

Report of:	Head of Governance and Corporate Services
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Key Decision:	No
Report Track:	Audit & Gov Cttee: 19/06/18

AUDIT & GOVERNANCE COMMITTEE**19 JUNE 2018****REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT****1 Purpose of Report**

- 1.1 For members of the Audit & Governance Committee to consider the findings of the annual review of the effectiveness of internal audit.

2 Recommendations**2.1 That Members:**

- (i) note the findings of the annual review of the effectiveness of internal audit for 2017-18;
- (ii) note that Internal Audit generally conforms to the Public Sector Internal Audit Standards, is operating effectively and can be relied upon when considering the Annual Governance Statement for 2017-18.
- (iii) approve the revised Internal Audit Charter and in particular the introductions of the safeguards at paragraph 7.5 for dealing with conflicts of interest when auditing areas where the Chief Internal Auditor has operational management responsibility.

3 Key Issues and Reasons for Recommendation

- 3.1 The Public Sector Internal Audit Standards (PSIAS) require the Council to undertake a periodic review of the effectiveness of its internal audit and demonstrate conformance. The Quality Assurance & Improvement Programme states that this will be an annual review for the Shared Internal Audit function.

- 3.2 The review has comprised:

- i. the Chief Internal Auditor has conducted a self-assessment of the section in relation to compliance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN); and
 - ii. an independent review of the self-assessment was conducted by the Head of Governance and Corporate Services.
 - iii. An External Quality Assessment (EQA) carried out by Cipfa in November 2016. The outcome of this review was presented to the Audit Committee in March 2017.
- 3.3 The review concluded that Internal Audit is effective and conforms sufficiently with the requirements of PSIAS/LGAN to ensure that the opinion given in this Annual Report can be relied upon for assurance purposes. The full results of the review are given in a separate report to the Audit and Accounts Committee.
- 3.4 One area of significant non-conformance with the standards was identified and this relates to PSIAS 1110 Organisational Independence. The standards require the “Chief Audit Executive” to report functionally to the Board and indicate that this includes the Audit Committee Chair and Chief Executive commenting on the Performance Development Review and the Audit Committee setting remuneration for the “Chief Audit Executive”. This is not a common practice in Local Government where Members do not routinely get involved in detailed employment matters. It is felt that sufficient other safeguards to the independence of Internal Audit are currently in place within the Council such as allowing the Chief Internal Auditor the unfettered right of access to the Audit Committee Chair and Chief Executive to raise any concerns. It is therefore felt that this area of non-conformance does not compromise the effectiveness of Internal Audit although PSIAS/LGAN requires it to be disclosed in the Annual Audit Report.
- 3.5 There was a need to update the Audit Charter following the review and in particular to introduce documented safeguards for the auditing of areas where the Chief Internal Auditor has operational management responsibility.

4 Relationship to Corporate Priorities

- 4.1 This report supports the Council’s Corporate Priorities as follows:
- (i) The system of internal control is a key element of the Council’s corporate governance arrangements which cut across all corporate priorities.

5 Report Detail

- 5.1 This is the sixth review following the introduction of the Public Sector Internal Audit Standards and Local Government Application Note (PSIAS/LGAN). The Chief Internal Auditor has prepared a self-assessment against conformance with these requirements as well as updating the self-assessment against the Role of the Head of Internal Audit document.

- 5.2 The review by the Head of Governance and Corporate Services, which included a review of both of the self-assessments, has confirmed the findings that there were no areas of significant non-conformance with the PSIAS/LGAN or the paper on the Role of the Head of Internal Audit. For the areas of partial conformance the effectiveness of the section was not considered to be seriously affected; a small number of the areas partial compliance with PSIAS/LGAN is considered to be acceptable due to local circumstances.
- 5.3 PSIAS/LGAN require any significant non-conformance with the Standards to be disclosed in the Annual Audit Report. One area of significant non-conformance with the standards was identified and this relates to PSIAS 1110 Organisational Independence. The standards require that the “Chief Audit Executive” reports functionally to the Board and indicate that this includes the Audit Committee Chair and Chief Executive commenting on the PDR and the Audit Committee setting remuneration for the “Chief Audit Executive”.
- 5.4 This is not a common practice in Local Government where Members do not routinely get involved in detailed employment matters. There are sufficient other safeguards to the independence of Internal Audit currently in place within the Council such as allowing the Chief Internal Auditor the unfettered right of access to the Audit Committee Chair and Chief Executive to raise any concerns. It is therefore considered that this area of non-conformance does not compromise the effectiveness of Internal Audit.
- 5.5 For the areas of partial conformance the effectiveness of the section was not considered to be seriously affected; a small number of areas of partial conformance with PSIAS/LGAN is considered to be acceptable due to local circumstances.
- 5.6 Summaries of the reviews of compliance are attached as follows:
- (i) the Public Sector Internal Audit Standards and the Local Government Application Note - attached at Appendix 1; and
 - (ii) the Cipfa paper on the Role of the Head of Internal Audit in Public Service Organisations - attached at Appendix 2.
- 5.7 In addition to the compliance with professional standards the section has also reviewed:
- (i) the performance of the service ie the delivery of the audit plan; and
 - (ii) the quality of the service
- More information on the performance of the Service is contained in the Annual Internal Audit Report.
- 5.8 The review of the self-assessments by the Head of Governance and Corporate Services was in agreement with the views of the Chief Internal Auditor.
- 5.9 The External Auditors have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.

