

# Internal Audit Charter 2020



# Contents

|     |   |           |
|-----|---|-----------|
| 1.  | <b>Introduction</b>   | <b>3</b>  |
| 2   | <b>Mission and Core Principles of Internal Audit</b>                  | <b>3</b>  |
| 3.  | <b>Purpose, Authority and Responsibility</b>                          | <b>4</b>  |
| 4.  | <b>Scope of Internal Audit</b>  | <b>5</b>  |
| 5.  | <b>Stakeholder Roles and Audit Independence</b>                       | <b>8</b>  |
| 6.  | <b>Audit Reporting</b>  | <b>9</b>  |
| 7.  | <b>Role of the Head of Internal Audit (CIA)</b>                       | <b>10</b> |
| 8.  | <b>Role of the County Treasurer (Section 151 Officer)</b>             | <b>12</b> |
| 9.  | <b>Role of Senior Leadership Team Members</b>                         | <b>12</b> |
| 10. | <b>Responsibilities of the Audit &amp; Standards Committee</b>        | <b>13</b> |
| 11. | <b>Relationship with External Audit</b>                               | <b>14</b> |
| 12. | <b>Due Professional Care</b>  | <b>14</b> |
| 13. | <b>Quality Assurance</b>  | <b>15</b> |
| 14. | <b>Audit Processes</b>  | <b>15</b> |
| 15. | <b>Use of and the Processing of Data</b>                              | <b>15</b> |
|     | <b>Appendix 1 – Extract from Financial Regulations **UNDER REVIEW</b> | <b>17</b> |
|     | <b>Appendix 2 – Opinion methodology</b>                               | <b>19</b> |

*The Charter is a mandatory requirement of the UK Public Sector Internal Audit Standards (2017) and CIPFA's Local Government Application Note (2019). Also, this document considers the requirements of the CIPFA statement regarding the Role of the Head of Internal Audit in Public Sector Organisations (2019 Edition).*



## 1. Introduction

This charter defines for the internal audit activity of Staffordshire County Council (the Council), its purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS). It also aims to confirm relationships with key stakeholders. It is subject to annual approval by the Board<sup>1</sup>.

Internal Audit has limited resources and therefore its workforce is deployed in accordance with the annual Audit Strategy having regard to relative risks and levels of assurance required, translated into an agreed annual Audit Plan and delivered through individual audit assignments. This is agreed by the Board each year.

The Audit Charter should be read in conjunction with the relevant sections of Financial Regulations of the Council, which currently are under review (Appendix 1).

## 2. Mission and Core Principles of Internal Audit

The mission of Internal Audit articulates what it aspires to accomplish within an organisation. The mission statement below is that included within the updated PSIAS issued in April 2017.

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

In addition, a set of core principles, detailed below, have also been developed which taken as a whole, articulate internal audit effectiveness. For an Internal Audit function to be considered effective, all principles should be present and operating effectively.

- 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.

<sup>1</sup> The Audit & Standards Committee is referenced in the PSIAS as the Board.



### 3. Purpose, Authority and Responsibility

#### Purpose

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, controls and governance processes (*UK Public Sector Internal Audit Standards and CIPFA Local Government Application Note*).

#### Authority

The authority for the Internal Audit function is derived from legislation and the Council. The requirement for an Internal Audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs". The Accounts and Audit (England) Regulations 2015, specifically require that a relevant body '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'. Proper internal audit practices for Local Government are defined as constituting adherence to the requirements of both the UK Public Sector Internal Audit Standards and CIPFA's Local Government Application Note. These requirements are mandatory; instances of non-conformance must be reported to the Board as part of the Chief Internal Auditor's (CIA's) annual outturn report. The County Treasurer has been delegated with this requirement by the Council.

#### Responsibility

The CIA is required to provide an annual opinion to the Council and to the County Treasurer through the Audit & Standards Committee, on the adequacy and effectiveness of the risk management, governance and control environment for the whole organisation and the extent it can be relied upon, in line with the Accounts and Audit (England) Regulations 2015. To achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources.
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.



- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes.
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.
- To provide advice and support to management to enable an effective control environment to be maintained.
- To promote an anti fraud, anti bribery and anti corruption culture within the Council to aid the prevention and detection of fraud.
- To investigate, in conjunction with the appropriate agencies when relevant, allegations of fraud, bribery and corruption.
- To evaluate whether the information technology governance of the Council supports its strategies and objectives.

#### 4. **Scope**

The Council's Internal Audit function is provided by an in-house team supported by additional resources procured via an external support framework contract. The scope of the function includes the review of all activities (financial and operational) of the Council. In addition to its Council internal audit work programme, the Internal Audit Section currently:

- Undertakes internal audit services for outside bodies where statutory powers permit.
- Conducts Comfort Fund (Social Services) audits
- May provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract documentation.
- Furthermore, the CIA has overall responsibility for the management of the Corporate Risk Register and assists in the preparation of the annual Governance Statement and Code of Corporate Governance.

In accordance with the PSIAS, most individual audits are undertaken using the risk-based systems audit approach, the key elements of which are listed below:

- Identify and record the objectives, risks and controls;
- Establish the extent to which the objectives of the system are consistent with corporate priorities;
- Evaluate the controls in principle to decide whether they are appropriate and can be reasonably relied upon;
- Identify any instance of over/under control;



- Determine an appropriate strategy to test the effectiveness of controls;
- Arrive at a conclusion and produce a report leading to management actions and provide an opinion on the effectiveness of the control environment.

Where possible Internal Audit will seek to identify and place reliance on assurance work completed elsewhere within the Council's areas of responsibility as part of the planning process. In addition, Internal Audit will as part of the audit plan contribute to the development of an assurance framework for the Council.

Internal Audit may undertake consulting activities. The Institute of Internal Auditors (IIA) defines consulting as 'Advisory' and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming responsibility'. See section 5 regarding Audit Independence.

Internal Audit does not undertake value for money studies routinely unless specifically requested.

The CIA cannot be expected to give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control and managing the risk of fraud, corruption and potential for bribery within their area of responsibility. They should ensure that appropriate and adequate control and risk management processes, accounting records, financial processes and governance arrangements exist without depending on internal audit activity to identify weaknesses.

#### Fraud and Corruption Related Work

The role of Senior Leadership Team Members (SLT) in relation to the reporting of all instances of potential and actual irregularity affecting the finances of the Council is documented in the Council's Financial Regulations (D.4).

The internal audit role and the counter fraud roles that internal auditors will be involved in, relating to fraud and corruption work are broken down into three divisions:

- Core internal audit roles that all internal auditors should include in their risk-based approach;
- Counter fraud roles that internal audit can undertake without compromising audit independence;
- Counter fraud roles where internal audit may provide consultancy or advisory services, with safeguards.

Core Internal Audit role - The primary role of Internal Audit is to provide assurance on counter fraud arrangements and fraud risks in accordance with the standards.





The Internal Audit Section as part of its activity will evaluate the potential for the occurrence of fraud and how the Council manages its fraud risk (standard 2120.A2). To enable this, the CIA will ensure that individual internal auditors have sufficient knowledge of fraud risks and fraud risk management practice (standard 1210.A2).

Supporting counter fraud roles – The Internal Audit Section may also take on additional roles or undertake work as part of an advisory or consultancy role to support or promote the development of effective counter fraud practice in the Council. In these instances, the CIA will ensure that internal auditors have adequate proficiency to undertake the activity (standard 1210.A2). Any impairment to independence or objectivity will also be identified and managed prior to the work commencing (standard 1000).

The Internal Audit Section will carry out a thorough investigation of all potential and actual irregularities in accordance with the Section's Fraud Manual. For employee related frauds, the investigation is dealt with under the Council's Staff Disciplinary Procedure and upon conclusion; the matter may be referred to the Police. It should be noted that if the offence committed is serious and/or high value, the matter may be referred to the Police prior to the disciplinary proceedings being concluded. In these instances, the Police will be made aware of the Council's on-going investigations. It is not the normal practice of Internal Audit to issue formal cautions to suspects under the Police and Criminal Evidence Act (P.A.C.E.) 1984.

