

**AUDIT COMMITTEE
16 SEPTEMBER 2020**

ITEM NO.

AUDIT SERVICES – AUDIT CHARTER

SUMMARY REPORT

Purpose of the Report

1. To present Audit Services' Audit Charter for 2020-21.

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:
 - a. "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 the 1 April 2017 a shared service was established to deliver the Internal Audit function to Darlington Borough Council and Stockton-on-Tees Borough Council.
5. A charter has been developed that outlines how the service will meet these requirements and is detailed at **Appendix A**. Specifically the charter outlines how the Audit Plan will be developed.
6. A requirement of the regulations is for a service to maintain compliance with the standards and to look to improve. To this end a Quality Assurance and Improvement Programme (QAIP) is being devised to reflect the new ways of working.
7. Usually the audit plan will be presented alongside the audit charter, however as we have moved to a more flexible plan of work as has been discussed previously this will be shown in a separate report.

Recommendation

8. It is recommended that :-

- a. That the Audit Committee approves the Internal Audit Charter (**Appendix A**) and the rights of access conferred within.

Reason

9. 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

Andrew Barber : 01642 526176 Internal : 156176

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.
Efficiency	There is no specific efficiency impact.

MAIN REPORT

Public Sector Internal Audit Standards

10. 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.
11. There are three distinct areas covered by the standards:-
- a. A definition of Internal Auditing;
 - b. A Code of Ethics designed to promote an ethical, professional culture; and
 - c. The International Standards for the Professional Practice of Internal Auditing.
12. 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

13. Under the standards, the Procurement and Governance Manager is required to prepare an Internal Audit Charter. This is a high level statement of how the Internal Audit Service will be delivered to meet the requirements of the legislation and the standards.
14. The revised charter attached sets out the approach for the period 2020-2021 and gives details of:
- a. Purpose of the Internal Audit Service
 - b. Scope of Internal Audit work
 - c. Access to Information
 - d. Resourcing of the Service
 - e. Future Development of the Service
15. The Internal Audit Charter is attached at **Appendix A**. The main change to the charter is the recognition that the service will no longer be delivering internal audit to the Tees Valley Combined Authority.

Development of the Audit Service

16. The service is continuously striving to improve the way it operates and the following actions have been identified to further enhance the service:
- a. Review and update the Quality, Assurance and Improvement measures.

- 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. Implement the new format Audit Report to Directors.
- e. Implement the new format Corporate Risk Register and Assurance Report to Audit Committee.
- f. Improved promotion of the service to provide managers and individuals with more information about the audit service and the audit process itself.

Internal Audit Charter

Introduction

This document will outline how the internal audit service to Stockton-on-Tees Borough Council and Darlington Borough Council will be delivered to ensure it is compliant with the relevant standards and statutory requirements currently in place.

Purpose of the Service

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.

Its mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Authority to Undertake the Function

Each authority is required 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.

This requirement is set out in the Accounts & Audit Regulations 2015. The regulations also state that any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit make available such documents/records and supply such information/explanations as are considered necessary by those conducting the internal audit.

Internal Audit's Responsibilities

The service will be delivered in accordance with the purpose outlined above and by ensuring it:

- 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-focussed
- Promotes organisational improvement

The service will ensure it complies with the IIA International Standards for Internal Audit by adopting the Public Sector Internal Audit Standards.

For the purposes of applying these standards “the board” are represented by the Audit Committee through the scheme of delegation in place within each authority. “Senior Management” is the Head of Paid Service, Section 151 Officer & Monitoring Officer who undertake statutory functions. Each authority will have senior management teams, which will include each of these officers. The service will report the results of audit work individually to each relevant member of this senior management team.

The service will report the findings of its work to the board and to senior management a minimum of 3 times per year in line with the Audit Committee schedule. Where there is any attempt to apply undue influence on the findings of its work the service will seek to make either senior management or the board aware of any such attempts and reserves the right to report without prejudice to any member of the board or senior management.