- 5.10 The review also takes into account the outcome of the External Quality Assessment which was carried out in November 2017 and which was reported to the Committee in March 2017. Appendix 3 contains a progress report on the Recommendations made in the EQA.
- 5.11 From the review a small number of areas for improvement have been identified and these are contained in an Improvement Plan which is attached as Appendix 4. This includes actions outstanding from the EQA Action plan.
- 5.12 The review identified a need to update the Internal Audit Charter following the introduction of a revised PSIAS in April 2017. There was also a need to include documented safeguards for auditing areas where the Chief Internal Auditor has operational management responsibility. This follows the Chief Internal Auditor taking on the operation management of Insurance and Risk Management across the Shared Service and Health & Safety for Cannock Chase DC only. PSIAS requires the safeguards to be documented and approved by the Audit Committee paragraph 7.5 of the Charter has been added to document the safeguards put in place. The revised Charter is attached as Appendix 4 for approval by the Committee.
- 5.13 Overall, the review of the effectiveness of Internal Audit for 2017-18 has shown that Internal Audit is operating effectively and generally conforms to the PSIAS. Therefore the work of the Internal Audit Section can be relied upon when considering the Annual Governance Statement for 2017-18.

6 Implications

6.1 Financial

None

6.2 Legal

None

6.3 Human Resources

None

6.4 Section 17 (Crime Prevention)

None

6.5 Human Rights Act

None

6.6 Data Protection

None

6.7 Risk Management

None

6.8 Equality & Diversity

None

6.9 Best Value

None

7 Appendices to the Report

- Appendix 1 Summary of Compliance with the Public Sector Internal Audit Standards and the Local Government Application Note.
- Appendix 2 Summary of Compliance with Cipfa's paper on the Role of the Head of Internal Audit.
- Appendix 3 External Quality Assessment Action Plan Progress Report
- Appendix 4 Revised Internal Audit Charter

Previous Consideration

None

Background Papers

Files available from the Chief Internal Auditor

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Appendix 1

SUMMARY OF CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) AND LOCAL GOVERNMENT APPLICATION NOTE (LGAN) – 2017-18

Conformance with the Standard	Y	P	N	Comments
Mission of Internal Audit				
The PSIAS sets out the Mission of Internal Audit as “To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”	✓			The working practices of the Internal Audit function are in accordance with this mission.
Definition of Internal Auditing				
The PSIAS defines Internal Audit as - “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.”	✓			Internal Audit has adopted the PSIAS definition and this is included in the Audit Charter
Core Principles for the Professional Practice of Internal Audit				
<p>The PSIAS sets out the Core Principles as follows.</p> <ul style="list-style-type: none"> • 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. 	✓			The section complies with these principles in general but some work is needed to update documentation and working practices to ensure that evidence of this is retained. In particular, documented safeguards need to be put in place to protect the independence of Audit as the Chief Internal Auditor took on non-audit responsibilities from 1 st April 2017. These safeguards will be approved by the Audit Committee.

Conformance with the Standard	Y	P	N	Comments
Code of Ethics				
<p>The Code of Ethics contained in PSIAS applies to all Internal Auditors working in the Public Sector in addition to any requirements placed on them by other professional bodies. It is aimed at promoting an ethical culture across the profession of Internal Audit and is seen as essential in ensuring the trust placed in Internal Auditors to provide objective assurance about the organisation’s risk management, control and governance arrangements.</p> <p>The Code of Ethics covers the following areas:</p> <ul style="list-style-type: none"> • Integrity • Objectivity • Confidentiality • Competency <p>Public Sector Internal Auditors are also required by PSIAS to have regard to the “Seven Principles of Public Life” as defined by the Committee on Standards in Public Life which cover:</p> <ul style="list-style-type: none"> • Selflessness • Integrity • Objectivity • Accountability • Openness • Honesty • Leadership 	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			<p>Internal Audit complies with the Code of Ethics and a copy of this has been issued to all members of the team.</p>
Attribute Standards				
1000 – Purpose, Authority and Responsibility				
<p>The purpose, authority and responsibility of the internal audit activity must be formally defined in an audit charter. The internal audit charter is a formal document setting out:</p> <ul style="list-style-type: none"> • internal audit’s position within the organisation; • its reporting lines; • access to personnel, information and records; • the scope of internal audit activities • define what the term “board” means (It is anticipated that the Audit Committee will generally fulfil the duties assigned to the board for the Council.) <p>The charter must be periodically reviewed and presented to senior management and the board.</p>	<p>✓</p>			<p>The current Charter was approved by the Audit Committee in June 2016 when it was updated to build in the Mission and Core Principles.</p> <p>A review of the Charter was carried out in 2017 to update further PSIAS changes and to take into account the non-audit duties taken on by the Chief Internal Auditor.</p>

Conformance with the Standard	Y	P	N	Comments
1100 – Independence & Objectivity				
<p>Internal Audit activity must be independent and internal auditors must be objective in performing their work. This comes from the position of Internal Audit in the organisation and ensuring that Internal Audit management has unrestricted access to the Audit Committee and Senior Managers should this be necessary. Internal Auditors should also not be compromised in their work by personal views or having operational responsibility for other areas. Any impairments or potential to independence or objectivity must be reported to appropriate parties.</p> <p>Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:</p> <ul style="list-style-type: none"> • approving the internal audit charter; • approving the risk based internal audit plan; • approving the internal audit budget and resource plan; • receiving communications from the chief audit executive on the internal audit activity’s performance relative to its plan and other matters; • approving decisions regarding the appointment and removal of the chief audit executive; • approving the remuneration of the chief audit executive; and • making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations. <p>Governance requirements in the UK public sector would not generally involve the board approving the CAE’s remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.</p>		✓		<p>The Terms of Reference for the Audit Committee have been to reflect their role in approving the Audit Charter.</p> <p>The Chair of the Audit Committee does not have a role in the appointment of the “Chief Audit Executive” or contribute feedback to the PDR. This is outside the scope of normal Council operations and is the only major area of non-conformance with PSIAS. However the Head of Governance and Corporate Services who manages the Chief Internal Auditor is directly managed by the Managing Director and any concerns from the Managing Director relating to Internal Audit would be raised with her.</p>