It is the responsibility of the Monitoring Officer (Director of Corporate Services) to decide, based on the advice from the County Treasurer and the appropriate Senior Leadership Team Member, whether there are sufficient grounds for the matter to be reported to the Police. This is in accordance with the Council's Anti-Fraud, Bribery & Theft Policy.

A Fraud and Corruption Strategy is produced and reviewed on an annual basis. In addition to the investigation of potential irregularities, work is undertaken to promote an anti fraud culture.

In particular:

a) Creation of an Anti-Fraud Culture:

- Raising awareness of the e learning package.
- Adherence to the recommendations contained in the Fighting Fraud Locally Strategy and the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.
- Circulation of the Fraud-Watch Publication.
- Promotion of a Poster Campaign to raise awareness.

b) Deterrence



- Publicise both local and national cases of proven fraud within the Council.

c) Prevention

- A programme of continuous controls monitoring (CCM) is carried out throughout the year to identify 'red flags' for further investigation using our data analysis and file interrogation solution, IDEA. Areas susceptible to fraud are monitored on an on-going basis. Areas where CCM is utilised include creditor payments, purchasing card transactions, mileage and expenses claims and casual hours claims and overtime.

d) Detection

- Participation in the Cabinet Office's national fraud initiative data matching exercise.

e) Investigation

- Hotline monitoring and intelligence gathering.
- Investigations of all areas of concern identified through routine audit, reported to management or via whistleblowing communication channels.

## 5. Stakeholder Roles and Audit Independence

The Audit & Standards Committee will fulfil the role of the Board for the Council. For this purpose, the Board is defined in the PSIAS/LGAN as 'the highest level of governing body charged with the responsibility to direct and/or oversee the activities and hold senior management of the organisation accountable. Typically, this includes independent Directors. Board may refer to an audit committee to which the governing body has delegated certain functions.'

The CIA reports to the Head of Internal Audit and Financial Services. Section 151 matters are reported in all instances to the County Treasurer who reports to SLT for all Section 151 matters. Financial Regulation D.6 details alternative reporting lines if so required.

The extent of non-Council related audit work undertaken by the Section shall be limited to that defined within the Audit Strategy unless approved otherwise by the County Treasurer.

Internal Audit is not responsible for the detailed development or implementation of new systems but will be consulted during the system development process on the control measures to be incorporated in new or amended systems. To maintain independence, the Auditor who was involved in the 'consultancy style exercise' will not take any further part in the audit process. Any significant 'consultancy' activity not already included in the annual Audit Plan which may impact on the ability to provide the required assurance opinion will be reported to the Audit & Standards Committee for approval. The nature and scope of this type of work includes facilitation, process





and/or control design, training, advisory services and risk assessment support.

As a Condition of Service, all employees are expected to maintain conduct of the highest standard such that public confidence in their integrity is maintained. This includes declarations of interest, as appropriate (*organisational level*). Furthermore, all directly employed staff are required to make an annual declaration to ensure that Auditors objectivity is not impaired and that any potential conflicts of interest are appropriately managed in line with the requirements of the Code of Ethics within the PSIAS and the Nolan Committee's Standards on the Seven Principles of Public Life (*individual auditor level*). In addition, all staff complete an audit declaration as part of each review which requires any conflicts of interest or impairments to be disclosed (*individual engagement level*).

All Internal Audit Contractor staff are also required to declare any potential conflicts of interest at the start of any assignment to the CIA.

## 6. Audit Reporting

Assurance is provided on the organisation's risk management, governance and internal control processes to confirm that they are operating effectively. Audit assurance opinions are awarded on the completion of audit reviews reflecting the efficiency and effectiveness of the controls in place. Audit opinions are ranked either as; Substantial Assurance, Adequate Assurance or Limited Assurance. Recommendations made will be ranked as; High, Medium or Low depending upon the relative importance of the audit finding. The methodology used is attached at Appendix 2.

