

Internal Audit Charter 2019

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The Charter is a mandatory requirement of the UK Public Sector Internal Audit Standards and CIPFAs Local Government Application Note. This document also takes into account the requirements of the CIPFA statement regarding the Role of the Head of Internal Audit in Local Government (2010).

1. Introduction

This charter defines for the internal audit activity of the Staffordshire Commissioner Fire and Rescue Authority, 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 Ethics, Transparency and Audit Panel (ETAP) each year.

The Audit Charter should be read in conjunction with the relevant sections of Financial Regulations of the Authority, which are attached at Appendix 1.

2. Mission and Core Principles of Internal Audit

The mission of Internal Audit articulates what internal audit 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.
- Is insightful, proactive and future-focused.
- Promotes organisational improvement.

¹ The Ethics, Transparency & Audit Panel is referenced in the PSIAS as the Board.

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 Staffordshire Commissioner Fire and Rescue Authority. 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 "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices". Proper internal audit practices for Local Government is 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 considered to be mandatory; instances of non-conformance must be reported to the Board as part of the CIA's annual outturn report. The Director of Finance, Assets & Resources has been delegated with this requirement by the Authority.

Responsibility

The CIA is required to provide an annual opinion to the Staffordshire Commissioner and to the Director of Finance, Assets & Resources (section 151 Officer) through the Ethics, Transparency and Audit Panel (ETAP), on the adequacy and effectiveness of the risk management, governance and control environment for the whole organisation and the extent it can be relied upon, in line with the Accounts and Audit (England) Regulations 2015. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Staffordshire Commissioner's needs, adds value, improves operations and helps protect public resources.
- To provide assurance to management that the Staffordshire Commissioner'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 Staffordshire Commissioner'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 Authority 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 Authority supports its strategies and objectives.

4. Scope

The Internal Audit function is provided by Staffordshire County Council's Internal Audit Service under a Service Level Agreement. The service is an in-house team supported by additional resources procured via an external support framework contract. The scope of the agreement includes the review of all activities (financial and operational) of The Staffordshire Commissioner Fire and Rescue Authority. In addition to its internal audit work programme, the Section currently:

- Undertakes internal audit services for outside bodies where statutory powers permit.
- Conducts Comfort Fund (Social Services) audits
- May provide assurance to the County Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract documentation.

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 and controls;
- Establish the extent to which the objectives of the system are consistent with corporate priorities;
- Evaluate the controls in principle to decide whether or not 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 Service'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 Staffordshire Commissioner and the Fire and Rescue Service.

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 Auditor independence.

Internal audit does not routinely undertake value for money studies unless specifically requested.

The CIA cannot be expected to give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control and managing the risk of fraud, corruption and potential for bribery within their area of responsibility. They should ensure that appropriate and adequate control and risk management processes, accounting records, financial processes and governance arrangements exist without depending on internal audit activity to identify weaknesses.

Fraud and Corruption Related Work

The reporting of all instances of potential and actual irregularity affecting the finances of the Authority is documented in the Authority's Financial Regulations (D.8) and the Treasurer must be notified immediately of all instances of potential and actual irregularity affecting the finances of the Authority.

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 Staffordshire Commissioner /Service 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).

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 for the Staffordshire Commissioner /Service. In these instances, the CIA will ensure that internal auditors have adequate proficiency to undertake the activity (standard 1210.A2). Any impairments to independence or objectivity will also be identified and managed prior to the work commencing (standard 1000).

The Internal Audit Section will carry out a thorough investigation of all potential and actual irregularities in accordance with the Section's Fraud Manual. For employee related frauds, the investigation is dealt with under the Authority'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 Authority'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 Chief Fire Officer to decide, based on the advice from the Monitoring Officer and the Director of Finance, Assets and Resources whether there are sufficient grounds for the matter to be reported to the Police. This is in accordance with the Authority's Counter Fraud and Corruption Policy.

