly busy periods.

## **6. Reporting Arrangements**

- 6.1. The Authority must be functionally independent from the MA and the CA and the Authority should report to a hierarchical level different than the MA's and CA's reporting levels. This enables the Audit Authority to be part of the same public authority or body (e.g. a ministry) together with the MA and/or the CA, provided that the principle of separation of functions is respected.
- 6.2. The Audit Authority is headed by a tier 3 manager, whereas the Managing and Certifying Authorities are both headed by a tier 4 manager.
- 6.3. The Head of Authority will have direct access to the Executive Director of Finance and Commercial Services (Section 151 Officer) and Audit Committee and will report on administrative and budgetary matters to the Executive Director of Finance and Commercial Services.
- 6.4. The Head of Authority shall fully engage with internal governance arrangements within Norfolk County Council and report quarterly to the Audit Committee and to the Section 151 Officer and six monthly to the internal FCE Programme Board in relation to progress on its audit strategy and work programme. Failure to complete annual audit programmes may lead to financial correction and reduction in the drawdown of Structural Funds.

- 6.5. The Authority shall consult national authorities representatives on the Annual Control Report and Audit Opinion, prior to submission to the European Commission.
- 6.6. The Authority shall notify the MA and the internal FCE programme board of any risks to the drawdown of ERDF Structural Funds arising from its regulatory audits of ETC expenditure, the audits of systems in the Certifying Authority and Managing Authorities and audit work in relation to the annual partial closure of accounts. Where unresolved, unmitigated risks will be identified in the Annual Control Report, which will be shared with the Consultative Audit Group for consultation and with Programme Monitoring Committee by the MA for information.
- 6.7. Individual audit reports will be shared by the AA with the relevant national authority representative prior to finalisation and will be shared by the MA with the Programme Monitoring Committee (or appointed sub-committee) for information once finalised.
- 6.8. The Authority will submit a Winding Up Report to the European Commission at the end of the 2014-20 programming period, on the closure of the FCE ETC programme and inform the Audit Committee of any risks arising from closure which would affect the drawdown of ERDF Funds.

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## **APPROVAL**

**Ian Mackie**  
**Chairman of the Audit Committee** .....

**Simon George**  
**Executive Director of Finance**  
**and Commercial Services and**  
**Section 151 Officer** .....

**Adrian Thompson**  
**Chief Internal Auditor and**  
**Head of the Audit Authority** .....

**Date**.....

## **APPENDIX B**

### **Norfolk County Council Internal Audit and Interreg VA France Channel England Programme Audit Authority – Code of Ethics**

#### **Introduction**

A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control, and governance. This code is complementary to, and should be read in conjunction with the CIPFA “Ethics and You” A Guide to the CIPFA Standard of Professional Practice on Ethics (June 2011). This code is compatible with the UK Public Sector Internal Audit Standard (refreshed October 2016, effective January 2017).

The Code of Ethics is based on five pillars and the Nolan Principles (Standards in Public Life).

- 1. Integrity,**
- 2. Objectivity,**
- 3. Confidentiality,**
- 4. Competency, and**
- 5. Professional Behaviour.**

#### **The Five Pillars**

##### **1. Integrity**

The integrity of internal auditors is founded upon trust and thus provides the basis for reliance on their judgement. Internal auditors will never use their authority or office for personal gain. They will seek to uphold and enhance the standing of the profession. Internal auditors will maintain an unimpeachable standard of integrity in all their business relationships both inside and outside the organisations in which they are employed. They will reject any business practice, which might reasonably be deemed improper.

Internal auditors:

- 1.1. Will perform their work with honesty, diligence, and responsibility.
- 1.2. Will observe the law and make disclosures expected by the law and the profession.
- 1.3. Will not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation or themselves in their professional capacity. The fact that an action is legal does not necessarily mean that it is ethical.
- 1.4. Will declare any personal interest, which may impinge or might reasonably be deemed by others to impinge on impartiality in any matter relevant to his or her duties.
- 1.5. Will respect and contribute to the legitimate and ethical objectives of the organisation.

- 1.6. Will be trustworthy, truthful and honest. They should also promote and support these fundamental principles by leadership and example.

## **2. Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Internal auditors:

- 2.1. Will not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2. Will not accept anything that may impair or be presumed to impair their professional judgement
- 2.3. Will disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review or distort their reports or conceal unlawful practice.
- 2.4. Will at all times maintain their professional independence. They must be fair and must not allow prejudice or bias, conflict of interest or the influence of others to override their judgement and actions.

## **3. Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not hold or disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Internal auditors:

- 3.1 Will be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Will not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.
- 3.3. Will respect the proper confidentiality of information acquired during the course of performing professional services: information given in the course of duty should be true and fair and never designed to mislead
- 3.4. Will not use or disclose any such information without specific authority unless there is a legal or professional right or duty of disclosure.

## **4. Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services. Internal auditors foster the highest possible standards of professional competence amongst those for whom they are responsible optimising the use of resources for which they are responsible to provide the maximum benefit to their employing organisation.

Internal auditors:

- 4.1. Will engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Will continually improve their proficiency and the effectiveness and quality of their services.
- 4.3. Will perform professional services with due care, competence and diligence, and have a continuing duty to maintain their professional knowledge and skill at a level required to ensure that an employer or client receives the advantage of a competent professional service based on up-to-date developments in practice, legislation and techniques.
- 4.4. Will carry out professional services in accordance with the relevant technical and professional standards.

## **5. Professional Behaviour**

Internal auditors comply with standards and laws and must not bring the reputation of the profession into disrepute in their behaviour and actions.

Internal auditors:

- 5.1 will behave in a professional manner both during their day to day work and activities outside of work.

## **Nolan Principles**

The Nolan principles cover all of the same areas as the Five Pillars (above), but additionally include the following:

### **6. Selflessness**

Holders of public office should act solely in terms of the public interest.

Internal auditors:

- 6.1 Will not perform work which leads to personal gain
- 6.2 Will perform work to assess the efficiency and effectiveness of current working practices within the Council

### **7. Objectivity**

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or Bias.

Internal auditors:

- 7.1 Will base their opinion on evidence seen and testing performed during the audit work.

## **8. Accountability**

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

Internal auditors:

- 8.1 Will produce audit files to back up conclusions reached during the audit process.
- 8.2 Will ensure there is an adequate review process in place to quality control the work carried out.

## **9. Openness**

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

Internal auditors:

- 5.1 Will report on completed audit topics for each individual NCC audit at the quarterly Audit Committee meeting.
- 5.2 Will provide more information about audits with corporate significant concerns to the County Leadership Team and Members.
- 5.3 Will report progress on corporately significant high priority findings to the Audit Committee.

## **7. Leadership**

Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

Internal auditors:

- 7.1. Will exhibit the above behaviours in their own behaviour.
- 7.2. Will actively promote and support the principles
- 7.3. Will challenge and report poor behaviour when identified.