Work undertaken by Internal Audit will normally be concluded by the production of a formal written report to the respective individuals detailed below, dependent on the nature of the review and the opinion category.

|              |           |           |       |       |       |
|--------------|-----------|-----------|-------|-------|-------|
| Distribution | High Risk | High Risk | Other | Major | Other |
|--------------|-----------|-----------|-------|-------|-------|



|   | Reviews<br>(Substantial<br>Assurance /<br>Adequate<br>Assurance) | Reviews<br>(Limited<br>Assurance) | Reviews<br>(Limited<br>Assurance) | Irregularity /<br>Special<br>Investigation –<br>(loss ><br>£10,000) | Reviews<br>(Substantial<br>Assurance /<br>Adequate<br>Assurance) |
|---|--|-----------------------------------|-----------------------------------|---|--|
| Operational Manager                                       | ✓  | ✓                                 | ✓                                 | ✓   | ✓  |
| Section 151 Officer<br>(County Treasurer)                 | ✓  | ✓                                 | ✓                                 | ✓   |  |
| Relevant Director   | ✓  | ✓                                 | ✓                                 | ✓   |  |
| Monitoring Officer<br>(Director of Corporate<br>Services) |  |                                   |                                   | ✓   |  |
| Local Member (where<br>applicable)                        |  |                                   |                                   | ✓   |  |
| Relevant Cabinet<br>Member                                | ✓  | ✓                                 | ✓                                 | ✓   |  |
| Cabinet Member for<br>Finance & Corporate<br>Matters      |  | ✓                                 | ✓                                 | ✓   |  |
| Audit & Standards<br>Committee Members                    | ✓  | ✓                                 | ✓                                 | ✓   |  |

## 7. Role of the Head of Internal Audit (CIA)

The CIA must be a suitably professionally qualified individual who has the appropriate skills, knowledge, experience and resources to effectively perform in the role. They should also ensure that they take part in continuing professional development activities to remain up to date with developments within Internal Audit.

The CIA must establish an environment of trust, confidence and integrity in the work of the Internal Audit Section within the Council.

The CIA will have direct access to the County Treasurer, Monitoring Officer (Director of Corporate Services), Head of Paid Service, Audit & Standards Committee Chairman and Members as required.

The CIA will brief the Audit & Standards Committee Chairman regarding the content of Audit & Standards Committee agenda papers, including agreeing future agenda items and potential areas for training.

The CIA will contribute to the review of the Audit & Standards Committee effectiveness, advising the Chair of any suggested improvement.

The CIA is responsible for the overall development of the Audit Strategy and annual Internal Audit Plan, which demonstrates value for money to the organisation.

The UK Public Sector Internal Audit Standards require the CIA to report at the top of the organisation and this will be achieved by:



- The Internal Audit Strategy and Charter (incorporating detailed terms of reference); including any amendments to them are reported to the Audit & Standards Committee annually for formal approval.
- The annual Internal Audit Plan is produced by the CIA taking account of the Council's risk framework and after input from Members of SLT and the Council's External Auditor. It is then presented to SLT and subsequently Audit & Standards Committee for endorsement prior to approval by the County Treasurer
- The adequacy, or otherwise of the level of internal audit resources (as determined by the CIA) and the independence of internal audit is reported annually to the Audit & Standards Committee. The approach to determining resources required is outlined in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk/control issues arising are reported to the Audit & Standards Committee.
- Annually to report the results of the quality assurance exercise to the Audit & Standards Committee.
- The CIA ensures that the requirements of the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note are met in full and adherence, together with any areas of non-conformance to these requirements reported as part of the annual review of the effectiveness of internal audit report to the Audit & Standards Committee. This will incorporate where the CIA has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be put in place to limit impairments to independence or objectivity.

The CIA should be consulted on all proposed major projects, programmes and policy initiatives. This is achieved through the linkage with the Transformation Support Unit (TSU) and forms a key part of the annual Audit Plan. Business as Usual change projects are evaluated as part of the annual risk assessment planning process to determine the annual Internal Audit Plan.