Recommendations will be made where it is considered the control environment could be improved. This could either be addressing a particular weakness or identifying efficiencies/improvements within processes.

Functionally the service will be based within Stockton-on-Tees Borough Council in the Finance and Business Services Department. The “Chief Audit Executive (CAE)” role as specified by the standards is undertaken by the Audit & Risk Manager. An annual report will be produced giving an overall audit opinion of the control environment to be used as part of the assurance gathering process for the annual governance statement in each authority.

Day-to-day line management for the service will be provided by the Procurement and Governance Manager within the Finance and Business Services Department of Stockton-on-Tees Borough Council.

In order to maintain the actual or perceived independence of the function, where audit work is to be conducted on any function where the Procurement and Governance Manager has operational responsibility, the Audit & Risk Manager has the right to agree the scope of/report findings of this work to any member of senior management. The Audit & Risk Manager has a responsibility to report any attempt to unduly influence/interfere with the scope or outcome of this audit work to relevant members of senior management/the board.

The service will conform to a code of ethics. Annually auditors will sign a declaration that they will conform to a code of ethics that addresses:

- Integrity
- Objectivity
- Competence
- Confidentiality
- Conflicts of Interest

Failure to abide by this code will result in action being taken against individuals through either the Council’s disciplinary process, professional disciplinary process or a combination of both.

An opinion will be provided on the entire control environment each year, one for each authority by 30 June. Frequency and scope of testing will be determined by an audit risk assessment, which will be kept up to date. A plan of work will be agreed with the board and senior management, which is considered sufficient to enable this opinion to be given.

In addition to auditing the control environment, the service has a role in preventing, detecting and investigating possible fraudulent or corrupt activity. It is a requirement that the service will be made aware of any such activity either suspected or proven. In addition to this, audit testing will be conducted on the basis that fraud and corruption is a risk within any system and auditors will be aware of the potential for this to be taking place.

Because of the breadth of skills and knowledge possessed by auditors, the service may be approached to provide advice and guidance to managers outside of the normal audit process. Any such consultancy engagement will be managed appropriately and will only be undertaken where the agreed scope of the engagement is consistent with the purpose of the service and where the requisite skills are available. Such assignments will be added to the audit plan.

The service will ensure it has sufficient resources to deliver a risk based audit plan with adequate coverage to enable an overall opinion to be given. A competency framework will be maintained to ensure auditors have the required skills to deliver the plan. Auditors will be assessed against this framework as part of the annual appraisal process. In addition, to ensure auditor's skills remain current they will be required to undertake Continual Professional Development (CPD). Where it is believed there will be insufficient resources (either in terms of capacity or in terms of competence) this will be brought to the attention of the board through the audit committee.

Delivery of the Service

An audit portfolio will be maintained which will encompass the entire control environment of the authority. The portfolio will be kept up to date with consultation taking place with senior management on a regular basis.

Each control in the portfolio will be risk assessed to determine frequency and priority of audit work. The risk assessment will be kept up to date and planning will be undertaken on a quarterly basis. The service will utilise continuous monitoring techniques as part of the risk assessment process, which, will incorporate feedback from a number of sources. This approach will include schools where the primary source of feedback will be the Schools Financial Value Standard Self-Assessment returns and where applicable the schools risk action groups.

Frequency of testing of each control will be determined by a risk assessment. Planning will be focussed on the adequacy of resources to meet the pre-defined frequency of testing requirements rather than a detailed break-down of testing to be undertaken.

A manual will be maintained which will document the audit process, the way in which results of audit work will be presented (this will be subject to consultation with senior management/the board) and the standard of working papers required to support the audit opinion.

The service will maintain an intranet page in each Council which will include basic contact details and any other relevant information.

Monitoring the Service

A Quality Assurance and Improvement Programme (QAIP) will be developed to reflect the new ways way planning and recording work.

The QAIP will detail:

- Performance measures for assessing the service
- Complaints procedure
- Process for reviewing compliance with the Standards.

Regular reports will be presented to the board on the outcomes of the QAIP