

**AGENDA NO:**

**REPORT TO AUDIT COMMITTEE**

**27 JULY 2020**

**REPORT OF DIRECTOR OF FINANCE  
AND BUSINESS SERVICES**

## **INTERNAL AUDIT CHARTER**

### **SUMMARY**

The purpose of this report is to advise Members of the Internal Audit Charter and proposed approach to delivering the audit service for the coming financial year 2020-2021.

### **RECOMMENDATION**

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

### **DETAIL**

1. 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”.

2. The attached audit charter outlines how combined internal audit service will be delivered to Darlington Borough Council and Stockton-on-Tees Borough Council.

### **Public Sector Internal Audit Standards**

3. The Public Sector Internal Audit Standards were published on 18<sup>th</sup> 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.
4. 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.

5. 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**

6. The Charter is a high-level statement of how the Internal Audit Service will be delivered to meet the requirements of the legislation and the standards.
7. The charter sets out the approach for delivery of the audit service:
  - Purpose of the Internal Audit Service
  - Scope of Internal Audit work
  - Access to Information
  - Resourcing of the Service
  - Future Development of the Service
8. The Internal Audit Charter is attached at **Appendix A**.

### **Audit Planning**

9. 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. Audit planning will be undertaken on a quarterly basis as previously agreed. The structure of the plan has been updated with a focus around auditing controls rather than service areas. This will impact on the level of detail provided to members at the planning stage.
10. The risk assessment uses a number of factors to determine the likelihood of issues occurring including an understanding of the full scope of controls 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.
11. 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.
12. The proposed level of resources within the service can be identified as gross audit days based on 7.6 FTE's with 2 officers part-time. This is equivalent to 1998 audit days in 2020-2021. Allowances have been made for annual leave, bank holidays, sickness, training and administrative duties. No allowance has been made for staff turnover. This resource is sufficient to complete the testing outlined by the risk assessment.

## Development of the Audit Service

13. The service is continuously striving to improve the way it operates and the following actions have been identified to further enhance the service:

- Review and update the Quality, Assurance and Improvement measures.
- Review how to maximise the effectiveness of audits using technology and implement continuous auditing.
- Establish how the service can place reliance on other sources of assurance.
- Implement the new format Audit Report to Directors.
- Implement the new format Corporate Risk Register and Assurance Report to Audit Committee.
- Improved promotion of the service to provide managers and individuals with more information about the audit service and the audit process itself.

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## FINANCIAL AND LEGAL IMPLICATIONS

None

## RISK ASSESSMENT

The results of the work undertaken by Internal Audit can be used by managers to assess their risk exposure, recommendations are made where there is perceived to be unacceptable risk.

## COMMUNITY STRATEGY IMPLICATIONS

None

## CONSULTATION

The Audit Plan has been submitted to the Senior Management Team for comment.

<u>Background Papers:</u>	None
<u>Ward(s) and Ward Councillors:</u>	None
<u>Property Implications:</u>	None

## **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