The CIA should be consulted on proposed changes to the following key policy documents:

- a. Financial Regulations
- b. Procurement Regulations
- c. Integrity Policy
- d. Whistleblowing policy
- e. Officers' Code of Conduct
- f. Risk Management Policy

Where partnership/ joint venture/ outsourced and shared service arrangements exist that require joint working with other organisations and their respective auditors, the CIA will produce a protocol outlining the respective roles and responsibilities of each partner, access to working papers, confidentiality and sharing of audit reports including reporting to Audit & Standards Committee (where appropriate).



In instances, where services are provided by third parties, the CIA must ensure that suitable clauses are included within Contract documentation to ensure that internal audit retains the right of access to documents/ personnel and systems as and when required.

## **8. Role of the County Treasurer (Section 151 Officer)**

The County Treasurer has overall delegated responsibility from the Council for the Internal Audit function. Following consultation with the Senior Leadership Team and the Audit & Standards Committee he will approve the annual Audit Plan.

The County Treasurer will ensure that he is periodically briefed by the CIA on the following:

- Overall progress against the annual Audit Plan;
- Those audit areas where a “Limited Assurance” opinion has been given;
- Progress on the implementation of all “high” level audit recommendations; and
- Progress on all fraud and irregularity investigations carried out by the Internal Audit Section.

Following on from the above, the County Treasurer will ensure that update reports are reported regularly to the Audit & Standards Committee, to include an annual outturn report.

## **9. Role of Senior Leadership Team Members**

For the purposes of the UK Public Sector Internal Audit Standards, the Council’s Senior Leadership Team performs the role of the ‘senior management’.

Relevant extracts of those reports referred to above will receive prior consideration by the relevant SLT Member. This includes any fraud and corruption related exercises.

To assist the discharge of those responsibilities defined at Appendix 1, SLT Members shall appoint a senior officer to act as the first point of contact between Internal Audit and their area of responsibility.

The CIA will present the annual Internal Audit Plan and Audit Strategy to SLT members for their consideration and approval. The annual outturn report, together with the overall opinion of the Organisation’s control environment will also be circulated to SLT where appropriate.

SLT Members are also responsible for ensuring that staff within their areas participate fully in the audit planning process and actively enforce the implementation of agreed



audit recommendations by the required date. The quality of these relationships impacts on the effective delivery of the internal audit service, its reputation and independence. Co-operative relationships with management can enhance Internal Audit's ability to achieve its objectives.

## 10. Responsibilities of the Audit & Standards Committee

The Audit & Standards Committee is a key component of the Council's governance framework. Their role is to operate as 'those charged with governance' and provide independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. For the purposes of the UK Public Sector Internal Audit Standards, the Audit & Standards Committee performs the role of the 'Board'.

Following consideration, Members of the Audit & Standards Committee have determined that they wish to receive the following documents:

- The annual Audit Strategy & Plan;
- The Internal Audit Charter;
- The annual assessment of Internal Audit to ensure that it meets the requirements set out in the Accounts and Audit Regulations 2015 and UK Public Sector Internal Audit Standards;
- The results of the external assessment of Internal Audit which must be performed every 5 years wef April 2013 (which was completed January 2018);
- Regular updates on progress against High Level Recommendations;
- Periodic progress reports and the annual outturn report including results of anti-fraud and corruption work / special investigations;
- Copies of Fraud-Watch Publication (as appropriate);
- A copy of the audit report for those reviews given an opinion of "Limited Assurance";
- A copy of the audit report for all major special investigations (i.e. those areas where the potential loss is greater than £10,000);
- A copy of the audit report/ briefing note for those reviews awarded the greatest risk score irrespective of opinion (The top 10 risk areas within the Audit Plan).
- The Annual Governance Statement (AGS) prior to approval to consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- A copy of the audit report for those reviews relating to the governance and assurance arrangements for significant partnerships and/or collaborations.
- A copy of the Council's Assurance Framework relating to key risk areas.





