

**DRAFT INTERNAL AUDIT CHARTER 2017-18**

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 9.2**

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**Reason**

1. The Current Terms of Reference sets out the responsibility to approve the Internal Audit Strategy on an annual basis.
2. The Audit Committee has a responsibility to review its Terms of Reference on an annual basis.
3. This report has been prepared to provide Audit Committee Members with the draft Internal Audit Charter for 2017/18.

**Background**

4. At the commencement of each financial year, consideration is given to updating key documents which form part of the Internal Audit function. These documents were formerly known as the Internal Audit Strategy.
5. The Head of Finance in the Audit Committee 29 November 2017 committed to submitting the draft key internal audit documents in January 2017 in order for Audit Committee to consider and feed in comments in order for a final document to be approved in the March meeting prior to the 2017/18 financial year.
6. In addition, the 5 year assessment on the PSIAS was scheduled to take place in Quarter 4 of 2016/17. In anticipation of this assessment, meetings were held with the Head of Internal Audit at RCT in December 2016.
7. As reported on 29 November 2016, Audit Committee had considered a self assessment and identified a need to review the Terms of Reference. The CIPFA approved terms of reference was used as a starting point and is silent on Internal Audit Strategy but very clear that the Audit Committee must approve the Internal Audit Charter. The need for a Charter is also a key requirement for the PSIAS (Attribute Standard 1000 Purpose, Authority and Responsibility).
8. Based on the above guidance, the key documents have been rewritten with the Internal Audit Charter being the lead document which clearly sets out the Internal Audit function for this Council. Accompanying the Charter would be a draft revision of the Audit Committee Terms of Reference.

**Issues**

9. The Draft Internal Audit Charter set out in Annex 1 is a formal document which establishes the Internal Audit Service's position within the organisation, the audit manager's functional reporting relationship with the Audit Committee, authorises access to records, personnel, physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

10. Contained within the Draft Internal Audit Charter are five appendices which add a further dimension to the Charter by explaining the parameters within which the internal audit function and audit committee operates.
11. Appendix A sets out the code of ethics for Internal Auditors and is focussed on the four key principles of Integrity, Objectivity, Confidentiality and Competency. This appendix will be formally used in the performance assessment of each internal auditor as part of the annual appraisal process.
12. Appendix B sets out the staffing resources allocated to Internal Audit function as well as outlining the reporting lines between the Audit manager, the Section 151 Officer and the Audit Committee. This section also outlines the skill base of the team and the commitment to developing staff further through audit or Investigation qualifications.
13. Appendix C suggests a revised terms of reference for Audit Committee. As outlined, in paragraph 7 the revised terms of reference used have been devised and recommended by CIPFA. The content of the revised terms of reference is slightly greater than the previous version but covers similar areas of activities.
14. Appendix D reflects sets out the key strategic priorities of the Internal Audit function for 2017/18 thus providing a level of detail which highlights where resources will be focussed.
15. Appendix E sets out the key elements of the Internal Audit approach to the Quality Assurance & Improvement Programme which looks to focus on the internal auditor, customers and partners such as Wales Audit Office.
16. Contained within both the Draft Internal Audit Charter and the Terms of Reference are sections outlining the submission of a risk based Audit plan to be approved by Audit Committee. Annex 2 contains the preliminary draft plan for 2017/18 which will be developed into further detail over the next month in order to be submitted for approval by Audit Committee in March 2017. The use of risk based methodology alongside discussions with senior management will ensure that the audit plan will set out very clearly the activities of internal audit for 2017/18.

### **Legal Implications**

17. There are no legal implications arising from this proposal.

### **Financial Implications**

18. There are no financial implications arising from this proposal.

### **Recommendations**

19. To consider and provide comments on the Draft Internal Audit Charter and the accompanying appendices including the draft terms of reference for Audit Committee.
20. To consider and provide comments on the direction of the draft 2017/18 internal Audit Plan.

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**Annex 1:** Draft Internal Audit Charter 2017-18

**Annex 2:** Draft Summary Audit Plan 2017-18