

APPENDIX 1

TEES VALLEY AUDIT & ASSURANCE SERVICE

INTERNAL AUDIT CHARTER - MIDDLESBROUGH COUNCIL

This Charter outlines how internal audit and assurance at Middlesbrough Council will be provided in accordance with proper practice. It should be considered alongside the wider legal and regulatory framework as outlined in the paragraphs below and the Council's own governance arrangements.

There is a statutory duty on the Council to undertake an internal audit of the effectiveness of its risk management, control and governance processes. The Accounts and Audit (England) Regulations 2015 also require that the internal audit takes into account public sector internal audit standards or guidance. The Chartered Institute of Public Finance and Accountancy (CIPFA) is responsible for setting standards for proper practice for local government internal audit in England.

CIPFA adopted the revised Public Sector Internal Audit Standards (PSIAS) from 1 April 2017 which are compliant with the Institute of Internal Auditors' (IIA) International Standards. The PSIAS and CIPFA's local government application note for the standards represent proper practice for internal audit in local government.

The standards include reference to the roles and responsibilities of the "board" and "senior management". Each organisation is required to define these terms in the context of its own governance arrangements. For the purposes of the PSIAS these terms are defined at Middlesbrough Council as follows:

Board – the Corporate Affairs and Audit Committee fulfils the responsibilities of the board in relation to internal audit standards and activities;

Senior management – in most cases, the term senior management in the PSIAS is assumed as referring to the Strategic Director Finance Governance and Support in their role as S151 officer but may also include reference to the Chief Executive and/or Executive Directors;

Chief audit executive – in the context of the PSIAS, this is the Audit & Assurance Manager, Tees Valley Audit and Assurance Service (TVAAS).

Mission

Audit and Assurance's mission aims: 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'.

The internal audit and assurance activity is established by the Leadership Management Team (LMT) and approved by the Corporate Affairs and Audit Committee. The audit and assurance activity's responsibilities are defined by the LMT and by the Strategic Director for Finance Governance and Support (S151 Officer) as part of their oversight role.

The mission of internal audit work is to support the attainment of the Council's priorities by identifying risks to the achievement of the priorities, by recommending remedial action and by helping to promote a secure and robust internal control environment.

Role and Definition

Internal auditing is an independent and 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.

Internal audit activity at Middlesbrough Council is guided by a philosophy of adding value to improving the operations of the Council and helping to safeguard assets.

Professionalism

The audit and assurance activity will govern itself by adherence to Public Sector Internal Audit Standards (PSIAS). The PSIAS includes mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the audit and assurance activity's performance.

The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to the Council's relevant policies and procedures and the internal audit activity's standard Audit and Assurance Manual.

Application of the PSIAS

The mission of Audit and Assurance at the Council is 'to enhance and protect organisational value by providing risk based and objective assurance, advice and insight'.

In achieving this, the Council expects that the Audit and Assurance Service will ensure that 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, adequately resourced and is value for money;
 - demonstrates quality and continuous improvement;
 - communicates effectively;
 - provides risk-based assurance;
 - is insightful, proactive, and future-focused;
 - promotes organisational improvement.
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Authority and Rights of Access

To enable it to perform its responsibilities, the audit and assurance activity (with strict accountability for confidentiality and safeguarding records and information) has authorised full, free, and unrestricted access to all of the Council's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the audit and assurance activity in fulfilling its roles and responsibilities. The audit and assurance activity will also have free and unrestricted access to the Corporate Affairs and Audit Committee and will have the right to meet privately with Members of the Committee to raise any issues.

Executive Directors and Directors are responsible for removing any obstructions that audit and assurance staff may encounter when attempting to access premises, records or when requiring information or explanation from staff.

Organisation

Audit and assurance services are provided by TVAAS according to a service level agreement with Redcar and Cleveland Borough Council. The Strategic Director for Finance Governance and Support acts as client officer for the service level agreement and is responsible for monitoring the service provided.

The Audit and Assurance Manager will report functionally to the Corporate Affairs and Audit Committee and administratively to the Strategic Director Finance, Governance and Support who is also the Council's S151 Officer.

The Audit and Assurance Manager will communicate and interact directly with the Corporate Affairs and Audit Committee including in executive sessions and between Corporate Affairs and Audit Committee meetings as appropriate. The Audit and Assurance Manager will report independently to the Corporate Affairs and Audit Committee on proposed allocations of audit resources; any significant risks and control issues identified through audit and assurance work and will provide an annual opinion on the Council's control environment.