### Note

Notwithstanding the above, all audit reports will be made available to members of the Audit & Standards Committee (either individually or collectively) upon request.

Members of the Audit & Standards Committee will agree key performance targets for the Internal Audit Section and ensure that they are reported upon as part of the annual outturn report and the review of the effectiveness of internal audit. Currently these are:

- Draft reports have been issued for at least 90% of the annual Audit Plan.
- Average score for quality questionnaires from auditees is equal to or exceeds the 'good' standard.

The Audit & Standards Committee will publish an annual report on its work including performance in relation to the terms of reference and effectiveness in meeting its purpose.

## **11. Relationship with External Audit**

Internal Audit will liaise with the external auditors of the Council to:

- Foster a co-operative and professional working relationship;
- Eliminate the incidence of duplication of effort;
- Ensure appropriate sharing of information; and
- Co-ordinate the overall audit effort.

Following on from the above, an Internal / External Audit understanding has been developed and will be subject to review on an annual basis.

## **12. Due Professional Care**

Since April 2013, the Internal Audit Section (including its external providers) has operated in accordance with the professional standards and practice statements included within the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. Instances of non-conformance with the standards must be reported to the Audit & Standards Committee.

To demonstrate that due care has been exercised, the internal auditor is expected to:

- Exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity;
- Apply confidentiality as required by law and best practice;
- Obtain and record sufficient audit evidence to support their findings and recommendations;
- Show that audit work has been performed competently and in a way that is consistent with applicable audit standards; and



- Consider the use of technology-based audit and other data analysis techniques.

### 13. Quality Assurance

The CIA maintains a Quality Assurance and Improvement Programme to review all aspects of activity of the Internal Audit Section (including its external providers) to provide reasonable assurance that its work conforms with the relevant standards and to the requirements of this document. An external assessment will be undertaken at least once every five years by a suitably qualified, independent assessor as required by the Public Sector Internal Audit Standards. The timing, form of the assessment, qualifications of any external assessor, results and any resultant improvement plans will be agreed with and reported to the Audit & Standards Committee in the annual report. Significant deviations will be considered for inclusion in the Annual Governance Statement.

### 14. Audit Processes

An Audit Manual is maintained detailing the procedures to be followed at each stage of the audit process including an instruction document for the operation of the electronic working paper solution. The content of the Manual will be reviewed regularly and will include details of the arrangements to be followed in the event of suspected irregularities. The CIA shall periodically ensure adherence to its content. SLT Members will be consulted on any significant changes to the Manual.

A Data Utilisation Strategy is in place which outlines a vision of how the Internal Audit Service will use available data sources and analytics to enhance efficiency, reduce key risks and facilitate the Council in effectively making best use of data sources available.

### 15. Use of and the Processing of Data

Internal Audit is entitled to conduct its duties in line with its Charter and will review, appraise and report on the governance risk management, internal control and counter fraud environment. The provision of internal audit services may involve the processing of personal data. In respect of this, new data protection legislation came into force from the 25th May 2018, which aims to protect the privacy of all EU citizens and prevent data breaches.

The Internal Audit Service is aware of the requirements of the Data Protection Act 2018 and ensures that it complies with the requirements contained within the Act.

The Internal Audit Service may be asked to provide access to personal information by relevant authorities with regulatory powers such as the police, government



departments and other local authorities for the purposes of the prevention and/or detection of crime without the permission of the data subject. The Council will consider such requests on a case by case basis.

Our core data protection obligations and commitments are set out in the Council's primary privacy notice.

<https://www.staffordshire.gov.uk/yourcouncil/requestandaccessinformation/What-we-do-with-you-personal-information/Privacy-Notice.aspxe>

Also, Internal Audit may collect data from the public directly via a fraud referral e-form. The information provided on this form is subject to the provisions of the Data Protection Act 2018. It may be used for purposes relating to the investigation of crime or misuse of resources, including liaison with the police, and for the purpose of performing other statutory enforcement duties. Also, the Council may share information provided to it with other bodies for the purpose of prevention, or detection of crime. The privacy notice covering the collection of personal data via the fraud referral e-form can be found using the attached link.