Conformance with the Standard	Y	P	N	Comments
1200 – Proficiency & Due Professional Care				
<p>The Internal Audit Team should have the correct knowledge, skills and competencies for the work that it carries out and to ensure they enhance knowledge and skills through Continuing Professional Development. The PSIAS specifically requires the “Chief Audit Executive” to hold a relevant professional qualification. Due professional care must be taken to ensure appropriate work is undertaken to identify risks, support findings and meet the objectives of all work undertaken.</p>	✓			<p>The Chief Internal Auditor and one of the Senior Auditors are Cipfa Qualified and we have 1 ACCA qualified member in the team. The annual PDR process ensures members of the team follow CPD requirements. The Council is currently registered as CPD Accredited body with Cipfa, ACCA and AAT.</p> <p>Where external support is required this is done via the appointment of suitably qualified contractors.</p> <p>Working practices are defined and have been clarified further with the development of the new methodology.</p> <p>A competency framework has been produced and is used to inform the PDR process.</p>

Conformance with the Standard	Y	P	N	Comments
1300 – Quality Assurance and Improvement Programme				
<p>A quality assurance and improvement programme is designed to:</p> <ul style="list-style-type: none"> • allow an assessment of Internal Audit’s activity against the PSIAS requirements; • to assess the efficiency and effectiveness of Internal Audit’s activity; • identify opportunities for improvement. <p>This requires both internal and external assessments to be performed. The PSIAS requires an independent external assessment to be carried out at least once every five years. Both internal and external assessments have to be carried out by individuals or organisations who have sufficient knowledge of Internal Audit standards and operation.</p> <p>The outcome of the review must be reported to the Board and Senior Management as part of the Internal Audit Annual Report which must disclose any areas of non-conformance with PSIAS. Where these are significant they should be considered for inclusion in the Annual Governance Statement.</p>	<p>✓</p> <p>✓</p> <p>✓</p>			<p>A QAIP was approved by the Audit Committee in June 2015.</p> <p>The section had its EQA in November 2016 which stated that there were no areas of non-compliance which would affect the scope or operation of the section. The Report and Action Plan was presented to both Audit Committees in March 2017.</p>
Performance Standards				
2000 – Managing the Internal Audit Activity				
<p>The Chief Audit Executive must effectively manage the internal audit activity to ensure it adds value to the organisation.</p> <p>This includes the development of a risk based audit plan to inform the Annual Audit Opinion. The Plan should be presented to Senior Management and the Board for approval. The Chief Audit Executive should ensure the resources available to the team are sufficient, appropriate and effective to deliver the audit plan and that any limitations which may impact on the plan or the annual audit opinion are reported to the Board.</p> <p>Where possible the work of Internal Audit should be coordinated with other providers of assurance to ensure appropriate coverage and minimise duplication.</p> <p>Internal Audit’s activity must be reported to Senior Management and the Board. This should include performance in delivering the audit plan, significant risks or control issues identified and any other relevant matters.</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			<p>The team follow a risk based plan which is approved by Leadership Team and the Audit Committee</p> <p>A detailed assurance map has not been developed due to time and resources pressures. An overview of other assurance providers is obtained where possible.</p> <p>Performance is reported quarterly to the Head of Governance and Corporate Services and the Audit Committee</p>

Conformance with the Standard	Y	P	N	Comments
2100 – Nature of Work				
Internal Audit's activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.	✓			The Internal Audit team provide recommendations as part of their work which will improve the Council's governance framework. In addition ad hoc advice and consultancy is provided in relation to changes in systems.
2200 – Engagement Planning				
A plan/brief should be prepared for each piece of audit work carried out to include the scope, objectives, timing and resource allocation. The scope should be sufficient to contribute to the annual audit opinion. Sufficient and appropriate resources should be identified for each review to achieve the intended objectives of the review.	✓			<p>Internal Audit has defined procedures which include producing and agreeing a brief for each assignment. The annual audit plan is produced to provide adequate coverage to inform the annual audit opinion</p> <p>The revised working practices have shifted the focus of audit work to further improve testing of key risks for areas under review. However limitations in the Council's Risk Management Process have limited the Sections ability to rely on risk registers. Therefore Internal Audit has to perform its own risk identification process as part of each audit.</p> <p>Supervision of engagements is more continuous throughout the audit rather than all being at the end of the work.</p>

Conformance with the Standard	Y	P	N	Comments
2300 – Performing the Engagement				
Internal Auditors should identify sufficient, reliable, relevant and useful information to achieve the objectives of the review. Conclusions should be based on the results of appropriate analysis and evaluation of the evidence and sufficient information documented to allow the testing to be repeated.	✓			All assignments are completed in line with agreed working practices and are subjected to a file review process to verify that the conclusions and recommendations made are supported by sufficient evidence derived from appropriate audit testing.
2400 – Communicating Results				
Results of audit work should be reported and where the section issues an opinion or conclusion it must be supported by sufficient relevant information. Communications must be accurate, clear, concise and timely and issued to appropriate parties. In the Public Sector an annual audit report containing an audit opinion must be issued so that it can be used by the organisation to inform its Annual Governance Statement.	✓			See 2300 above
2500 – Monitoring Progress				
The results of audit work should be monitored to identify that management actions are being effectively implemented or that management accepts the risks of not taking action.	✓			All action plans are agreed by management or acceptance of risks relating to non-implementation is obtained. Internal Audit follow-up areas which are not deemed to be effective to monitor the progress made in implementing the agreed recommendations. The Audit reports refer to the Council's risk management framework/risk appetite when providing audit opinions and classifying recommendations.

Conformance with the Standard	Y	P	N	Comments
2600 – Communicating the Acceptance of Risks				
When the Chief Audit Executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the Chief Audit Executive must discuss the matter with senior management. If the Chief Audit Executive determines the matter has not been satisfactorily resolved they should communicate the information to the board.	✓			A process is in place where such matters would be discussed initially with the relevant member of Leadership Team. Areas where management are accepting a significant risk without some action would be reported to the Audit Committee for consideration. However it is noted that the need for this rarely occurs.

