

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE MEETING

26 September 2018

Report of the Assistant Director of Finance (Audit)

AUDIT CHARTER

1. Purpose of Report

To inform Members of the review and update of the Audit Charter which is a specific requirement of the Public Sector Internal Audit Standards (PSIAS).

2. Information & Analysis

At the meeting of this Committee held on 19 March 2013 Members were made aware of the implementation of the PSIAS and the need, as part of this implementation, to formally approve an Audit Charter.

The Audit Charter draws together existing practice and formalizes procedures which are already embedded in the Council's governance framework (eg the provisions of Financial Regulations, the Anti Fraud and Anti Corruption Strategy, Fraud Response Plan, the requirements of Whistleblowing – The Confidential Reporting Code etc.) into a single reference document which embodies those requirements specified in the PSIAS.

The Charter is reviewed by the Assistant Director of Finance (Audit) in consultation with the Head of Paid Service, other appropriate officers and the Audit Committee to ensure it continues to reflect the requirements of the regulatory framework and key legislation on which it is based. The Charter has been updated to include changes to the PSIAS, regulatory framework and Council policies and Appendix 1 shows the revised Charter with tracked changes.

The PSIAS requires that the Audit Charter is approved by Cabinet and the purpose of this Report is to allow the Audit Committee, acting in its role as “those charged with governance”, to review and endorse the revised Charter prior to its formal recommendation for approval as Council policy.

3. Legal Considerations

The Audit Services Unit discharges the Authority's statutory responsibilities under Regulation 5 of the Accounts and Audit Regulations 2015 and significant aspects of the Director of Finance's statutory duties under Section 151, Local Government Act 1972.

4. Other Considerations

In preparing this report the relevance of the following factors has been considered: financial, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

5. Background Papers

A file held by the Assistant Director of Finance (Audit).

6. Officer's Recommendation

That the Committee consider the content of the revised Audit Charter and recommend to Cabinet its approval as Council policy.

Carl Hardman
Assistant Director of Finance (Audit)



AUDIT SERVICES' CHARTER

Introduction

The Relevant Internal Audit Standard Setters, which includes the Chartered Institute of Public Finance and Accountancy (Cipfa) in respect of local government across the United Kingdom, adopted a common set of Public Sector Internal Audit Standards (PSIAS) supplemented by a Local Government Application Note (LGAN) with effect from the 1st April 2013; the PSIAS were subsequently updated in March 2017. The PSIAS requires the Council to adopt an Internal Audit Charter as part of the requirements of the Standards, this is fundamental to the effective delivery of internal audit within the County Council.

Legislative/Regulatory Basis of Operation

The Authority's statutory responsibilities under Regulation 5 of the Accounts and Audit Regulations 2015, as amplified by the PSIAS, are discharged by the Audit Services Unit. It also discharges significant aspects of the Director of Finance & ICT's statutory duties under Section 151 of the Local Government Act 1972 on his behalf. It works in partnership with the County Council's appointed auditors, KPMGMazars, in accordance with the External and Internal Audit Pprotocols which clarifyies the working relationship between KPMGMazars and Audit Services and seeks to formalise areas of co-operation and assistance. The role and responsibilities under the PSIAS, and additional LGAN, of the Unit are further clarified and reinforced in the County Council's Financial Regulations and Standing Orders, Anti Fraud and Anti Corruption Strategy, Fraud Response Plan, the requirements of Whistleblowing - The Confidential Reporting Code and the Unit's Audit Manual.

Mission of Internal Audit

The Council recognises the mission of internal aAudit Services as set out in the PSIAS:-

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

Definition of Internal Audit

The Council recognises the definition of internal audit formally set out in the PSIAS:-

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.

Position of Audit Services within the County Council

The Council has a responsibility for ensuring that an effective system of internal control is maintained and operated in respect of the resources under its control.

The system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or should be detected within a timely period.

The system of internal control is based upon a framework which embraces regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a structure of delegation and accountability. Managers within the Council undertake development and maintenance of the system. In particular, the system includes:

- comprehensive budgeting systems;
- the preparation and regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital expenditure guidelines;
- as appropriate, formal project management disciplines;
- clearly defined and, adequately documented, ~~and formally~~ approved procedural and operational guidance.

The internal control framework of the Authority is subject to regular review by both Mmanagement and the Council's Audit Services Unit.

The Council's Audit Services is an assurance function which provides an independent and objective opinion to the Authority on its framework of governance, risk management and control. This framework is subject to regular review by the Unit who~~Staff of the Audit Services Unit~~, through a structured plan of operational and financial reviews, provide Mmanagement with assistance and guidance on systems, processes and risks and through this work form a view on the strength of individual aspects of control and the overall control framework.

Audit Services operates in compliance with the requirements of the Accounts and Audit Regulations and the PSIAS. This requires 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, and full assistance from officers and Members in the provision of documents, records, information and explanations as are considered

necessary by those conducting the internal audit. The work of the Unit is guided by, and reflects, the PSIAS, professional best practice, ~~PSIAS/LGAN~~ and locally by the policies, procedures, rules and regulations established by the Authority.

