

SOUTH STAFFORDSHIRE COUNCIL

AUDIT & RISK COMMITTEE – 23 MARCH 2023

REVIEW OF THE INTERNAL AUDIT CHARTER

REPORT OF THE CHIEF INTERNAL AUDITOR

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

1.1 This report presents the Internal Audit Charter 2023 which sets out the purpose, authority and responsibility of internal audit activity.

2. RECOMMENDATIONS

2.1 To consider and approve the Internal Audit Charter for 2023.

3. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	The work of the Audit & Risk Committee can aid the achievement of the Authority's goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements. The delivery of the Annual Internal Audit Plan provides management with assurances that their service objectives which support the Council's priorities are being achieved. The work of Internal Audit covers those priorities contained with the Council's Plan 2020-2024.
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	The work of the Audit & Risk Committee is not considered to have any adverse implications to equal opportunities and diversity policies.
SCRUTINY POWERS APPLICABLE	No	
KEY DECISION	No	
TARGET COMPLETION/ DELIVERY DATE	23 March 2023	
FINANCIAL IMPACT	No	There are no direct financial implications. The current costs of the Internal Audit Service are contained within the Medium-Term Financial Strategy as are the costs of insurance covers to mitigate the cost of

		any financial loss arising from the failure of internal controls.
LEGAL ISSUES	Yes	Section 151 of the Local Government Act 1972 The Accounts & Audit Regulations 2015 A sound system of internal audit, and monitoring of the same, assists in compliance with the above statutory duties. The results of Internal Audit's work feed into the Council's Annual Governance Statement.
OTHER IMPACTS, RISKS & OPPORTUNITIES	No	Internal audit objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit will continue to align its work with the Strategic and Operational Risk Registers.
IMPACT ON SPECIFIC WARDS	No	No impact.

PART B – ADDITIONAL INFORMATION

- 4.1 This report presents the Internal Audit Charter 2023 to the Audit and Risk Committee and is attached as **Appendix 1**.
- 4.2 The Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN) Standard 1000 require that 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:
- internal audit's position within the organisation;
 - its reporting lines;
 - access to personnel, information and records;
 - the scope of internal audit activities; and
 - what the term Board means (i.e. the Audit Committee).
- 4.3 The Internal Audit Charter was approved by the Audit & Risk Committee in April 2015. Since this date, any revisions to the document have been presented to this Committee for approval. In 2023, there are no changes to be made to the Internal Audit Charter.
- 4.4 The Internal Audit Charter 2023 continues to cover all the requirements of the latest PSIAS (last issued in March 2017)/LGAN (last issued in March 2019) and the CIPFA statement regarding the Role of the Head of Internal Audit in Local Government 2019, the document also reflects current best practice. This was confirmed as part of the External Quality Assessment of the Internal Audit Service undertaken in January 2023.

5. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

- 5.1 None identified

6. PREVIOUS MINUTES

6.1 Not Applicable

7. BACKGROUND PAPERS

Appendix 1 – Internal Audit Charter 2023

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Internal Audit Manager
13 March 2023



Internal Audit Charter

2023



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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 South Staffordshire 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 Board¹.

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 Procedure Rules of the Council.

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.

¹ The Audit & Risk Committee is referenced in the PSIAS as the Board.

- Is insightful, proactive and future-focused.
- Promotes organisational improvement.

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 Corporate Director, Finance & Resources 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 Corporate Director, Finance & Resources through the Audit & Risk 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 scope of the Internal Audit function includes the review of all activities (financial and operational) and the entire control environment of the Council. In addition to its Council internal audit work programme, the Internal Audit Section currently:

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information;
- Evaluating the systems established to ensure compliance with

those policies, plans, procedures, laws, and regulations which could have a significant impact on the organisation;

- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are employed;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- Evaluating the potential occurrence for fraud as part of the audit engagements;
- In addition to the investigation of potential irregularities, work is undertaken to promote an anti-fraud culture, to detect fraud and to prevent fraud;
- Monitoring and evaluating governance processes;
- Monitoring and evaluating the effectiveness of the organisation's risk management processes;
- Monitoring the degree of coordination of Internal Audit and external audit;
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation;
- Reporting periodically on the Internal Audit activity's purpose, authority, responsibility, and performance relative to its plan;
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters to the Board;
- Evaluating specific operations at the request of management, as appropriate;
- Supporting management upon the design of controls at appropriate points in the development of major change programmes.
- 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 providing assurance over the adequacy and effectiveness of the organisation's framework of governance and risk management and the work of Internal Audit feeds into the Annual Governance Statement and Code of Corporate Governance, where appropriate.

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, controls and tests;
- Establish the extent to which the objectives of the system are consistent with corporate priorities and to link audit work programmes to the Council's priorities and principles of the Council, where relevant;
- 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 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). Fraud risks that are covered within standard audit work programmes are identified within the Pentana Audit System. Controls within audit work programmes are also categorised as either preventative type controls or detective type controls.

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).

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, Legal & Governance), Corporate Director, Finance & Resources and Chief Executive to decide, in consultation with the appropriate Corporate 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 Counter Fraud & Corruption Policy.

A Counter Fraud Plan 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 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. This exercise is managed by the Revenue and Benefits Team on behalf of the Council.