Appendix 2**SUMMARY OF COMPLIANCE WITH THE CIPFA PAPER ON THE ROLE OF HEAD OF INTERNAL AUDIT – 2017-18**

Adherence to the Standard	Yes	Partial	No
1. The Head of Internal Audit (HIA) in a Local Authority plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments.			
Chief Internal Auditor's (CIA) role in governance and how it fits with other key officers (s151, Head of Paid Service & Monitoring Officer) is defined in the Job Description	✓		
Managers do not always adequately consult with Internal Audit on changes to systems or new projects/initiatives to ensure adequate governance arrangements are in place. However most major changes in processes are consulted on.		✓	
The Council have a number of policies in place relating to conduct of employees and governance arrangements. However a number of these are in need of updating and more work needs to be done to promote compliance with the policies across the Council.		✓	
HIA does promote good governance, behaviour and high standards across the authority.	✓		
There is a corporate requirement to report suspected or confirmed frauds to Internal Audit	✓		
2. The HIA in a Local Authority plays a critical role in delivering the organisation's strategic objectives by giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.			
Internal Audit is separate to External Audit. IA has defined terms of reference which cover key relationships as well as reporting arrangements. The CIA has arrangements for providing an opinion on the governance arrangements which feeds into the Annual Governance Statement but the HIA is not responsible for writing the AGS. The HIA has operation responsibilities for Insurance, Risk Management and Health Safety (the latter at CCDC only) safeguards have been put in place to ensure that the HIA's conflicts of interest in these areas are managed effectively.	✓		
The Council does not have a clear system to prompt reviews of key policies on a periodic basis. This means that policies which ensure and promote good governance are not always regularly reviewed and updated.		✓	
HIA has responsibility and the remit to review the Council's control environment and governance arrangements including risk management and significant partnerships, the result of audit work is reported and an annual opinion provided. The HIA liaises with External Audit to share knowledge and maximise the use of resources but EA do not direct the work of IA.	✓		
The HIA is able to report in their own name without fear or favour. The HIA works well with other key officers to bring key issues to the attention of the Leadership Team & Audit Committee to ensure significant recommendations are implemented.	✓		

Adherence to the Standard	Yes	Partial	No
3. The HIA in a Local Authority must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee.			
HIA functions are generally carried out by the Chief Internal Auditor although some aspects are shared with the Head of Governance. Both these officers are sufficiently senior and independent within the Council's structure to allow the HIA role to be carried out effectively. Internal Audit have unfettered right to documents and to seek explanations.	✓		
The Chief Internal Auditor is managed by the Head of Governance and Corporate Services who is part of the Leadership Team. Both officers work to raise the profile of Internal Audit.	✓		
The Council has an audit committee which operates in line with best practice. The terms of reference for the Committee and IA set out the relationships of the Chief Internal Auditor to the committee.	✓		
The Audit Strategy and Audit plan are discussed with the Leadership Team and the Audit Committee prior to being finalised.	✓		
4. The HIA in a Local Authority must lead and direct an internal audit service that is resourced and fit for purpose.			
Internal Audit aims to meet the needs of the council and external stakeholders. IA has established an appropriate quality assurance framework and the team are always looking for ways to develop the effectiveness of the service. The IA team aim to lead by example with high standards including integrity, objectivity, openness, competence and confidentiality.	✓		
Where resources/skills are lacking in-house (eg IT Audit) the section looks to bring in outside expertise. During the Audit Plan process the CIA assesses resources against the need to carry out a satisfactory level of audit work to inform the annual opinion. Adequate recruitment procedures exist to select appropriate employees/suppliers to deliver internal audit work. The skills and needs of the team are assessed and training is sought to maintain/develop appropriate skills.	✓		
5. The HIA in a Local Authority must be professionally qualified and suitably experienced.			
The Chief Internal Auditor is Cipfa qualified and suitably experienced Internal Auditor to effectively perform the role. The CIA adheres to professional and Internal Audit standards.	✓		
The Chief Internal Auditor has sufficient knowledge of the Internal Audit and regulatory environment as well as an awareness of the full range of the Council's activities and processes.	✓		

EXTERNAL QUALITY ASSESSMENT ACTION PLAN PROGRESS REPORT 2017-18

Source	Actions	Person Responsible for Implementation	Timescale
PSIAS	The Internal Audit Charter requires update to reflect the new PSIAS which became effective 1 st April 2017 and to document the safeguards to deal with the Chief Internal Auditors conflicts of interest when auditing areas for which they have operational management responsibility.	Chief Internal Auditor	June 2018
PSIAS	Further work is needed to develop evidence to show conformance with the Core Principles – the Charter has been updated but work is ongoing to identify appropriate evidence to demonstrate conformance.	Chief Internal Auditor	June 2019

ITEM NO. 4.

Internal Audit Charter

June 2018



working together

1 Introduction

- 1.1 The Internal Audit Charter is a formal document that defines Internal Audit's purpose, authority and responsibility. The charter establishes Internal Audit's position within the organisation, including the nature of the Chief Internal Auditor's functional reporting relationship with the Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit's activities. It provides a framework for the conduct of the service and has been approved by the Council's Leadership Team and the Audit Committee¹.
- 1.2 The requirement for an Internal Audit function derives from local government legislation, including section 151 of the Local Government Act 1972 which requires that all Local Authorities must "make arrangements for the proper administration of their financial affairs". More specific requirements are set out in the Accounts and Audit Regulations 2015 which require the Council to "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". This is reinforced in the Council's Financial Regulations.

2 Purpose of Internal Audit

- 2.1 The definition provided in the Public Sector Internal Audit Standards (PSIAS) is:

"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."