Audit Services' Methodology

In assisting the Council to maintain and develop its control environment Audit Services' staff appraise and review the:

- completeness, reliability and integrity of information, both financial and operational;
- effectiveness of systems established to ensure compliance with policies, plans, procedures, laws and regulations, e.g. control/regulatory frameworks specified by the Members and Management of the Council, and externally by statute or regulatory bodies;
- means employed by the Council to safeguard its assets and recognise risks;
- effectiveness, efficiency and economy with which resources are employed;
- management and security of the Council's information assets including contractual arrangements with third parties;
- operations being carried out to determine whether planned objectives and goals are achieved.

The Audit Services Manual contains procedures and Professional Standards, the requirements of Professional Best Practice, the Quality Assurance and Improvement Programme and guidance relevant to the work of the Unit. The Manual is held electronically and is available to all members of the Unit's staff.

Scope of Audit Services

Audit Services' remit covers all functions and services for which the Authority is responsible. It has unrestricted access to all records, personnel (both Members and officers) and physical properties necessary for the purposes of its work, however and wherever these are held, in accordance with the requirements of the PSIAS. This includes Council information which is held or managed by third parties on the Authority's behalf.

Due to its detailed knowledge of the Council's systems and processes, Internal Audit may undertake consultancy work in addition to its primary assurance role. Examples of this may include advice, facilitation and training. The scope of any consultancy work will be agreed with Management and will only be undertaken where resources permit without impacting on the annual assurance process. In accordance with the PSIAS, approval will be sought from the Audit Committee before any significant, unplanned consultancy work is accepted.

The Director of Finance & ICT is the designated Section 151 Officer and also has line management responsibility for the Assistant Director of Finance (Audit). The Assistant Director of Finance (Audit) has direct access, as appropriate, to:

- all levels of management, including the ~~Chief Executive~~Head of Paid Service, Director of Finance & ICT (Section 151 Officer), Director of Legal Services (Monitoring Officer), Strategic Directors/Directors;
- the Audit Committee, all Elected Members, including the Leader and the Chair of the Council;
- all employees of the Council;
- all agents, partners, suppliers and contractors of the Council and their staff.

The Assistant Director of Finance (Audit) reports directly to the ~~Chief Executive~~Head of Paid Service and the Audit Committee.

Planning and Performing Audit Work

The Audit Services Unit has an audit strategy supported by an annual plan of areas to be examined. This is based upon an assessment of risks and a determination of critical areas for opinion and assurance purposes. The plan, which is approved by the Audit Committee, is reported to Cabinet and Council and is managed by the Assistant Director of Finance (Audit) throughout the year to ensure delivery of all key aspects of work and the requirement to produce an annual internal opinion on the Council's framework of governance, risk management and control. The performance of Audit Services and the outputs from their work are reviewed on an on-going basis by the Audit Committee which receives regular reports throughout the year on progress against the plan, assurance levels and recommendations made, accepted and implemented; the format of these reports is reviewed by the Audit Committee to ensure their continued relevance.

Further reviews of Audit Services' performance are undertaken by the ~~Chief Executive~~Head of Paid Service as part of normal management arrangements and the Director of Finance & ICT as part of the review of the effectiveness of the system of internal control. External assessments of internal audit must be carried out at least once every five years by a qualified, independent assessor or assessment team.

Audit ~~work~~Services is an assurance function which provides an independent and objective opinion to the Council on its framework of governance, risk management and control. This work encompasses both operational systems and those in development and through this work Audit Services:

- assist in formulating, promoting and maintaining sound governance arrangements;
- facilitate good practice in managing risks;
- contribute to ensuring sound resource management;
- recommend improvements in control, performance and productivity;
- provide reassurance and challenge to ~~M~~managers;
- encourage development of consistent policies and high standards;
- ensure the impartial investigation of ~~any suspected fraud~~, irregularities ~~and~~ policy breaches;

- support the achievement of statutory and best practice requirements.

The Constitution gives the Audit Committee overall responsibility for internal and external audit and Audit Services produce Annual Reports to that Committee outlining future planned work and reporting on delivery of the audit product. The latter report includes ~~an~~the Assistant Director of Finance (Audit)'s opinion on the level of assurance which can be drawn from the work undertaken on the Council's framework of governance, risk management and control.

The assessment of the adequacy of the control environment rests upon the work of managers within the Council. It is informed by the work of Audit Services as described above and also by the work of External Audit as communicated in their annual audit letter and other reports.

Principle 2 of the published Statement on the Role of the Head of Internal Audit (HIA) issued by Cipfa as a best practice requirement states "The annual HIA opinion is the most important output from the HIA. This is one of the main sources of objective assurance that Chief Executives have for their annual governance report". Audit Services' Memoranda and Reports are issued throughout the year and addressed to appropriate Senior Managers including ~~the Chief Executive and~~ Strategic Directors/Directors in accordance with the PSIAS. Audit Services routinely monitor and follow up actions taken to implement agreed recommendations.

Staff of the Audit Services Unit

The Assistant Director of Finance (Audit) must be professionally qualified and have wide experience of internal audit and management.