Code of Ethics

Each member of the team will receive a copy of the Code Ethics and sign up to an annual declaration to confirm that they will work in compliance with the Code of Ethics as well as Council's standards and policies such as the Council's Codes of Conduct. Where potential areas of conflict may arise during the year, the auditor will be required to disclose this. It is critical that all Auditors maintain high standards of integrity, independence, objectivity, confidentiality and competence.

Independence and objectivity

The internal audit and assurance activity must be free from interference in determining the scope of internal auditing, performing work and communicating results. The Audit and Assurance Manager must disclose such interference to the Corporate Affairs and Audit Committee and discuss the implications. Audit and assurance officers and compliance auditors will have no direct operational responsibility or authority over any of the activities they are allocated to audit.

Members of the Audit and Assurance Service must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Audit and assurance officers and compliance auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments. All audit reports will be subject to an internal review process within the Team before being issued in a draft format to the relevant auditees. The draft process enables the auditees to respond to the findings, correct any misunderstandings or factual errors and to present additional explanations and information. In the rare event that agreement cannot be reached and an auditee still does not accept the opinion of the Audit and Assurance Team, the following steps are available:

- Set out the reasons for non agreement to the Audit and Assurance Manager and request a review of those areas that are in dispute.

If agreement still cannot be reached:

- Set out the reasons for your disagreement and request that they be included in the Audit and Assurance Progress Report to the Corporate Affairs and Audit Committee.

The work of TVAAS is subject to review by the external auditors and by an independent body once every five years.

When undertaking internal audit work, all officers within the Audit and Assurance Service will conform to the Chartered Institute of Internal Auditors (CIIA's) Code of Ethics in the PSIAS and to the *Seven Principles of Public Life* in addition to any standards expected by the Council and professional bodies of which they are members. Officers carrying out audit and assurance work should also have due regard for the mission of internal audit and the core principles as set out in the PSIAS and in this Charter.

The Audit and Assurance Manager will confirm to the Corporate Affairs and Audit Committee at least annually, the organisational independence of the internal audit and assurance activity. The Audit and Assurance Manager will report any attempts to interfere with the service's independence to the Corporate Affairs and Audit Committee and to the Council's Monitoring Officer.

These arrangements will support compliance with Public Sector Internal Audit Standard 1100 Independence and Objectivity.

Responsibility

The scope of internal auditing and assurance encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council's governance, risk management, counter fraud and internal control processes in relation to the Council's defined goals and objectives. Internal control objectives considered by audit and assurance include:

- Consistency of operations or plans with established objectives and goals and effective performance;
- Effectiveness and efficiency of operations and employment of resources;
- Compliance with significant policies, plans, procedures, laws, and regulations;

- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information;
- Safeguarding of assets.

The Audit and Assurance Manager is required to provide an annual report to the Corporate Affairs and Audit Committee to help the Committee consider the adequacy of the control environment and to help it when considering the Council's Annual Governance Statement. The annual report will include:

- The Audit and Assurance Manager's overall opinion on the adequacy and effectiveness of the Council's framework of governance, risk management, and control;
- A summary of the audit and assurance work undertaken during the financial year;
- Any qualifications to that opinion, together with the reasons for those qualifications (including any impairment to independence or objectivity);
- Summary details of any significant control weakness judged to be relevant to the preparation of the Annual Governance Statement;
- Any reliance placed on other audit/assurance providers;
- An overall summary of the Audit and Assurance Service's performance during the financial year and an assessment of the Service's compliance with the PSIAS and the results of the quality assurance and improvement programme.

Audit and Assurance is responsible for providing assurance to LMT and to the Corporate Affairs and Audit Committee on the effectiveness of the Council's internal control environment and governance arrangements. This assurance will be provided through:

- an objective examination, evaluation and reporting on the probity, legality and value for money of the Council's operations;
- a review of the effectiveness of the Council's financial controls, systems and procedures;
- making recommendations for improvement where appropriate to minimise the risk of loss, fraud and error and of the inefficient use of resources;
- the provision of advice on control and governance related matters.

