

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE MEETING

4 October 2016

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, 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 Chief Executive, 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 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 Authority 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, social value, property and transport considerations.

5. Officer's Recommendation

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

Carl Hardman
Assistant Director of Finance (Audit)

AUDIT SERVICES' CHARTER

Introduction

The Relevant Internal Audit Standard Setters, ~~which for local authorities in the UK is includes~~ the Chartered Institute of Public Finance and Accountancy (Cipfa) ~~in respect of local government across the United Kingdom, adopted a common set of . The document which set the relevant standards is the CIPFA Code of Practice for Internal Audit in Local Government; which has been replaced by~~ "Public Sector Internal Audit Standards" (PSIAS) supplemented by a "Local Government Application Note" (LGAN) from the 1st April 2013. The PSIAS requires the Council to adopt an Internal Audit Charter as part of the requirements of the ~~new~~ 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 6~~, Accounts ~~and~~ Audit Regulations 2015, ~~as amplified in the Cipfa Code of Practice for Internal Audit in Local Government in the UK which formed the basis for the new Public Sector Internal Audit Standards by the~~ (PSIAS), are discharged by the Audit Services Unit. It also discharges significant aspects of the Director of Finance'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, KPMG, ~~to discharge the requirements of the Managed Audit protocol and to optimize the Authority's total Audit Resource in accordance with the External and Internal Audit Protocol which clarifies the working relationship between KPMG and Audit Services and seeks to formalise areas of co-operation and assistance.~~ The role and responsibilities under the PSIAS, and additional ~~Local Government Application Note (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 – Policy Statement~~, 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 audit 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 organization's operations. It helps an organization 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;
- 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;
- ~~the preparation of regular financial reports which indicate actual expenditure against the forecasts,~~
- clearly defined capital expenditure guidelines;
- as appropriate, formal project management disciplines; and
- clearly defined, adequately documented and formally approved procedural and operational guidance.

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

Staff of the Audit Services Unit, through a structured plan of operational and financial reviews, provide management 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 ~~(supplemented by the requirements of the PSIAS).~~

This requires the Council to ~~undertake~~ maintain an ~~adequate and effective system of~~ internal audit ~~to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance, of the Authority's records and control systems,~~ 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 to enable the proper fulfilment of those audit responsibilities.~~ The work of the Unit is guided by, and reflects, professional best practice, PSIAS/LGAN and locally by the policies, procedures, rules and regulations established by the Authority.

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 audit 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 who receive regular reports throughout the year on progress against ~~the plan, assurance levels and recommendations made, accepted and implemented and performance statistics for individual staff members;~~ 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 ~~External Audit and are relied upon, by them, during their audit of the accounts; and by~~ the Chief Executive as part of normal management arrangements and the Director of Finance as part of the review of ~~the audit 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.~~

~~The overall aim of~~ Audit Services is ~~an assurance function which~~ to provide ~~s~~ an independent and objective ~~opinion to the Council on its framework of governance, risk management and control appraisal function, for reviewing and reporting upon the continued adequacy and effectiveness of the overall system of internal control.~~ This work encompasses both operational systems and those in development ~~and through this work. Through this responsibility~~ Audit Services:

- facilitate good practice in managing risks;
- contribute to ensuring sound resource management;
- recommend improvements in control, performance and productivity;
- provide reassurance and challenge to managers;
- encourage development of consistent policies and high standards;
- ensure the impartial investigation of any suspected fraud, irregularities or policy breaches;
- support the achievement of statutory and best practice requirements.

The Director of Finance is the designated Section 151 Officer and also has line management responsibility for the Assistant Director of Finance (Audit) who has direct access to the Audit Committee, Chief Executive and other Strategic Directors/Directors. 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 opinion on the level of assurance which can be drawn from the work undertaken.

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 ~~recently~~ 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.

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 ~~has been~~ designed to frustrate any attempted fraudulent or corrupt act and cover:

- ~~• encourage prevention;~~
- ~~• promote detection, and;~~
- ~~• identify a clear pathway for investigation.~~

~~The Authority's Anti-Fraud/Anti-Corruption Strategy is based on a series of comprehensive and interrelated procedures which are designed to frustrate any attempted fraudulent or corrupt act. These cover:~~

- culture;
- prevention;
- 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.

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 lineaccordance with the requirements of the PSIAS. This includes Council information which is held or managed by third parties on the Authority's behalf.

The Assistant Director of Finance (Audit) has direct access, as appropriate, to:

- all levels of management, including the Chief Executive, Director of Finance (Section 151 Officer) and the Director of Legal Services (Monitoring Officer);
- 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 and the Audit Committee.

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.

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 and the Audit Committee.

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.

Audit Services' Methodology

In assisting the Authority Council to maintain and develop its control environment ~~achieve its goals~~ 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 ~~Senior~~ Management of the ~~County~~ Council, and externally by statute or regulatory bodies;
- means employed by the Authority Council to safeguard its assets and recognise risks;
- economyeffectiveness, efficiency and ~~effectiveness~~economy with which resources are employed, and,
- ~~whether~~ operations ~~are~~ being carried out to determine whether ~~as~~ planned ~~and~~ objectives and goals are achieved.

The Audit Services Manual contains ~~Audit Services'~~ procedures and Professional Standards, ~~guidance and~~ the requirements of Professional Best Practice, the

~~Quality Assurance and Improvement Programme and guidance relevant to the work of the Unit are contained within, and communicated through, the Audit Services Manual.~~ The ~~document~~Manual is held electronically and is available to all members of the Unit's staff.

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 and the Chief Executive.

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 Executive, 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.