Audit Services must be appropriately staffed in terms of number, grade, qualification levels and experience to enable the Authority's Audit Plan to be delivered effectively. Internal auditors must possess the knowledge (especially of Council activities), skills and other competencies needed to perform their individual responsibilities. Knowledge, skills and other competencies is a collective term which refers to the professional proficiency required of internal auditors to effectively discharge their professional responsibilities. Where the Assistant Director of Finance (Audit) believes that insufficient resources will impact on the provision of the annual audit opinion this will be reported to the Audit Committee.

Audit Services' staff are encouraged to demonstrate their proficiency by obtaining appropriate, relevant professional certifications and qualifications.

Code of Ethics

A Code of Ethics is a mandatory element of the PSIAS which applies to both individual auditors and to the Unit.

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

Accordingly, internal auditors are required to perform their work with honesty, diligence and responsibility, to exhibit the highest levels of professional objectivity, to make balanced assessments and not to be unduly influenced by their own interests, and that of others, in forming judgements. [All internal auditors in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life – the Nolan principles.](#)

Audit Services' staff are required by the PSIAS Code of Ethics to be sufficiently independent of the activities they audit so as to ensure that they are able to make impartial and effective professional judgements and recommendations. All staff are required, on an annual basis, to complete and submit to the Assistant Director of Finance (Audit) a return identifying any potential conflicts of interests or confirming that no such conflicts of interests exist.

Independence in the Council is achieved through the organizational status of Audit Services, the objectivity of audit staff and the Assistant Director of Finance (Audit)'s freedom to report unedited, in their own name, directly to the ~~Chief Executive~~[Head of Paid Service](#) and the Audit Committee.

Core [Principles](#)

[Audit Services, individual auditors and the internal audit activity, comply with the following principles in delivering and achieving its mission:](#)

- [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](#) Council;
- [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](#).

Fraud and Irregularities

The Authority takes a firm and positive approach to combatting fraud and corruption whether it is attempted on or from within the [County](#) Council, and is committed to an effective Anti Fraud and Anti Corruption Strategy which is supported by a Fraud Response Plan. These interrelated procedures are designed to frustrate any attempted fraudulent or corrupt act and cover:

- culture;
- deter and prevent;
- detection and investigation;

- training.

The investigation of alleged fraud and/or corruption centres on the Audit Services Unit and the Authority's Financial Regulations require that all cases of suspected fraud, misappropriation or misuse of money, materials or equipment, or any mismanagement of money or other assets, or any other irregularities, must be reported immediately to the Assistant Director of Finance (Audit) who will investigate all such cases. The Unit will involve the relevant Strategic Director/Director as appropriate and will undertake joint investigations if necessary.

The Authority also has a Whistleblowing - The Confidential Reporting Code which is intended to enable individuals or organisations to disclose information about malpractice internally and to provide them with protection from subsequent victimisation, discrimination or disadvantage. This Code requires that where a concern is regarding financial irregularities or fraud then the Assistant Director of Finance (Audit) should be contacted.

Responsibilities of Management to Facilitate the Audit

All levels of management have a role to identify key risks to their service and to ensure these risks are effectively mitigated to an adequate degree. Management is also responsible for ensuring that staff are aware of the processes and procedures required to operate the internal control systems.

Managers should assist Audit Services to discharge their duties by:

- the prompt provision of information and explanations that are sought by Audit Services' staff in the course of their work;
- providing input to the Audit Plan to ensure attention is focused on areas of greatest risk;
- providing early notification to Audit Services of plans for change, including new operational systems and processes;
- implementing agreed actions arising from audit recommendations in a timely and effective manner;
- ensuring that all members of their staff are aware of the requirement to notify any suspicions of fraud, theft, or other irregularity, promptly to the Assistant Director of Finance (Audit) in accordance with the requirements of the Authority's Financial Regulations. In such instances the relevant Strategic Director/Director should, in consultation with the Assistant Director of Finance (Audit), take all necessary steps to prevent further loss and to secure records and documentation against removal or alteration;
- ensuring that, in consultation with the Assistant Director of Finance (Audit), where Authority services are provided under contract by an external organisation, contractual documentation identifies the internal audit arrangements for those key systems including explicit rights of access.

Responsibilities of Audit

Under the Code of Ethics internal auditors are required to respect and contribute to the legitimate and ethical objectives of the organisation.

Internal auditors are required to continually improve their proficiency and effectiveness and the quality of their services.

In seeking to undertake their duties Audit Services will have regard to the resource requirements on Departments.

Any concerns about how Audit Services are undertaking their duties should be addressed to the Director of Finance & ICT and the Chief ExecutiveHead of Paid Service.

Arrangements to ensure the continuing relevance of the Audit Charter

The contents of this Charter will be reviewed by the Assistant Director of Finance (Audit) in consultation with the Chief ExecutiveHead of Paid Service, other appropriate officers and the Audit Committee to ensure that it continues to reflect the requirements of the regulatory frameworks and key legislation on which it is based and will, in any event, be subject to a three yearly review on an on-going basis.