Based on its activity, audit and assurance is responsible for reporting significant risk exposures and control issues identified to the Corporate Affairs and Audit Committee and to LMT, including fraud risks, governance issues, and other matters needed or requested by the Corporate Affairs and Audit Committee and LMT.

The Audit and Assurance Manager is responsible for ensuring that the internal audit and assurance service is provided in accordance with proper practice and standards.

It is the responsibility of Executive Directors and Directors to maintain effective systems of risk management, internal control, and governance.

Internal audit plan

At least annually, the Audit and Assurance Manager will submit to LMT and to the Corporate Affairs and Audit Committee an internal audit plan for review and approval. The Committee will oversee (but not direct) the work of internal audit and assurance.

The internal audit and assurance plan will include timing as well as resource requirements for the next financial year. Timing of individual assignments will be agreed with managers after the Plan has been agreed. The Audit and Assurance Manager will communicate the impact of resource limitations and significant interim changes to senior management and the Corporate Affairs and Audit Committee.

The internal audit and assurance plan will be developed based on the key risks facing the Council, including the input of LMT, other senior management and the Corporate Affairs and Audit Committee. When compiling the plan, consideration will be given to themes, trends and any emerging issues or risks that may have an impact upon the Council. The plan will reflect auditing practice, standards and the requirements of this Charter.

The content of the annual plan will be discussed with senior management. A draft version of the plan will be presented to the Corporate Affairs and Audit Committee for their comments and consideration. This will enable Members to comment on the scope of internal audit and assurance work. Following consultation with relevant stakeholders, a final version of the plan will be approved by the Strategic Director for Finance Governance and Support (Section 151 Officer) and by LMT and then submitted again to the Corporate Affairs and Audit Committee for final consideration. Any significant deviation from the approved internal audit and assurance plan will be communicated throughout the periodic activity reporting process.

Scope of internal audit and assurance activity

Audit and assurance is responsible for evaluating all processes and controls of the entity (and is not restricted to an examination of financial controls) including governance processes and risk management processes.

The scope of this work may also extend to services provided through partnership arrangements.

Audit and assurance may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Corporate Affairs and Audit Committee or management, as appropriate.

Audit and Assurance will also seek to monitor and update the Council's counter fraud strategy framework and will perform an annual fraud and loss risk self assessment. The Audit and Assurance Manager should be notified of any suspected or detected fraud within the Council in accordance with the Council's Whistleblowing and Anti Fraud, Bribery and Corruption Policies. The Service may also be required to undertake investigations into alleged fraud and corruption and other consultancy work to add value and help improve governance, risk management and control arrangements.

Reporting and monitoring

A written report will be prepared and issued by the Audit and Assurance Service following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit findings will also be communicated to the Corporate Affairs and Audit Committee in summary form.

The internal audit report will include management's response and corrective action taken or planned to be taken regarding the specific findings. Management's response should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

Whilst it is management's responsibility to implement the actions to which they have agreed or where they are named as the responsible officer, the internal audit and assurance activity will undertake follow up reviews of the agreed actions, particularly P1 actions. Progress to address all Priority 1 actions will be reported to the Corporate Affairs and Audit Committee. All findings will be classed as 'open' until the relevant audit and assurance officer is satisfied that the required action has been taken to address the issue. Evidence of implementation is required for all Priority 1 and 2 actions whilst management assurance is accepted for Priority 3 actions. An escalation process is in place for

highlighting actions that have passed their agreed target date but which have not yet been implemented.

The summary provided will also include reference to the number of recommendations implemented by management during the audit period to provide both balance and context.

Quality Assessment

The Audit and Assurance Manager is responsible also for providing periodically a self-assessment on the internal audit and assurance activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

In addition, the Audit and Assurance Manager will communicate to senior management and the Corporate Affairs and Audit Committee on the internal audit and assurance activity's quality assurance and improvement programme. The internal audit service maintains its arrangements for assessing the quality of its work by:

- reviewing its self assessment of compliance with the PSIAS;
- organising an external review of compliance with the PSIAS every five years (most recently undertaken in 2018);
- having review processes in place for individual assignments whereby each auditor's work is reviewed by another member of the team;
- annual sample testing on the quality of audits completed;
- monitoring and reporting on progress against agreed performance indicators.

This Charter will be reviewed and updated each year with the revised version presented to the Corporate Affairs and Audit Committee.

25 July 2019 – approved by Corporate Affairs and Audit Committee