

Internal Audit Charter 2015



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The Charter is a mandatory requirement of the UK Public Sector Internal Audit Standards and CIPFAs Local Government Application Note. This document also takes into account the requirements of the CIPFA



statement regarding the Role of the Head of Internal Audit in Local Government (2010).

1. Introduction

This charter defines for the internal audit activity of the County Council¹, 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 Board².

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 are attached at Appendix 1.

2. 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 County 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

¹ See glossary (appendix 3) for translation of the terms used in the Public Sector Internal Audit Standards in respect of Staffordshire County Council's Internal Audit Activity and those of its External Clients.

² The Audit & Standards Committee is referenced in the PSIAS as the Board.



CIPFA's Local Government Application Note. These requirements are considered to be mandatory; instances of non-conformance must be reported to the Board as part of the CIA's annual outturn report. The Director of Finance and Resources has been delegated with this requirement by the Council.

Responsibility

The CIA is required to provide an annual opinion to the County Council and to the Director of Finance & Resources (section 151 Officer) 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**. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the County 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 County 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.

3. 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



Staffordshire County Council. In addition to its County Council internal audit work programme, the Section currently:

- Undertakes internal audit services for outside bodies where statutory powers permit.
- Conducts Comfort Fund (Social Services) audits
- Undertakes the administrator role for the Financial Director system
- 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.

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.

Internal audit does not routinely undertake value for money studies 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 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 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 Director of Law, Democracy and Transformation to decide, based on the advice from the Director of Finance and Resources 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 Integrity 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.
- 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 Authority

c) Prevention

- Specific detailed testing in vulnerable areas
- Regular monitoring of imprest accounts to prevent misuse
- Regular monitoring of procurement card expenditure

d) Detection

- Participation in the Audit Commission'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 whistle blowing communication channels.

4. Stakeholder Roles and Audit Independence

The Audit & Standards Committee will fulfil the role of the Board for the County 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 management of the organisation. 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 Financial Strategy and Support who in turn reports to the Director of Finance and Resources. Financial Regulation D.6 details alternative reporting lines if so required.

The extent of non County Council related audit work undertaken by the section shall be limited to that defined within the audit strategy unless approved otherwise by the Director of Finance and Resources.

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 plan which may impact on the ability to provide the required assurance opinion will be reported to the Audit & Standards Committee for approval.

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

5. Audit Reporting

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 Reviews (Substantial Assurance / Adequate Assurance)	High Risk Reviews (Limited Assurance)	Other Reviews (Limited Assurance)	Major Irregularity / Special Investigation – (loss > £10,000)	Other Reviews (Substantial Assurance / Adequate Assurance)
Operational Manager	✓	✓	✓	✓	✓
Director of Finance & Resources	✓	✓	✓	✓	
Relevant Director	✓	✓	✓	✓	
Director of Democracy, Law & Transformation				✓	
Local Member (where applicable)				✓	
Relevant Cabinet Member	✓	✓	✓	✓	
Deputy Leader and Cabinet Member – Finance, Resources & Transformation		✓	✓	✓	
Audit & Standards Committee Members	✓	✓	✓	✓	



Recommendations made within assurance and compliance audits will be ranked as either High, Medium or Low depending upon the relative importance of the audit finding. The number and level of recommendations made within risk based and compliance audits will influence the audit opinion, which will be ranked as either Substantial Assurance, Adequate Assurance or Limited Assurance. The methodology used is attached at Appendix 2.

6. 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 County Council.

The CIA will have direct access to the Chief Financial Officer, Monitoring Officer, 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 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 Director of Finance and Resources.
- 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.

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:

- Financial Regulations
- Procurement Regulations
- Integrity Policy
- Whistleblowing policy
- Partnerships Policy
- Officers' Code of Conduct
- 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).

As the County Council completes its transformation into a Commissioning Authority 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.

7. Role of the Director of Finance and Resources

The Director of Finance and Resources 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 Director of Finance and Resources 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
- Progress on all fraud and irregularity investigations carried out by the Internal Audit Section

Following on from the above, the Director of Finance and Resources will ensure that update reports are reported regularly to the Audit & Standards Committee, to include an annual outturn report.

8. Role of Senior Leadership Team Members

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.

In order 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.

9. 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 Plan
- The annual assessment of Internal Audit to ensure that it meets the requirements set out in the Accounts and Audit Regulations 2011 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 (n.b. this must be performed by 2018)
- Regular updates on Progress against High Level Recommendations
- The Annual Outturn Report including results of anti-fraud and corruption work / special investigations
- Copies of Fraud-Watch Publication
- 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)

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 Team 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.

10. Relationship with External Audit

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

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

Following on from the above, an Internal / External Audit Protocol has been developed and formally approved by the Audit & Standards Committee. It will be subject to review on an annual basis.