A fraud and corruption strategy (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.
- Circulation of the Fraud-Watch Publication
- Promotion of a Poster Campaign to raise awareness.

b) Deterrence

- Publicise both local and national cases of proven fraud within the Authority

c) Prevention

- A programme of data analysis is to be carried out throughout the year to identify 'red flags' for further investigation using our data analysis and file interrogation solution, IDEA. Areas susceptible to fraud are monitored on an on-going basis. Areas where data analytics is to be utilised will be determined

in year but may include creditor payments, purchasing card transactions, mileage and expenses claims and casual hours claims and overtime.

d) Detection

- Participation in the Audit Commission's national fraud initiative data matching exercise.

e) Investigation

- Hotline monitoring and intelligence gathering
- Investigations of all areas of concern identified through routine audit, reported to management or via whistle blowing communication channels.

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 make best use of data sources available.

5. Stakeholder Roles and Audit Independence

ETAP will fulfil the role of the Board for the Staffordshire Commissioner. For this purpose, the Board is defined in the PSIAS/LGAN as 'the highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically, this includes independent Directors. Board may refer to an audit committee to which the governing body has delegated certain functions'.

The CIA or her representative reports to the Director of Finance, Assets and Resources.

The Internal Audit Team does not undertake any non-audit related work for the Staffordshire Commissioner.

Internal audit is not responsible for the detailed development or implementation of new systems but will be consulted during the system development process on the control measures to be incorporated in new or amended systems. To maintain independence, the Auditor who was involved in the 'consultancy style exercise' will not take any further part in the audit process. Any significant 'consultancy' activity not already included in the annual plan which may impact on the ability to provide the required assurance opinion will be reported to ETAP and the Strategic Governance Board for approval.

As a Condition of Service, all employees 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 directly employed staff are required to make an annual declaration to ensure that Auditors objectivity is not impaired and that any potential conflicts of interest are appropriately managed 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, Satisfactory Assurance or Limited Assurance. Recommendations made will be ranked as either High, Medium or Low depending upon the relative importance of the audit finding. The methodology used is attached at Appendix 2.

Work undertaken by internal audit will normally be concluded by the production of a formal written report to the Director of Finance, Assets & Resources as well as the respective Director and Operational Manager(s).

Progress against the Audit Plan will be reported via the Director of Finance, Assets & Resources to ETAP and the Finance Panel

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 Staffordshire Commissioner Fire and Rescue Authority.

The CIA will have direct access to the Director of Finance, Assets and Resources, the Monitoring Officer to the Staffordshire Commissioner, the Chief Fire Officer and ETAP Chairman as required.

The CIA, or her representative, will brief ETAP Chairman regarding the content of ETAP agenda papers, including agreeing future agenda items and potential areas for training.

The CIA is responsible for the overall development of the audit strategy and annual internal audit plan, which demonstrates value for money to the organisation.

The UK Public Sector Internal Audit Standards require the CIA to report at the top of the organisation and this will be achieved by:

- The Internal Audit Strategy and Charter, including any amendments to them, are reported to ETAP annually for formal approval.
- The annual Internal Audit Plan is produced by the CIA taking account of the Staffordshire Commissioner's risk framework and after input from the Director of Finance, Assets and Resources, the Finance Manager and the External Auditor. It is then presented to ETAP for endorsement prior to approval by the Director of Finance, Assets and Resources.
- The adequacy, or otherwise of the level of internal audit resources (as determined by the CIA) and the independence of internal audit is reported annually to ETAP as part of the outturn report. 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 ETAP.
- Annually to report the results of the quality assurance exercise to ETAP.
- 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 outturn report to ETAP. 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, or her representative, should be consulted on all proposed major projects, programmes and policy initiatives. This is achieved through the linkage with the Director of Finance, Assets and Resources 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 may be consulted on proposed changes to the following key policy documents:

- a. Financial Regulations
- b. Contract Standing Orders
- c. Counter Fraud and Corruption Policy
- d. Whistleblowing policy
- e. Partnerships Policy
- f. Code of Conduct
- g. 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 ETAP (where appropriate).

