

Committee(s):	Date(s):
Audit and Risk Management Committee	15 th October 2013
Subject: Internal Audit Charter	Public
Report of: Chamberlain	For Decision

Summary

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. A full report on the new standards was provided to the June Audit and Risk Management Committee.

One of the actions necessary to implement the new PSIAS has required the revision of the current Internal audit – Terms of Reference, ~~changing~~ turning them into an Audit Charter, so that they specifically address the additional requirements of the new audit standards.

The PSIAS uses a terminology which needs to be applied to the specific context and organisational structure of the City of London Corporation. In particular, it refers to the “Board” which, for most purposes, is the Audit and Risk Management Committee. It also refers to the role of the Chief Audit Executive, which in the City of London Corporation is the Head of Audit and Risk Management. The Audit Charter has a key role in that it codifies functional reporting of the internal audit function to the Board; i.e. as defined in the PSIAS.

~~The A draft~~ internal audit charter ~~which has been prepared~~ can be found at Appendix 1; it has been prepared to meet the requirements of the PSIAS and includes key performance expectations for both the internal audit section and Departments, in relation to the timely finalisation of internal audit work and the implementation of audit recommendations.

Recommendations

Members are asked to:

1. Approve the ~~new~~ Draft Audit Charter attached at Appendix 1

Main Report

Background

2. 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. The Head of Audit and Risk Management will be expected to report on conformance with the PSIAS in his annual report for the year 2013/14. A full report on these new standards was provided to the June 2013 Audit and Risk Management Committee.
3. The PSIAS uses a terminology which needs to be applied to the specific context and organisational structure of the City of London Corporation. In particular, it refers to the “Board” which, for most purposes, is the Audit and Risk Management Committee. It also refers to the role of the Chief Audit Executive, which in the City of London Corporation is the Head of Audit and Risk Management.
4. 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 defined 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.
5. One of the actions necessary for City of London to be fully compliant with the new PSIAS was to redevelop-turn the internal audit – Terms of Reference in to an Audit Charter, so it specifically addresses the additional requirements of the new audit standards. In addition, creation of this eCharter has been used as an opportunity to document formally performance expectations of both internal audit and Departments, in making the internal audit process operate effectively. The previous internal audit Terms of Reference was approved by this Committee in September 2012.

The New Standards

6. A comparison between the Terms of Reference required under the previous 2006 Internal Audit Code and the PSIAS requirement for an internal audit charter shows only the following differences:
 - the Terms of Reference had to identify internal audit’s contribution to the review of the effectiveness of the control environment and required and enabled the HIA to deliver the annual audit opinion, and

- the PSIAS asks for mostly the same content as in the Terms of Reference, apart from those specific points set out in the public sector requirement to PSIAS 1000.
7. Responsibility for and ownership of the ~~i~~Internal ~~a~~Audit ~~e~~Charter remains with the organisation. PSIAS 1000 requires the 'Chief Audit Executive' (Head of Internal Audit) to review the ~~e~~Charter periodically but final approval resides with the 'Board' (Audit and Risk Management Committee).
 8. Within the City of London Corporation, it was agreed at the June 2013 Audit and Risk management Committee that the Audit and Risk Management Committee will fulfil the functions of the "board", as defined in the PSIAS. The following exceptions were noted:-
 - approving decisions regarding the appointment and removal of the Head of Audit;
 - approving the remuneration of the Head of Audit; and
 - approving the Internal Audit budget and resource plan.
 9. The Chamberlain, as line manager for the Head of Audit & Risk Management, is responsible for undertaking the performance appraisal of the Head of Audit. The PSIAS requirement will be achieved through the Town Clerk (~~and~~ Chief Executive) and the Chairman of the Audit and Risk Management Committee contributing feedback to the performance appraisal of the Head of Audit and Risk Management ~~and that feedback is also sought from the Chairman of the Audit and Risk Management Committee.~~
 10. It was also noted that the Audit and Risk Management Committee would be consulted, through the Chairman of the Committee, on the appointment and removal of the Head of Audit and Risk Management.
 11. The internal audit section budget is approved as part of the Finance Committee's consideration of the overall Chamberlain's Departmental Budget. The Audit and Risk Management is provided with regular updates on the availability and utilisation of internal audit resources and seeks assurances as to their adequacy.
 12. ~~The internal~~A draft ~~a~~Audit ~~e~~Charter ~~which has been prepared~~can be found at Appendix 1; ~~it~~ it has been prepared to meet the requirements of the PSIAS and includes key performance expectations for both the internal audit section and Departments in relation to the timely finalisation of internal audit work and the implementation of audit recommendations.
 13. The ~~a~~Audit ~~e~~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.

14. The Audit Charter is provided to this Committee for consideration and approval.

Conclusion

15. The new Audit Charter developed for approval, although not required to be substantially different from the previously approved Internal Audit Terms of Reference, has been re-drafted to ~~fully~~ meet fully the requirement of the new PSIAS and introduce key performance expectations for the operation of the internal audit function.

Appendices

- **Appendix 1: City of London Corporation – Internal Audit Charter**

Background Papers:

- 20th June 2013 Audit and Risk Management Committee - Public Sector Internal Audit Standards
- PSIAS Local Government Application Note

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