

Committee:	Date:
Audit and Risk Management Committee	4 th November 2014
Subject: Internal Audit Charter – Review and Update	Public
Report of: Chamberlain	For Decision

Summary

The Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013. One aspect of these new standards was for the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter. The internal audit charter was approved by the Audit and Risk Management Committee on the 15th October 2013.

Two minor recommendations following the Peer Review of internal audit presented to the Audit & Risk Management Committee at its May 2014 meeting was to make some minor revisions to the Audit Charter in relation to consultancy work undertaken by the internal audit section and the provision of assurance to other bodies.

The internal audit charter has been updated to meet the requirements of these recommendations and reflect the current role of internal audit in relation to VFM and efficiency work. The updated Audit Charter is presented at **Appendix 1** for approval.

As a result of the efficiency savings required of internal audit as part of the service based reviews, a more fundamental review of the Audit Charter will be required over the next 12 months, so that it properly reflects any changes in focus and service provision as the function adopts a more efficient and lower cost model of operation.

Recommendations

Members are asked to:

Approve the revised Audit Charter attached at Appendix 1

Main Report

Background

1. The new Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013. These standards are mandatory and underpin the Internal Audit arrangements within the City of London Corporation.
2. The PSIAS contain a number of key public sector requirements. Attribute Standard 1000 requires the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter which should:
 - define the terms “board” and “senior management” for the purposes of internal audit activity;
 - cover arrangements for appropriate resourcing;
 - define the role of internal audit in any fraud-related work; and
 - include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.
3. The audit charter also sets out the role and relationship with the Chief Finance Officer in being statutorily responsible and accountable for maintaining an effective system of financial control and sets out the responsibilities that fall on the Chamberlain as Chief Finance Officer to support the Audit and Risk Management Committee and ensure internal audit is independent and effective.
4. The Internal Audit Charter was approved by the Audit & Risk Management Committee on the 15th October 2013. In addition to the creation of this charter to meet the requirements of the new internal audit standards, the charter was also used to document formally performance expectations of both internal audit and Departments in making the internal audit process operate effectively.

Internal Audit Charter revision following Internal Audit Peer Review

5. Following the Peer Review of the internal audit function in March 2014, two minor revisions were agreed as necessary to the Audit Charter. The first agreed recommendation was as follows:-

“Standard 1000.C1 requires that “The nature of consulting services must be defined in the internal audit charter”. It is recognised that large scale consultancy projects are not usually undertaken by the internal audit team. They do, however, give advice on issues of governance, risk and control. This work is referred to in various places in the charter, but the nature and scale of this work would be better represented if it was pulled together in one place and strengthened.”

6. The following section has now been added at para 16.

***“The section provides advice and guidance to management on governance, risk and control. In particular, it engages with the City’s Corporate and Departmental change projects providing expert independent and objective advice on the design of internal controls. The extent and nature of this involvement is controlled, so that the independence of future internal audit assurance work is not compromised. The extent of internal audit advice and guidance is specified within the forward audit plans of the section, which are agreed annually by the Audit and Risk Management Committee. Any significant variations to this activity will be reported to the Audit and Risk Management Committee for agreement.*”**

7. The second agreed recommendation was as follows:-

“Standard 1000.A1 specifies that “If assurances are to be provided to parties outside the organisation, the nature of these assurances must be defined in the internal audit charter.” Review of the internal audit plan shows that assurance is given to other organisations in relation to City of London systems that are bought in to. This should therefore be reflected in the charter.”

8. The following additional paragraph has now been added at para. 17

“Provision of Assurances to outside Bodies

The City of London Internal audit function provides internal audit services under a service level agreement to London Councils and the Museum of London. Both these organisations utilise other City of London Corporation Services in addition to the internal audit function (e.g. payroll). As part of providing an efficient internal audit service to these bodies, internal audit may report on the outcomes of audit work on City of London Corporate systems utilised by those outside bodies, once findings and outcomes have been agreed with the relevant Chief Officer. In addition, internal audit will occasionally provide assurance to Central Government on the appropriate use of ring-fenced grants or performance returns where required by grant conditions.”

9. The internal audit charter has also been clarified to reflect the internal audit sections current role in relation to VFM and Efficiency review work where it is no longer undertaking forensic Departmental or cross-cutting efficiency reviews, separate from its main assurance work. It has also been updated to reflect that an independent peer review of the internal audit function will be undertaken at least every 5 years.
10. Responsibility for and ownership of the internal audit charter sits with the organisation. PSIAS 1000 requires the Chief Audit Executive (Head of Internal Audit) to review the charter periodically but final approval resides with the Board (Audit and Risk Management Committee).

11. The updated Audit Charter is attached at **Appendix 1** for approval. A tracked changes version is shown at **Appendix 2** for ease of reference.
12. As a result of the efficiency savings required of internal audit as part of the service based reviews, further changes in the Audit Charter will be required over the next 12 months so that it reflects any change in focus and service provision as the function adopts a more efficient and lower cost model of operation.

Conclusion

13. The Audit Charter has been revised to fully meet the requirement of the new PSIAS and address the minor recommendations from the Peer review. The audit charter will be updated as the internal audit service is developed so it continues to provide a clear statement of the purpose, authority, responsibility and performance expectations of the internal audit role.

Appendices

- Appendix 1: City of London Corporation – Internal Audit Charter – with tracked changes
- Appendix 2: City of London Corporation – Internal Audit Charter

Background Papers:

- PSIAS Local Government Application Note
- Peer Review Report to Audit & Risk Management Committee – May 2014

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