As the Staffordshire Commissioner undertakes joint/collaborative working with partners the CIA in conjunction with the Director of Finance, Assets and Resources must ensure that suitable clauses are included within contract documentation to

ensure that internal audit retains the right of access to documents/ personnel and systems as and when required.

8. Role of the Director of Finance, Assets and Resources

The Director of Finance, Assets and Resources has overall delegated responsibility from the Authority for the Internal Audit function. Following endorsement with ETAP he will approve the Annual Audit Plan.

The Director of Finance, Assets and Resources will ensure that he is periodically briefed by the CIA, or her representative, on the following:

- Overall progress against the Annual Audit Plan
- Those audit areas where a “Limited Assurance” opinion has been given
- Progress on the implementation of all “high” level audit recommendations
- Progress on all fraud and irregularity investigations carried out by the Internal Audit Section

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

The Director of Finance, Assets and Resources will ensure that internal auditors have the authority to:

- Access Authority premises at reasonable times
- Access all assets, records, documents, correspondence and control systems relevant to audit
- Require and receive any information and explanation considered necessary concerning any matter under considerations
- Require any employee of the Authority to account for cash, stores or any other Authority property under his/her control
- Access records belonging to third parties, such as contractors when required
- To consider and respond promptly to recommendations in audit reports and to implement agreed actions in a timely and efficient fashion.

9. Role of Strategic Governance Board Members

For the purposes of the UK Public Sector Internal Audit Standards, the Strategic Governance Board performs the role of the ‘senior management.’

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

In order to assist the discharge of those responsibilities defined at Appendix 1, the Director of Finance, Assets and Resources shall appoint a senior officer to act as the

first point of contact between Internal Audit and the organisation. This is the Financial Services Manager.

The CIA, or her representative, will present the annual internal audit strategy and audit plan to the Director of Finance, Assets and Resources for his consideration and approval. The annual Outturn report, together with the overall opinion of the Organisation's control environment will also be circulated to Strategic Governance Board where appropriate.

Strategic Governance Board 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 will enhance Internal Audit's ability to achieve its objectives.

10. Responsibilities of the Ethics, Transparency and Audit Panel

The Ethics, Transparency and Audit Panel is a key component of the Staffordshire Commissioner'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 Ethics, Transparency and Audit Panel performs the role of the 'Board'.

ETAP will receive the following documents:

- The Annual Audit 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 (n.b. the first external assessment was carried out in 2018).
- Regular updates on progress against all recommendations.
- Periodic progress reports and the Annual Outturn Report including results of anti-fraud and corruption work / special investigations.
- Copies of Fraud-Watch publication.
- A summary of the audit report for all reviews undertaken during the year regardless of the opinion.
- A copy of the audit report for all special investigations.
- 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.

Note

Notwithstanding the above, a full copy of all audit reports will be made available to members of ETAP (either individually or collectively) upon request.

Members of ETAP will agree key performance targets for the Internal Audit Team and ensure that they are reported upon as part of the annual outturn report. Currently these are:

- Draft reports have been issued for at least 90% of the annual audit plan.
- Average score for quality questionnaires from auditees is equal to or exceeds the 'good' standard.

11. Relationship with External Audit

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

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

The External Auditor receives a copy of all Final Audit Reports.

12. Due Professional Care

The Internal Audit Section (including its external providers) will operate from April 2013 in accordance with the professional standards and practice statements included within the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note. Instances of non-conformance with the standards must be reported to ETAP.

In order to demonstrate that due care has been exercised the internal auditor is expected to:

- Exercise due professional care based upon appropriate experience, training, ability, integrity and objectivity,
- Apply confidentiality as required by law and best practice, and
- Obtain and record sufficient audit evidence to support their findings and recommendations.
- Show that audit work has been performed competently and in a way which is consistent with applicable audit standards.
- Consider the use of technology -based audit and other data analysis techniques.