- 2.2 Internal Audit is therefore an assurance function which primarily provides an independent and objective opinion to the Council on its governance arrangements and internal controls.
- 2.3 The Internal Audit Section does this by conducting an independent appraisal of all the Council's activities, financial and otherwise. It provides a service to the whole of the Council and to all levels of management.
- 2.4 The PSIAS also includes a Mission for Internal Audit which is *"To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight."* The policies and processes established by Internal Audit will work towards the delivery of this Mission. These include complying with the Core Principles for the Professional Practice of Internal Audit which are also set-out in the PSIAS.

¹ The term Audit Committee is used throughout the document - this will refer to the Audit & Governance Committee at Cannock Chase DC and the Audit & Accounts Committee at Stafford BC

3 Objectives of Internal Audit

- 3.1 The objective of the Internal Audit Section is to give assurance to the Council on the adequacy of its governance arrangements. The key elements of this are:
- To provide advice and support to ensure an effective control environment is maintained including completeness, reliability and integrity of financial, performance, risk and other management information and the methods for safeguarding assets;
 - To contribute to the achievement of Corporate objectives by recommending improvements in control and performance of the systems established;
 - To ensure compliance with corporate and departmental policies and procedures and legislative requirements; and
 - To provide advice and guidance to ensure Managers have developed effective arrangements to promote appropriate ethics and values within the Council and arrangements to prevent and detect fraud and corruption, this will including input in to the key policies such as Financial Guidelines and Anti-fraud & Bribery Frameworks.

4 Scope & Authority of Internal Audit

- 4.1 All of the Council's activities, regardless of funding source, may be subject to review by Internal Audit. Internal Audit work will cover all of the operational and management controls within the Council. This does not imply that all systems will be subjected to review in any given year, but that all systems will be included in the audit planning process and hence be considered for review following the assessment of risk.
- 4.2 The scope of audit work extends to services provided through partnership arrangements (including Shared Services). The Chief Internal Auditor will decide, in consultation with all parties, whether Internal Audit will conduct the work to derive the required assurance themselves or rely on assurance provided by other auditors. Where relevant, appropriate access rights will be negotiated and included in contracts and partnership agreements to ensure that Internal Audit can obtain access to the personnel and records within the partner organisation to obtain the necessary assurances.
- 4.3 The Internal Audit Section will consider the adequacy of the controls established by managers to secure propriety, economy, efficiency and effectiveness in all areas.
- 4.4 It is not the remit of the Internal Audit Section to question the appropriateness of policy decisions. However, the Section is required to examine the management arrangements of the Council by which such decisions are made, monitored and reviewed, how policies are applied by the Council and also compliance with agreed policies.

- 4.5 The Internal Audit Section may also conduct any special reviews, provide independent and objective services, such as consultancy and fraud related work as requested by Management. There will always be due consideration in planning this work to ensure that the Section maintains its objectivity and independence. The impact of taking on additional work on the audit plan will be taken into account and where necessary reported to the Head of Governance and the Audit Committee for approval.
- 4.6 Internal Audit does not have responsibility for the prevention and detection of fraud or corruption. It is the responsibility of all Managers to ensure appropriate procedures are put in place to prevent and detect fraud. Internal Auditors should however, be alert in all their work to risks and exposures that could allow fraud or corruption to occur and to any indications that fraud or corruption may have been occurring.
- 4.7 In line with the Council's Anti-fraud and Corruption Framework, the Chief Internal Auditor should be notified of all suspected or detected fraud, corruption or impropriety within the Council. Where relevant the Internal Audit Section will advise and assist Managers in the investigation of the fraud and corruption.

5 Responsibility of Internal Audit

- 5.1 The Council has a responsibility for conducting, at least annually, a review of the effectiveness of the governance arrangements and producing an Annual Governance Statement. The review of the effectiveness of the governance arrangements is informed by:
- the work of the Internal Auditors;
 - information from the managers within the authority who have responsibility for the development and maintenance of governance arrangements; and
 - comments made by the external auditors and other review agencies and inspectorates.
- 5.2 To assist with this review the Chief Internal Auditor will produce an annual Internal Audit report summarising the areas that have been subject to Internal Audit review in the year. This annual report will include an opinion, based on the areas examined, on whether the Council's governance arrangements, including those for economy, efficiency and effectiveness, are adequate and have been properly applied in the year.
- 5.3 In order to provide the required opinion the Internal Audit Section will undertake a programme of work on the advice of the Chief Internal Auditor. The programme of work will aim to achieve the following objectives:
- to appraise the soundness, adequacy, and application of the whole internal control system;
 - to ascertain the extent to which the systems of internal control ensure compliance with current policies and procedures;
 - to ascertain the extent to which assets and interests entrusted to or funded by the Council are properly controlled and safeguarded from losses arising from fraud, irregularity or corruption;

- to ascertain that accounting and other information is reliable as a basis for the production of accounts, and financial, statistical and other returns;
 - to ascertain the integrity and reliability of financial and other information provided to management, including that used in the decision making processes;
 - to ascertain that systems of control are laid down and operate to promote the economic and efficient use of resources;
 - to investigate, where appropriate, frauds or significant breaches of the internal control system.
- 5.4 Managers and not Internal Audit have ultimate responsibility for ensuring that internal controls throughout the Council are adequate and effective. This responsibility includes the duty to continuously review internal controls and ensure that they remain suitable in design and effective in operation. The existence of Internal Audit does not diminish the responsibility of management to establish and maintain systems of internal control to ensure that activities are conducted in a secure, efficient and effective manner.
- 5.5 Responsibility for the response to advice and recommendations of Internal Audit lies with management, who either accept and implement the advice or formally reject it accepting the risks involved in doing so. Internal Audit advice and recommendations are given without prejudice to the right of Internal Audit to review and offer an opinion on the relevant policies, procedures and operations at a later stage.