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 & Risk 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.'

Section 151 matters are reported by the CIA in all instances to the Corporate Director, Finance & Resources (S151 Officer) who reports to CLT.

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 Corporate Director, Finance & 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 Audit Plan which may impact on the ability to provide the required assurance opinion will be reported to the Audit & Risk 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 audit staff 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 audit 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 1**.

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	Audit Reviews (Substantial Assurance / Adequate Assurance)	Audit Reviews (Limited Assurance)	Major Irregularity / Special Investigation – (loss > £10,000)
Operational Manager	✓	✓	✓
Section 151 (Corporate Director, Finance & Resources)	✓	✓	✓
Corporate Leadership Team	✓	✓	✓
Monitoring Officer (Director Legal & Governance)	✓	✓	✓

Local Member (where applicable)			✓
Relevant Cabinet Member		✓	✓
Cabinet Member for Business Transformation		✓	✓
Audit & Risk 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 Corporate Director, Finance & Resources, Monitoring Officer (Director of Corporate Services), Head of Paid Service, Audit & Risk Committee Chairman and Members as required.

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

The CIA will contribute to the review of the Audit & Risk 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; including any amendments to them are reported to the Audit & Risk 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 CLT

and the Council's External Auditor. It is then presented to CLT and subsequently Audit & Risk Committee for endorsement prior to approval by the Corporate Director, Finance & 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 & Risk 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 & Risk Committee.
- Annually to report the results of the quality assurance exercise to the Audit & Risk 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 & Risk 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 liaison with senior management 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 Procedure Rules;
- b. Contract Procedure Rules;
- c. Counter Fraud & Corruption Policy;
- d. Whistleblowing policy;
- e. Officers' Code of Conduct; and
- 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 the Audit & Risk Committee (where appropriate).

In instances where services are provided by third parties, the CIA will liaise with the Procurement Team to 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 Corporate Director, Finance & Resources (Section 151 Officer)

The Corporate Director, Finance & Resources has overall delegated responsibility from the Council for the Internal Audit function. Following consultation with the Corporate Leadership Team and the Audit & Risk Committee they will approve the annual Audit Plan.

The Corporate Director, Finance & Resources will ensure that they are 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 Corporate Director, Finance & Resources will ensure that update reports are reported regularly to the Audit & Risk Committee, to include an annual outturn report.

9. Role of Corporate Leadership Team Members

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

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

To assist the discharge of those responsibilities defined in Financial Procedure Rules, Appendix C – Risk Management & Control of Resources, CLT Members may 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 CLT members for their consideration and endorsement. The annual outturn report, together with the overall opinion of the Organisation's control environment will also be circulated to CLT, where appropriate.

CLT 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 & Risk Committee

The Audit & Risk 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 & Risk Committee performs the role of the 'Board'.

Members of the Audit & Risk Committee 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 last completed January 2023);
- 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;

- A copy of the audit report/ briefing note for all reviews irrespective of opinion.
- 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 for those reviews given an opinion of "Limited Assurance" to be formally presented to Audit & Risk Committee;
- 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 & Risk Committee (either individually or collectively) upon request.

Members of the Audit & Risk 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.

The Audit & Risk 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.

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 & Risk 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. Results and any resultant improvement plans will be agreed with and reported to the Audit & Risk 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 documents, guidance and video guides for the operation of the Audit Management System, Pentana Audit. 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.

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 UK and prevent data breaches.

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

The Internal Audit Service shall be provided in accordance with the Data Sharing Agreement in place between Staffordshire County Council (SCC) and South Staffordshire District Council (SSDC) as specified within Schedule 2 of the Agreement for Provision of Internal Audit Services, which states:

“The parties agree that SSDC is a Controller and SCC is a Processor for the purposes of processing Protected Data pursuant to this Agreement. SCC shall, and shall ensure any Sub-Processors and each of their Personnel shall, at all times, comply with all Data Protection Laws in connection with the processing of Protected Data and the provision of the Services and shall not by any act or omission cause SSDC (or any other person) to be in breach of any of the Data Protection Laws. Nothing in this Agreement relieves SCC of any responsibilities or liabilities under Data Protection Laws.”

South Staffordshire Council’s core data protection obligations and commitments are set out in the Council’s primary privacy notice.

<https://www.sstaffs.gov.uk/information/privacy-notice.cfm>

Appendix 1

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 system with a total budget of £100,000, financial loss of £5,000 would be considered a more significant risk to system objectives than the matrix below would initially suggest.

Impact Ratings

Risk Type	Marginal	Significant	Fundamental	Catastrophic
	1	2	3	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	I m p a c t	2	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
			1	2	3	4	5
			Likelihood				
			Remote	Unlikely	Possible	Likely	Very Likely

Risk Score		Recommendation Rating
>=	<	
1	5	Minor Priority
6	10	Low Priority
10	15	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
Limited	Either: 2+ high priority recommendations, 8+ medium priority recommendations, or 13+ low priority recommendations
Adequate	Either: 1 high priority recommendation, 3-7 medium priority recommendations, or 7-12 low priority recommendations
Substantial	0 high priority recommendations, 0-2 medium priority recommendations, and 0-6 low priority recommendations