13. Quality Assurance

The CIA will maintain a Quality Assurance and Improvement Programme (QAIP) to review all aspects of activity of the Internal Audit Section (including its external providers) to provide reasonable assurance that its work conforms with the relevant standards and to the requirements of this document. An external assessment will be undertaken at least once every five years by a suitably qualified, independent assessor as required by the Public Sector Internal Audit Standards. The timing, form of the assessment, qualifications of any external assessor, results and any resultant improvement plans will be agreed with and reported to ETAP in the annual report. Significant deviations will be considered for inclusion in the Annual Governance Statement.

14. Audit Processes

An Audit Manual is in place which details the procedures to be followed at each stage of the audit process including an instruction document for the operation of the electronic working paper solution. 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. The Director of Finance, Assets and Resources will be consulted on any significant changes to the Manual.

15. Use of and the Processing of Data

Staffordshire 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 EU citizens and prevent data breaches.

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

The Internal Audit Service may be asked to provide access to personal information by relevant authorities with regulatory powers such as the police, government departments and other local authorities for the purposes of the prevention and/or detection of crime without the permission of the data subject. The Council will consider such requests on a case by case basis.

The Authority's core data protection obligations and commitments are set out in the Fire Service's primary privacy notice.

<https://www.staffordshirefire.gov.uk/your-service/privacy-notice/>

As a service, we may also collect data from the public directly via the fraud referral e-form on Staffordshire County Council's website. The information provided on this form is subject to the provisions of the Data Protection Act 2018. It may be used for

purposes relating to the investigation of crime or misuse of resources, including liaison with the police, and for the purpose of performing other statutory enforcement duties. The Council may also share information provided to it with other bodies for the purpose of prevention, or detection of crime. By clicking submit, the information you have provided will be directed to an appropriate investigator. The privacy notice covering the collection of personal data via the fraud referral e-form can be found using the attached link. <https://www.staffordshire.gov.uk/yourcouncil/Report-fraud-bribery-and-theft/Report-a-concern-of-fraud-bribery-or-theft.aspx>

Appendix 1

FINANCIAL REGULATION D - AUDIT, CONTROL AND IRREGULARITIES

- D.1 The Joint Independent Audit Committee (ETAP) will review the effectiveness of external and internal audit. It will be the responsibility of the Staffordshire Commissioner (FRA) and the Chief Fire Officer to recruit and appoint members of the Committee. These members should be independent of both the OPFC and the Fire and Rescue Service.
- D.2 Public Sector Audit Appointments LTD (PSAA) is responsible for appointing external auditors for the Staffordshire Commissioner (FRA). Grant Thornton (UK) LLP have appointed to audit the accounts for 2018/19 and notification of continued opt-in will be issued to PSAA for the Staffordshire Commissioner (Fire and Rescue Authority) to continue with the existing arrangements. PSAA should be informed immediately should this position change in the future.
- D.3 It is the responsibility of the Ethics, Transparency and Audit Panel (ETAP) to:
- Approve annual Audit Fees
 - To receive and respond to the ISA 260 Audit Finding Report of the financial statements and value for money
 - To receive the annual audit letter
- D.4 The Treasurer is responsible for reporting to ETAP the internal control systems and the internal audit function.
- D.5 The internal audit function will be under the independent control and direction of the Treasurer which shall be arranged to carry out a continuous examination of financial and other operations. An annual programme of work will be set by the Treasurer in consultation with other Directors, and approved or otherwise amended by the Ethics, Transparency and Audit Panel (ETAP).
- D.6 Directors will co-operate with, and provide all necessary information for, Internal Audit and the Authority's External Auditor.
- D.7 It is the responsibility of Directors to establish effective and efficient arrangements for internal control. Directors will seek the advice of the Director of Finance, Assets and Resources in those instances of a material nature where the principles of internal control prove difficult to implement or maintain.
- D.8 The Treasurer must be notified immediately of all instances of potential and actual irregularity affecting the finances of the Authority.
- D.9 The Monitoring Officer / Secretary to the Staffordshire Commissioner (FRA) is responsible for the development and maintenance of anti-fraud and anti-corruption policies which will identify who is responsible for ensuring compliance and for receiving reports of potential breaches.

Appendix 2

Audit Opinions

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

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

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

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

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