

## CORPORATE AFFAIRS AND AUDIT COMMITTEE

<b>Report title</b>	Internal Audit Charter
<b>Chief Executive or Director</b>	Strategic Director of Finance, Governance and Support
<b>Date</b>	26 July 2018
<b>Purpose of the report</b>	In accordance with the revised Public Sector Internal Audit Standards (PSIAS), to present the updated Internal Audit Charter to Members of the Corporate Affairs and Audit Committee for their comment and approval.
<b>Summary of the report</b>	The Charter includes various statements relating to the scope of internal audit activity, its responsibilities, objectives, independence and reporting lines. Responsibility for and ownership of the Internal Audit Charter remains with the organisation but should be reviewed by the Audit and Assurance Manager and approved by the Corporate Affairs and Audit Committee. Since the introduction of the PSIAS, the Charter has been reviewed on an annual basis and updated to reflect changes in PSIAS and other audit arrangements. This year's review of the Charter has resulted in a number of minor changes which either reflect amendments to the PSIAS in 2017 or which provide additional clarification. The revised version is included at <b>Appendix 1</b> and includes tracked changes.
<b>If this is a confidential report, which category of exemption(s) from the Schedule 12a of the Local Government Act 1972 applies?</b>	Not applicable.
<b>Decision(s) asked for</b>	It is recommended that Members of the Corporate Affairs and Audit Committee comment on and approve the Internal Audit Charter and the proposed changes as set out in <b>Appendix 1</b> .
<b>Impact of decision(s)</b>	Public Sector Internal Audit Standard 1000 states that the Internal Audit Charter should include a formal definition of the purpose, authority and responsibility of the internal audit activity. It should set out the internal audit activity's position within the organisation, establish reporting relationships and define the role and scope of its activities in relation to assurance, fraud and consulting work. It should establish the organisational independence of internal audit and identify its

	contribution to the review of the effectiveness of the organisation's control environment.
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### **What is the purpose of this report?**

1. The purpose of the report is to seek Members' comments and approval on the revised Internal Audit Charter. In accordance with the Standards the Internal Audit Charter should be reviewed annually and approved by senior management and the Corporate Affairs and Audit Committee.

### **Why is this report necessary?**

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. Each year the Corporate Affairs and Audit Committee agree an Annual Governance Statement, giving assurance that proper governance of operations has been in place throughout the year. Part of that assurance is gained from the work of Tees Valley Audit & Assurance Service (TVAAS) which is a shared arrangement with Redcar and Cleveland Borough Council. TVAAS acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
4. The work carried out by TVAAS is aimed at providing independent assurance to the Council's senior officers, elected members and members of the public that the key risks faced by the Council, to the achievement of the Mayor's Vision, are being managed effectively and that appropriate safeguards are in place for public funds and assets.
5. The Internal Audit Charter is a formal document that defines the internal audit activity's purpose, authority and responsibility consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Charter sets out how the internal audit work will be carried out and the Service will perform its duties. The Charter establishes the role, authority, mission and independence of the internal audit function and how it will report its findings. Having an Internal Audit Charter is a requirement of the Public Sector Internal Auditing Standards which are mandatory standards for internal audit in local government.
6. Each year, the Audit and Assurance Manager reviews the content of the Charter to ensure that the document remains fit for purpose and reflects the PSIAS. Only

minor changes are proposed to the Charter this year and these are tracked for the benefit of Members in **Appendix 1**.

### **What decision(s) are being asked for?**

7. It is recommended that Members of the Corporate Affairs and Audit Committee review the Charter and proposed changes as set out in **Appendix 1** and consider whether the revised Charter meets their approval.

### **Why is this being recommended?**

8. Public Sector Internal Audit Standard 1000 states that the Internal Audit Charter should include a formal definition of the purpose, authority and responsibility of the internal audit activity. It should set out the internal audit activity's position within the organisation, establish reporting relationships and define the role and scope of its activities in relation to assurance, fraud and consulting work. It should establish the organisational independence of internal audit and identify its contribution to the review of the effectiveness of the organisation's control environment.

### **Other potential decisions and why these have not been recommended**

9. The revised Charter is presented to Members in accordance with the PSIAS and to have the chance to suggest alternative or additional areas for internal audit review.

### **Impact(s) of recommended decision(s)**

10. By having an approved Internal Audit Charter in place, the Council is able to demonstrate that its internal audit function is complying with the elements of the Public Sector Internal Auditing Standards that require a Charter to be implemented. The Charter clearly defines the purpose, authority and responsibility of internal audit activity.

### ***Legal***

11. The work of TVAAS is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). The Audit and Assurance Manager is required to report to those charged with governance on the findings of audit work, provide an annual opinion on the Council's internal control environment and identify any issues relevant to the preparation of the Annual Governance Statement.
12. Internal audit is a statutory requirement in a local authority. The Council has delegated the delivery of this responsibility to the Strategic Director for Finance, Governance & Support.

### ***Financial***

13. The number of days of internal audit work is based on the estimated productive days per member of the Team taking into account known and estimated absences and commitments. Redcar & Cleveland Borough Council charges Middlesbrough Council for the provision of an internal audit service. Charges are based on a daily charge rate linked to the grade of staff involved in the audit work applied to the actual days worked. The overall annual budget for internal audit is circa £180K.

### ***The Mayor's Vision for Middlesbrough***

14. Internal Audit assists management in delivering the Mayor's Vision by working to an annual programme of work that includes assignments linked to strategic risks and priorities, and which seeks to add value by assessing the quality of controls in place to assure delivery, ensure value for money and achieve better outcomes for local people.

### ***Policy Framework***

15. The Corporate Affairs and Audit Committee has responsibility for reviewing the adequacy of the Council's corporate governance arrangements. TVAAS acts as an assurance function providing an independent and objective opinion to the organisation on the entire control environment by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

### ***Wards***

16. There are no specific financial or ward implications arising from the Internal Audit Charter.

### ***Equality and Diversity***

17. There are no direct implications from this report on equality and diversity although aspects of the proposed internal audit work may involve a review of issues affecting equality and diversity.

### ***Risk***

18. Internal audit and assurance work is aimed at providing assurance that the key risks faced by the Council are being managed effectively and that appropriate safeguards are in place for public funds and assets.

### ***Actions to be taken to implement the decision(s)***

19. Any requests for additional assurance or clarification by Members of the Committee will be considered for inclusion in the Internal Audit Charter.

### ***Appendices***

20. Appendix 1 – Internal Audit Charter

### ***Background papers***

21. No background papers other than published works were used in the preparation of this report.

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