<https://www.staffordshire.gov.uk/yourcouncil/Report-fraud-bribery-and-theft/Report-a-concern-of-fraud-bribery-or-theft.aspx>



**APPENDIX 1****\*\*\*UNDER REVIEW\*\*\* FINANCIAL REGULATION D – AUDIT, CONTROL AND IRREGULARITIES**

- D1 The County Treasurer<sup>2</sup> is responsible for carrying out a continuous internal audit in line with the Accounts and Audit (England) Regulations 2015.
- D2 SLT members must co-operate with, and provide all necessary information for, the Internal Audit Section and our external auditor in a timely manner.
- D3 SLT members are responsible for setting up effective and efficient arrangements for internal control. They will ask the County Treasurer for advice on any significant matter if the principles of internal control prove difficult to put into practice or maintain.
- D4 SLT members must let the County Treasurer know immediately about all instances of potential and actual irregularity which affect our finances.
- D5 The County Treasurer, or his authorised representative, must be given reasonable access to our property and to see any documents, records and computer files they may need for the audit. He can also ask staff and members for information and explanations if he thinks this is necessary for that audit and that they are promptly provided.
- D6 Depending on any related legal requirements, the Chief Internal Auditor will have the right to report directly to the Chief Executive, to any member of Cabinet and the Audit and Standards Committee. Where appropriate responses to audit recommendations have not been made within a reasonable period the County Treasurer may refer the matter to the Audit and Standards Committee for further action.
- Response to audit reports
- D7 SLT members must consider and respond promptly to recommendations in audit reports and make sure that any agreed actions arising from audit recommendations are carried out as soon as possible.
- Internal control and checks
- D8 The duty of providing information, working out, checking and recording the amounts due to or from us must be separated, as far as possible, from the duty of collecting or paying these amounts.

<sup>2</sup> Following the merger of the Finance & Resources Directorate and the Strategy, Governance & Change Directorate to create the newly formed Corporate Services Directorate there is a need to review the Council's Financial Regulations and to re-assign the Section 151 Officer responsibilities to the County Treasurer role.

- D9 Wherever possible, we need to make arrangements to make sure that:
- a) work, goods and services are ordered properly;
  - b) we acknowledge when they have been received; and
  - c) invoices and accounts are not examined by the same person.





**Appendix 2****Audit Opinions****Recommendation Risk Ratings**

At the conclusion of each audit, control weaknesses are rated based on their potential impact against the organisation, and likelihood of any associated risks occurring.

The scoring matrices below are used by Auditors as a guide to assessment of each control weakness, and therefore generating the priority rating of the resultant recommendation.

Priority ratings may subsequently be adjusted; for example, in a minor system with a total budget of £100,000, financial loss of £5,000 would be considered more a more significant risk to system objectives than the matrix below would initially suggest.

