

AUDIT COMMITTEE
30 APRIL 2025

AUDIT SERVICES – AUDIT CHARTER

SUMMARY REPORT

Purpose of the Report

1. To present Audit Services' Audit Charter for 2025-26.

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. The Global Standards for Internal Audit have been revised during the previous 12 months. The revised standards are applicable from April 2025. We have undertaken a self-assessment against these revised standards, on the whole the service is compliant with these new standards, however there are some minor adjustments required some of which have been incorporated into the Audit Charter.
4. The standards are now structured around 5 domains: -
 - Domain I – Purpose of Internal Auditing;
 - Domain II – Ethics and Professionalism;
 - Domain III – Governing the Internal Audit Function;
 - Domain IV – Managing the Internal Audit Function;
 - Domain V – Performing Internal Audit Services
5. The main changes made to the charter in recognition of the new standards can be summarised as follows:
 - Para 10 – The standards are explicit around the role the board plays in the direct management of the Head of Internal Audit (HoIA), specifically appraisal, Budget Setting and Remuneration. It has been recognised in the application note produced by Chartered Institute Public Finance & Accountancy (CIPFA) that the role of the board in the public sector differs from that in the private sector, this has been recognised in the charter.
 - Para 11 – The new standards introduce the concept of Root Cause Analysis, as a service we have been working to this standard whenever making recommendations,

the wording in the charter has been undated to explicitly reflect this practice.

- Para's 23 & 24 – The standards place a duty on Internal Audit to work with other assurance providers. Para 23 outlines how we will work with other internal assurance providers and Para 24 outlines how we will work with external assurance providers but explicitly explains some of the limitations of this that exist in the public sector.
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.

Recommendation

7. It is recommended that Audit Committee approves the Internal Audit Charter (**Appendix A**) and the rights of access conferred within.

Reason

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

Andrew Barber
Assurance 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.
Council Plan	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.

Internal Audit Charter

Introduction

1. 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

2. 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.
3. Its mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Authority to Undertake the Function

4. 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.
5. 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

6. 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
7. The service will ensure it complies with the International Standards for Internal Audit and adopting the Public Sector Internal Audit Standards.
 8. 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.
 9. 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.
 10. The standards outline the role the board should play in terms of directly managing the resources of the Internal Audit function. The role of the board in the public sector differs from the expectations of the standards as they do not have direct oversight of funding or management of the Chief Audit Executive. This is recognised in the standards and we are required to provide for alternative arrangements, any decisions to be made by the authority that will impact funding and/or management of the Chief Audit Executive (Appointment, remuneration, appraisal) will be undertaken in consultation with the board. In addition the Chief Audit Executive will make the board aware of any concerns they may have in terms of resourcing the function.
 11. 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. The root cause of a weakness will be identified and recommendations will support addressing the root cause.
 12. 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 Assurance 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.
 13. Day-to-day line management for the service will be provided by the Assistant Director, Procurement and Governance within the Corporate Services Department of Stockton-

on-Tees Borough Council.

14. In order to maintain the actual or perceived independence of the function, where audit work is to be conducted on any function where the Assistant Director, Procurement and Governance has operational responsibility, the Assurance Manager has the right to agree the scope of/report findings of this work to any member of senior management.
15. The Assurance Manager also has operational responsibility for Risk Management and Health & Safety in SBC. The impact on actual/perceived independence is limited as these services are congruent with the core principles of Internal Audit and the Assurance Manager must ensure they conform to professional standards however, in order to maintain the actual or perceived independence of the audit function the Audit Manager has the right to agree the scope of/findings of the other functions of the Assurance Manager to any member of senior management.
16. The Assurance 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.
17. 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 – Selflessness, Honesty, Openness & Accountability
 - Objectivity
 - Competence & Leadership
 - Confidentiality
 - Conflicts of Interest
18. 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.
19. 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.
20. 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.

21. 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.
22. 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.
23. The service will work closely with internal assurance providers to assess the procedures they have in place in order to establish the reliance that can be placed on those assurances before using it to inform the assurances provided by internal audit.
24. The service will look to liaise with external assurance providers such as External Audit, Ofsted & Care Quality Commission to ensure plans are aligned to avoid duplication and to obtain assurance over processes that would allow the service to place reliance on the work of these organisations. It should however be noted these bodies have their own arrangements and requirements in terms of planning, scope and evidence requirements there are therefore limitations on our ability to co-ordinate effectively with these bodies.

Delivery of the Service

25. 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.
26. Capacity of the team to deliver the planned work will be continually monitored, any concerns over resourcing of the service will be raised with management and Audit Committee.
27. 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 the plan automatically updated if there is any change in risk, the plan will be refreshed daily. 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.

28. In order to be able to provide an unqualified opinion sufficient work must have been undertaken, the risk assessment determines the ideal frequency of testing which is adjusted to set a minimum frequency and therefore minimum coverage levels. Completion of the audit plan will be monitored using this minimum frequency, this provides a more effective measure of the work undertaken as it is based on individual control frequencies rather than a simple percentage of the total which could ignore the level of risk completely. The minimum levels of coverage will be regularly monitored and reported.
29. 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.
30. The service will maintain an intranet page in each Council which will include basic contact details and any other relevant information.

Monitoring the Service

31. A medium strategy will be in place and progress against actions will be reported on a regular basis.
32. A Quality Assurance and Improvement Programme (QAIP) will be developed to reflect the new ways way planning and recording work.
33. The QAIP will detail:
 - Performance measures for assessing the service
 - Complaints procedure
 - Process for reviewing compliance with the Standards.
34. Regular reports will be presented to the board on the outcomes of the QAIP