The External Auditor formally reports to the Director of Finance and Resources and Audit & Standards Committee upon the quality of the work of internal audit and the degree to which they can place reliance on the work conducted on the financial



systems.

11. Due Professional Care

The Internal Audit Section (including its external providers) will operate from April 2013 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.

In order 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, and
- Obtain and record sufficient audit evidence to support their findings and recommendations.
- Show that audit work has been performed competently and in a way which is consistent with applicable audit standards.

12. Quality Assurance

The CIA will maintain 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.**

13. Audit Processes

An Audit Manual will be produced detailing the procedures to be followed at each stage of the audit process. The content of the Manual will be reviewed regularly. The CIA shall periodically ensure adherence to its content. SLT Members will be consulted on any significant changes to the Manual.



APPENDIX 1

FINANCIAL REGULATION D – AUDIT, CONTROL AND IRREGULARITIES

- D.1 The County Council has determined that the Director of Finance and Resources is responsible for conducting a continuous internal audit in accordance with the Accounts and Audit (England) Regulations 2011
- D.2 SLT Members will co-operate with, and provide all necessary information for, the Internal Audit Section and the Council's External Auditor.
- D.3 It is the responsibility of SLT Members to establish effective and efficient arrangements for internal control. SLT Members will seek the advice of the Director of Finance and Resources in those instances of a material nature where the principles of internal control prove difficult to implement or maintain.
- D.4 The Director of Finance and Resources must be notified immediately of all instances of potential and actual irregularity affecting the finances of the Council.
- D.5 The Director of Finance and Resources, or his authorised representative, must be afforded a reasonable right of entry to property of the County Council and must be granted access to such documents, records and computer files as appear to him to be necessary for the purpose of the audit. Furthermore, he will be entitled to require from any officer of the Council such information and explanation as he thinks necessary for that audit.
- D.6 Subject to any related statutory requirements, the Chief Internal Auditor will have the right to report directly to the Chief Executive, to any member of the Cabinet and the Audit & Standards Committee.

Response to audit reports

- D.7 SLT Members must consider and respond promptly to recommendations in audit reports (whether internal or external) and ensure that any agreed actions arising from audit recommendations are executed in a timely and efficient fashion.

Internal Control and Check

- D.8 The duty of providing information, calculating, checking and recording the sums due to or from the Council must be separated as far as possible from the duty of collecting or disbursing these sums.
- D.9 Wherever possible, arrangements must be made to ensure that:
 - (a) the ordering of works, goods and services
 - (b) the acknowledgment of their receipt, and
 - (c) the examination of invoices/accounts are not carried out by the same person.



Appendix 2**Audit Opinions**

The level of assurance to be allocated is determined by the number and categorisation of recommendations made. There are four categories – high, medium, low and points of best practice. The definitions for these are listed below, noting that points of good practice do not affect the overall opinion and are included within the report to offer advice/ add value to the processes.

	Level	System Adequacy	Control Application
(Positive opinion)	Substantial Assurance	Robust Framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.
(Positive opinion)	Adequate Assurance	Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger.	Controls are applied but with some lapses which may put some system objectives at risk.
(Negative opinion)	Limited Assurance	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.

High (H)	Matters that are considered fundamental, to senior management that require immediate attention and priority action.
Medium (M)	Matters that are considered significant, that should be addressed within six months.
Low (L)	Matters that merit attention and would improve overall control levels.
Good Practice /Added Value	For consideration only (does not affect the opinion)

These are then linked to the overall opinion by the following mechanism:

Level	High	Medium	Low
Substantial Assurance	There are no high level recommendations	There are no more than two medium recommendations.	There are no more than six low level recommendations.
Adequate Assurance	There is no more than one high level recommendation.	There are three to seven medium level recommendations.	There are seven to twelve low level recommendations.
Limited Assurance	There are two or more high level recommendations.	There are more than seven medium level recommendations.	There are more than twelve low level recommendations.

Appendix 3**Glossary of Terms for External Clients where they are different to the County Council****Staffordshire Police** *(incorporating the Office of the Police & Crime Commissioner and Staffordshire Police Force)*

Senior Management	Chief Finance Officer
Board	Ethics, Transparency & Audit Panel
Recipients of Audit Reports	Contained within the annual Audit Strategy & Plan document

Stoke on Trent and Staffordshire Fire Authority

Senior Management	
Board	Audit Committee
Recipients of Audit Reports	Contained within the annual Audit Strategy & Plan document

South Staffordshire Council

Senior Management	Section 151 Officer Monitoring Officer
Board	Audit Committee
Recipients of Audit Reports	Contained within the annual Audit Strategy & Plan document