6 Statutory Requirement and Standards of Approach

- 6.1 The work of the Internal Audit Section will be performed with due professional care and in accordance with the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS) and any subsequent guidance which updates or replaces these.
- 6.2 The Internal Audit Section will adopt a predominantly risk based systems approach to auditing in order to meet its primary objective of reviewing the governance arrangements of the Council. In undertaking its work the Section will:
- identify all elements of control systems on which it is proposed to place reliance;
 - evaluate those systems, identify inappropriate or inadequate controls and recommend improvement in procedures or practices;
 - provide advice on the management of risk, predominantly but not exclusively surrounding the design, implementation and operation of systems of internal control;
 - produce clear reports that provide management with an opinion on the soundness, adequacy and application of internal controls;
 - ascertain that those systems of internal control are designed and operate to achieve the most economic, efficient, and effective use of resources;
 - draw attention to any apparently uneconomical or unsatisfactory results flowing from decisions, practices or policies;

- contribute to the general management and conduct of business through the provision of expertise on appropriate working-groups and participation in ad-hoc exercises, subject to adequate resources being available in the audit plan; and
 - liaise with External Auditors.
- 6.3 All Internal Auditors working in Local Government are required to comply with the Code of Ethics contained in PSIAS in addition to any requirements placed on them by the Council or any other Professional Body that they are members of.
- 6.4 The Internal Audit Section will work in accordance with the Core Principles for the Professional Practice of Internal Audit as set out in the PSIAS.
- 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.

7 Independence of Internal Audit

- 7.1 The Internal Audit Section will remain independent of the systems and procedures which are subject to its review. Internal Audit will also remain free from interference by any element of the Council and the scope of its work will not be restricted in any way.
- 7.2 To enable the auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations Internal Audit staff will not be responsible for activities outside of Internal Audits main responsibilities. All audit staff will act with due professional care ensuring that they are fair and objective, free from any conflicts of interest and abide by professional standards and guidelines.
- 7.3 In seeking to provide an independent and objective opinion it is accepted that, being located within the organisation, the Internal Audit function cannot be wholly independent of all management. Internal Audit's independence will therefore be achieved through its organisational status and from the fact that the Chief Internal Auditor has no other areas of responsibility other than the Internal Audit function.

- 7.4 The Chief Internal Auditor reports to the Head of Governance but has the right to report directly to the s151 Officer, Chief Executive/Managing Director, Monitoring Officer, Chair of the Audit Committee or External Auditor where it is deemed necessary. The Head of Governance has other areas of responsibility which may compromise their independence when these areas are subjected to audit, where this occurs the Chief Internal Auditor can invoke the right to report directly to others.
- 7.5 Since 2017 the Chief Internal Auditor has taken on operational responsibility for Risk Management, Insurance for both Councils and Health & Safety at Cannock Chase DC only. Where these areas are to be audited the Chief Internal Auditor will act as the client and the Principal Auditor will lead the audit reporting directly to the Head of Governance. Wherever possible an external contractor or an auditor from another Local Authority will be asked to carry out to the audit to bring further independence to the review.
- 7.6 The Chief Internal Auditor will make the Audit Committee aware if the independence of Internal Audit is impaired or appears to be impaired. The nature of such a disclosure will depend upon the nature of the impairment.
- 7.7 Internal Audit staff are often consulted during system, policy or procedure development. This is a good practice as it enables comments to be made on potential control weaknesses and tries to ensure that systems, policies or procedures are adequate prior to being introduced. However, this does not preclude Internal Audit staff from reviewing and making comments for improvements during routine audits or other reviews where they were consulted during the system, policy or procedure development stage.
- 7.8 The Internal Audit Section determines its work priorities in consultation with Leadership Team, the s151 Officer and the Audit Committee.
- 7.9 The Chief Internal Auditor reports to the Audit Committee in relation to the delivery of the Internal Audit Plan, the Internal Audit Annual Report and periodic updates of Internal Audit work.
- 7.10 The Chief Internal Auditor is responsible for the content of all written reports produced by the Section. The Chief Internal Auditor has the right to report in his own name and offer an audit opinion without “fear or favour” to all officers and members and in particular to those charged with governance at the Council.

8 Authority and Rights of Access

- 8.1 In order to perform their duties Internal Audit has the authority, as set out in the Council’s Financial Regulations, to:
- enter at all reasonable times, any Council premises or land;
 - have access to all records, documents, correspondence and computer systems relating to the Council and its activities;
 - require and receive such explanations as necessary concerning any matter under examination;

- require any employee of the Council to produce records, cash, stores or any other Council property under their control, necessary to carry out their duties;
- have the right to direct access to the s151 Officer, Chief Executive/Managing Director, Chair of the Audit Committee, Leader of the Council and External Auditors, where it is deemed necessary.

These powers are supported by the Accounts & Audit Regulation 2015.

- 8.2 Where necessary such rights of access may be called upon and should be granted to Internal Auditors on demand and not subject to prior notice or approval.
- 8.3 All employees are required to assist Internal Audit in fulfilling its roles and responsibilities.
- 8.4 The Internal Audit Section will comply with any requests from External Auditors for access to any information, files or working papers obtained or prepared during the audit work that they need in order to discharge their responsibilities.

9 Objectivity & Confidentiality

- 9.1 Internal Auditors must demonstrate the highest level of professional objectivity in gathering, evaluating and communicating information about the function or process being examined. They must make a balanced assessment of all relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.
- 9.2 All records, documentation and information accessed in the course of undertaking Internal Audit activities shall be used solely for that purpose. The Chief Internal Auditor and individual Internal Auditors (including contractors and external providers performing work on behalf of Internal Audit) are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work.
- 9.3 All Internal Audit reports are confidential however they may be requested under the freedom of information legislation. The Chief Internal Auditor must be consulted before making the report available under the Freedom of Information Act and where necessary elements of the report can be redacted.
- 9.4 The Chief Internal Auditor should also be consulted before any Internal Audit Report or extracts from it are included in a committee report or released to any other party.