**Impact Ratings**

| Risk Type        | Marginal<br>1  | Significant<br>2  | Fundamental<br>3   | Catastrophic<br>4  |
|------------------|--|---|--|--|
| Financial        | Lack of VFM or overspend resulting in a financial loss below £10,000                     | Lack of VFM or overspend resulting in a financial loss between £10,000 and £100,000                   | Lack of VFM or overspend resulting in a financial loss between £100,000 and £0.5m  | Lack of VFM or overspend resulting in a financial loss in excess of £0.5m  |
| Reputation       | Adverse publicity unlikely (e.g. Just can't demonstrate that probity has been observed.) | Needs careful public relations (e.g. Minor theft of property or income.)                              | Adverse local publicity (e.g. Minor fraud case.)   | Adverse national publicity (e.g. Major fraud or corruption case.)  |
| Legal/Regulatory | Breaches of local procedures / standards   | Breaches of regulations / standards   | Breaches of law punishable by fines only   | Breaches of law punishable by imprisonment   |
| Legal/Regulatory | Not an issue that would interest the External Auditors                                   | An issue that may require further checks to satisfy the External Auditor that control is sufficient.  | Would warrant mention in the Annual Audit Letter or Annual Governance Statement (AGS).   | Could lead to qualification of Council's Statement of Accounts   |
| Legal/Regulatory | Unlikely to cause complaint / litigation   | High potential for complaint, litigation possible   | Litigation to be expected  | Litigation almost certain and difficult to defend  |
| Performance      | Doesn't materially affect a departmental performance indicator or service objective.     | Has a material adverse affect on a departmental/corporate performance indicator or service objective. | Could adversely affect a number of departmental/corporate performance indicators or could seriously damage Departmental objectives / priorities. | Could call into question the Council's overall performance framework or seriously damage a Council objective / priority. |
| Service Delivery | Doesn't affect any identified objectives   | Adversely affects a service objective   | Seriously damage Departmental objective / priority   | Seriously damage any Council objectives / priorities   |
| Service Delivery | No significant disruption to service capability  | Short term disruption to service capability   | Short term loss of service capability  | Medium term loss of service capability   |
| Service Delivery | No more than 3 people involved   | No more than 10 people involved   | Up to 50 people involved   | More than 50 people involved   |
| Health & Safety  | No injuries beyond "first aid" level   | Medical treatment required - long term injury   | Extensive, permanent injuries; long term sick  | Death  |

**Likelihood ratings:**

| Risk Score | Description | Example Detail Description  |
|------------|-------------|---|
| 5          | Very Likely | Likely to occur within a year / Over 80% Probability of Likelihood              |
| 4          | Likely      | Likely to occur within 1 to 3 Years / 60%- 80% Probability of Likelihood        |
| 3          | Possible    | Likely to occur within 3 to 5 Years / 40%-60% Probability of Likelihood         |
| 2          | Unlikely    | Likely to occur within 5 to 10 Years / 20%-40% Probability of Likelihood        |
| 1          | Remote      | Likely to occur greater than 10 Years / Less than 20% Probability of Likelihood |

### Priority Ratings Matrix

|              |               |   |                   |          |          |        |             |
|--------------|---------------|---|-------------------|----------|----------|--------|-------------|
| Catastrophic | <b>Impact</b> | 4 | 4                 | 8        | 12       | 16     | 20          |
| Fundamental  |               | 3 | 3                 | 6        | 9        | 12     | 15          |
| Significant  |               | 2 | 2                 | 4        | 6        | 8      | 10          |
| Marginal     |               | 1 | 1                 | 2        | 3        | 4      | 5           |
|              |               |   | <b>Likelihood</b> |          |          |        |             |
|              |               |   | 1                 | 2        | 3        | 4      | 5           |
|              |               |   | Remote            | Unlikely | Possible | Likely | Very Likely |

| Risk Score |    | Recommendation Rating |
|------------|----|-----------------------|
| >=         | <  |                       |
| 1          | 5  | Minor Priority        |
| 6          | 10 | Low Priority          |
| 10         | 13 | Medium Priority       |
| 15         | 21 | High Priority         |
|            |    |                       |

### Internal Audit Assurance Ratings

Each Internal Audit report completed provides a level of assurance of; Limited, Adequate or Substantial Assurance. The following table is a guide to how assurance levels are determined. Dependent on the nature of the recommendations raised, the auditor may increase or decrease the level of assurance provided. For example a single very significant control weakness may give rise to only one recommendation, but severely compromise the effectiveness of a system and therefore result in a limited assurance report, or on occasion an audit may give rise to recommendation numbers close to the thresholds shown below for two or more categories of recommendation.

| Assurance Level    | Typical Findings   |
|--------------------|--|
| <b>Limited</b>     | Either:<br>2+ high priority recommendations,<br>8+ medium priority recommendations, or<br>13+ low priority recommendations |
| <b>Adequate</b>    | Either:<br>1 high priority recommendation,<br>3-7 medium priority recommendations, or<br>7-12 low priority recommendations |
| <b>Substantial</b> | 0 high priority recommendations,<br>0-2 medium priority recommendations, and<br>0-6 low priority recommendations           |

