
**INTERNAL AUDIT SHARED SERVICE – AUDIT CHARTER, ANNUAL AUDIT PLAN
2017/18 AND QUALITY ASSURANCE AND IMPROVEMENT PROCESS**

SUMMARY REPORT

Purpose of the Report

1. To present the Internal Audit Shared Services' Audit Charter, Audit Plan 2017/18 and Quality Assurance and Improvement Process (QAIP).

Information and Analysis

2. The requirement for the Council to have an internal audit function is outlined in Section 151 of the Local Government Act 1972. More specific requirements are detailed in the Accounts and Audit (England & Wales) Regulations 2015 which 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”.
3. Relevant standards or guidance are set out in the Public Sector Internal Audit Standards which were revised in March 2016.
4. On 29 September 2016 Darlington Borough Council approved the establishment of an Internal Audit Shared Service and agreed to delegate all necessary powers for the discharge of the Internal Audit function to Stockton-on-Tees Borough Council. This approach was agreed by Stockton-on-Tees Borough Council on 19 October 2016.
5. A Charter has been developed that outlines how the service will meet statutory requirements and is detailed at **Appendix A**. Specifically the Charter outlines how the Audit Plan will be developed.
6. A Strategic Plan has been developed and is attached at **Appendix B**.
7. A requirement of the Public Sector Internal Audit Standards is for a service to maintain compliance and to look to continually improve. To this end a Quality Assurance and Improvement Programme (QAIP) has been devised. The QAIP is attached at **Appendix C**.

8. Progress against the Plan and performance measures will be reported to the Audit Committee during the course of the year.

Recommendation

9. It is recommended that the Committee:-

- a. approve the Internal Audit Charter at **Appendix A** and the rights of access conferred within.
- b. approve the proposed Audit Plan for 2017-2018 at **Appendix B** and note the indicative strategic Audit Plan for 2018-2022 and the estimated resources available for delivery.
- c. note the QAIP at **Appendix C** which will be used to monitor the service throughout the year.

Reason

10. The recommendation is supported as it comprises part of the Council's corporate governance arrangements.

Andrew Barber
Audit and Risk Manager

Background Papers

- (i) Audit Risk Assessment Information
- (ii) Corporate and Group Risk Management Information

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S17 Crime and Disorder	Other than any special investigation work required there is no crime and disorder impact.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	This report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond the report comprising part of the Council's governance arrangements.

MAIN REPORT

Public Sector Internal Audit Standards

11. The Public Sector Internal Audit Standards were published on 18th December 2012 and updated in March 2016. These Standards, which are based on the requirements of the Institute of Internal Auditors (IIA), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. They are mandatory and apply to all internal audit service providers, whether in-house, shared or outsourced.

12. There are three distinct areas covered by the Standards:-

- A definition of Internal Auditing;
- A Code of Ethics designed to promote an ethical, professional culture; and
- The International Standards for the Professional Practice of Internal Auditing.

13. CIPFA has provided guidance on the application of Public Sector Internal Audit Standard in the form of an Application Note. The Internal Audit Charter (attached) has been prepared in accordance with the Public Sector Internal Audit Standards and this guidance.

Internal Audit Charter

14. Under the Standards an Internal Audit Charter is required. This is a high level statement of how the Internal Audit Service will be delivered to meet the requirements of legislation and the Standards.

15. The Charter, attached at **Appendix A** sets out the approach for the period 2017-2022 and gives details of:

- Purpose of the Internal Audit Service
- Scope of Internal Audit work
- Access to Information
- Resourcing of the Service
- Future Development of the Service

Audit Plan

16. The Standards state that a risk based plan designed to implement the audit charter and allow an annual internal audit opinion to be prepared should be produced. As part of the process for considering how we would deliver a shared service we reviewed our approach to assessing risk and prioritising the work we will undertake. The new approach utilises a process of assessing the risk posed in each area taking account of other forms of assurance as well as a periodic review of a sample of data to establish if there is any evidence to suggest our previous opinion may no longer

be valid. This approach allows us to monitor more frequently than we currently do whilst spending less time undertaking detailed testing programmes on areas where there is no evidence to suggest there have been any changes from the previous audit. This new approach will require some development time and the attached plan for 2017/2018 may need to be amended as a result. Any changes to the Plan will be reported back to this Committee.

17. The risk assessment uses a number of factors to determine the likelihood of issues occurring including an understanding of the full scope of systems in operation, major change, concerns/external interest and results of previous audit work. It then assesses the impact any issues may have on the Council's strategic objectives, reputation, financial plans, assets and also the potential impact on individuals and/or the environment. This process will be further refined to take account of the monitoring work mentioned in paragraph 16.
18. The structure of the Plan reflects the fact it serves more than one authority with different management structures.
19. To aid members' understanding of when they can expect an area to be reviewed next the full strategic plan for the period 2017-2022 is included at Appendix B. In previous years the plan included a brief scope of audit work, as these will need to be revisited and revised during the year they have not been included at this time.
20. As part of the process, the plan is subject to consultation with the Council's external auditors. High priority is given to key financial systems, any significant corporate projects and specific areas requested by Management. A lower priority is given to systems which, although very important to stakeholders, have less impact corporately. All areas of activity are tested in their entirety at least once in a five year period.
21. In addition to any potential changes in the Plan to reflect development work it is likely that amendments will be made to reflect changes in the Councils' risk profile. This will be achieved through ongoing review and amendment in consultation with relevant stakeholders. The Audit Committee will be informed of any significant changes to the plan.
22. The Internal Audit Shared Service Plan is based on 7.6 FTEs. This is equivalent to 1901 audit days in 2017/2018 after taking account of maternity leave (90 Days). Allowances have been made for annual leave, bank holidays, sickness, training and administrative duties. No allowance has been made for staff turnover.
23. The proposed Internal Audit Plan for 2017-18 and indicative plans for 2018-19, 2019-2020, 2020-2021 & 2021-22 are attached at **Appendix B**.
24. It has been assumed at this time that the same level of annual resource will be available for the entire period 2017-2022. Based on this assumption there is sufficient resources available to achieve the Strategic Plan as shown at **Appendix B**.

Development of the Audit Service

25. The Audit Service is continuously striving to improve the way it operates and the following actions have been identified:

- a. Implement the changes required for the Shared Service itself updating procedures as appropriate.
- b. Review how to maximise the effectiveness of audits using technology and implement continuous auditing.
- c. Establish how the Service can place reliance on other sources of assurance.
- d. Continue to update monitoring and reporting procedures.
- e. Improve promotion of the Service to provide managers and individuals with more information about the audit service and the audit process itself.
- f. Develop good relationships with managers in Darlington and the Combined Authority.
- g. The Service will be the subject of an external peer review during the year in accordance with Public Sector Internal Audit Standards.