10 Internal Audit Resources

- 10.1 The Council has a duty to provide sufficient resources to allow an adequate and effective Internal Audit service to be provided. Where it is felt that the resources are inadequate to meet the objectives of the Internal Audit Section, the Chief Internal Auditor in conjunction with the Head of Governance, will formally report this to the s151 Officer, Chief Executive/Managing Director and the Audit Committee.
- 10.2 The staffing structure of the section will comprise a mix of professional and technician posts in order to provide a wide knowledge and skills base. The Chief Internal Auditor will hold a relevant professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. The s151 Officer will be involved in the recruitment of the Chief Internal Auditor.
- 10.3 The Chief Internal Auditor is responsible for ensuring that Internal Auditors receive appropriate training and experience to fulfil their duties and that levels of competence are maintained via the use of continual professional development.
- 10.4 Where necessary access to appropriate specialists from other departments or external sources should be made available to the Internal Audit Section to assist in any audit or investigation requiring detailed specialist knowledge.

11 Internal Audit Management

- 11.1 The Chief Internal Auditor is responsible for the day-to-day management of the Internal Audit Section and fulfils the requirements of the “Chief Audit Executive” role required by the PSIAS. The Chief Internal Auditor will:
- prepare an audit plan to review all relevant areas, and to update the plan regularly to account for changes in Council priorities and risks. The plans will be presented to the Audit Committee annually;
 - produce a portfolio of work for each auditor to achieve the annual audit plan;
 - ensure the issue of an Audit Brief for each assignment undertaken setting out the scope and objectives of the work, timescales and reporting arrangements;
 - ensure that relevant testing is carried out on which sound judgements can be based;
 - ensure that work is undertaken, completed and issued in a timely manner;
 - ensure that a written report is produced for each assignment giving an opinion on the control environment and identifying actions to address any weaknesses;
 - ensure that follow-up work is undertaken, where appropriate, to monitor the implementation of agreed management actions;
 - ensure that all audit work is completed to high standards in accordance with relevant professional standards;
 - establish and maintain effective relationships with managers of all levels and obtain feedback from them on the work of the section including the use of user satisfaction surveys;

- monitor the work of the Audit Committee and consider, where appropriate, whether changes need to be made to the Internal Audit Plan as a result of the issues arising from the work of the Audit Committee.
- establish and maintain effective relationships with the External Auditors;
- monitor the effectiveness of the service delivered to clients and compliance with relevant standards:
- undertake an annual review of the development and training needs of Internal Audit employees and arrange for appropriate training to be provided to address the needs where possible: and
- develop and maintain a quality assurance and improvement programme covering all aspects of Internal Audit Activity.

12 The Internal Audit Plan

- 12.1 The work of the Internal Audit Section is based on the delivery of a risk based Audit Plan and is conducted on a predominantly risk based systems audit approach. The Section prepares a new Audit Plan each year in line with the requirements of the PSIAS.
- 12.2 The Audit Plan is derived from all of the areas that have been identified for review following an assessment of the risks relating to each area.
- 12.3 Account is taken of the risks identified in the Council's strategic risk register and from other sources of assurance such as external inspections and performance management information. Internal Audit also undertakes its own assessment of the risks inherent in the potential areas for audit review based on a number of criteria adapted from a risk scoring model developed by the Institute of Internal Auditors.
- 12.4 Each area of activity is scored across a range of criteria which include income, expenditure, complexity of regulations, sensitivity of the system, and known issues/weakness.
- 12.5 The resulting scores are banded into three risk categories
- High
 - Medium; and
 - Low.
- 12.6 The risk scores are reviewed each year. The review results in some scores increasing, some decreasing and some remaining unchanged. This in turn has an affect on the risk category assigned to each area, for example a medium risk this year could become a high risk or a low risk next year.
- 12.7 Once the risk scores have been updated the audits are ranked in accordance with the risk scores and this is compared to the resources available within the Section to determine the areas that can be reviewed in the year. The Section will usually review all High Risk areas and a selection of Medium Risk areas each year.

- 12.8 Discussions will be held with all members of Leadership Team each year to obtain input into the identification of the Audit Universe and in the compilation of risk scores. In addition views on the timings of reviews will also be sought from the relevant member of Leadership Team.
- 12.9 The Internal Audit Plan is presented to the Audit Committee for approval, usually in March each year.
- 12.10 Items included on the Internal Audit Plan will be split into 3 categories:
- Key Finance Systems – these are the major finance systems of the Council, e.g. Council Tax, Payroll, General Ledger.
 - Assurance Functions – These are functions which provide the Council with information about how well other systems are operating e.g. risk management, performance management and budget monitoring.
 - Operational Audits – These are the functions of the Council which provide a service to the public or ensure that the Council functions operate e.g. Grounds Maintenance, Housing Allocations and Food Safety Inspections.
- 12.11 In addition to the main Internal Audit Plan a separate IT Audit plan is produced and reported to the Audit Committee. This will cover the key technical IT areas.

13 Other Operational Work

- 13.1 In addition to the delivery of the Internal Audit Plan and following-up the implementation of recommendations made the section also carries out some other operational work. The main types of other operational work are categorised as follows
- **Ad-Hoc Advice** – this is the answering of queries from managers and other employees normally relating to the application of financial regulations, corporate policies or other procedures. These are normally small pieces of work taking less than 2 hours to complete.
 - **Consultancy** – consultancy work is something which is a bit more detailed than the provision of ad hoc advice and will take longer to complete. Consultancy work usually comes from a request from management for Internal Audit to look at an area or provide more detailed advice. Typical examples include – review of changes to processes to ensure adequate controls are built into the system or a review of a minor control failure. Consultancy assignments can range from half a day to several weeks work and require the approval of the Chief Internal Auditor.
 - **Special Investigations** – These are more detailed reviews into control failures, suspected breaches of financial regulations, fraud & corruption offences or other disciplinary offences which involve the misuse of Council assets.

