

AGENDA ITEM 8

Report of:	Audit & Assurance Manager, Tees Valley Audit & Assurance Services
Submitted to:	Corporate Affairs and Audit Committee 25 July 2019
Subject:	Internal Audit Charter and PSIAS Self-Assessment

Summary

Proposed decision(s)
It is recommended that Members of the Corporate Affairs and Audit Committee note and comment on the Internal Audit Charter and the self-assessment of the internal audit service against the Public Service Internal Audit Standards (PSIAS).

Report for:	Key decision:	Confidential:	Is the report urgent?¹
Information	No	No	No

Contribution to delivery of the 2018-22 Strategic Plan		
Business Imperatives	Physical Regeneration	Social Regeneration
<p>The work of TVAAS is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). Having an Internal Audit Charter is a requirement of the PSIAS. 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</p>	<p>The work of TVAAS is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). Having an Internal Audit Charter is a requirement of the PSIAS. 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</p>	<p>The work of TVAAS is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). Having an Internal Audit Charter is a requirement of the PSIAS. 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</p>

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.	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.	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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Ward(s) affected
None.

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.
2. To present Members with the 2017/18 self-assessment of the internal audit service against the Public Sector Internal Audit Standards (PSIAS).

Why does this report require a Member decision?

3. 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. The self-assessment of the internal audit service against the PSIAS outlines how the service is meeting the required standards and where further development is required.
4. 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.

Report Background

5. 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.

6. 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 TVAAS (Audit and Assurance Team) which is a shared arrangement with Redcar and Cleveland Borough Council.
7. 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.
8. The Internal Audit Charter was introduced in 2013; the Audit and Assurance Manager reviews the content of the Charter each year to ensure that the document remains fit for purpose and reflects the PSIAS and any changes to the Standards. Only minor changes are proposed to the Charter this year and these are tracked for the benefit of Members in **Appendix 1**.
9. The work of internal audit is governed by the Accounts and Audit Regulations 2015, the Public Sector Internal Audit Standards, relevant professional standards and the Council's Internal Audit Charter. The PSIAS detail the Code of Ethics for internal auditors and provide quality criteria against which performance can be evaluated. Since the standards were adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) have issued further guidance via an application note that includes a checklist to assist internal audit practitioners in reviewing and updating working practices.
10. Each year, a self-assessment is completed which compares current internal audit working practices against the criteria set out in the PSIAS. The summarised self-assessment for 2018/19 is included at **Appendix 2**. An external assessment was carried out by the Head of Audit at Hartlepool Borough Council in 2018 which confirmed that the Service is complying with the Standards with only minor areas noted for consideration. The outcome of this assessment was reported to the Corporate Affairs and Audit Committee in July 2018. The Standards require that an external assessment be completed every five years.

What decision(s) are being asked for?

11. That Members note and comment on the Internal Audit Charter and proposed changes as set out in **Appendix 1**.
12. That Members note and comment on the PSIAS self-assessment in **Appendix 2** and the areas identified for improvement.

Why is this being recommended?

13. 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.

14. Internal Audit assists management in delivering the objectives of the Council by working to an annual programme of work that includes assignments linked to corporate 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. It is important therefore that the internal audit service complies with auditing standards.

Other potential decisions and why these have not been recommended

15. The revised Charter and PSIAS self-assessment are presented to Members in accordance with the PSIAS and to have the chance to comment and request clarification.

Impact(s) of recommended decision(s)

16. By having an approved Internal Audit Charter in place, the Council can 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

17. 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.

18. 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

19. The number of internal audit days is based on the estimated productive days per member of the Team considering 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.

Policy Framework

20. 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 and policy 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.

Equality and Diversity

21. 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

22. 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. As such, internal audit work contributes to providing assurance on the mitigation controls for many of the risks included on the Council's risk registers, both strategic and directorate. Internal audit work particularly links into risk reference O8-054 which relates to having adequate governance processes in place.

Actions to be taken to implement the decision(s)

23. Any requests for additional assurance or clarification by Members of the Committee will be considered for inclusion in the Internal Audit Charter and/or the PSIAS self-assessment.

Appendices

Appendix 1 – Internal Audit Charter

Appendix 2 – PSIAS Self-Assessment

Background papers

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

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