- **Value-for-Money (VFM) Reviews** – These are specific reviews to determine whether Council processes and systems are providing value-for-money. Due to limited capacity in the team it is now rare for specific VFM Reviews to be carried out by Internal Audit. (However Internal Audit does have consideration to VFM factors during planned audit work and in the making of recommendations.)

14 Reporting Lines

- 14.1 The Chief Internal Auditor reports to the Head of Governance for line management purposes. However, alternative reporting lines are available to the Chief Internal Auditor where these are deemed necessary as set out in 7.4.
- 14.2 The Chief Internal Auditor will report to the Audit Committee on the section's performance in terms of the Internal Audit Plan and the reporting of the outcome of the work including the issuing of an annual report and opinion.
- 14.3 The Chief Internal Auditor will present the annual audit plan to members of Leadership Team, the s151 Officer and the Audit Committee. This plan will be approved by the Audit Committee.
- 14.4 An annual report will be presented to the Audit Committee covering the work of the Internal Audit Section at the conclusion of the year. This report will also be a key source of assurance for the Council's Annual Governance Statement (AGS) and must be presented no later than the meeting at which the AGS is considered and approved.
- 14.5 The Chief Internal Auditor will monitor and report on the work of the team on a regular basis. Regular reports outlining progress against the Internal Audit Plan and summarising the assurances given for completed audits will be presented to the Audit Committee.
- 14.6 The Internal Audit Section will produce a written report for all assignments addressed to the Service Lead Officer (normally the relevant member of Leadership Team although it could be a Service Manager where there is no Head of Service).
- 14.7 The Chief Internal Auditor will be responsible for reviewing the implementation of recommendations. At the Chief Internal Auditor's discretion the failure to implement fundamental recommendations or a significant number of recommendations will be reported to the s151 Officer, Monitoring Officer, Chief Executive/Managing Director, relevant member of Leadership Team and the Audit Committee as appropriate.
- 14.8 The Chief Internal Auditor will report to the s151 Officer any serious weaknesses or significant fraud identified from the course of Internal Audit work or reported to Internal Audit. The matter may also be reported to the Chief Executive/Managing Director, Monitoring Officer, relevant member of Leadership Team, the External Auditors and the Audit Committee as appropriate.

15 Quality Assurance and Improvement Programme

- 15.1 The Chief Internal Auditor will develop and maintain a Quality Assurance and Improvement Programme (QAIP) in accordance with PSIAS.
- 15.2 The QAIP will form the basis of the annual review of the system of Internal Audit as required by the PSIAS. For Internal Audit Sections operating in Local Government proper practice is now deemed to be PSIAS plus the Local Government Application Note (LGAN).
- 15.3 The QAIP will show conformance with PSIAS/LGAN requirements and will offer explanations where conformance with PSIAS/LGAN is not achieved. An action plan may be developed as a result of the QAIP to achieve or improve levels of conformance. The outcome of the review and any resulting action plan will be reported to the Audit Committee and a statement regarding conformance with the PSIAS will be included in the Internal Audit Annual Report.
- 15.4 An independent external review of Internal Audit will be carried out as part of the QAIP at least once every five years. The Head of Governance and/or s151 Officer will act as sponsor to agree the scope and nature of the external review with the Chief Internal Auditor and the external reviewer.
- 15.5 Where non-conformance with PSIAS/LGAN impacts on the overall scope or operation of Internal Audit activity the nature of the impact will be disclosed to the Audit Committee. Serious deviations from conformance will need to be considered for inclusion in the Council's Annual Governance Statement.

16 Relationship With Elected Members

- 16.1 The Head of Governance and the Chief Internal Auditor will maintain a working relationship with the Chair and other members of the Audit Committee. Where necessary the Chief Internal Auditor will have direct access to the Chair of the Audit Committee.
- 16.2 Unless stated elsewhere, the Audit Committee will fulfil the roles and responsibilities of "The Board" for the purposes of the PSIAS.

17 Relationship with Senior Management

- 17.1 The members of Leadership Team will fulfil the role of "Senior Management" as defined in the PSIAS. The Chief Internal Auditor will work to maintain an on-going relationship with all members of Leadership Team.
- 17.2 A written report will be produced for each assignment and presented to the relevant member of Leadership Team. This report will:-

- include an overall opinion on the adequacy of the internal control environment for the area under review;
- identify any areas of weaknesses in the control environment and risks which have not been addressed;
- make recommendations for the necessary improvements needed to address the weaknesses identified;
- detail management's response and timescales for corrective action to be taken.

17.3 The Internal Audit Plan, Quarterly progress reports and the Annual Audit report will be circulated to Leadership Team by e-mail prior to being submitted to the Audit Committee.

18 Relationship with Statutory Officers

18.1 Internal Audit will maintain a close relationship with the Statutory Officers of the Authority (Head of Paid Service, s151 Officer and Monitoring Officer).

18.2 The Statutory Officers will support the work of Internal Audit and provide the necessary backing to ensure that key weaknesses are addressed and recommendations implemented and support Internal Audit's position in upholding good governance within the Council. Statutory Officers should also ensure that the Internal Audit Section is provided with all necessary advice, explanations and information needed for them to effectively carry out their role.

18.3 The "Role of the Chief Financial Officer in Local Government" guidance document produced by Cipfa places a direct responsibility on the s151 Officer "to support the Council's Internal Audit arrangements" and to ensure that they are "effectively resourced and maintained" to comply with the Accounts and Audit Regulations.

19 Review of the Internal Audit Charter

19.1 The Chief Internal Auditor will regularly review the Audit Charter and any revision will be presented to the Leadership Team and Audit Committee for approval.